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THE FEDERAL BUDGET FOR 1975

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HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

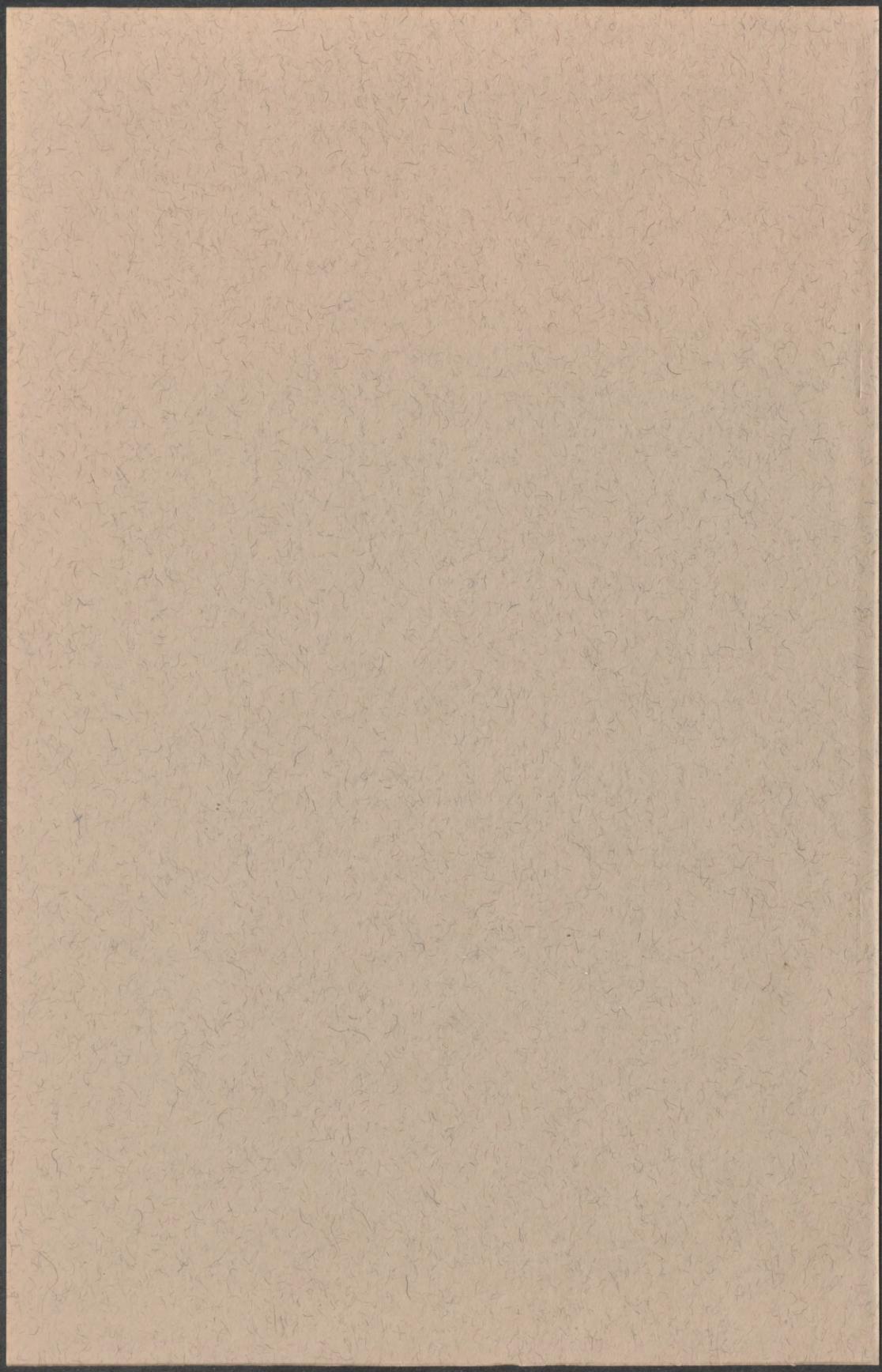
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THE FEDERAL BUDGET FOR FISCAL YEAR 1975

TUESDAY, FEBRUARY 19, 1974.

OFFICE OF MANAGEMENT AND BUDGET

WITNESSES

ROY L. ASH, DIRECTOR
FREDERIC V. MALEK, DEPUTY DIRECTOR
PAUL H. O'NEILL, ASSOCIATE DIRECTOR FOR HUMAN AND COMMUNITY AFFAIRS
FRANK G. ZARB, ASSOCIATE DIRECTOR FOR NATURAL RESOURCES, ENERGY, AND SCIENCE
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HAROLD F. EBERLE, ASSISTANT TO THE DIRECTOR FOR CONGRESSIONAL RELATIONS
DALE R. McOMBER, ASSISTANT DIRECTOR FOR BUDGET REVIEW

Mr. MAHON. Will the committee come to order.

Mr. Director and gentlemen, we are delighted to have you before us this morning. We are pleased that you have brought a number of your top people to be here with us. It may be that some of them will gain an education from the legislative branch. We in turn welcome the opportunity to be better informed and educated with respect to the proposals of the administration from the standpoint of spending and revenues and from the standpoint of proposed legislation for fiscal year 1975. Of course, we will not overlook the \$10 billion or so in supplementals for the current fiscal year 1974.

Since you and your staff are the principal architects of the budget document, it is informative for us to have exploratory sessions with you. We need to probe and question your priorities. We need, as I think you will agree, to be skeptical in considering the requests which are made. I am sure that you as the Director of the Office of Management and Budget have been somewhat skeptical in dealing with the departments and agencies of the Government with respect to the proposals that they have made to you.

A lot of questions that we would want to ask in this 3-day hearing will not be directed to you; they will be directed to the Secretary of the Treasury, Mr. Shultz, to the Council of Economic Advisers, and to Mr. Burns of the Federal Reserve System. We will try to refrain from asking you questions that could be better asked of someone else, but there are some questions we will ask you which should also be commented on by the other witnesses later in the week.

At the expense of taking some time, I think it is necessary for you and your people to get an impression of the budget from our standpoint. As you know, the budget was submitted to Congress on February 4. We have now had an opportunity to examine its general parameters, and we don't need to be told the A B C's of the budget. We understand budgets generally, and we have studied this one.

PURPOSE OF OVERVIEW HEARINGS

It is the purpose of this series of hearings to explore the assumptions and conclusions of the budget and probe the contingencies. I must say there are many contingencies. It is not the purpose of these open hearings to undertake to examine in detail the thousands of programs, activities, and accounts which comprise the budget. The members of the committee will not be asking you about every little nut and bolt. We are going to be talking about basic priorities and assumptions. The detailed examination of programs and activities falls within the operation of our subcommittee system. We must put the budget in perspective with respect to its relationship to the national economy which is experiencing some unique phenomena, with respect to its changing characteristics from a priorities standpoint, with respect to its size and objectives; with respect to its controllability from both the congressional and executive viewpoints, with respect to its credibility, and with respect to our willingness to pay. And I should add that we as a nation have not undertaken to fully pay our way for the programs that have been adopted.

The members of the committee will ask questions which are of interest to all members and thereby develop a usable record to which reference can be made in our subcommittee hearings and otherwise. I will also state that I will ask the staff to prepare an appendix to this hearings which will set forth certain pertinent fiscal information which is useful to those who use the budget. The Office of Management and Budget has cooperated in supplying some of this material and some has been prepared by the staff or obtained otherwise.

I would like to say this to the members of the committee and to you, Mr. Ash: It is evident that we are confronted with an almost impossible situation. How can we have a few days of hearings with you on a subject this extensive and complex, with 55 members, all of whom would like to ask innumerable questions?

I have conferred with many members of the committee, and they have asked me to see to it that certain questions are asked. Members realize the difficulty of providing adequate time for questions, but they are anxious that the necessary questions be asked and that we have a good record. So I would not undertake to yield to everybody 1 minute or 5 minutes or 2 minutes, but I will undertake to yield to anybody on the committee who wishes to ask special questions during the process of the hearings.

If I may be a bit arbitrary, I will try to carry the ball and monitor the hearings and make a record that should be coherent and usable by the Congress and by the public.

LARGEST BUDGET IN HISTORY

I should note that this is the largest budget in history. The first \$100 billion budget shocked the country, but a \$304 billion budget this year didn't seem to shock anybody. The fiscal year 1975 budget calls for new budget authority—the leading edge of spending—in the sum of \$322 billion. It projects spending at \$304 billion and receipts at \$295 billion, but that hides the real deficit of \$17.8 billion because we borrow from trust funds in the amount of over \$8 billion, and this must be repaid with interest.

The President describes this budget as one that would support high employment while restraining inflation and maintaining the flexibility to take further action, if needed, to offset the effects of energy shortages.

It has been described elsewhere as “conciliatory,” “generous,” “irrelevant,” and as “a shift from fiscal restraint.” It has been attacked as too little. It has been attacked as too much. You will find people on this committee who attack it from both angles.

What are some of the striking features of the budget? I think it would be useful to spend a few minutes to outline some of the major questions surrounding the credibility of the budget.

UNEMPLOYMENT: THERE ARE A LOT OF IFS AND SUBTLETIES

This budget is premised on an unemployment rate of 5.5 percent. Unemployment is now 5.2 percent, up from 4.8 percent in December. What would happen to receipts and expenditures in the period 6 to 18 months from now if unemployment jumps 2 percent as some economists are predicting? Obviously, receipts would plunge, expenditures would rise, and the deficit would soar. Where would that lead us?

RISING NATIONAL DEBT

This budget propels the national debt to new records. It increases debt another \$20 billion. In 1970 the debt subject to limit was \$373 billion and under this budget the debt will soar to almost half a trillion dollars. In the last 5 short years in the history of our Nation the debt will have increased by one-third. Is this increase relevant to strong economic activity and prosperity in certain segments of the economy? To what extent has deficit spending contributed to the painful inflationary problems we are experiencing? To what extent has it contributed to the fact that we have twice in a 2-year period been forced to devalue the dollar? Certainly our unwillingness to live within our means has been an important factor and has contributed to the dollar devaluation, inflation, and higher interest rates.

There is nothing in this budget to indicate that we expect to move toward living within our means. On the contrary, it indicates we are to a greater degree living beyond our means.

CONGRESSIONAL PRIORITIES

This budget calls for sharp reductions totaling some \$2 billion in many programs which Congress has regarded as urgent and has refused to abandon. These are some of the same programs in the Labor-

HEW field which were proposed to be cut back in the budget last year but with which Congress did not go along. So how realistic then, in terms of congressional priorities—in this case to the tune of \$2 billion—is this budget?

RECEIPTS

Receipts in this budget are premised on a gross national product of \$1,390 billion, an increase of about \$100 billion, of which 7 percent is attributable to inflation and 1 percent to real growth. But what if there is a dip in real growth, a recession, as some economists and many noneconomists are predicting? What about the projected increase in corporation taxes of \$5 billion, or a sharp 12 percent? We must recognize that revenues can drop just as well as can they increase. That has happened as many times as not.

WINDFALL PROFITS TAX ON PETROLEUM

This budget assumes collection of revenues of \$3 billion under a proposed windfall profits tax on petroleum. Obviously we must do everything that we reasonably can to encourage our industries to expand our energy resources. We must ask to what extent a windfall profits tax on oil and other such legislation might dampen incentives to discover new sources of energy and discourage production. Will a windfall profits tax control profits or stifle production? This is one of the issues that we will ask you to comment on. What we want is production. We want gas for our automobiles and trucks, and oil for our homes and businesses.

OUTLAYS

On the outlay side of the ledger, this budget projects a spending increase of \$30 billion in fiscal year 1975 on top of a \$28 billion increase in the fiscal year 1974 budget. But even with these gigantic surges, we must recognize there is a marked tendency to understate estimated spending. In 16 of the last 20 years—a rather striking statistic—actual outlays have outdistanced original estimates contained in the budget. Experience dictates, then, that we must ask how credible is this budget from the standpoint of estimated spending? This budget seems to say that everything is somewhat lovely and that we will have little difficulty in the future. However, a close inspection indicates the contrary, which I think is in keeping with the facts.

INCREASED FEDERAL EMPLOYMENT

This budget seems to do an about-face in regard to the Federal bureaucracy. It calls for an increase in Federal civilian employment of 22,000. The budget last year called for a reduction of 46,000 employees. Not only has that reduction evaporated, but now an increase is requested. We must ask what happened to the much publicized cutback in the Federal bureaucracy.

UNCONTROLLABILITY OF THE BUDGET

We must explore the uncontrollability of the budget. This budget continues the trend toward greater uncontrollability—uncontrollable

by either Congress or the Executive. It is a shocking fact that 73 percent of the outlays in this budget are, under existing law, uncontrollable as compared to 64 percent in 1970 and 59 percent in 1967.

The President in his budget message states that about 90 percent of the increase in spending in 1975 is mandatory—unavoidable under present law. We must ask, then, what the Congress and the Executive can and should do with respect to this problem. Congress is addressing this subject in connection with budget control legislation. What has the Executive done and what can the Executive do to contribute toward this objective?

NEW BUDGET INCENTIVES

Recognizing the uncontrollability of outlays in this budget, it is obvious that this budget is largely the product of decisions made in the past. Hence the decisions we make this year, while perhaps not impacting significantly on current outlays, will heavily influence budgets for many years to come. We must ask then what new initiatives are contemplated in the budget and what possible new initiatives are not reflected in the budget. The budget indicates that legislation will be proposed for programs which will require \$1.5 billion in budget authority in 1975 but which—for the same program—will require \$4.1 billion in 1979. But this is only the tip of the iceberg.

When considering proposed new programs, Congress must be constantly aware of their budgetary impact in future years. While the 1975 budget does not anticipate any expenditure for national health insurance in fiscal 1975, any such plan could have an annual cost of \$6 to \$10 billion in the future. It does not anticipate 1975 expenditures for a program of housing allowances in the form of direct cash payments which is being considered in the administration. That program could have an annual cost of perhaps \$11 billion in the future. Future costs for welfare reform could cost untold billions per year.

INCREASE IN DEFENSE BUDGET

This budget proposes a dramatic increase for defense. The budget includes proposals for a \$6 billion increase in fiscal 1974, the current year, and another \$6 billion in fiscal year 1975. This represents a total increase of \$12 billion for defense over the current level provided to date by Congress.

It may be that Congress will conclude—and you will want to discuss this with Mr. Shultz—that the defense increases are based to a considerable extent on economic grounds. It may be that some are suspect. We want to explore that. No one takes issue with the goal of keeping people on their jobs, and no one can successfully take issue with the urgent need for maintaining an adequate national defense. These are valid objectives. The question is whether there is a more preferable, yet equally effective and productive ways of creating jobs, keeping the country moving economically, and at the same time maintaining an adequate defense.

1974 SUPPLEMENTAL BUDGET REQUESTS

We will want to discuss at considerable length the supplemental requests which you are making in the budget. This budget contemplates supplemental requests for the current year of some \$14 billion—as large or larger than the supplementals associated with the Vietnam buildup of 1966 and 1967. Some \$10 billion is actually requested in the budget. We must ask, then, to what extent, if any, does this represent a funding shift back from 1975 into 1974? If there is no such shift, then are the 1975 figures realistic in terms of the overlay of such large supplementals late in the fiscal year on the 1974 base? Is it realistic and prudent to appropriate such large sums, especially for program purposes, so late in the fiscal year?

THE BUDGET AND THE ECONOMY

With respect to the economy and the budget, I would say that we must ask the overriding question of the extent to which the budget impacts upon the economy or the economy impacts upon the budget. The budget is advertised to have the flexibility to avoid a possible recession and at the time time deal with continuing severe inflation.

We certainly must acknowledge that our current economic problems raise some questions about the proper role of budgetary and fiscal policies. With major segments of our basic industry operating at full or near full capacity, and with much of the new capacity still 2 or 3 years from coming on line, does it make good sense to spend billions of dollars to stimulate the economy when there are already widespread shortages of basic materials and commodities? Would such a move make a bad situation worse and greatly accelerate inflation. Last year, inflation took a bite out of the dollar to the tune of 8 percent. Last month, in the month of January alone, the wholesale price index rose a shocking 3.1 percent. What is already in store?

The administration indicates that a number of proposals to stimulate the economy are in the wings and can be called upon if needed. We must inquire as to the nature of these proposals and examine their pros and cons. We must ask specifically what things will have to happen for it to become apparent that further stimulus of the economy is needed.

So, Mr. Ash, and your colleagues, these are some of the issues which trouble the committee and which, no doubt, trouble you.

Last year, primarily as a result of inflation we experienced an increase in estimated revenues of some \$14 billion. This year, dealing with an economy with severe growth problems, we must be aware of the possible negative impact which a slowdown in growth may have upon revenues.

We recognize that the compilation of this budget was a monumental task. I commend you and your people for the tremendous effort which you have made to submit the budget proposals of the administration. I assume that there have been differences of opinion within the administration during the compilation of the budget but that the final budget product represents a consensus. In this committee and in the Congress there is and will be a wide diversity of opinion as to the merit of various budget proposals.

Mr. Director, you have heard my attempt to place in some perspective the problems which confront this committee. We are aware of many of your views with respect to this budget. It is important, however, that we have the opportunity to let you know in this hearing what our views may be.

I shall presently ask you to put the very excellent statement which you have prepared for us, in the record. Before placing it in the record, I would like to yield to the ranking minority member, one of the most valuable members of the legislative branch, Mr. Cederberg.

Mr. CEDERBERG. Mr. Chairman, I will take very, very little time.

I listened with interest and read the statement of the chairman pointing out some of the dire consequences of this \$304 billion budget request for initial spending authority. I think it is only fair to point out that these are the same questions that we have been raising over the years. I think a rereading of the record of the hearings of this committee with directors of the Bureau of the Budget over the past years, whoever it has been, would show that many of these same questions have been raised. As I stated when the budget came up, there are grave discussions about this \$304 billion spending budget, and now we have to decide where to cut it.

The only problem is that we—and when I say “we” I am not referring to the Appropriations Committee but I am referring to the whole Congress—we proceed to raise it. I think it might be of some interest to the members of the committee if the Director of the Office of Management and Budget would give us some of the basic problems that he had in trying to keep this budget at \$304 billion. I can recall having discussions with him when the attempt was going to be made to try to keep it under \$300 billion. Certainly the reason this budget is what it is now is because of actions the Congress has taken in years past.

So while we can express our concerns about the size of the budget, and the size of the deficit, it seems to me that we have to realize that the actions that have been taken over the years by the Congress result in this budget, for good or for bad.

So I am hopeful, Mr. Director, that you can shed some light on this to this committee as to the problems that you have. You have alluded to this in your statement, I know, but it might be helpful if we could get some ideas as to the problems that you are faced with, particularly in the area of outlays required under existing law. We, I am sure, on the Appropriations Committee will be very grateful for any guidance that you can give us where we might cut this budget—we are going to try to do it in our subcommittees—and also give us a little guidance as to what we might look forward to in the future as to the increases proposed in legislation by the executive and some of the legislation that may be under consideration here in the Congress.

It seems to me that while we are concerned about this \$304 billion budget for fiscal year 1975, it looks like this might be a rather small figure compared to what it is going to be in the next 5 years or so.

Mr. MAHON. Thank you, Mr. Cederberg.

With respect to the budget, there are those who say we will cut it and those who say we will increase it. Based on past experience, it should be pointed out that bills handled by the Appropriations Committee of the House and Senate have been less than the Presidential budget for the last 30 years. At this time about 40 percent of the

spending is mandated by nonappropriation bills and is not under the jurisdiction of this committee. Last year we cut the appropriation budget, but in nonappropriated and mandatory spending, such as social security, the Congress went above the budget. It is going to be a monumental job to hold this overall budget to \$304 billion in spending and at \$322 billion in new obligational authority.

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

At this point, Mr. Director, we will place in the record your statement.

[The statement follows:]

STATEMENT OF ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE HOUSE APPROPRIATIONS COMMITTEE

Mr. Chairman and members of the committee: The President's budget for 1975 pursues a number of major objectives:

The proper fiscal balance to keep the economy on the track to sustained high employment and more stable prices;

A strong defense force in support of our efforts to build an enduring structure of peace in the world;

A comprehensive energy program to deal with current shortages and to reestablish our ability to be self-sufficient in energy; and

Basic reforms of grant-in-aid programs—reforms embodying the new federalism philosophy of strengthening the role of State and local governments, and of the individual citizen.

Before addressing these points, I would like to make two general observations about the budget.

First, the most sweeping initiative included in the budget, of course, is the President's proposal for a comprehensive national health insurance plan. Also, the President has called once again for the cooperation of Congress in an effort to bring about major reform of the welfare system. Neither of these proposals, however, is expected to be enacted and established in time to affect 1975 budget totals significantly.

Second, the new initiatives should not obscure the importance of the \$300 billion or so budgeted for existing programs. That is an enormous amount of money, and I think we owe each taxpayer our assurance that every effort is being made to improve the performance of ongoing Government activities. The budget reflects this concern through proposals to rationalize the structure of Government—particularly in the energy area—and through stepped-up efforts to improve the management of Federal programs. These efforts have placed emphasis on the tangible results that programs achieve. This has involved working with departments and agencies on the development of specific program objectives, then setting deadlines for their achievement. This process requires the analysis and evaluation of the performance of ongoing programs, and the development and implementation of significant program improvements. Applied governmentwide this effort is helping to insure that the taxpayer does indeed get his money's worth for his tax dollar.

ECONOMIC POLICY

During the latter part of 1973 the economy was operating at close to full capacity. Simultaneously we experienced a shortage of energy. These factors have combined to produce high rates of inflation in 1973 that can be expected to continue in the first half of 1974.

Major shortages of basic resources in peacetime are a unique economic experience for us. The situation dictates a prudent but flexible budgetary policy. If we try to use the fiscal stimulus of large budget deficits to compensate for the loss of jobs resulting from energy shortages, the result will be a classic case of too many dollars chasing too few goods—thereby pushing up prices further. On the other hand, the budget must support a high enough level of demand and employment to prevent the economic slowdown from cascading beyond the impact of energy shortages.

The budget for 1975 should accomplish this delicate task. The budget recommends total outlays of \$304.4 billion for 1975, compared to \$274.7 billion for 1974. These figures are expected to result in moderate budget deficits of \$4.7 billion in 1974 and \$9.4 billion in 1975. But on the full-employment budget basis, as conventionally defined, we will have surpluses of \$4 billion in 1974 and \$8 billion in 1975. These full-employment surpluses include the sizable increase in budget receipts resulting from inflation. Since inflation increases full-employment receipts more sharply and more immediately than it does outlays, these full-employment surpluses do not indicate that spending should be higher. The fact that these surpluses anticipated in 1974 and 1975 will be largely the product of the inflation is the reason that we must plan to achieve them—to provide restraint against further inflation.

Moderate full-employment surpluses in 1974 and 1975 will help prevent price adjustments in the area of energy resources from spilling over into a general inflation throughout the economy. Also, they will preserve for us the flexibility to take targeted actions, if necessary, to offset any economic dislocations that may result from energy shortages.

Because of the uncertain economic outlook, the President has directed, as a precautionary measure, that contingency plans be prepared for use in the event that the slowdown in the rate of growth is greater than we now anticipate. The President's proposal to extend the duration and coverage of unemployment benefits in high-unemployment areas is an example of the type of action that can, with the approval of Congress, be taken. It would not be appropriate for me to speculate at this time as to what other specific measures might be taken, if the need arises, but I would like to share with you the direction of our thinking. We are considering both measures which would increase budget spending, and a few actions which would affect cash receipts. We are seeking options that can be targeted—that is, that would help ease any unemployment that may become concentrated in particular areas. High priority is being given to devising measures that would take effect as quickly as possible and terminate easily or automatically when no longer needed.

Any such measures should support the automatic stabilizers that already exist in the tax structure and in the budget.

NATIONAL DEFENSE

Turning to defense spending, the budget anticipates a \$6.3 billion net increase in military spending, from \$79.5 billion in 1974 to \$85.8 billion in 1975. This net increase does not represent a major departure from past defense budget strategies. Rather, it reflects three major factors:

The pay and price increases necessary to maintain our existing defense strength. This accounts for over \$5 billion of the total increase requested.

Minimal increases to improve the readiness of our Armed Forces.

The necessary cost of developing future weapons systems.

Defense outlays will continue to represent a declining share of the budget and of our gross national product.

ENERGY

The 1975 budget provides funds for the various elements of a comprehensive energy policy to deal equitably with current shortages and to reestablish our ability to be self-sufficient in energy. This policy has three major facets: The first involves the task of rapidly increasing our domestic energy supplies. This means stepping up our production of oil, gas, and coal, and accelerating the development of nuclear power. A second aspect involves slowing the growth in demand for energy through the elimination of nonessential uses and through more efficient energy utilization.

The third aspect of our energy policy involves greatly accelerating our energy research and development programs. This is where the major budget impact of our energy programs occurs: The budget proposes spending over \$1.5 billion for direct energy R. & D. in 1975, compared to \$698 million in 1973. Outlays for fossil fuel and other nonnuclear research will more than double.

The joint Government and private effort in energy research and development is expected to receive over \$10 billion in Federal support during its first 5 years. This will complement an even larger energy research and development investment by the private sector.

THE BUDGET AND NATIONAL PRIORITIES

Even a casual glance at the 1975 budget shows a pattern of Federal spending priorities markedly different from that which prevailed only a few years ago. Twenty-nine percent of the 1975 budget is allocated for defense, including military retirement. Nondefense Federal operations, defined as activities where the Government goes into the marketplace and buys something or hires someone, account for 10 percent of the total on a net basis. Another 7 percent of Federal spending goes for interest on debt held by the public.

This leaves about 54 percent of all spending in the form of grants to State and local governments or benefit payments directly to individuals, primarily under social insurance programs such as social security and medicare.

The increasingly indirect role the Federal Government is assuming in our national life expresses the new federalism philosophy. Instead of commanding a major portion of the economy directly and attempting to impose priorities on State and local governments, the Federal Government is assuming the role of simply collecting taxes from taxpayers with one hand and redistributing these funds to recipients with the other hand. The strings attached to grants in the past are being removed or relaxed, and at the same time we are stressing cash, rather than federally specified in-kind assistance to individuals. This means that control over final spending decisions is increasingly being decentralized away from Washington; it is being returned to the people and to States and local communities. People and communities are getting more Federal money to spend as they see fit. This is what the new federalism is all about. The objective is not simply to diminish the direct role of the Federal Government across the board, but rather to permit each level of government, and the private sector, to focus on the responsibilities it can handle best.

The relative shift away from direct Federal operations toward payments to individuals and grants to State and local governments is much more than just a change in the form of Federal spending. The sharp growth in grants and transfer payments coincides with a relative increase in human resource programs. These now make up about half the budget, compared to 34 percent in 1969. Defense outlays, which make up the bulk of direct Federal operations, have dropped from 44 percent of the 1969 budget to a proposed 1975 share of 29 percent.

BUDGET AUTHORITY

This committee has a special interest, of course, in budget authority. For fiscal year 1975, total budget authority is estimated at \$322 billion, \$11 billion more than in 1974.

For 1974, the budget seeks congressional action this session on an additional \$14 billion. Of this amount \$10.4 billion is transmitted in the budget for action by this committee. This latter amount includes \$3.6 billion for increased pay costs primarily for two separate comparability pay raises granted this year. It also includes \$3.4 billion for the Defense Department to improve readiness, modernization, aircraft capability, and provide for retired pay and other mandatory cost increases; \$0.9 billion for various veterans programs; and \$0.6 billion for food stamp and child nutrition programs.

For 1975, congressional action is requested on \$198 billion of the total, \$5 billion less than for 1974. The remaining \$124 billion is the net of \$164 billion of permanent budget authority, which will be available under existing laws without additional action by the Congress, and \$40 billion in offsetting receipts.

Current budget authority increases by \$21 billion from 1973 to 1974, then decreases by \$5 billion in 1975. This pattern results largely from three unusually large 1974 items already enacted: about \$14 billion in highway and mass transit authorizations, about \$4 billion for the Environmental Protection Agency, and over \$3 billion in foreign economic and military aid.

Leaving 1974 aside, however, and comparing 1975 with 1973, we find that the percentage of total budget authority supplied without action by Congress for trust funds and interest on the debt rises from less than 42 percent in 1973 to 47 percent in 1975. The comparable figure for 1967 was just over 30 percent. These figures are but one manifestation of the broad problem of the growth in the portion of the budget that is relatively uncontrollable under existing law.

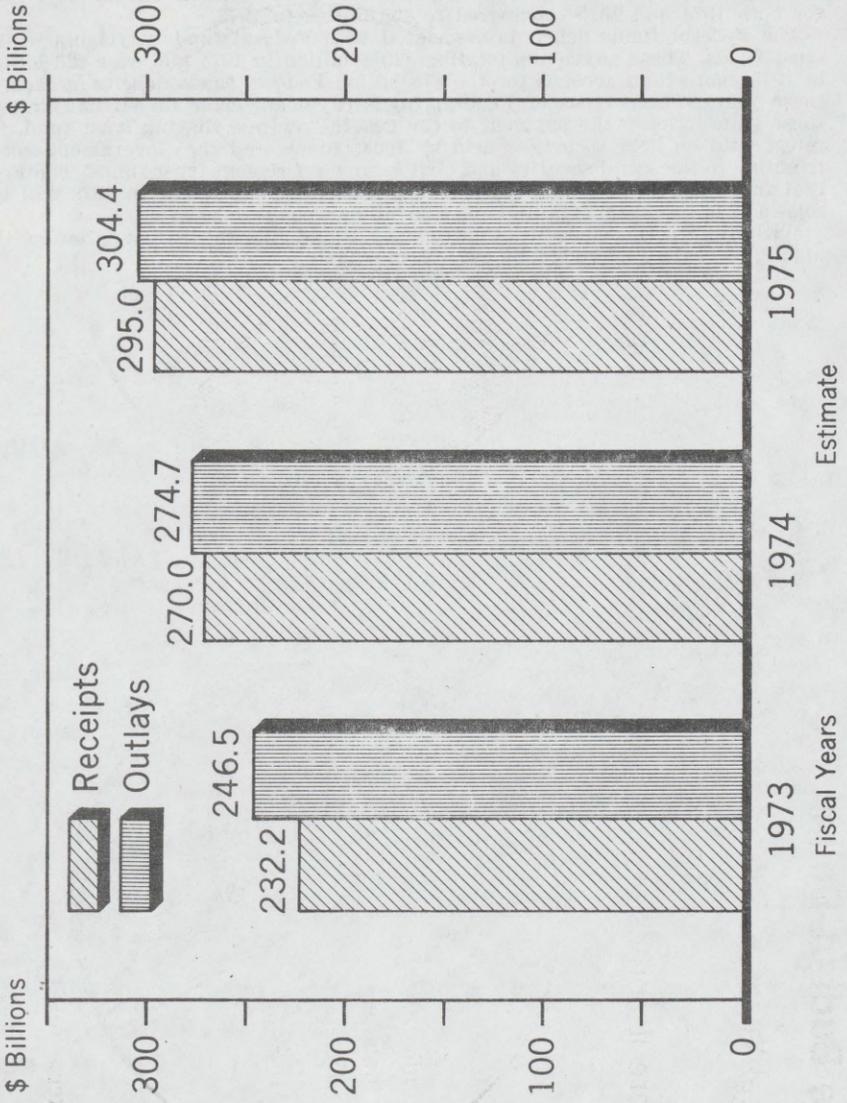
Federal funds transactions.—In response to the request of the Congress, the 1975 budget continues the practice begun 3 years ago of presenting information on the transactions of Federal funds.

Federal funds outlays in 1975 are estimated at \$220½ billion, about \$17 billion more than in 1974. Federal funds receipts are expected to be about \$203 billion, also \$17 billion higher, so that Federal funds deficits will be \$18 billion for both 1974 and 1975—compared to \$25 billion in 1973.

The Federal funds deficit is associated with Federal funds payments to the trust funds. These payments, totaling \$20½ billion in 1974 and over \$23 billion in 1975, more than account for the \$18 billion Federal funds deficits in each of these years. Three types of Federal funds payments make up virtually all of these transactions: the payment to the general revenue sharing trust fund, interest paid on debt securities held by trust funds, and the Government's contribution to the social security and civil service retirement trust funds. The Federal funds deficit of \$4 billion in transactions with the public in 1973 will become a \$2 billion surplus in 1974 and a \$5 billion surplus in 1975.

With your permission, Mr. Chairman, I would like to discuss a few of the highlights of the 1975 budget by use of some charts.

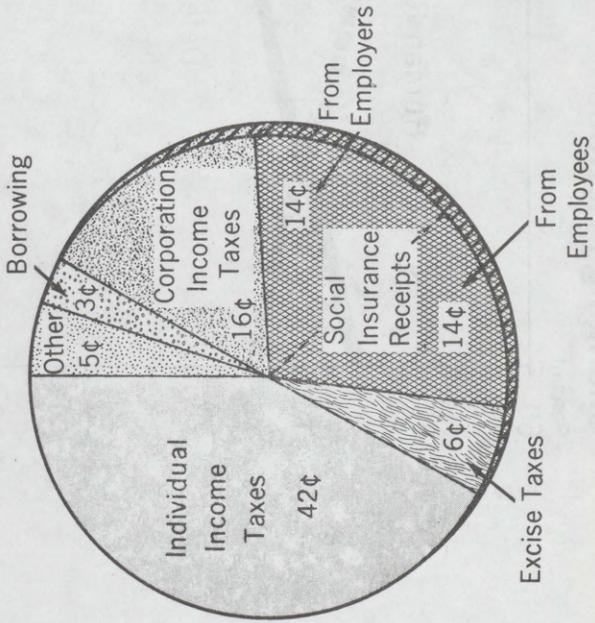
Budget Totals Since 1973



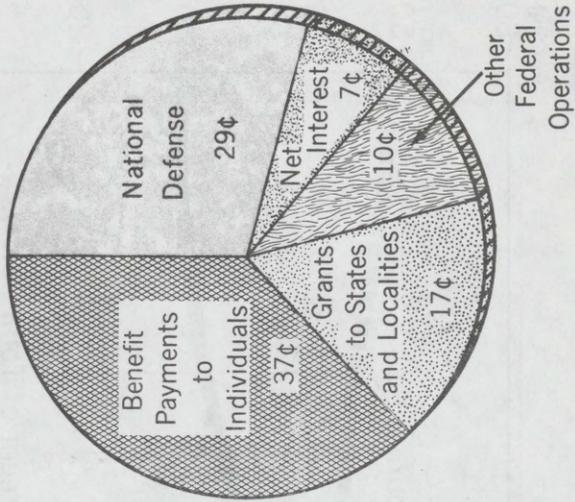
The Budget Dollar

Fiscal Year 1975 Estimate

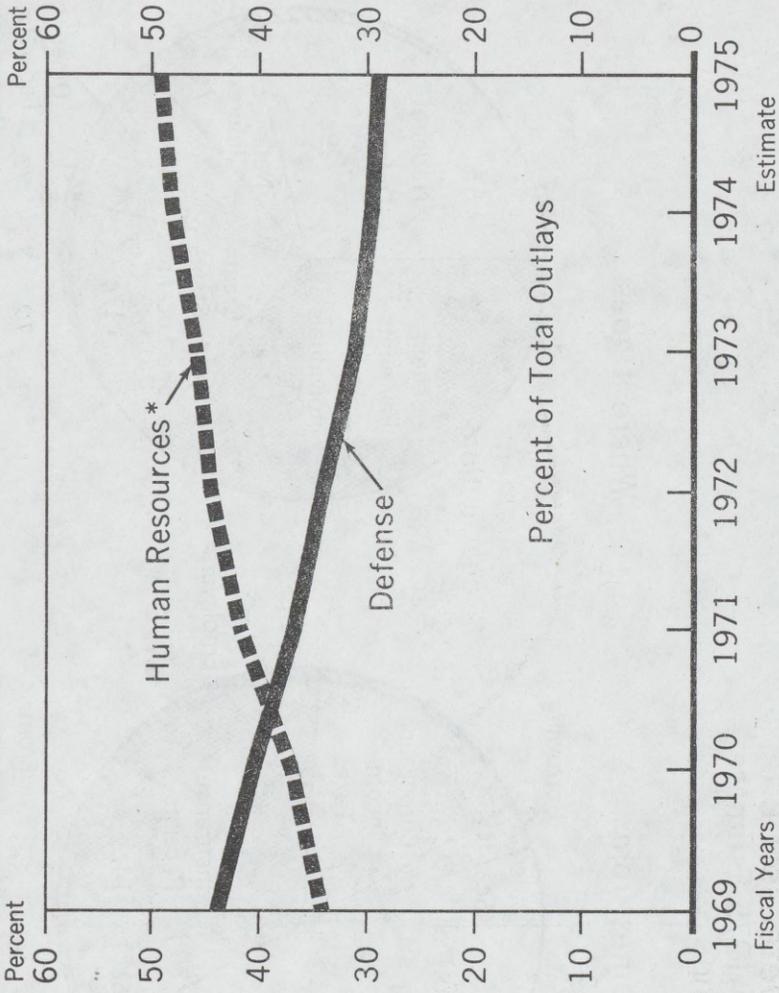
Where it comes from...



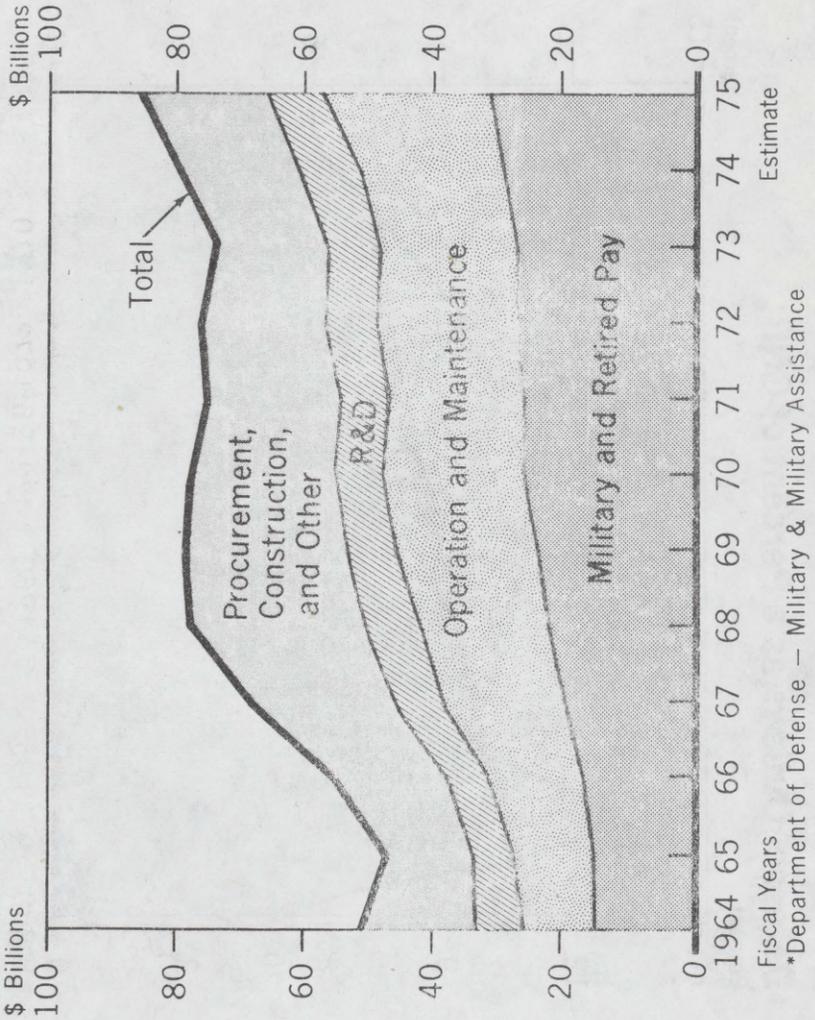
Where it goes...



Changing Priorities



Defense* Outlays

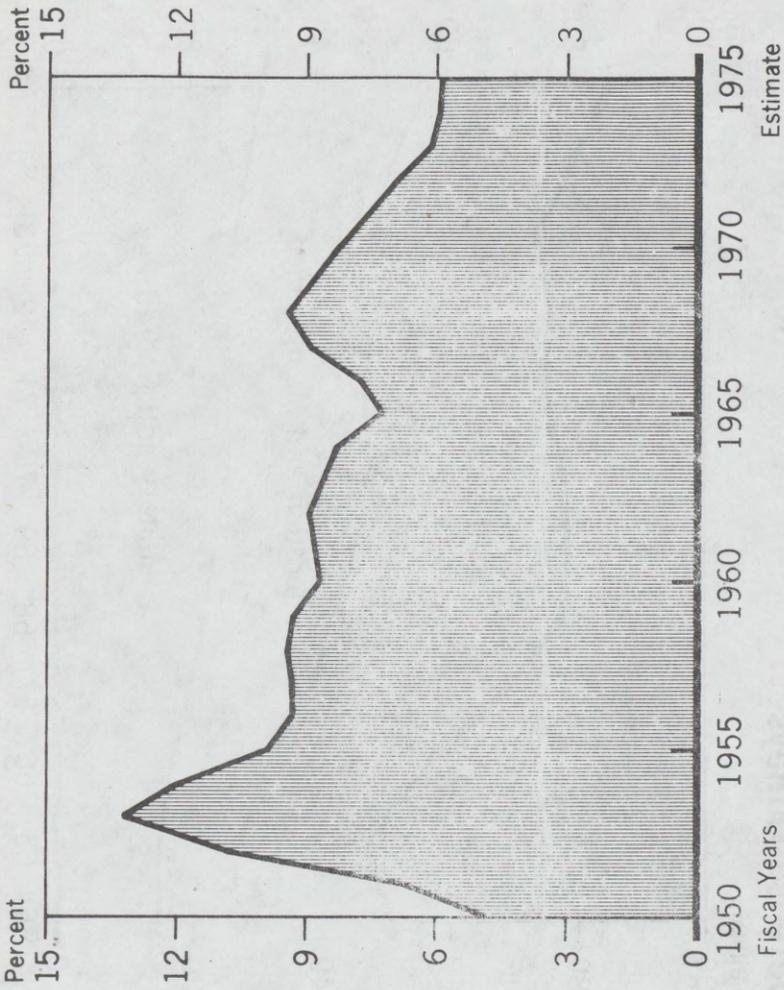


Fiscal Years

*Department of Defense - Military & Military Assistance

Estimate

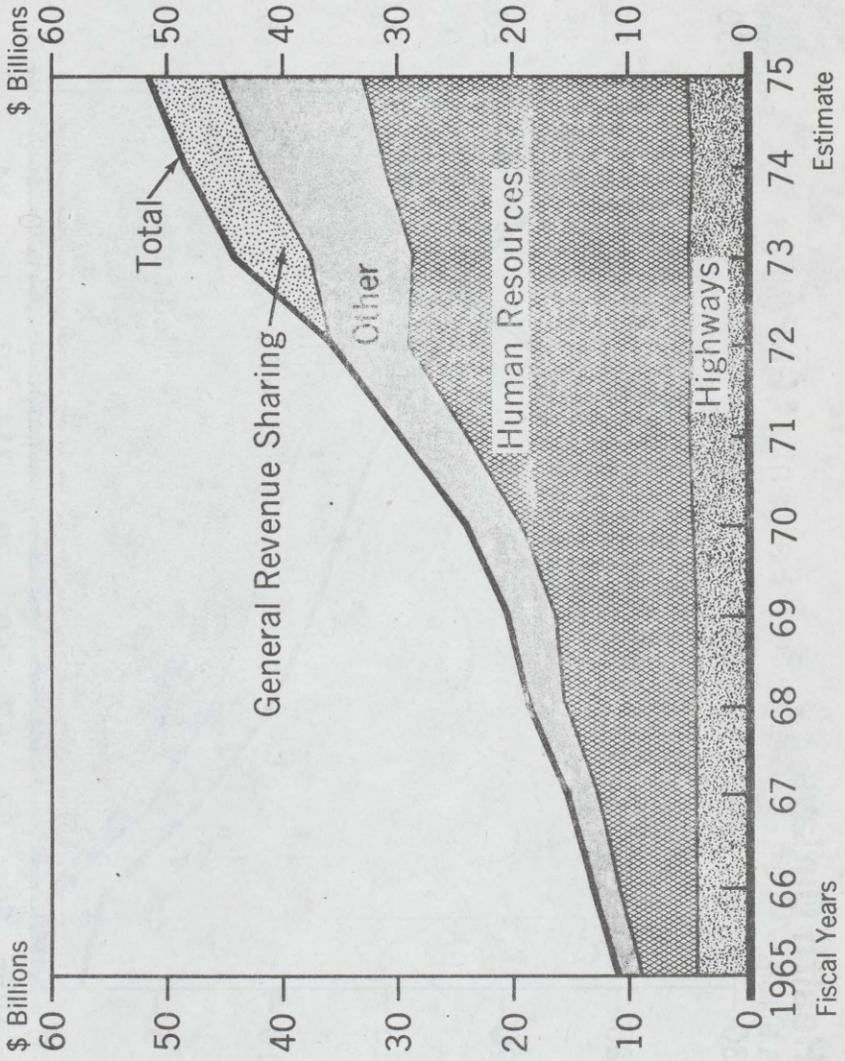
Defense* Outlays as a Percent of GNP



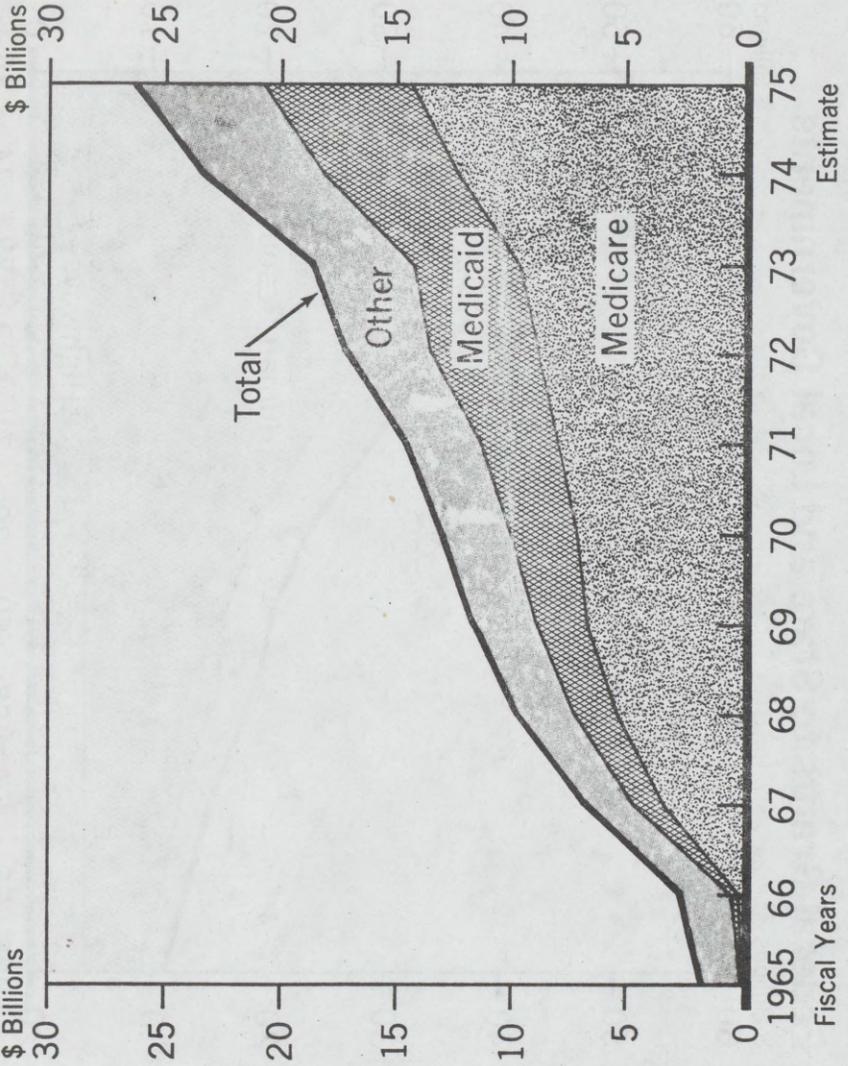
Fiscal Years

* Department of Defense — Military & Military Assistance

Federal Grants to State and Local Governments



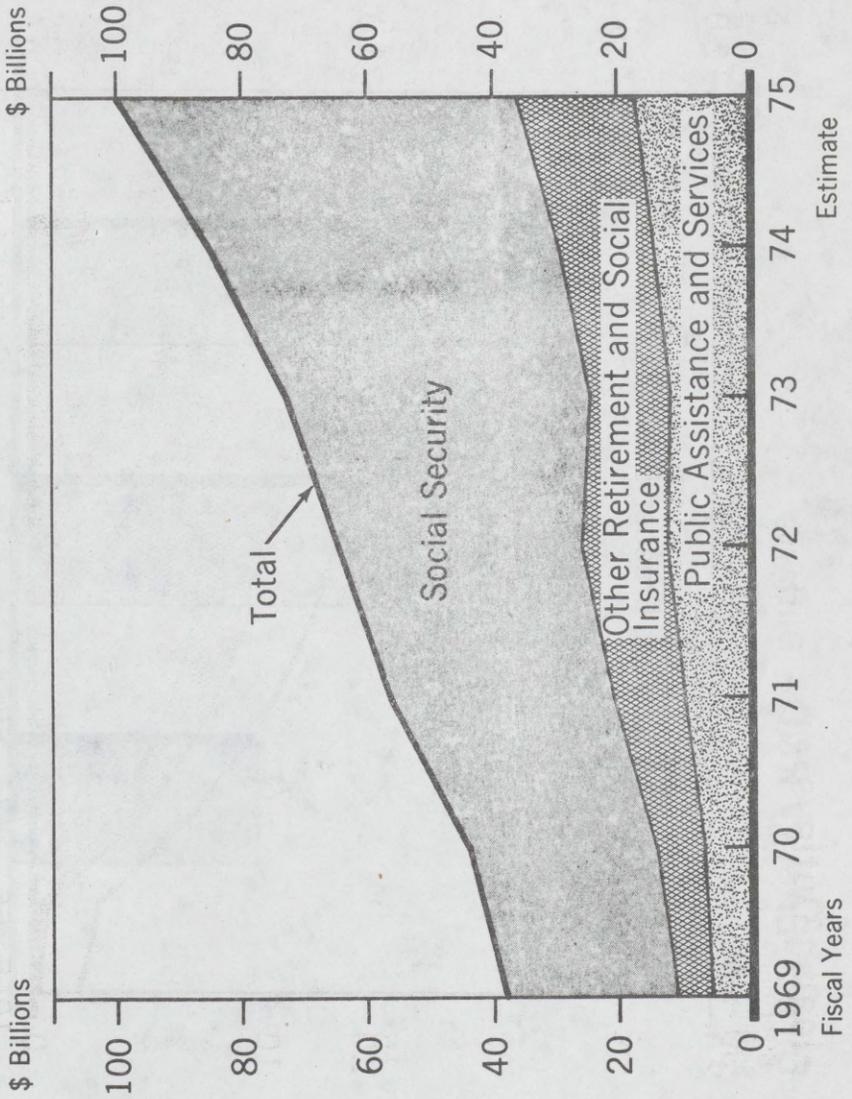
Health Outlays



Estimate

Fiscal Years

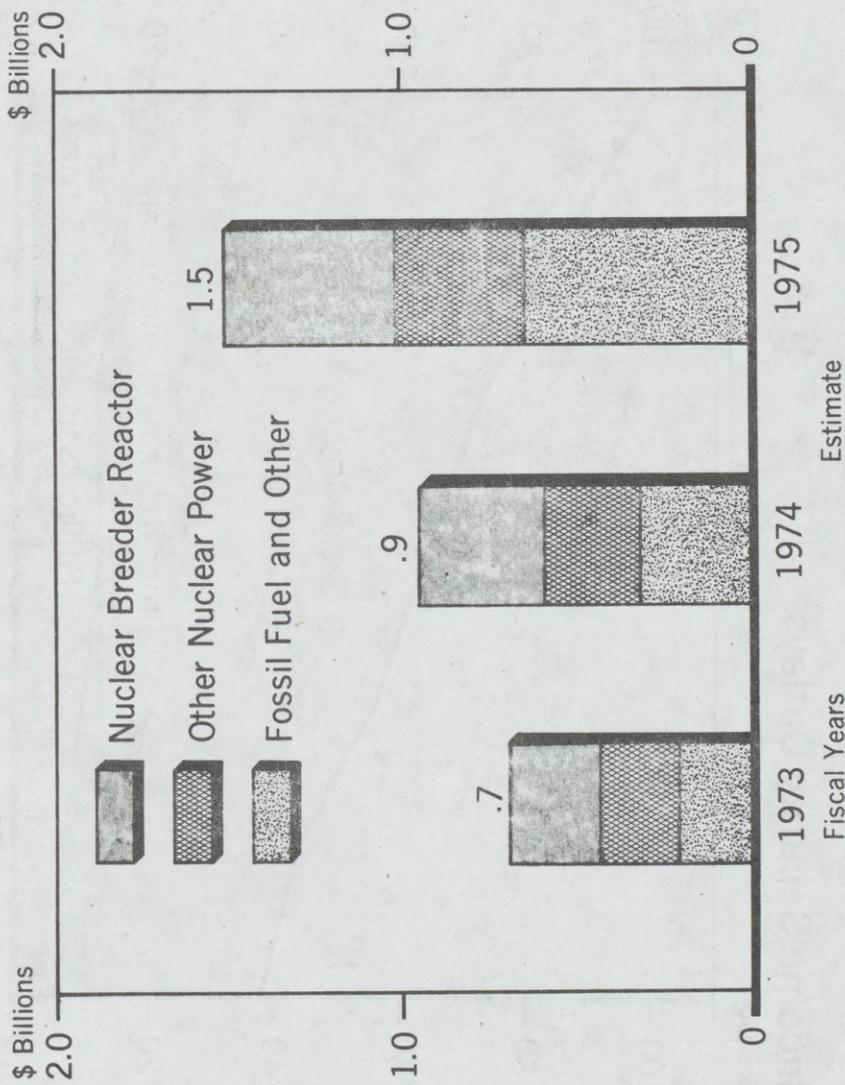
Income Security Outlays



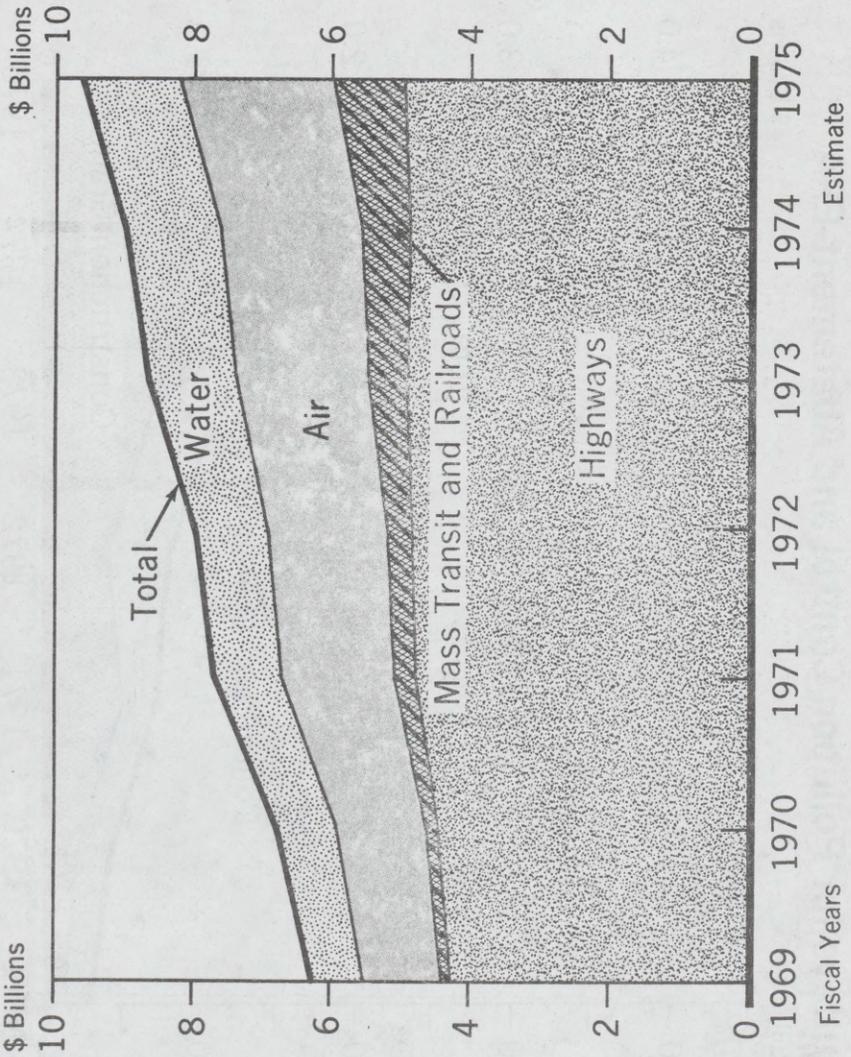
Estimate

Fiscal Years

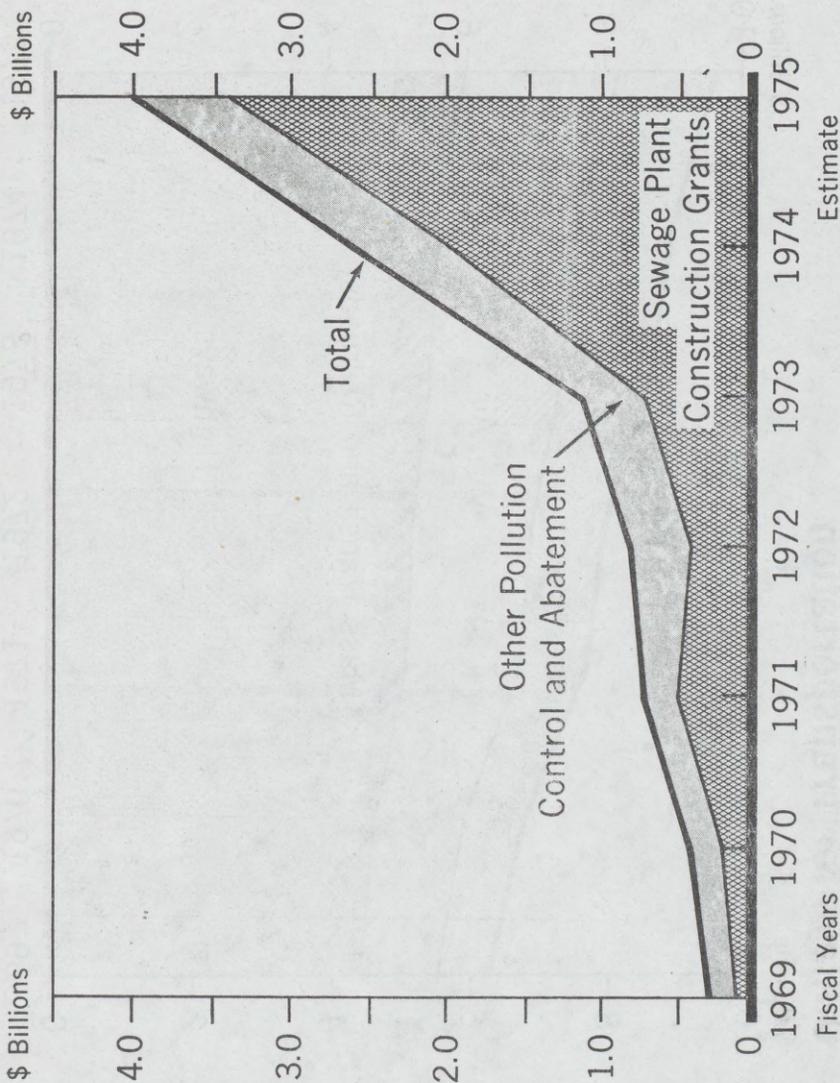
Direct Energy R&D - Outlays



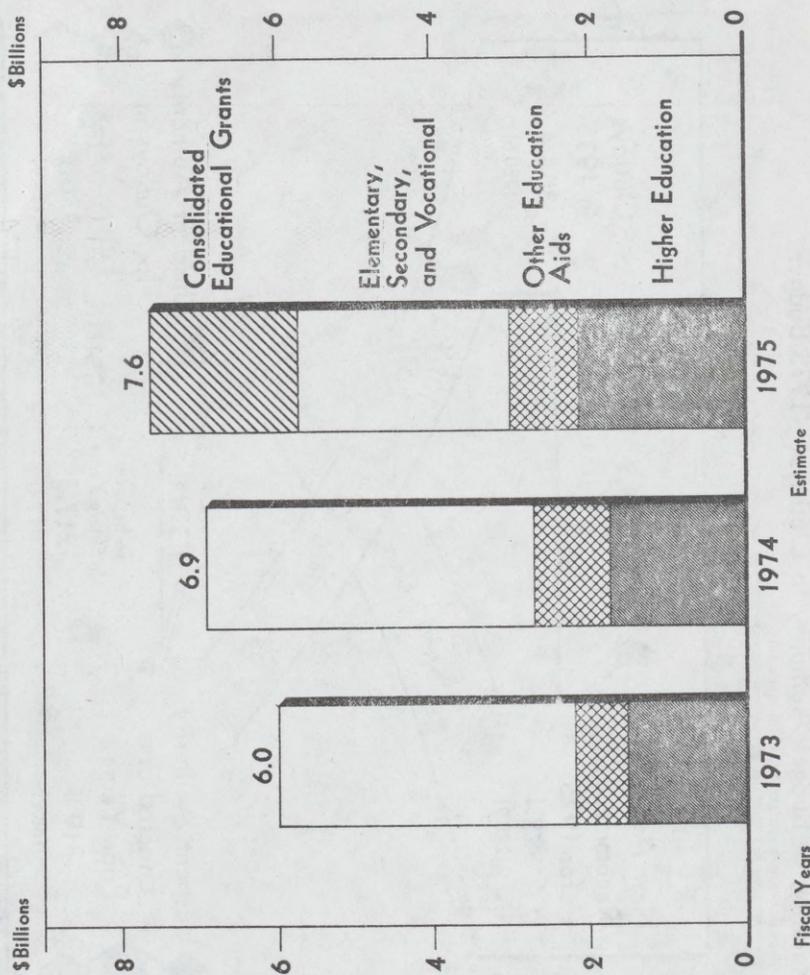
Outlays for Transportation



Outlays for Pollution Control and Abatement-EPA

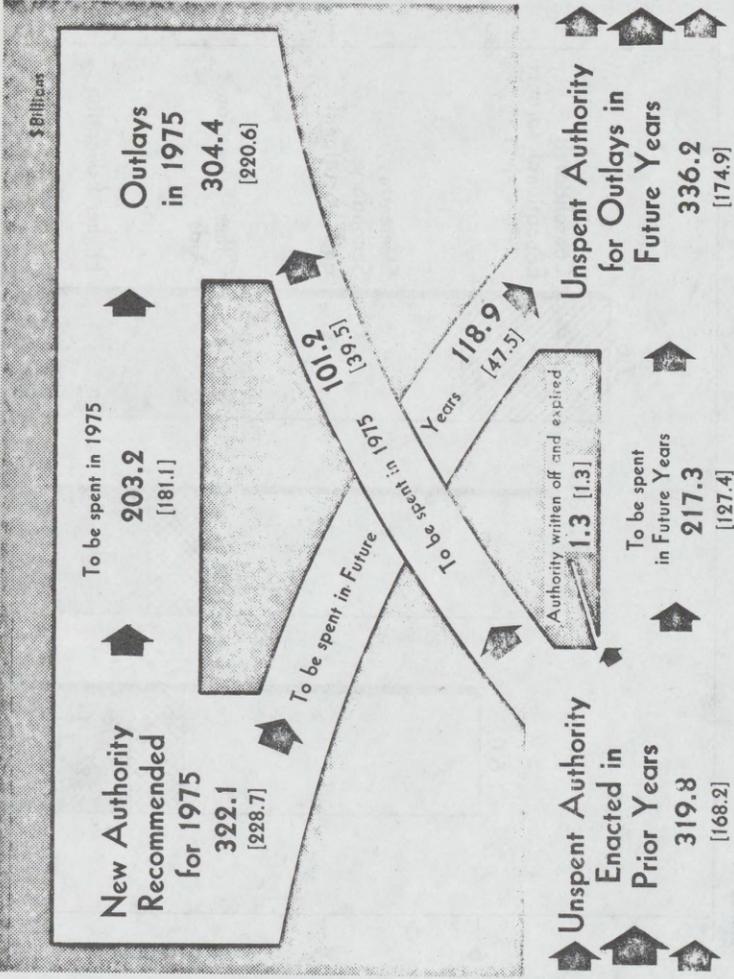


Education Outlays



Relation of Budget Authority to Outlays—1975 Budget

Figures in brackets represent Federal funds only



NOTE: The difference between the total budget figures and federal funds shown in brackets consists of trust funds and interfund transactions between fund groups

Mr. MAHON. Now I wish you would share with us some of the problems you confronted in negotiating with agencies and bureaus in formulating this budget. Shed some light on this problem.

Mr. ASH. Thank you very much, Mr. Chairman.

I know you would like to get as quickly as we can into the substantive aspects of the budget, and I am happy to submit the brief prepared statement that I have for the record.

I would also like to introduce at this time those executives of OMB that I have brought with me. I want to use the occasion not only for them to get a direct understanding of the viewpoints that you, Mr. Chairman, and other members of your committee have, but to make sure that you have available to you the depth of understanding and the depth of information about all elements of the budget that they bring with them. I intend to amply call upon them to participate in these discussions.

To my right is Mr. Fred Malek.

Mr. MAHON. Please have the gentlemen raise their hands as they are introduced.

Mr. ASH. He is the Deputy Director.

To my left, Mr. McOmber, whose job it is to put together the budget, a very difficult job. He is Assistant Director of the Office of Management and Budget.

Sitting in the row immediately to my right, Associate Directors of OMB, Wally Scott and Paul O'Neil and Frank Zrab, and Assistant to the Director Hal Eberle.

Among us we would hope that you have a source of answers to virtually any questions that you might ask.

UNCONTROLLABILITY OF THE BUDGET

Let me address myself, for a brief moment, to the point that you made about the difficulties of putting together this budget. I presume they are not much different than the difficulties of putting together other budgets. To a great extent they relate to the point that Mr. Cederberg made; that is, that in many respects the budget is not so much any more a set of Presidential programs as it is a forecast of the inevitable consequences of programs put on the books in earlier years.

Mr. MAHON. Programs put on the books by various administrations with the approval, at least tacit approval, of both the legislative and the executive branch.

Mr. ASH. That is right. Over the years, those kinds of actions and the programs resulting from them, such as the personal entitlement programs, are built into an inevitable stream of payments. Although we have little, if any, discretion in these programs we must include them in our forecasts each year. Let me just quantify that in one way here. That is, as we look to the year-to-year changes, and you observed there was a big change in fiscal year 1975 over 1974, almost a \$30 billion increase.

Of that, \$26.5 billion was under the heading of uncontrollables. That is, either the programs themselves or, alternatively, the prior obligations and commitments made, or procurement to, and that sort of thing, that have long leadtimes, have accounted for \$26.5 billion

of the \$30 billion increase. I think that is just one index. There are other ways that we can look at it, but I would suggest, then, that some of the things that we can all give our time to are the decisions and the effects of the decisions we may make this year, not on this year's budget so much as on future years' budgets. At one time maybe we had the idea that we in executive branch could put together a budget that, when enacted upon by the Congress, would be the basic decisions affecting that year's activities.

More than that, we are making decisions this year about future years' outlays, for future years' revenues, and we should consider all of our actions and deliberations in that light. The budget is to a great extent, a forecast of the effect of prior congressional and executive branch decisions.

The budget that we must deal with contains some new initiatives that would affect this year's outlays and revenues, but most of all, it reflects a compilation of decisions made in earlier times.

When we work with the agencies, particularly agencies like HEW, we find that to be true. There is a very limited range of new discretionary opportunities for either the legislative or the executive branch to deal with each year. Many decisions that are important to future years are being put in front of you through the process of reviewing this year's budget. I think that they clearly should be considered in that light.

Let me not make further general observations, because I think that characterizes the process of putting together the budget for any 1 year and particularly in this year.

Thank you, Mr. Chairman.

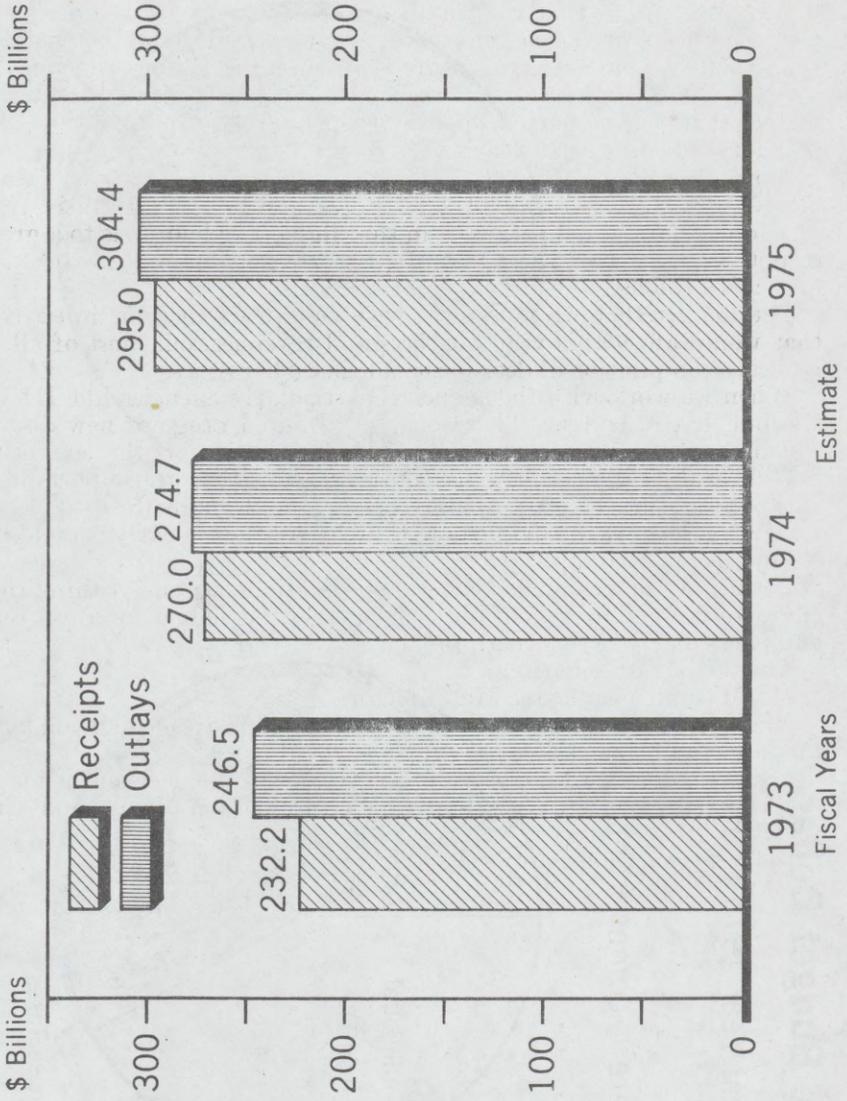
Mr. MAHON. Thank you, Mr. Director.

You will put in the record certain tables and charts which you have prepared, will you not?

Mr. ASH. Yes, I will. They all point to how those decisions made in earlier years have, to some extent, taken decisions out of our hands this year.

[The information follows:]

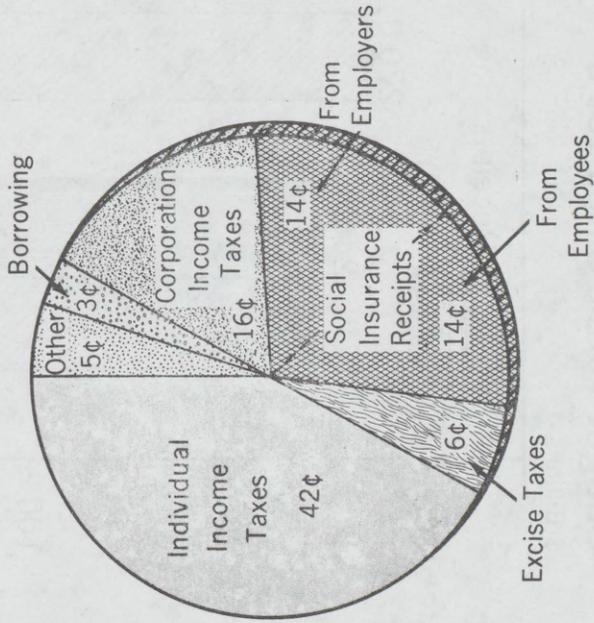
Budget Totals Since 1973



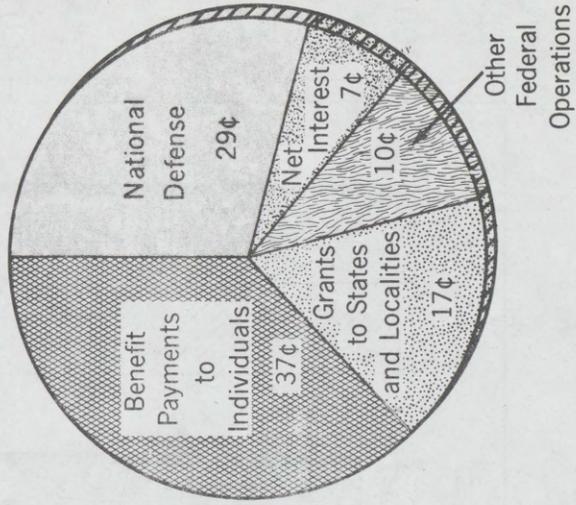
The Budget Dollar

Fiscal Year 1975 Estimate

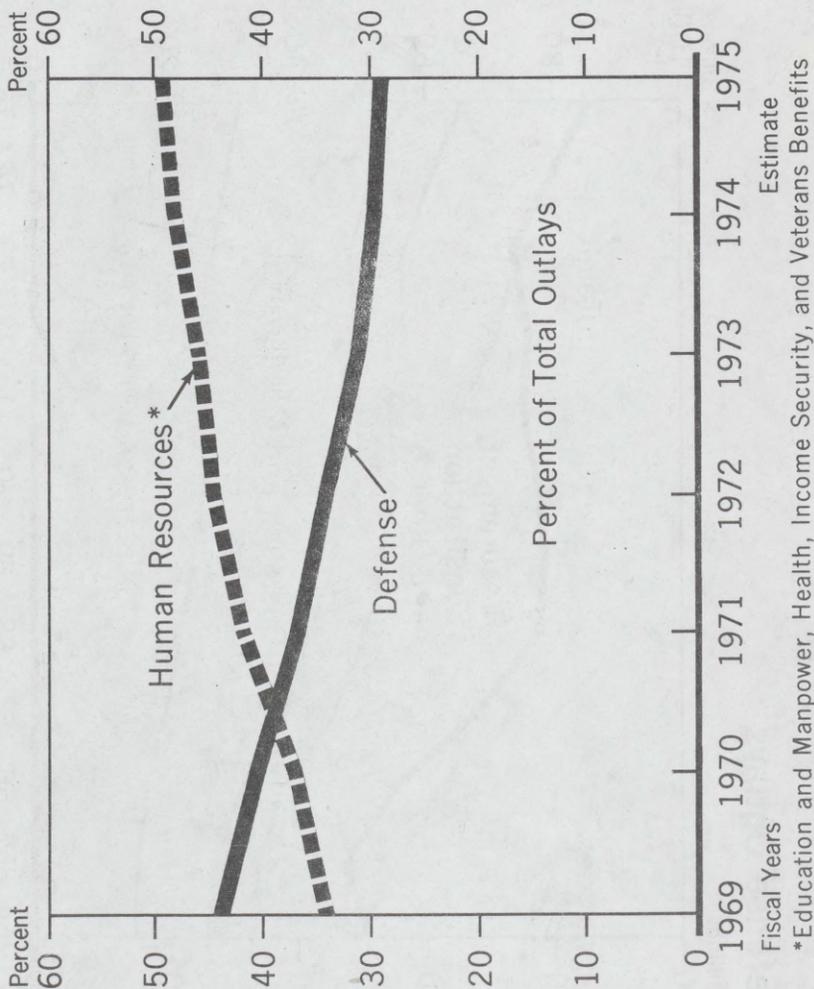
Where it comes from...



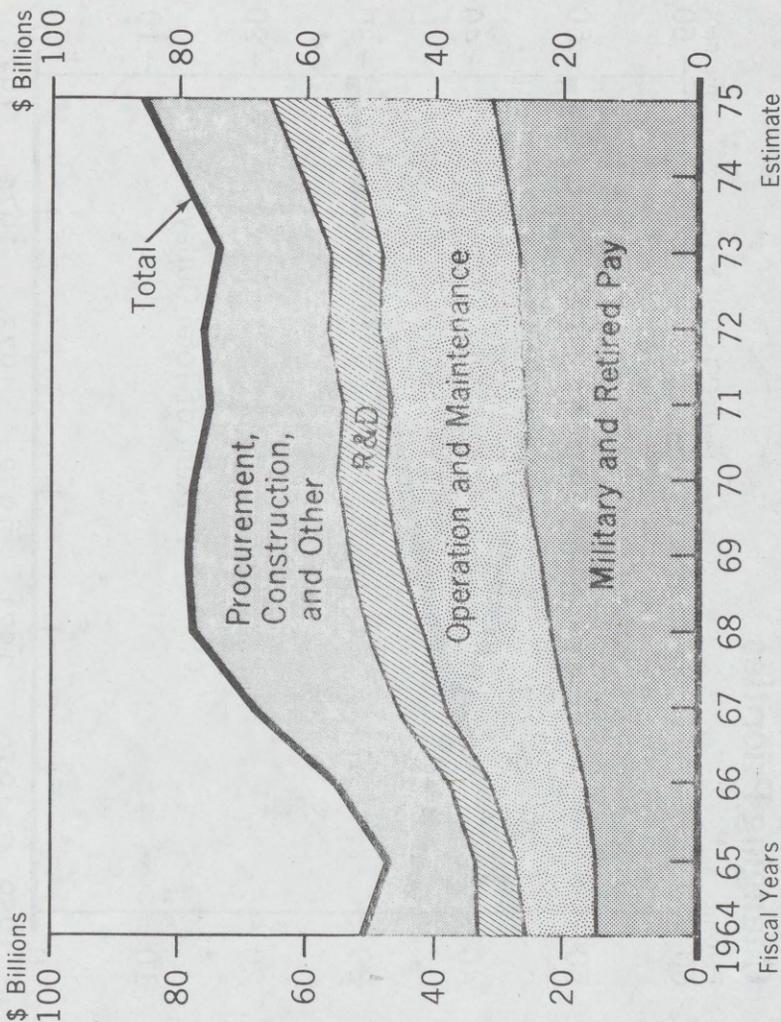
Where it goes...



Changing Priorities



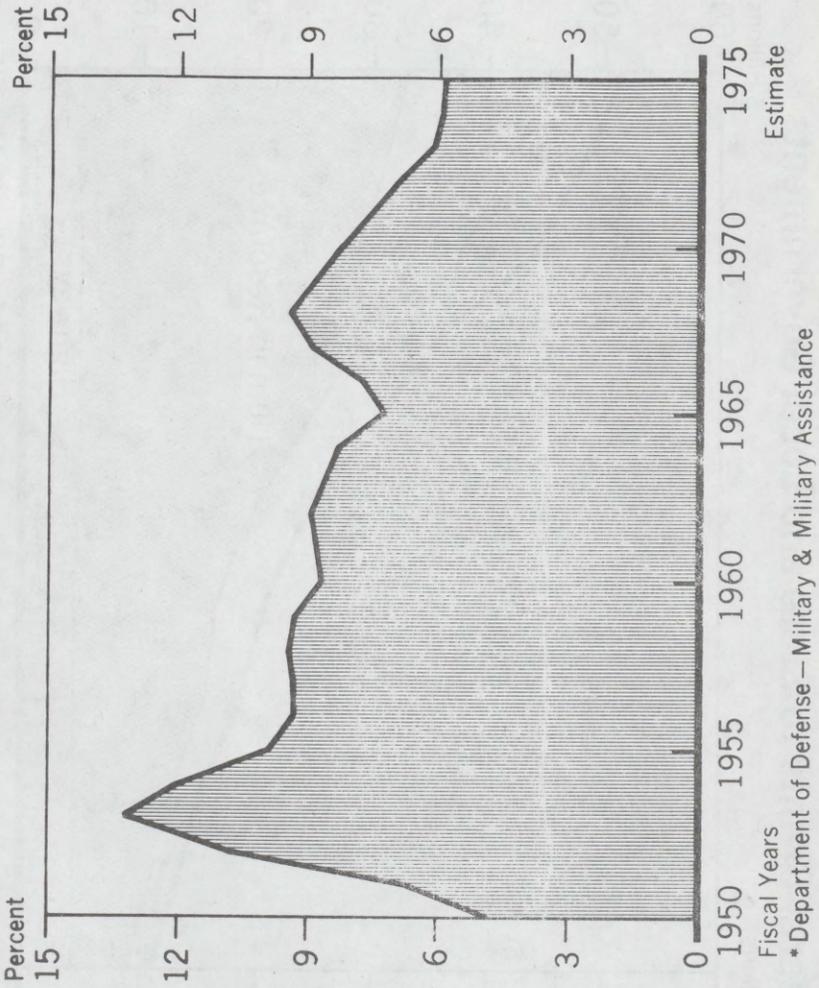
Defense* Outlays



Fiscal Years

*Department of Defense - Military & Military Assistance

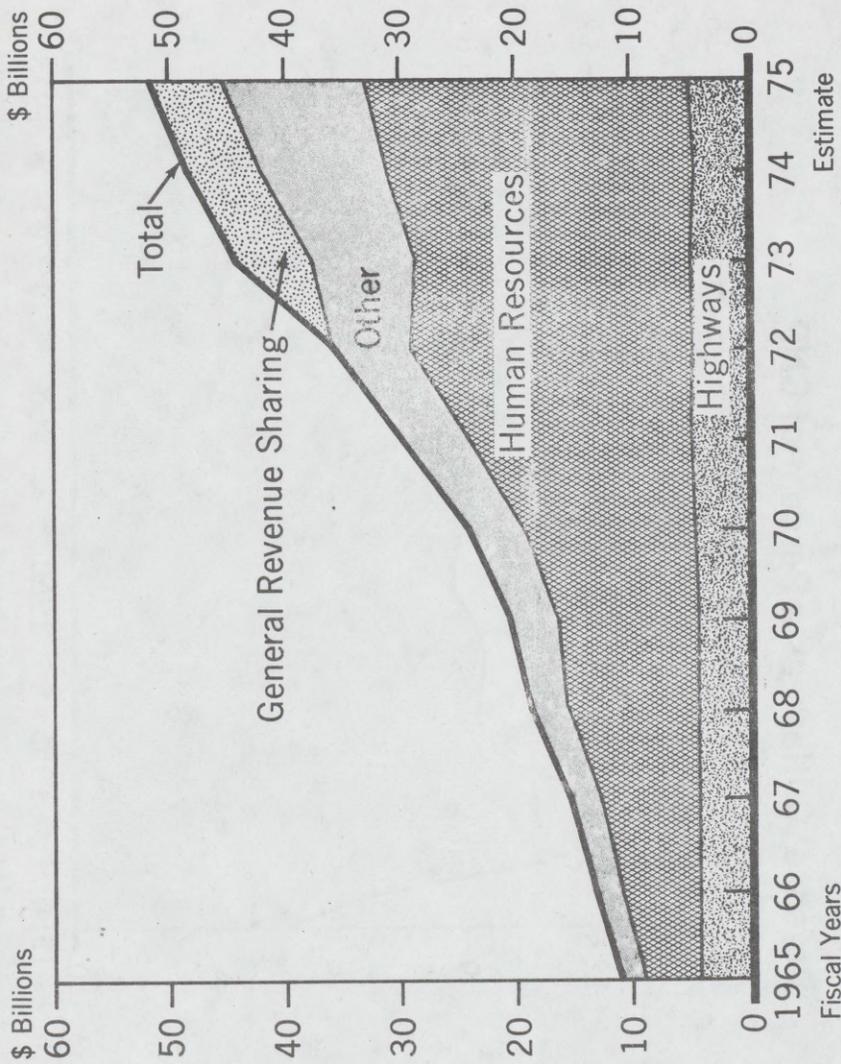
Defense* Outlays as a Percent of GNP



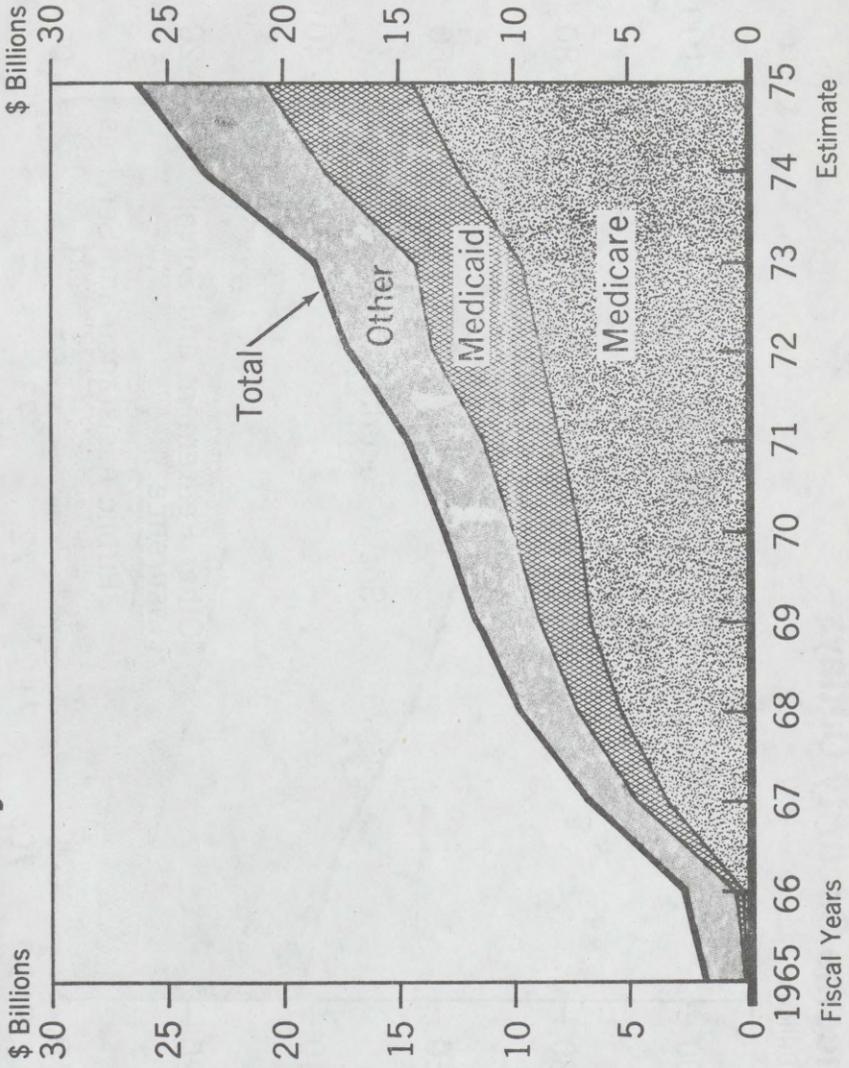
Fiscal Years

* Department of Defense—Military & Military Assistance

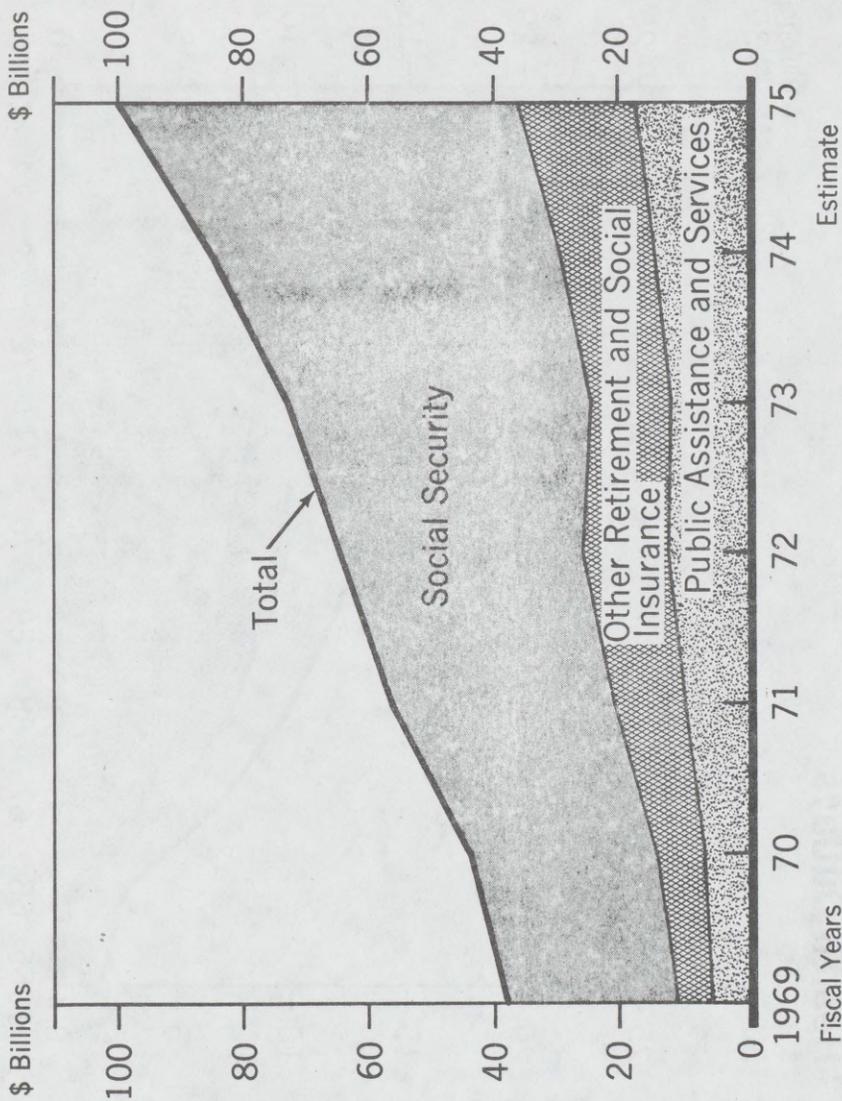
Federal Grants to State and Local Governments



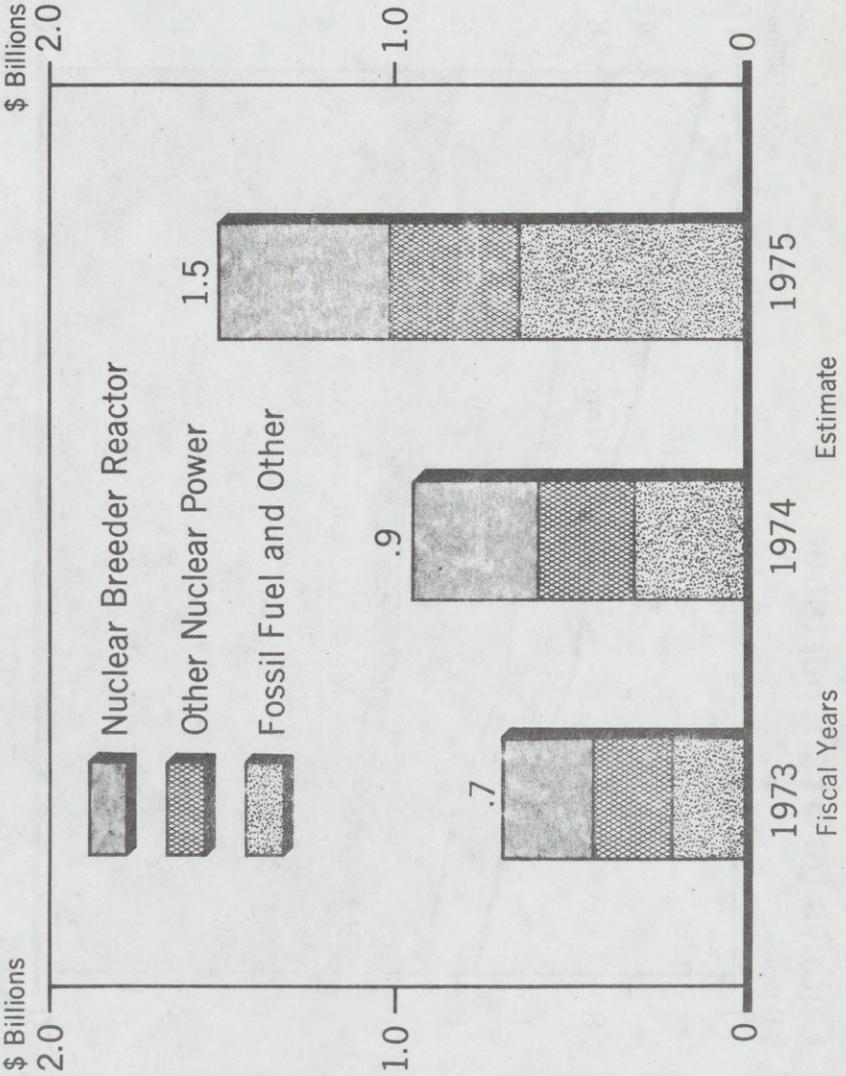
Health Outlays



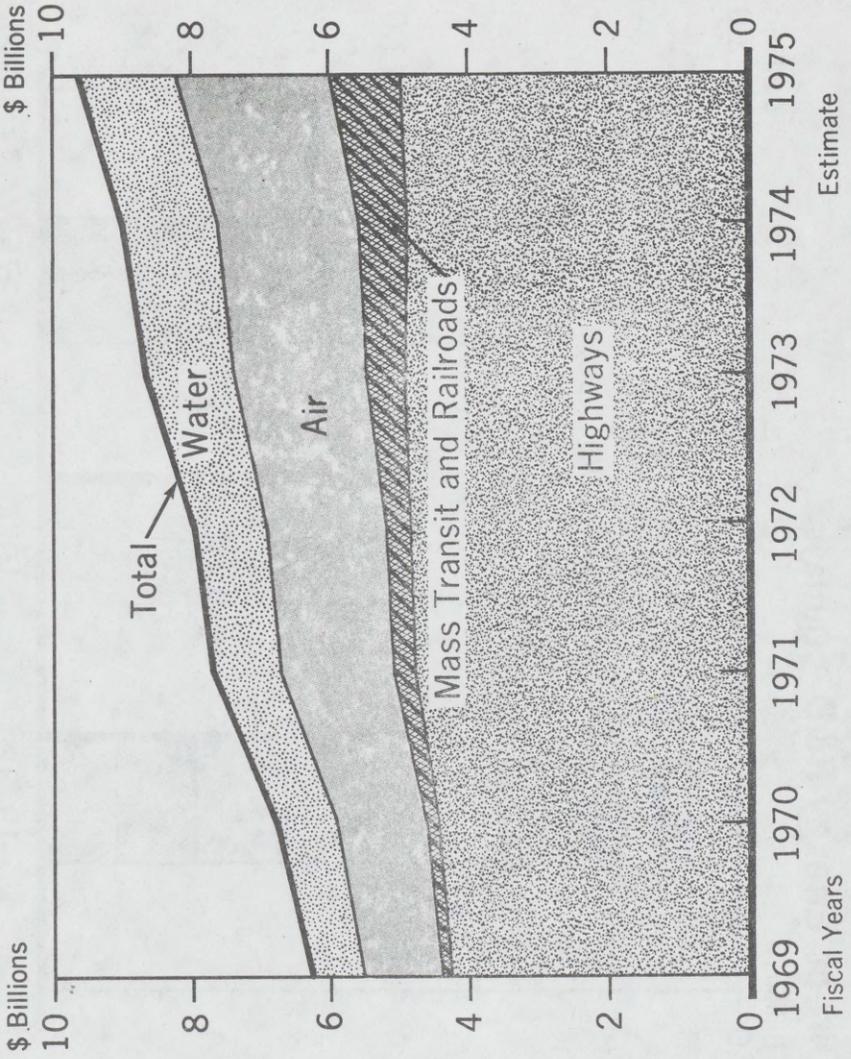
Income Security Outlays



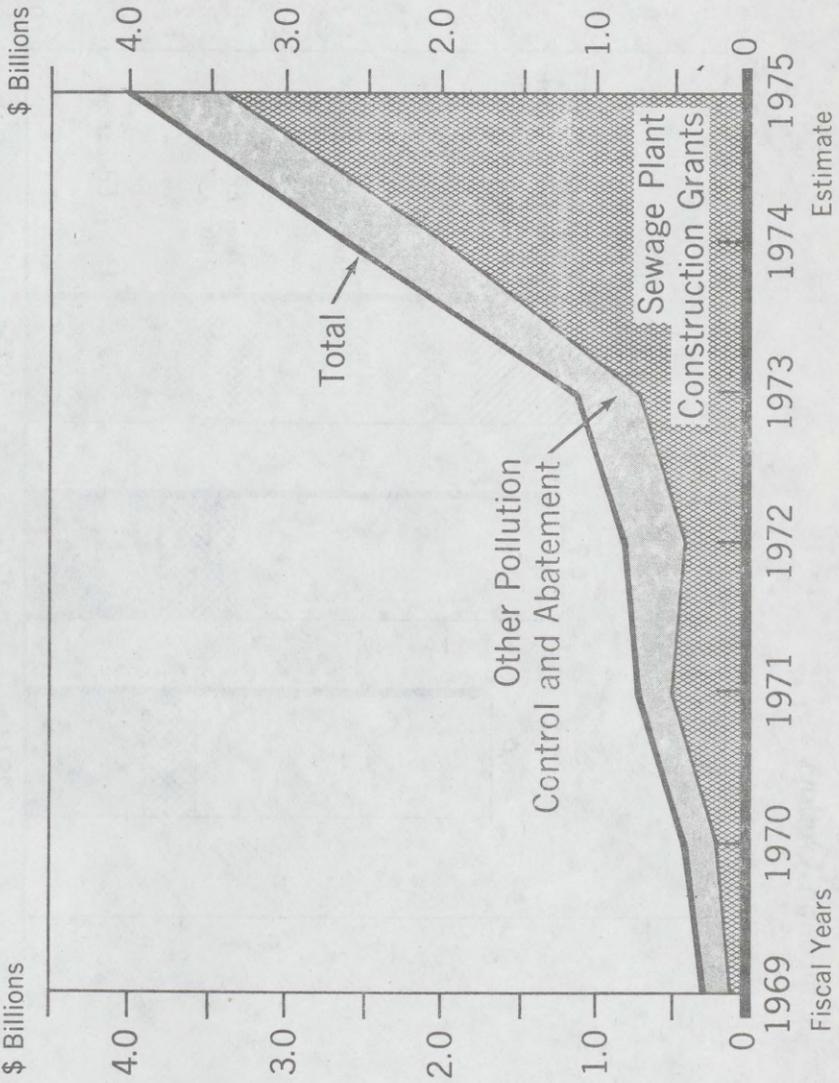
Direct Energy R&D - Outlays



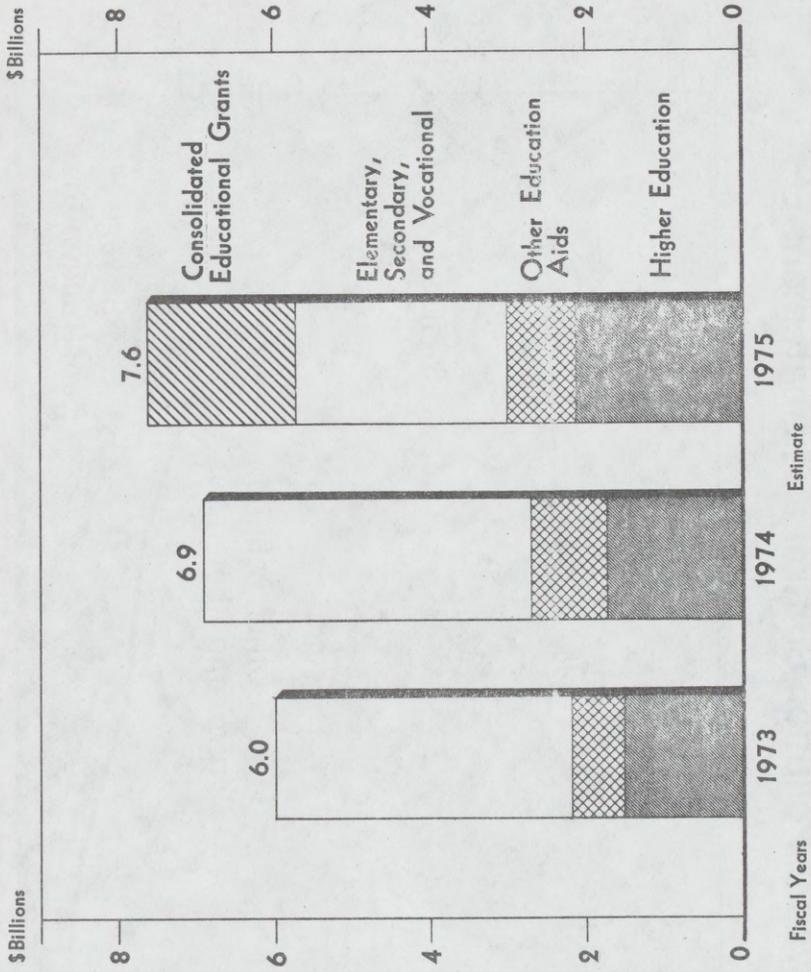
Outlays for Transportation



Outlays for Pollution Control and Abatement-EPA

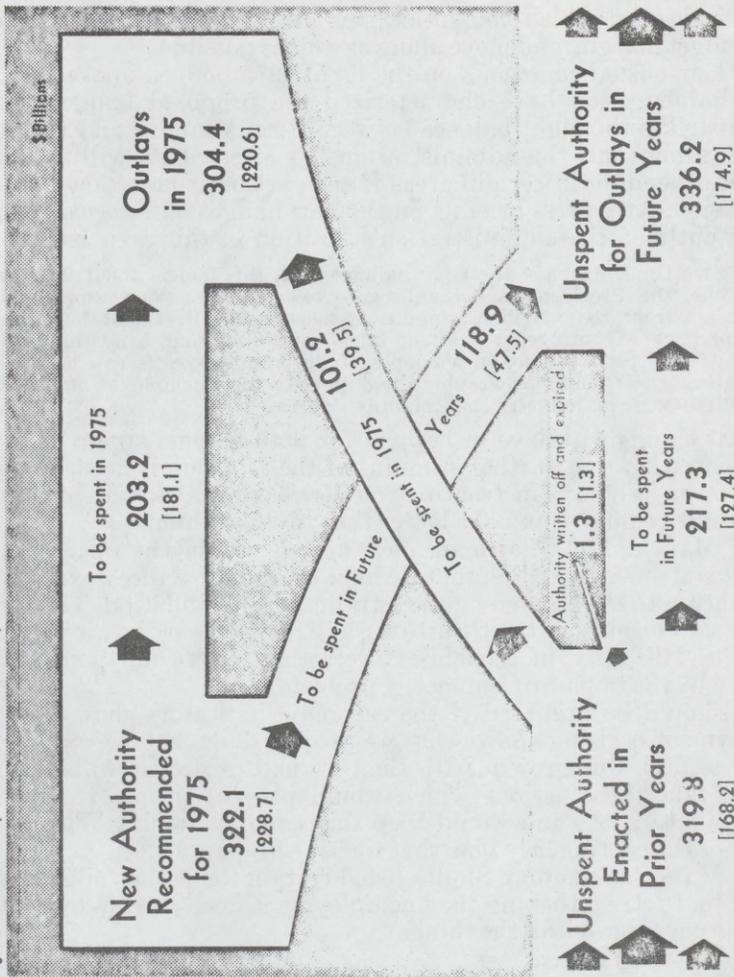


Education Outlays



Relation of Budget Authority to Outlays — 1975 Budget

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PLANS FOR STIMULATING THE ECONOMY

Mr. MAHON. Let us talk about stimulation of the economy, then the priorities of which you speak, new initiatives, and about the elusive budget margin, and move along as well as possible.

In their official comments on the fiscal 1975 budget, spokesmen for the administration have characterized the proposed budget as one which strikes the right balance between fiscal stimulus and restraint. At the same time, the administration has stressed its willingness to increase spending in certain areas if such action is necessary to avoid a recession. At a press briefing on the new budget on February 2, Mr. Malek outlined the administration's position in this area as follows:

* * * we think we have the right balance with this budget itself. But at the same time, the President is not willing to tolerate recession, and should it become apparent that further stimulus is needed, the President has directed us to prepare a contingency plan of added spending that can stimulate the economy. This can be done in a couple of different ways. It can be done by stimulating a particular geographic area, or reducing unemployment generally, or by stimulating an industry that might be depressed.

What things will have to happen for it to become apparent to the administration that further stimulus of the economy is needed?

Mr. ASH. We have in front of you Mr. Fred Malek who made that statement. I cannot think of a better time to call on him.

Mr. MALEK. Mr. Chairman, once again, within the opening part of that statement, we think that we have the right balance now between stimulation to the economy and restraint against inflation. The thrust of my statement, and the thrust of the President's policy, is to recognize the fallibility in economic forecasting, particularly in a year clouded by the impact of the energy problem.

We should be prepared if the economic indicators show that unemployment is rising above what we projected, or that the economy is on a less desirable growth path than we had projected, to be flexible and to take those actions which would prevent people from being thrown out of jobs and would keep the economy moving. That is the thrust of the contingency plan that we have prepared.

Mr. MAHON. Secretary Shultz listed certain items that might be resorted to. Is strengthening the unemployment insurance system by extending coverage one of the things?

Mr. MALEK. Yes, sir.

Mr. MAHON. Increasing the level of benefits and providing for triggering extended benefits in areas where unemployment rises rapidly to a high level is another thing. Aren't these steps a rather traditional way to provide stimulus to the economy? How much help will they really be if we have a long-term problem caused by the energy crisis or lack of other basic materials? And in fact, could some of these formerly helpful tools backfire and greatly increase our inflation problems, and indeed hurt our overall economic condition?

It looks to me as though all these traditional rules might not be applicable at this time.

Mr. MALEK. Sir, I think the unemployment benefits that you referred to can be used in a way that will impact on those particular areas that could be hardest hit by unemployment. Again, we don't expect that the energy crisis is going to have such a severe impact as to necessitate the triggering of these items. But should they need to be

triggered, and should we have items such as unemployment insurance that can have an impact on a particular area while not adding to general inflation, I think it is in the public interest that we do such things.

TRIGGERING ECONOMIC STIMULUS

Mr. MAHON. What specific development will have to occur before you would call in these Minutemen to help stem the tide of depression? Suppose the unemployment rate rises to 5.6 percent, or 7, or 8; would that trigger these programs?

Mr. ASH. Let me, Mr. Chairman, discuss that and particularly suggest that in the discussion you will have tomorrow with Dr. Stein, you may want to amplify this. We have a view of what the economy will be for the rest of this calendar year. This view suggests that after the second quarter, as we get into the third and fourth quarters we will see a restoration of economic growth and diminution of inflation. At any time when our forecast, using whatever indicators seem most relevant, leads us to conclude that our current view is not correct in terms of what economic conditions will be in the mid to latter part of this year that would be a cause for setting in motion some of these contingency plans.

There will be continual reassessment of the economic outlook for the whole course of the year. Specific actions won't be triggered by any one statistical index but, rather by a set of factors that would cause us to significantly change the view we now have that there will be economic recovery starting in the second quarter and continuing in the third and fourth.

Mr. MAHON. It seems to me that you indicate this whole matter is somewhat nebulous. You are not able to pinpoint specifically what action would be taken and when.

EXTENDED UNEMPLOYMENT BENEFITS

Upon the request of the administration, I believe last week, legislation was introduced which would extend unemployment benefits an additional 13 weeks beyond the present level, as well as providing extended coverage. Do you think these additional benefits will be needed in 1974 and 1975? Do you have any thoughts on that?

Mr. ASH. They may well be needed in 1974 and we certainly would encourage early consideration of that proposed legislation.

Mr. MAHON. You have not given us criteria as to just what would trigger these things. Can you do that?

Mr. ASH. A number of different things could be triggered by different indications of economic outlooks. For instance, if the view was that inflation is our greater problem, and unemployment is not, we might have a different set of answers. The particular response that we should pull out of the bag is that response that is best fitted to what a changed view might be. It is very difficult at this time to anticipate exactly what might be a succession of forecasts or successive views of the economy for the rest of the year.

Mr. MAHON. Do you anticipate the possibility of sharper increases in unemployment and at the same time more inflation?

Mr. ASH. No, sir. Our anticipation at this moment—and again Dr. Stein can elaborate more completely—our anticipation at this

moment is that we are going over the top of the inflation rate during this quarter and it should be coming down later in the year. Unemployment will be rising a little from what it is now, as we see it. It will not go over 6 percent, even though some are forecasting much more. Those are the two trends we see for the immediate period ahead.

Mr. MAHON. Does this indicate that in seeking additional numbers of weeks for unemployment benefits that the administration is prepared for a rather long and steep downturn in the economy?

Mr. ASH. No, sir. In fact, we are anticipating that real economic growth will begin to pick up in the second quarter and accelerate in the third and fourth quarters. The quarter we are now in is probably the quarter of the lowest economic growth we will have during this year.

Mr. MAHON. The wholesale price index went upward in January, 3.1 percent. That could mean in the course of this year a tremendous increase in prices and therefore a tremendous surge toward greater and greater inflation. Do you anticipate that inflation is an even greater threat than unemployment during this period of scarcity in supply.

Mr. ASH. Certainly there is the real problem of finding that fine line between a budget geared to holding down inflation and a budget geared to holding down unemployment. We believe that we have found, at least for now, that fine line. We feel we should be prepared, in this year particularly, to be flexible if a change is called for.

ACCELERATION OF PROGRAMS

Mr. MAHON. What kinds of projects might be speeded up, and what is the total amount available that could be pumped into the economy by way of these projects?

Mr. ASH. Let me set out some of the criteria we believe are applicable to this kind of a situation.

First, if we expect any change to take place, it will be one that would affect unemployment, and we would therefore look for projects that would translate themselves into immediate employment. That is one criterion.

Another criterion is to have projects or programs than could be fitted to particular pocket areas of unemployment. As an example, the unemployment insurance proposal that has been submitted is based upon an automatic formula that routes unemployment compensation in greater amounts to those pockets of unemployment that are particularly serious.

A third criterion would be to have programs that are not long term but that could be acted on immediately and could be brought to an end when their purpose has been served. Some of the kinds of programs that would meet these criteria would be already existing programs that could be speeded up, as opposed to new ones. To add new programs generally would have an effect on the economy many months, and perhaps years, out. We could well decrease, as I think Secretary Shultz has already indicated, the rates of income tax of withholding that have been, in many cases, overwithheld. In earlier years, earlier administrations have changed the dates of refunds of veterans insurance premiums. So there have been these kinds of changes of flows of money that would go directly into the economy with immediate effect.

Another one deals with the manpower revenue sharing, where there could be more moneys that the cities and the States may want to apply to public service employment.

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

[The information follows:]

The examples above meet the criteria the administration has in mind. No decisions have been made as to specific programs, but the administration will be guided by the three criteria mentioned above—ability to generate employment, ability to target the impact, and ability to start quickly and end quickly.

THE ELUSIVE BUDGET MARGIN

Mr. MAHON. Mr. Director, we will want to explore this question further with Secretary Shultz, but we also would like for you to expand upon changing the time of Federal payments, possible changes in monetary policy by the Federal Reserve Board, and changes in tax withholding schedules. These are the kinds of things that should be considered. We will ask you to comment to the full committee on some of these issues.

I would like to move to the subject of budget margins, I should say elusive budget margins. These dividends that budget directors and administrations have been telling us about for decades, but which never seem to materialize.

Until recent years, peacetime economic growth has tended to generate increases in Federal revenues faster than a corresponding rise in expenditures. The resulting surplus is often referred to as a "budget margin" or "fiscal dividend."

We thought we might have one at the end of the fighting in Vietnam.

Because of strong economic expansion in the early 1960's, it was recognized that a substantial "fiscal dividend" would accumulate during the past decade. Economists suggested that the dividend could be distributed either in the form of tax cuts or through the introduction of major new Federal programs. These dividends have not materialized.

What happened was that both courses were pursued. Major tax cuts were enacted in 1964, 1969, and 1971—and, of course, expenditures for human resources and other civilian programs increased dramatically. The net result was that the combined decrease in taxes and the increase in expenditures resulted not in a "budget margin" or "fiscal dividend"—but rather a "fiscal mortgage." In other words, we are spending most of our available revenues many years in the future.

The concept of a "budget margin" is still very much with us. The budget transmitted to Congress in January 1970 estimated that we would have a \$22 billion budget margin in fiscal year 1975. Fiscal year 1975 is here, and that budget margin has come down from \$22 billion to \$8 billion. Each year the budget continues to speculate that 5 years hence we will see a large "budget margin." The 1975 budget is no exception. It estimates the potential 1979 margin at about \$37 billion. But that 1979 margin is based on full employment revenues and on a conservative projection of future costs of 1975 programs as well as and other proposed programs.

I would like to ask this question:

THE PROJECTED 1975 BUDGET MARGIN

What happened to the \$22 billion 1975 budget margin? Was it reduced because beneficiary programs were expanded at the same time taxes were cut?

What is the answer to that? The margin predicted in 1970 for 1975 was \$22 billion but it didn't materialize.

Mr. ASH. That contemplated a continuation of the programs as they existed in 1970 and pricing them forward to 1975. In the interim, there has been considerable additional legislative activity, executive activity, and there have been a number of additional programs put on the books. In effect, we have found ways to expand those moneys so that no longer are they there as we forecast them in 1970. We look ahead in this budget to 1979 and similarly forecast a prospective full employment margin available to deal with.

It is my forecast that we will probably find ways to expend that. I do want to make one comment about the observation that you made in the process of asking that question that relates to the reduction of defense expenditures because there is a different kind of dividend in the sense of peace dividend more than a fiscal dividend.

I think it is important that we understand what did happen to that. At the peak of the Vietnam war in 1968, we were spending on a constant dollar basis Federal moneys at one-third more than we are now; that is, the Federal budget today for Defense is about \$85 billion, say \$85.8 billion. On a constant dollar basis, we would have been spending not \$85 billion but more likely \$125 billion or \$130 billion. What we have done by a gradual reduction of those expenditures, what we have done is to have realized approximately \$40 billion peace dividend and have redirected that to domestic programs. The reduction of the levels that we were spending for Vietnam—and I am putting these all in 1975 constant dollars because of the change in dollar values—is basically worth \$40 billion a year.

Mr. MAHON. Expand on that for the record.

Mr. ASH. Yes, sir.

[The information follows:]

OUTLAYS OF THE DEPARTMENT OF DEFENSE, MILITARY AND MILITARY ASSISTANCE IN
CURRENT AND CONSTANT PRICES

[Fiscal years; dollar amounts in billions]

Fiscal year:	Current dollar outlays	Amount of inflation between 1968 and 1975 estimate (percent)	Constant (1975) dollar outlays estimate
1968.....	\$78.0	62.7	\$126.9
1975 estimate.....	85.8	NA	85.8
"Peace dividend"—reduction from 1968 level to 1975 level of constant dollar outlays in 1975 prices.....			41.1

NA—Not applicable.

BUDGET MARGINS A PIPEDREAM

Mr. MAHON. It seems to me that Congress, the country, and the Office of Management and Budget should recognize that these budget dividends are more or less pipedreams. It is all right to speculate on these dividends, but I think we kid ourselves if we say that under a full employment budget there will be a margin of \$37 billion available to us by 1979. I don't think that is very credible.

If no changes occurred you could calculate this, but as a matter of fact this has not happened before and I don't think it will ever happen.

CALCULATING THE 1979 BUDGET MARGIN

What programs have been left out of the calculations of this margin? Does the \$37 billion budget margin you speak of by 1979 provide for a welfare reform? It does not.

Mr. ASH. It provides for welfare reform at the continuation of the levels of many categorical programs that already exist for welfare.

Furthermore, the number to which you refer on page 35 of the budget, I think it indicates there, and it does, that they are not forecasts of what the administration will propose in the future budgets or of possible program levels after future policy decisions and conclusions, particularly by the Congress, but as a pricing of existing programs. It points out that that is the amount available either to reduce Government expenditures or to spend for other kinds of programs. At least it gives us a measure of what we have to work with. Whether in working with it we would like to reduce taxes, save it, or spend it is what the issue is each year.

Mr. MAHON. The budget estimates the cost of a national health insurance program at \$6 billion in 1977. Proposals are pending in Congress that would provide for a health program that might cost billions a year more. Independent estimates of the President's plan are quoted as high as \$15 billion. Does the \$37 billion margin include any allowance for a higher rate of health insurance benefits in 1978 and 1979? If not, it is probably sort of an Alice in Wonderland exercise.

Mr. ASH. Mr. Chairman, it does include the program that the President has proposed for health insurance. That is the amount that would be \$6 billion or so in 1977 and continuing into future years from there. That is included as an expected outlay in deriving this \$37 billion full employment margin that has been calculated for 1979.

NEW INITIATIVES

I would like to turn to the new initiatives in the budget.

Mr. MAHON. You have quite a bit to say about new initiatives. How do these new proposals in education and community development differ from those not adopted by the Congress when last proposed? What makes you more optimistic about their acceptance now? How do you envision the role of Congress in the budgetary process? Is there any room in this budget for congressional initiatives as opposed to and in addition to Presidential initiatives? For the benefit of those who study this hearing, I shall ask that a table reflecting new initiatives contained in the budget be placed in the record at this point.

[The table follows:]

BUDGET AUTHORITY FOR LEGISLATIVE PROPOSALS FOR MAJOR NEW AND EXPANDED PROGRAMS, 1974-75

[In millions of dollars]

Department or agency	1974	1975	1976	1977	1978	1979	Explanation
Funds appropriated to the President: International financial institutions.	121	136	546	375	375	375	Contributions to IDA Asian Development Bank, and African Development Fund.
Commerce:							
Economic adjustment assistance.....		(100)	(220)	(350)	(350)	(350)	New program to help States and communities adjust to economic change.
National Bureau of Fire Prevention.....	4	13	13	13	13	13	Process assistance for fire prevention and control.
Commerce and Labor: Trade Reform Act.....		220	220	130	20	20	Provides for trade adjustment assistance.
Defense:							
Naval petroleum reserve.....	-62	-173	27	24	25	20	Provides for exploration of reserves.
Other legislation.....	99	242	229	169	111	22	Amounts represent additional costs of All Volunteer Armed Force reform of retirement pay systems, and flight pay.
Health, Education, and Welfare:							
Health resources planning.....		67	67	67	67	67	Provides support for State and local health services planning regulations.
National health insurance.....							(1) Health insurance coverage nationally.
Consolidated education grants.....	(2,852)	(2,875)	(2,875)	(2,875)	(2,875)	(2,875)	Provide for reform of elementary, secondary, adult, and vocational education grants.
Supplemental security income.....	5	55	360	750	750	1,450	Provides for automatic cost-of-living adjustments to benefits.
Other legislation.....			55	56	40	40	National Health Service scholarships, Allied Services, and 3-year library resources demonstration.
Housing and Urban Development:							
Better Communities Act.....		(2,300)	(2,300)	(2,300)	(2,300)	(2,300)	Provides for broadcast grants for locally determined community development.
Responsive Government Act.....		(110)	(110)	(110)	(110)	(110)	Provides for expanded Federal support for planning and management at State and local levels.
Interior:							
Indian programs.....	9	34	39	39	39	39	Loans and grants to Indians for resource, economic and human development.
Land use control and mined area protection.....	1	49	49	40	40	40	Higher maximum benefit levels and extends coverage to farm workers.
Labor: Unemployment Insurance Reform.....				215	600	850	Reduction of salinity in waters going to Mexico.
State: International Salinity control project, Colorado River.		95		(1)	(1)	(1)	Grants for highway and mass transit systems.
Transportation: Unified transportation assistance program.....		(1)	(1)	(1)	(1)	(1)	Provides for new programs for toxic substances, hazardous wastes and safe drinking water.
Environmental Protection Agency.....	24	32	40	43	45	45	
Veterans' Administration:							
Pension system improvements.....		250	275	318	364	412	More adequate and equitable pensions.
Readjustments benefits.....		200	194	172	152	135	Increased veterans education benefits.
Other independent agencies: Payments to Legal Services Corporation.		72	72	72	72	72	Establishes an independent nonprofit corporation to provide legal aid to low income individuals.
Allowance for relatively small and unforeseen items.....	150	250	350	400	450	500	
Total authority.....	351	1,542	2,536	2,754	3,163	4,100	

Note: Items in parenthesis are not added into the total since the cost of the programs is less than the amount shown due to replacement of existing narrower categorical programs.

1 This program is still being developed. The estimated cost is \$6,000,000,000.

2 Many authorizations for this program have already been enacted.

Mr. ASH. Mr. Chairman, let's start on those questions. I would ask Mr. Paul O'Neill, Associate Director, to address himself to the first one and then we will cover the others after that.

Mr. O'NEILL. I think it appropriate to look at page 320 and page 321 of the budget where you will see the tables required under the Legislative Reorganization Act of 1970. This sets out the new initiatives made by the President in the budget.

To start with things of particular concern in my area, health resources, we think there is a real possibility to work with Congress here and come up with a replacement program for Hill-Burton and the comprehensive planning activities.

That sense of forward progress comes from talking with members of the committee. We are beginning to see some progress and agreement. We are very hopeful about the Comprehensive Health Insurance proposal. We are encouraged by the reception of that from Members of the Congress and by the joint introduction by Congressman Mills and Congressman Schneebeli. We think there is a real prospect of favorable action on Comprehensive Health Insurance.

In the educational grants area, we now have been working for 2 years or 2½ years. We think we are beginning to see substantial agreement. I noted this morning an article in the New York Times indicates that indeed the administration and Congress are beginning to make substantial progress.

Supplemental security is also noted here. As I look at these, there seems to be a broad consensus concerning inflation-proofing supplemental security income benefits, something that wasn't done when the program was first put on the books, so low-income people will not lose benefits when there is a social security increase.

As we go through the list, I think in each of these cases, because of the good cooperation and the conversations we have had with members of the committees over the last year, there is indeed a real prospect that these will be put into law this year.

Mr. MAHON. I would point out that the proposed new initiatives would cost \$1.5 billion in 1975, and by 1979 would cost \$4.1 billion.

INCREASED SPENDING FOR DEFENSE

I would like now to go briefly to Defense. As you know, we have not yet had the opportunity to hear the Secretary of Defense in the Appropriations Committee.

Last year, the Defense Comptroller, Robert Moot, stated that during the next 5 years the Department of Defense was projecting no significant increase in procurement and research and development funding. He assured us of this.

However, both the proposed fiscal 1974 Supplemental appropriation request and the fiscal 1975 budget contain large increases in these categories.

For several years we have been predicting that the Soviets would be able to MIRV their strategic missiles. As a matter of fact, they are somewhat behind our earlier predictions.

Mr. Ash, would you comment on the conditions and reasoning which have led the administration to increase spending in Defense pro-

curement and R. & D. This increase in December is very significant because you have a \$12-billion package before Congress now.

Every Member of the Congress and every member of this committee is anxious to know how valid the \$12 billion proposed increase is.

Mr. ASH. First, I agree with you that a discussion directly with the Secretary of Defense would be more appropriate, but let me put forth the perspective we in the Office of Management and Budget have on that subject.

The defense budget, of course, does increase this coming year, 1975, over 1974, in total. It steps up by about \$6.3 billion in outlays for the Department of Defense.

By far the biggest amount of that increase has to do with pay and price increases required to maintain a level of force and operations, and only above that is a small amount representing new initiatives having to do with R. & D. particularly for strategic forces.

There are a couple of reasons. The Secretary of Defense can elaborate on them more particularly.

The first reason has to do with the lessons we learned and the information we gathered from the recent war in the Mideast which gave us some basis for knowing how we can and should improve our own defense capability. Some of the expenditures are to be responsive to that information and the understanding we gained.

Further, as you know, during the last year and since the testimony to which you refer, we have learned a bit more about Soviet intentions and plans. Of course, right now we are going into some of the international negotiations, the SALT talks and, later in the year, into the mutual and balanced force reductions. We believe as a proper response to their activity, we should step up some of our own.

These two basic reasons have occurred since the testimony to which you refer, and do give rise to the relatively small amounts of increase, at least as they relate to fiscal year 1975, in the defense area.

The biggest increases come from other causes; that is, the higher prices of both labor and material.

IMPACT OF MIDEAST WAR ON 1975 DEFENSE BUDGET

Mr. MAHON. The fiscal year 1974 supplemental is said to be related in large part to the lessons learned during the Middle East war, which was primarily a conventional ground combat operation. However, with respect to the fiscal year 1975 defense budget, we note that the Army's share of research, development, test, and evaluation allocation declined to 21 percent of the total, compared to 75 percent for the Navy and Air Force.

Furthermore, the vast bulk of the research and development effort supports the development of more modern aircraft, ships, and strategic missiles, with less than 5 percent devoted to work on ground combat equipment.

To what extent do the lessons learned in the Mideast war impact on the fiscal year 1975 defense budget in the light of the statements I have made?

Mr. ASH. Of course, the lessons we learned did not all relate to ground warfare. They related also to air warfare.

I think probably I should defer to the Secretary of Defense for the

specific answers, because they really relate to weapons system by weapons system.

Mr. MAHON. Mr. Ash, I will ask you a few additional questions for the record insofar as they relate to you as Director of OMB. We realize that the greater responsibility here lies with the Secretary of Defense himself.

ECONOMIC IMPLICATIONS OF THE DEFENSE BUDGET

I would like to ask you one basic question in addition. To what extent did unemployment, energy problems, and the threat of recession relate to increases in the budget? Were these recommended increases made for economic reasons in order to provide jobs? We all like jobs. We realize the necessity for adequate defense, but to what extent was the equation influenced by the desire to keep the economy going?

Mr. ASH. None in the defense area. The defense budget was constructed program by program and, in effect, strategy by strategy, and does not have a domestic objective content to it. It is basically a defense budget geared to the best assessment that can be made at this time of defense needs.

LATE ADDITIONS TO THE DEFENSE BUDGET

Mr. MAHON. After OMB had essentially completed its review of the defense budget, were there significant changes made in the budget in late November of 1973 or in December of 1973 that were more or less directed by the President, the White House, or the Department of Defense itself? If so, how much was the defense budget increased or reduced, and what were the reasons?

Mr. ASH. I have heard that question before, Mr. Chairman, and I do not know where it stems from. The process of developing the Defense budget this year was almost exactly the same as the process of developing the budget for all of the other agencies. During the latter part of November, we had a series of meetings—myself and my staff with the Secretary of Defense and his staff—about the Defense budget, because at that time we were gaining the benefit and the understanding of what had been happening in the Mideast area. We sat down together and attempted to work out a budget which reflected all of the new information.

It was not a directed change. It wasn't a change, because we had not arrived at an earlier budget. As you know, we start arriving at tentative numbers in October and in November. We were still in the process of arriving at a final number and had not arrived at the final number, but did have information, as we had in some other agencies, that came in late in the budget process, and worked it into the classical, normal way of preparing a budget.

So, there was not a directed change. There was a change that was brought out in the normal course because new information had become available.

Mr. MAHON. In other words, there was a dramatic increase in the Defense budget late in the preparation of the budget. Is that not right?

Mr. ASH. In November we had the benefit of new information—

Mr. MAHON. Regardless of the benefit of new information and re-

ardless of the war in the Mideast, did you make an additional sharp increase in the Defense budget?

Mr. ASH. To an early tentative number. We did it in some other agency budgets as well.

I am saying there is nothing out of the ordinary in the processes of preparing the Defense budget, because under those kinds of circumstances, new information is always cranked in.

Mr. ADDABBO. Will the Chairman yield at this point?

Mr. MAHON. Yes.

TRIDENT PROGRAM

Mr. ADDABBO. Mr. Director, relative to the Defense budget, you referred at several points to the Secretary of Defense. In last year's program you slowed down the Trident program because you felt it was a program which could be slowed down, but now we find the Trident program being pushed ahead. Was that your decision or a decision of the Defense Department?

Mr. ASH. It was the President's decision. All the key budget decisions—and that was certainly one of them—are the President's decisions.

Mr. ADDABBO. Who recommended to the President—the Secretary of Defense or your office?

Mr. ASH. The National Security Council, the Secretary of Defense, and ourselves each made our recommendations to the President, and then he made a decision based on those recommendations.

Mr. ADDABBO. Has there been a sudden change of our relationship to Russia or China which means we should push forward on Trident, or are we in a détente with Russia so we do not have to spend more on that program?

Mr. ASH. As you know, the change on Trident this year was to move from the rate of one a year to two a year. It had been contemplated with the Congress, as I understand it, that that was an alternate rate that probably should be favored.

The issue is not a black and white one, détente or no détente. The issue is a very complex set of dynamic relationships. Last year the Trident schedule was reduced from three a year to one a year. This year it was deemed advisable to go back up to two a year.

Of course, the whole of the Defense budget has to be viewed as a part of that dynamic process of changing world relationships.

Mr. ADDABBO. What was your recommendation to the President—that we speed up the program, slow the program down, or keep it on schedule?

Mr. ASH. I am not sure. I think we had some negotiation at that stage. We had some discussions with the President and Secretary Schlesinger together. I think we started off together with one, and then we moved together to a two-a-year rate.

Mr. ADDABBO. You and the President? You and the Secretary?

Mr. ASH. We had different positions as the arguments kept unfolding.

Mr. ADDABBO. What was your position?

Mr. ASH. At the end, it was two.

Mr. ADDABBO. In other words, your office was pushing the program, is that correct, not the Secretary of Defense?

Mr. MALEK. Mr. Addabbo, I think you are probably aware that we have attempted in this year, in a departure from past practices, to meet individually with the leadership of the various committees to get their indications of appropriate quantities before our recommendations are made to the President. In this case we met with Chairman Hébert and Chairman Stennis of the Armed Forces Committees. I believe in both cases they felt *Trident* was a high priority. This, of course, influenced our decision.

In the deliberations with the Secretary and with the members of the National Security Council, we arrived at a consensus that two was the right number.

Mr. ADDABBO. Did you consult with the chairman of this committee, Mr. Mahon, and get his consent to go ahead with the program?

Mr. MALEK. We do, of course, speak with Chairman Mahon throughout the year on various elements of the budget.

Mr. ADDABBO. But you sought the advice of Mr. Hébert rather than the Appropriations Committee, is that right?

Mr. MALEK. Not at all. I believe Chairman Mahon was in favor of our meeting with various Members of Congress and getting a number of points of view and gaining a better understanding overall of the priorities of the Congress.

Mr. MAHON. If I may interrupt at this point, Mr. Malek came to my office, and we talked about having congressional input into the formulation of the budget which is now before us. I told him we would welcome the opportunity.

Insofar as my having been asked whether or not I wanted to go from one *Trident* to two *Tridents*, I do not think that happened. I do not have any recollection of that.

Have you further questions on the matter?

Mr. ADDABBO. As I understand now, your office is asking and urging and pushing ahead the *Trident* program. At the same time, we read in the budget that we seek the development of a small submarine. Is that your decision or the decision of the Secretary of Defense?

Mr. ASH. I think it is pretty well an accepted principle that our recommendations to the President are ones that we do not particularly publicize, because basically we are performing staff work for the President, and do his bidding to carry out his decisions.

In doing that staff work for the small submarine, we, the Defense Department and NSC considered together the ramifications of the various alternatives to move in that direction or not to move in that direction, and put our mutual recommendations in front of the President, and he made the decision that he made that we should move ahead with a small submarine as well.

I think to separate who made which recommendations is not so productive as the fact that the judgment was made based upon our staff work, the combined recommendations of the Defense Department, ourselves, and the National Security Council.

Mr. ADDABBO. The President makes the final decision, but we are spending billions of dollars for managing the budget, and how can you manage the budget when on the one hand you are pushing a large submarine and, on the other hand, you say we need a small submarine? Where is the management?

Mr. ASH. I am sure the case the Secretary of Defense will make on behalf of that strategy will be a good one, and I think it would be inappropriate for me to make his case. He has a very good line of reasoning that I think would be quite convincing, and I would commend that you discuss that with him.

Mr. ADDABBO. Is it his decision or your decision as far as a small submarine?

Mr. ASH. It is the President's decision. We in OMB do not make decisions. We make recommendations.

Mr. ADDABBO. What was your recommendation as far as the small submarine?

Mr. ASH. I think it is pretty well accepted that the President's staff recommendations to the President are not public knowledge.

Mr. ADDABBO. What was your recommendation? What was OMB's recommendation?

Mr. FLYNT. I did not get that last response.

Mr. ASH. I think it is pretty well accepted that the staff recommendations to the President are matters between the staff and the President and are not a matter of public discussion. I am just saying it is an accepted practice.

Mr. ADDABBO. On tape or off tape?

No further questions.

Mr. MAHON. When the Secretary of Defense is before a subcommittee of the Appropriations Committee, we will get into these matters in much greater detail. We therefore, do not want to prolong this discussion.

Mr. Long, I do not want to begin to yield extensively at this time. Do you have a question on this matter?

BASE CLOSINGS

Mr. LONG. Yes; I do.

I would like to ask Mr. Ash if the present budget is not based on any forthcoming base closure or realignment package similar to that which was announced a year ago. Is it correct to conclude that the administration, for economic reasons, has decided to postpone any major base closure package?

Mr. MAHON. That is a question which we can more appropriately address to the Secretary of Defense.

Have you an answer to that?

Mr. LONG. I think it bears on the budget.

Mr. ASH. The first part of it bears on the budget. The budget contemplates realizing those efficiencies that were called for by last year's base closings. It does not contemplate further base closings this year. That is the budget premise.

Mr. LONG. Is this budget premise based on economic reasons?

Mr. ASH. It is not a reversal. It is merely that last year there were some base closings, and this year the budget premise does not contemplate it.

Mr. LONG. But a tremendous base closure package was announced a year ago, with more to follow this year. All this seems to have been aborted; is that correct?

Mr. ASH. Last year's base closing package has gone into effect or is planned to go into effect. They have all been announced and pub-

licized and actions taken. In many cases they are completed. Others may still be in process.

Mr. LONG. We are not going to get any more?

Mr. ASH. Last year's base closure package which was publicly announced has been put into effect. I am sure we would all expect that the Defense Department must continually review the closures.

Mr. LONG. The base closure realignment package was supposed to continue this year, and suddenly you have decided not to do it.

Mr. ASH. I have seen no base closure package this year. I think the Defense Department can comment on this.

Mr. MAHON. Mr. Cederberg says he has a question.

PROBLEMS ASSOCIATED WITH LATE ENACTMENT OF THE BUDGET

Mr. CEDERBERG. I do not want to ask you to elaborate at this time, but I would like you to elaborate for the record on the difficulties you encounter in putting together a budget when we in the Congress fail to provide the final answer on the budget until at least 4 or 5 months of the fiscal year have gone by. Will you do that?

Mr. ASH. All right, sir.

[The information follows:]

Delays in the enactment of appropriations impede efficient management as well as budgeting. Late passage of these bills reduces the time available for implementation of Government programs. This causes a delay in the startup of new programs and backs up the workload in existing programs awaiting additional appropriations. Because the Federal budget is transmitted midway into the prior fiscal year, delays in congressional action on appropriations interfere with planning throughout the year making it more difficult to manage programs in a systematic way. Delays also make the estimating of outlays and obligations more difficult and sometimes inaccurate.

IMPACT OF FULL FUNDING

Mr. CEDERBERG. The second one is that we on the Appropriations Committee are criticized because we do not fully fund all these programs up to their authorized level. For the record, would you give us an estimate of the appropriations that would be required for full funding?

Mr. ASH. Let Mr. McOmber discuss the prospect of that.

Mr. McOMBER. Mr. Cederberg, you will recognize that the answer to that question requires a considerable amount of effort. There is a very large number of authorizations on the books. We will do the best we can.

Mr. CEDERBERG. Do the best you can with it. I realize you may not be able to provide an absolutely complete answer.

[The information follows:]

Analyzing the difference between amounts authorized and appropriations would require several weeks of staff work. However, a rough check reveals that about \$50 billion would be required to fully fund all the legislation that authorizes specific projects or provides specific dollar amounts. About \$20 billion would be required for public works projects alone.

Mr. CEDERBERG. Also, give us the impact full funding would have on inflation.

[The information follows:]

The impact of full funding on inflation would depend heavily on whether the additional spending was financed by higher taxes or greater borrowing. If it were financed entirely by greater borrowing, the inflationary impact would be very substantial. Since we do not have any experience with deficits in the range which would result from an additional \$50 billion of appropriations, it is impossible to accurately quantify the relationship between Federal deficit financing and inflation. However, the experience of the late 1960's indicates that in periods of high employment the impact on inflation can be quite large and long lasting.

Mr. CEDERBERG. Also, if we did fully fund all these programs, which we never do, and we decided we would pay them out of personal income taxes rather than increasing the national debt, what would be the impact of full funding on personal income tax rates?

[The information follows:]

Financing the outlays resulting from an additional \$50 billion of appropriations would require nearly a 30-percent surcharge on corporation and individual income taxes or almost a 40-percent surcharge on individual income taxes alone.

Mr. MAHON. I would like to say to the members of the committee that in preparing questions for this hearing, in consultation with members of the committee, we have tried to ask questions which are of importance both to the committee and to the House. I do not propose to try to pass the witnesses to all 55 members, but every member will have an opportunity if there is some question he is interested in that has not been previously asked.

We need to discuss the uncontrollable aspects of this budget, to which reference has been made. Mr. Whitten was the cochairman of the Congressional Committee to Study Budget Control. I am going to ask him to develop this subject.

We all have been concerned and active in the field of impoundment. I am going to ask Mr. Evins, following Mr. Whitten, to go into the question of impoundment. A new impoundment list is coming up today. If there is no objection, I would like to ask Mr. Whitten to proceed in any way he deems desirable.

Mr. WHITTEN. Thank you, Mr Chairman. I do think, while the discussions have been fine, they have been rather general. As a former district attorney, I am built the other way. I think the details are what build up to the overall picture.

JOINT COMMITTEE ON BUDGET CONTROL

Mr. Ash, I am very proud to have been on the Joint Committee on Budget Control. In my experience in Congress, of some 32 years, I do not know that I have ever before seen 32 Senators and House Members unanimously agree on a report and unanimously agree on introducing a bill. The Rules Committee, which had legislative jurisdiction, brought out about 75 or 85 percent of that bill exactly as recommended by the Joint Committee. I have never before seen that in my experience here. But that happened in this instance.

The chief thing that came out of the Joint Committee was that the facts show we have to have a congressional budget if the Congress is to regain its proper role.

“BACK-DOOR” FINANCING

Our hearings before the Joint Committee disclosed a number of things that were, to me at least, not as surprising as they were to the general public. Our hearings showed that the Appropriations Committee, which reviews spending every year, had stayed below the budget for 30 straight years. Spending in excess of the budget had been spending which bypassed the Appropriations Committee. This is the so-called back-door financing.

Some people in the executive branch have looked askance at the legislative branch, and have tried to blame all of this “back-door spending on Congress. But when I checked the matter, I found the executive branch has also recommended “back-door” spending that simply was not so. For example, who recommended revenue-sharing, committing us to \$25 billion or \$30 billion a year? The executive branch, not the Congress. If it had not been for your recommendation and your support, it would not have passed.

I can go down the line and cite other examples. It was the executive branch that recommended a new trust fund for airway and airport expenditures, and expansion of the highway trust fund. All the way down the line, I find you recommending back-door spending.

SELECTION OF PRIORITIES

I am also disturbed about how the executive branch sets priorities. Mr. Ruckelshaus, in testimony before the subcommittee I chair, testified it will cost \$284 billion to clean up the environment. In 1966, I wrote a book, “That We May Live”, in which I pointed out that the American people are going to have to choose between the undesirable and the dangerous in determining the priorities in cleaning up the environment. But what do we find? We find the Office of Management and Budget releasing funds to get rid of bad odors and noises, but freezing funds that this Congress provided to keep raw sewage from going into our streams. You provide money to get rid of DDT, which never hurts anybody, but you have approved parathion, which you can rub on your arm and if you do not get it off, it will kill you. You have a school to teach people how to use these dangerous substitutes that we have for things that never did any damage.

The result is that in New England the gypsy moth is running rampant. I have petitions on my desk from the New York delegation.

In the Pacific Northwest you have the tussock moth which is running rampant.

In other words, you have been spending money for relatively low priority items.

On the other hand, for really important priorities, such as water pollution control, you have spent less than directed by Congress. In 1973, you spent only \$2 billion of the \$5 billion authorized. In 1974, the Congress provided \$6 billion; and you released only \$3 billion. In 1975, you released \$4 billion out of \$7 billion.

I am a believer, and I think my record will bear out I am a believer in a balanced budget and holding back expenditures, but the key part is what do you spend it for? Here you have taken on yourself to freeze these funds for water pollution control, while spending money on less vital programs.

You have also refused to spend funds appropriated for vital conservation programs. If we leave our children and children's children rich land, fully developed, they can create their own financial system. But without a rich land, real wealth isn't attainable. We have effective programs which do develop our land. We have the agricultural conservation program, where over a million Americans have put up their time and money to plant billions of trees. Millions of ponds have been built by the Soil Conservation Service, and these ponds have supplied water to increase the beef that we have.

AUTHORITY TO IMPOUND FUNDS

Where can you find in the law that you have a right to freeze funds appropriated by the Congress to prevent pouring raw sewage in our streams and to cut out or reduce other conservation programs? How is it that you find the power to do that and, on the other hand, release funds for these other things that do not have any permanent value but might be politically expedient or might be popular in the next election? Where do you find that authority?

Mr. ASH. Let us take the EPA one, to which you refer particularly. As you know, we have been stepping up quite rapidly the amounts that have been made available for those programs—this year one-third more than last year, last year one-half more than the year before.

Mr. WHITTEN. If you had a dollar and upped it one-third that would be 33 cents. Let us talk about funds.

Mr. ASH. We are moving up fast.

Mr. WHITTEN. Give us the dollars.

Mr. ASH. \$2 billion for 1973, \$3 billion for 1974, and \$4 billion for 1975. The rate at which funds have been allotted is the maximum program expansion which can be accommodated without creating substantial inflationary effects.

Mr. WHITTEN. How about the funds that were appropriated by the Congress for rural waste treatment plants so as not to pour this raw sewage into our streams? You froze that entirely. How about the agricultural conservation program, which you froze the day after Christmas; after announcing the program before the November election, then you closed it after the election was over, on December 26. Quite a Christmas present. How do you justify that?

Mr. MALEK. I think we have to recognize we are moving in the direction of a loan program from a grant program for many of these.

Mr. WHITTEN. No, I don't think you can substitute a loan program for a grant program. Some of these rural communities are too poor to qualify for a loan program.

Mr. MALEK. Rural development loans have been increased to \$1 billion for just this kind of community facilities and industrial development, which is an increase of 40 percent over last year.

Mr. WHITTEN. We are not talking about that at the moment. If you wish to bring that in, you might go into that.

Mr. MALEK. I think, furthermore, the Department of Agriculture statistics shows that more communities have been assisted with rural water and sewer 5-percent loans without the grants through mid-December of fiscal year 1974 than for any prior comparable period.

We did find there were a limited number of rural communities which had applications on hand in January of 1973 when the grant program was discontinued, did have some public health programs, and did not have alternative methods of financing. Because of this, we have decided to release \$30 million in water and sewer grant funds for 1974, and have put in \$20 million for the same purpose in 1975. But it is our hope that the 40-percent increase up to the \$11 billion in loan authority will help these same communities and will, in fact, help more communities because of the added resources available.

Mr. WHITTEN. We represent these communities, and we find the facts are not in line with the figures that you have. May I say that frankly to you. I would be glad to have a set of those figures so I can answer them, but that is not true insofar as the facts that come before the Appropriations Committee.

What is the total amount of funds that you have frozen from these public benefit programs where we will end up a richer country? I refer to sewage treatment plants, water systems, and sewage. What amount of money are you withholding?

Mr. MALEK. I think you are getting back to Mr. Ash's point—

Mr. WHITTEN. I am asking the question, and I would like an answer. What is the sum total?

Mr. ASH. There is a report that the chairman called attention to that is being submitted today.

Mr. WHITTEN. That is very good, but I would still like an answer to my question.

Mr. ASH. Let me quote out of that report. We will put it all in the file.

Mr. WHITTEN. I yield to my colleague from Tennessee.

Mr. EVINS. I have a number of questions on this matter. One is related to a report filed today in accordance with the congressional mandate in the Federal Impoundment and Information Act. We could not get the information, so Congress passed a law to provide information on impoundment.

The report filed today shows that last year in September, the impoundment total was \$7.446 billion. As of today, it is \$11.813 billion.

If the gentleman will yield further, I would like to make an observation at this point.

Mr. WHITTEN. I will be glad to yield.

Mr. EVINS. Mr. Ash, you were quoted in the New York Times recently in an interview with Edwin L. Dale in which you said: "You can retire the word 'impoundment.' We may even forget how to spell it." To what extent does this statement represent a change in administration policy, and to what extent are you engaging in semantics?

Mr. ASH. Last year, as you know, there was quite a discussion on the subject of impoundment, because quite a number of actions were taken as reflected in the budget submitted a year ago. Since that time, a number of things have happened. Let me recount those, and then you can judge what kind of change you think is taking place.

On a number of occasions we and the Congress have worked out mutually agreeable legislation to deal with those very programs. I think we have found an acceptable resolution that no longer calls for impoundment, in effect to redirect programs in the most cost/beneficial way and away from some of the wasteful practices that we thought we

had discerned when we took the actions we did. That took care of one class of issues.

The second class was dealt with, as you know, by some actions we have taken in the last few months, particularly in the HEW areas. We are not reserving those HEW funds because, in looking at the basis for doing so, we concluded that we should move off that position, and did.

We are continuing to reserve funds in other areas. This is a report of those reserves and apportionments. We believe the basis on which we are doing so is a proper and valid one.

Mr. EVINS. It is pretty clear that you have not retired the word "impoundment" from your vocabulary in the Office of Management and Budget.

Mr. ASH. We use the words "reserves" and "apportionments" in their normal sense, just as they have been used in all past years. The word "impoundment" is most clearly defined as a budgeting reserve established within the apportionment process.

Mr. EVINS. You do not want the press to use the word "impoundment." You want the press to use the word "reserve."

Mr. MALEK. I do not think that is the issue at all.

CONGRESS CAN STOP IMPOUNDMENTS

Mr. WHITTEN. One thing I wanted to follow up is that the impoundments to which I have referred are in programs that go to protecting the public health, developing resources, taking raw sewage, that which is dangerous to health. At the same time, you have been going along with expenditures of funds for that which is merely undesirable.

The point I make is that your impoundment actions have resulted in 32 Members of Congress, Republicans and Democrats, liberals and conservatives, in 3 committees, unanimously bringing out a bill to establish a congressional budget, in order to put an end to these impoundments.

While we are proceeding along that legislation path, there is another and simpler way to stop these impoundments.

The simplest way is not for us to establish a congressional budget. The simplest way is to say, "No part of these funds shall be used by the Office of Management and Budget to do thus and so." You have had it, the minute Congress passes that.

If Congress should take on itself to pass that in the Appropriations Act for the Office of Management and Budget, you have had it, Mr. Ash. I am trying to say to you that that is how seriously I view this problem of impoundments. I hope it doesn't come to that. I believe in cooperation between the branches of Government. But, if cooperation isn't forthcoming, more serious actions of the type I have just suggested will have to be taken.

The point that I make is that while you have been making the impoundments I am talking about, you yourself recommend the expenditure of the same amount of money in revenue sharing, which bypasses the appropriations process, has no annual review; send it out and say, "Use it any way you want to." You have been most—I should not say gloriously inconsistent, but, anyway, inconsistent. With that kind of record, what can we count on?

TOTAL FUNDS IMPOUNDED

You went into the figures and you still have not told me how much you have frozen or reserved or kept back in these fields looking after human health, developing our country, taking care of our food supply. You have not answered that.

Mr. ASH. Would you like those numbers? We can provide them for you and submit them today.

Mr. WHITTEN. I have asked it several times. I guess that is a pretty good indication.

Mr. ASH. The course of the discussion seemed to veer off that. We are ready to put them in.

Mr. McOMBER. Let us make sure which ones you mean. First of all, you have mentioned water and sewer grants.

Mr. MAHON. Please answer the question as to funds impounded.

Mr. EVINS. Why not have the information broken down in the record as to impoundment report for the various programs listed on page 8 of his report. Several members have requested this information.

Mr. MAHON. Will you proceed to give the figures as best you can?

Mr. McOMBER. For the water and sewer grant program, we reserved \$120 million.

For the rural environmental assistance program, there is presently reserved \$85 million.

You have mentioned the EPA water and sewer grants. Our report indicates, as you have stated already, Mr. Whitten, that we have not allotted \$3 billion out of the 1974 program, and we have not allotted \$3 billion out of the 1975 program.

Mr. WHITTEN. Give the other years, too, the sum total that stands impounded.

Mr. McOMBER. For that program, Mr. Whitten?

Mr. WHITTEN. All of the programs in this general area. I call to your attention that our committee recommended and Congress approved funds for the Great Lakes area which I understand have been frozen, too.

Mr. McOMBER. If we add all of the figures together for the Department of Agriculture—

Mr. WHITTEN. We handle EPA, HUD, and the rest of it.

Mr. ASH. Do you want the numbers of the whole of the budget, or certain subdivisions of the budget?

Mr. WHITTEN. That is right.

Mr. ASH. The whole of the budget?

Mr. WHITTEN. That is right. But break it down in detail for the record.

Mr. ASH. We can submit this report for the record, because it has that detailed breakdown.

Mr. WHITTEN. Now give me the sum total.

Mr. McOMBER. The sum total reported as of February 4 is \$11.813 billion.

Mr. ASH. Let me add to that by saying that \$3.4 billion of that is for Federal aid to highways, \$2.5 billion for Defense, \$2.2 billion for emergency security assistance for Israel. That leaves \$3.7 billion of the \$11.8 billion to cover everything else.

Mr. WHITTEN. In what instances have those been the total amounts available? I know that was true until a few weeks ago with regard to grants for rural water and sewage.

Mr. EVINS. Mr. Chairman, I move that the report supplied to Congress as of today, signed by Director Roy L. Ash, dated February 19, Federal Impoundment and Information Act, be made a part of the record. On an attachment "D" it shows the total impoundments as of today are \$11,813 million, and last year at September 13 it was only \$7,446 million. So, it is obvious the impoundment practice has not ceased and the word "impoundment" not been retired.

Mr. MAHON. We will place in the record, without objection, the appropriate information.

[The material follows:]

1974 LABOR/HEW APPROPRIATIONS - FUNDS WITHHELD
FROM OBLIGATION AND EXPENDITURE

The 1974 appropriations act for the Departments of Labor, and Health, Education, and Welfare, and related agencies (P.L. 93-192) contains the provision that "not to exceed \$400 million, ... may be withheld from obligation and expenditure...." The appropriation language also specifies that no individual appropriation provision may be reduced by more than five percent. In addition, the conference report (H.R. 93-682) establishes dollar limitations for the reductions that may be made to specified programs.

The following table shows the effect of the amounts withheld from programs receiving appropriations under this act. A comparison is drawn between amounts authorized to be withheld in the conference report and actual amounts withheld, as reflected in the 1975 Budget Appendix:

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Health

(In thousands of dollars)

	<u>Authorized to be withheld (conference report)</u>	<u>Amounts withheld (1975 Budget)</u>	<u>Difference</u>
<u>Health Services and Mental Health Ad- ministration:</u>			
Mental health.....	26,874	9,567	-17,307
Health services planning and de- velopment 1/.....	17,509]		
Health services de- livery 1/.....	2,800]	25,937	-16,649
Health manpower 1/..	22,277]		
Preventive health services.....	<u>4,936</u>	<u>0</u>	<u>-4,936</u>
Subtotal.....	(74,396)	(35,504)	(-38,892)
<u>National Institutes of Health:</u>			
National Cancer In- stitute.....	27,560	23,706	-3,854

1/ The 1974 activities of these programs are divided between Health Services Administration and Health Resources in the 1975 Budget Appendix.

	Authorized to be withheld (conference report)	Amounts withheld (1975 Budget)	Difference
<u>National Institutes of Health--Cont'd:</u>			
National Heart and Lung Institute.....	15,145	13,365	-1,780
National Institute of Dental Research.....	2,278	1,607	-671
National Institute of Arthritis, Metabolism and Digestive Diseases.....	7,972	6,486	-1,486
National Institute of Neurological Diseases and Stroke.....	6,250	5,042	-1,208
National Institute of Allergy and Infectious Diseases.....	5,700	3,596	-2,104
National Institute of General Medical Sciences.....	8,838	8,449	-389
National Institute of Child Health and Human Development.....	6,512	5,357	-1,155
National Eye Institute.....	2,081	1,684	-397
National Institute of Environmental Health Sciences.....	1,443	482	-961
Research resources.....	6,672	5,153	-1,519
John E. Fogarty International Center.....	237	0	-237
National Library of Medicine.....	877	0	-877
Subtotal.....	(91,564)	(74,927)	(-16,637)
Total, Health.....	<u>165,960</u>	<u>110,431</u>	<u>-55,528</u>

Education

Office of Education:

Elementary and secondary education....	96,725	94,979	-1,746
School assistance in Federally affected areas.....	16,584	16,584	0

	Authorized to be withheld (conference report)	Amounts withheld (1975 Budget)	Difference
<u>Office of Education--</u>			
<u>Cont'd:</u>			
Education for the handicapped.....	5,325	5,325	0
Occupational, voca- tional, and adult education.....	26,354	26,354	0
Higher education.....	29,167	29,167	0
Library resources.....	8,585	3,688	-4,897
Educational develop- ment.....	4,487	4,487	0
Salaries and expenses..	93	93	0
 Total, Education....	<u>187,320</u>	<u>180,677</u>	<u>-6,643</u>

Welfare

Social and Rehabilitation

Service:

Grants to States for public assistance.....	2,500	2,500	0
Social and rehabili- tation services.....	<u>7,775</u>	<u>7,775</u>	<u>0</u>
 Subtotal.....	(10,275)	(10,275)	(0)

Office of Child Develop-
ment:

Child development.....	<u>15,500</u>	<u>9,020</u>	<u>-6,480</u>
 Subtotal.....	(15,500)	(9,020)	(-6,480)
 Total, Welfare.....	<u>25,775</u>	<u>19,295</u>	<u>-6,480</u>

RELATED AGENCIES

Corporation for Public Broadcasting.....	2,500	2,250 ^{2/}	-250
Office of Economic Oppor- tunity.....	<u>17,315</u>	<u>9,800^{3/}</u>	<u>-7,515</u>
 Total, Related Agencies.....	<u>18,815</u>	<u>12,050</u>	<u>-7,765</u>
 Total, HEW and Re- lated Agencies	398,870	322,453	-76,416

^{2/} This withholding does not appear in the 1975 Budget Appendix.

^{3/} In the 1975 Budget Appendix, this figure is shown as an unobligated balance lapsing.

REASON FOR CURRENT RESERVECode

- 1 "To provide for contingencies" (31 USC 665(c)(2)).
- 2 "To effect savings whenever savings are made possible by or through changes in requirements, greater efficiency of operations, or other developments subsequent to the date on which such (funds were) made available" (31 USC 665(c)(2)).
- 3 To reduce the amount of or to avoid requesting a deficiency or supplemental appropriation in cases of appropriations available for obligation for only the current year (31 USC 665(c)(1)). This explanation includes amounts anticipated to be used to absorb or partially absorb the costs of recent pay raises grant pursuant to law.
- 4 "To achieve the most effective and economical use" of funds available for periods beyond the current fiscal year (31 USC 665(c)(1)). This explanation includes reserves established to carry out the Congressional intent that funds provided for periods greater than one year should be so apportioned that they will be available for the future periods.
- 5 Temporary deferral pending the establishment of administrative machinery (not yet in place) or the obtaining of sufficient information (not yet available) to apportion the funds properly and to insure that the funds will be used in "the most effective and economical" manner (31 USC 665(c)(1)). This explanation includes reserves for which apportionment awaits the development by the agency of approved plans, designs, specifications.
- 6 The President's constitutional duty to "take care that the laws be faithfully executed" (U.S. Constitution, Article II, Section 3):
- 6a -- Obligation at this time of the amount in reserve is likely to contravene law regarding the environment; or the amount in reserve is being held pending further study to evaluate the environmental impact of the affected projects (activities) as required by law.

- 5f. -- Existing tax laws and the statutory limitation on the national debt are not expected to provide sufficient funds in the current and ensuing fiscal years to cover the total of all outlays in these years contemplated by the individual acts of Congress.
- 6c -- Action taken consistent with the President's responsibility to help maintain economic stability without undue price and cost increases.
- 6d -- Amount apportioned reflects the level of obligations implicitly approved by the Congress in its review of and action on the appropriation required to liquidate obligations under existing contract authority.
- 6e -- Other. See footnote for each item so coded.
- 7 The President's constitutional authority and responsibility as Commander in Chief (U.S. Constitution, Article II, Section 2).
- 8 The President's constitutional authority and responsibility for the conduct of foreign affairs (U.S. Constitution, Article II, Section 2).
9. Other. See footnote for each item so coded.
- 10 Not applicable or no reason required. (In most cases where a previous reserve has been apportioned in its entirety.)

ESTIMATED FISCAL, ECONOMIC, AND BUDGETARY EFFECT

- I. Same effect as set forth in the most recently submitted budget document, of which this item is an integral part.
- II. The reserve action will bring the budgetary impact of this program to a level nearer or equal to that contemplated in the most recently submitted budget document and contribute to the reduction of inflationary pressures.
- III. The change from the previous reserve is expected to contract the budgetary impact of this program and contribute to the reduction of inflationary pressures.
- IV. The release or reduction of the previous reserve will facilitate use and expenditure of the available funds consistent with current program needs and economic conditions in the area affected.
- V. Other. See footnote for each item so coded.
- VI. Not applicable or no explanation required. (In most cases where a previous reserve has been apportioned in its entirety.)

SUMMARY OF BUDGETARY RESERVES

1974 Program
(Dollars in millions) 1/

<u>Agency</u>	<u>Amount as of Sept. 30, 1973</u>	<u>Amount as of February 4, 1974</u>
Executive Office of the President.....	--	1
Funds Appropriated to the President.....	96	2,507
Department of Agriculture.....	1,173	1,091
Department of Commerce.....	63	59
Department of Defense--Military.....	1,143	2,514
Department of Defense--Civil.....	1	4
Department of Health, Education, and Welfare.....	23	381
Department of Housing and Urban Development.....	456	823
Department of the Interior.....	162	219
Department of Justice.....	14	14
Department of Labor.....	--	21
Department of State.....	--	86
Department of Transportation.....	3,838	3,817
Department of Treasury.....	22	23
Atomic Energy Commission.....	27	--
Environmental Protection Agency.....	--	95
General Services Administration.....	258	38
National Aeronautics and Space Administration.....	2	2
Veterans Administration.....	43	--
Other Independent Agencies:		
National Science Foundation.....	4	--
Small Business Administration.....	31	31
All other.....	90	89
Total.....	<u>7,446</u>	<u>11,813</u>

1/ Details may not add due to rounding.

SUMMARY OF BUDGETARY RESERVES

1975 Program
(Dollars in millions)

<u>Agency</u>	<u>Amount as of Sept. 30, 1973</u>	<u>Amount as of Feb. 4, 1974</u>
Department of Agriculture.....	---	140
Department of the Interior.....	75	190
Department of Transportation.....	---	<u>5,994</u>
Total.....	75	6,324

Mr. MAHON. If you have further questions on impoundment at this point, I think you might proceed.

Mr. EVINS. I would like to ask a few more questions, if the gentleman will yield.

IMPOUNDMENT POLICY

With this announced change from "impoundment" to "reserve," which you prefer to use, to what extent does the administration propose to release funds appropriated by the Congress? Do you mean to continue the same practice?

Mr. ASH. We will continue the normal reserve and apportionment processes that all recent administrations have relied upon as a management tool. The reasons for the current increase in budgetary reserves that you should be particularly aware of are, first, the very specific ones I have mentioned: the emergency security assistance for Israel, defense, and then—

Mr. EVINS. You have not retired the word "impoundment." You will not forget it. Although you said to the press, you can forget it, you may even forget how to spell it, you have not forgotten how to spell it, have you?

Mr. ASH. I am afraid I cannot forget how to spell it.

Mr. EVINS. In this connection, I would remind you that programs can be emasculated and frustrated by a variety of OMB-directed techniques, frequent change of agency regulations, a deliberate slowdown in processing of applications, the shifting of funds from one program area to another where there is little chance for spending.

Is this your indirect approach to achieving the same end in addition to your new impoundment policy?

Mr. ASH. We have no impoundment policy. We have only the policy of normally reserving and apportioning the funds that are appropriated, and have introduced in this budget, we believe, nothing that is out of that normal range of reserves of funds.

Mr. EVINS. Mr. Ash, the last couple of years in at least 24 States and the District of Columbia there have been more than 40 cases filed and 30 decisions have been rendered on impoundment of funds, more than 25 of which are adverse to the position of the administration. In view of these recent court decisions which have held numerous impoundments illegal, will it now be your policy to comply with the intent of Congress, as interpreted by the courts, or do you intend to defy the courts and the Congress further?

Mr. ASH. It has been and continues to be our policy to comply with the laws and the courts. As you know, some of those court decisions were favorable to the actions to which you refer. As I indicated earlier, all of the HEW funds that were subject to that type of court test have been made available. There are still some court cases in process. They undoubtedly—

Mr. EVINS. Twenty-five of the cases have been adverse to the position of OMB. You will acknowledge that, will you not?

Mr. ASH. Something of that nature, yes. I do not know exactly the favorable ones.

Mr. EVINS. Although your statement indicates a change in policy on impoundments, the recent OMB report reflects a level of \$11.8 billion today as compared to \$7.4 billion in September 1973.

Mr. ASH. May I add that the report does reflect a change of policy toward normal, routine reserves and apportionments. The fact that the amount is higher does not in any way demonstrate that there is a policy change to reserve greater amounts. Reserves are higher for two basic reasons. I have already indicated some specific ones.

Reserves are higher because in prior years we have had to operate programs on continuing resolutions rather than regular appropriations. The continuing resolutions exempt programs from apportionment; therefore, no reserve actions have been taken for many programs in recent years. This year actual authorization and appropriations for Labor, HEW and foreign assistance programs have been made. In fact, for the first time in several years, all regular appropriations have been enacted. Consequently, routine reserve actions have been made and reported to the Congress for all programs.

Mr. EVINS. Notwithstanding the confrontation with the Congress, and notwithstanding the 25 decisions of the courts, you tried to retire the word "impoundment," but you are using the word "reserve" and you are still following and continuing the same practice.

Mr. ASH. No, sir.

Mr. EVINS. As I stated earlier, there can be a lot of other methods used in frustrating the will of Congress and the intent of Congress. One year, for instance when Mr. Weinberger was Director, OMB impounded funds for every project added by Congress for public works projects. They delayed every addition, every add-on, every new public workers project in the Nation. They stopped every one of them.

I feel that action contributes to the energy crunch today. There would have been more power on the line, and also at lesser cost. History shows that the longer the delay, the greater the acceleration of cost and the less benefits on the line.

We had Mr. Weinberger appear before my subcommittee, and he said: "We were fair. We hit on both sides of the aisle." He even acknowledged he had impounded funds to do with water rights to Mexico. The President had made a speech on this project, and the Secretary of State had also recommended in negotiations with Mexico to provide certain water rights. They even impounded funds for that project.

As you can see, your bureau may have grown to the extent that you are not really aware of all of the recommendations of even the President.

Mr. ASH. Since we do not do that any more, there must have been a change of policy.

Mr. EVINS. One more question.

Mr. EVINS. You say there has been a change of policy, but we see your impoundments are higher today than last year.

Mr. ASH. There is no relationship between the dollar amount and a policy change. The dollar amount derives from quite independent factors unrelated to policy change. For the last 2 years the Congress had not passed the appropriations for Labor and HEW—we were working against a continuing resolution. The whole definition of what constituted impoundment was different.

Mr. EVINS. You may expand that for the record.

[The information follows:]

I previously referred to the release of 1973 HEW funds which were appropriated by the Congress under a continuing resolution. Because such funds are usually indefinite in amount, the continuing resolutions themselves defer the apportionment of appropriations, as required under the Anti-Deficiency Act, until after regular appropriations are made. Budgetary reserves are only established within the apportionment process. Consequently, when the first reserve report under the Federal Impoundment and Information Act was submitted to the Congress, no reserves existed for funding provided normally in the Labor-Health, Education, and Welfare and Related Agencies Appropriation Act. You will note, however, that our most recent report lists \$381 million in reserve for HEW. The current HEW reserves reflect routine financial management actions to insure that the funds will be spent in the most economical manner. These reserves are consistent with the authority provided the Executive in the Anti-Deficiency Act. It is primarily for this reason—that more appropriated funds are subject to apportionment and reserve action—that the total of budgetary reserves are greater at this time.

SUBSTITUTION OF EXECUTIVE PRIORITIES FOR LEGISLATIVE PRIORITIES

Mr. WHITTEN. My question is not limited to impoundment. The other point I wish to make is that while you were freezing these funds, reserving these funds or impounding them—take your own choice—you were recommending spending an equal amount for revenue sharing and all these other programs. It is a case of killing programs favored by Congress and using the money to fund programs favored by the executive branch.

Again, of the \$18 billion provided by the Congress for the clean water program, you have frozen half. I cannot see that that is sound. Have you any explanation for your action?

Mr. ASH. I can answer that one, if you wish. I have answered once, but I will try it again.

In that particular program to which you refer, we have made available \$2 billion in 1973, \$3 billion in 1974, and \$4 billion in 1975. The allotments have been made at the maximum rate at which they can be effectively spent.

The fact that a higher amount was authorized for allotment does not necessarily mean that that is the optimum rate to spend it. We are spending at as rapidly increasing a rate as we think the moneys can be effectively spent without the programs and projects themselves adding to inflation and higher prices.

Mr. WHITTEN. The money you are spending in other programs in equal amount you do not think have that same inflationary effect?

Mr. ASH. It depends on the rate of increase of the particular kind of programs. We are moving up just as fast as we think the available—

Mr. WHITTEN. What was your recommendation per year for revenue sharing?

Mr. ASH. When it was put in a few years ago?

Mr. WHITTEN. Yes.

Mr. ASH. Slightly over \$6 billion a year starting a few years ago.

Mr. WHITTEN. That is more than you are saving on this side. In revenue sharing you do not have any control about what it is used for. You turn it loose to the local level, and they use it for what they want to.

Mr. ASH. Revenue sharing allows outlays to be diffused into many sectors of the economy. In contrast, the clean water programs direct funds into one sector of the economy, thus contributing to inflation in that sector.

Mr. WHITTEN. Revenue sharing is not reviewed by Congress and it cannot be reviewed.

Mr. ASH. We certainly would hope that the Appropriations Committee would have a greater involvement in those kinds of expenditures that you call backdoor expenditures. It would certainly serve our purposes as well as yours.

Mr. WHITTEN. If you want to cut down on backdoor spending, would you explain why you recommended so many more of them in your budget this year?

Mr. ASH. It is not because of the congressional arrangement. It is because we believe those programs are proper. On the other hand, if the Appropriations Committee—

Mr. WHITTEN. In this year's budget, you are asking for backdoor spending. How can you condemn it in one breath and recommend it in another and claim to be fair?

Mr. ASH. We are not asking for backdoor spending. We are asking for particular programs. If the Congress would like to rearrange its affairs so the Appropriations Committees assumed responsibility for those, we would be very pleased.

Mr. WHITTEN. It is contrary to what you have said. Thank you.

Mr. EVINS. For one, you do propose changes in the budget which have not been authorized. You are proposing the block grant approach for certain of the Appalachian regional development programs. The programs have been so successful and have done great work. In this year's budget, you call for converting the rural Appalachian area program into a revenue sharing approach in four regions. I, for one, will recommend that it not be changed, because it has not been authorized by law.

SHIFT IN SPENDING POLICY

Mr. Director, on another subject, last year the 1974 budget was replete with catch words such as slowdown, stretchout, terminate, eliminate, restructure, defer, delay—essentially a negative policy. The new budget this year, as the chairman pointed out, is bursting with enthusiasm and is called an expansionary budget. What caused this shift in policy?

Mr. ASH. This year, as we discussed earlier, is quite a different year from last year as far as the economy and the economic outlook is concerned. Last year—and I think in retrospect we were right in viewing it that way—we were operating in an economy that was quite fully charged. The role of the Federal Government in that economy was properly to restrain inflationary forces to the extent that the Federal Government has the ability to do so.

As we know, of course, the Federal Government does not have the total ability.

Mr. EVINS. You have a change in philosophy from last year to this year.

APPALACHIAN DEVELOPMENT PROGRAM

Now returning to the Appalachian regional development program. This program generally has been recognized as a partnership between the local, State, and Federal Government, a good working arrangement, and it has worked well. Why is the administration now proposing to tamper with an ongoing program to provide and convert it to a supplemental grants program? A change in the Appalachian regional program which has not been authorized by the Congress?

Mr. ASH. Mr. O'Neill would respond to that.

Mr. O'NEILL. Mr. Evins, we are proposing administrative changes to the Appalachian regional development program which were recommended by Federal Cochairman Whitehead on the basis of his conversations with State representatives who have asked for more flexibility in making their own priorities. This is not an attempt to convert the existing Appalachian regional development program, which we agree with you has been a successful program, to a revenue sharing program.

Mr. EVINS. The ongoing program works well.

Mr. O'NEILL. It has been authorized by the Congress and we are not recommending changing any authorizations levels. We are instead proposing some administrative changes that will permit more flexible allocation of the non-highway program funds.

Mr. EVINS. You have what you call a new federalism which indicates you propose to loosen the reins. However, at the same time you tighten the reins. You have sent programs recommended by States back to them saying that proper consideration was not given to population, proper consideration not given to regional recommendations.

IMPOUNDMENT POLICY

Mr. BURLISON. Would my friend yield for a question on impoundment? Mr. Ash, does the fact that Congress may, on a particular program reappropriate year after year, money for impounded projects have any impact at all on the thinking or reasoning of your office in making a determination on impoundment for the succeeding year?

Mr. ASH. Not only year after year but in any one year. Obviously, each authorization and appropriation that we have in front of us is given full and responsible attention.

Mr. BURLISON. My question is: If you impounded funds for a project in 1973 and the Congress came back in 1974 and appropriated money for that project, wouldn't this have a positive influence on changing your decision?

Mr. ASH. You might want to describe it in terms of a particular program. Maybe I could better answer your question that way.

Mr. BURLISON. Let me do that. Let me do what the Director asked. In 1973, a Forest Service small water resources project, known as the Council Bluffs project in the 10th Congressional District of Missouri, was appropriated in the amount of \$500,000, which was frozen by your office. Then in fiscal year 1974, the Congress came right back and reappropriated that money, which you in turn again impounded. I would like to know what influence, if any, a mandate of Congress on a spending program has on the Office of Management and Budget.

Mr. O'NEILL. Mr. Congressman, I wonder if I could respond?

I think it alludes to the point Mr. Evins was making as well, with

an example of my own. Specifically, the regional medical program. In the 1974 budget the President proposed that we stop funding regional medical programs. It has been running over recent years at about \$100 million annually.

Mr. FLOOD. Did you say the President recommended termination of RMP's?

Mr. O'NEILL. Yes, sir.

Mr. FLOOD. The President?

Mr. O'NEILL. Yes, sir, he did.

Mr. FLOOD. He did?

Mr. O'NEILL. Yes, sir, in the 1974 budget.

Mr. FLOOD. Did he make the recommendation? I know it was proposed in the budget. The RMP?

Mr. O'NEILL. Yes, sir.

Mr. FLOOD. You know what I am talking about?

Mr. O'NEILL. Yes, sir, may I go on with the example?

Mr. FLOOD. Go ahead.

Mr. O'NEILL. The President recommended this program costing over \$500 million for a period of about 6 years be stopped. The Congress had authorized \$90 million for the program for fiscal year 1973. And because we had a difference with you on the interpretation of the continuing resolution, about \$43 million of those dollars were not made available until the President's decisions to release them in December.

In addition to that, Congress provided an additional \$75 million for that program for fiscal year 1974, of which approximately \$43 million has been obligated to date. So we now are faced with the situation where we are going to honor what Congress said and what the courts said. We are going to give those regional medical programs this year, between December and July, better than \$120 million of taxpayers' money.

Mr. WHITTEN. Would the gentleman yield? Another example I think you should discuss is the HUD water and sewer program. Isn't it true the Congress reappropriated 3 straight years for this program and you have frozen, impounded or reserved, whatever word you want to use those funds each year? Would you use that as an illustration?

[The information follows:]

The total amount of housing subsidy payments under the 235 and 236 programs are technically controlled in appropriation acts, since the substantive law provides that the aggregate amount of contracts to make such payments shall not exceed amounts approved in appropriation acts. However, the appropriation acts have always been written in terms of a limit on the total amount of payments that may be required in any one fiscal year. Yet the contracts can extend for 40 years. Thus an appropriation act authorizing contracts for annual payments of, say, \$100 million actually commits the Government—without the possibility of control in future appropriation acts—to spend that amount each year for the next 40 years. A seemingly innocent \$100 million is really a \$4 billion spending commitment.

Mr. FLOOD. Mr. Chairman, here is a leading question: Why did you make that decision? What did happen? You woke up one morning and—boom? Why?

Mr. O'NEILL. Congressman Flood, I don't think that was the case. I think the evidence collected over the last 5 years suggested very strongly—and I think Secretary Weinberger would be happy to expand on this comment—that the RMP program, as it has been running

and it has been used, has had a few notable successes. As a general proposition it is not a high-priority use of the taxpayer's money to help fund continuing education for people who make \$50,000 or \$100,000 a year.

Mr. MAHON. Mr. Flood, this afternoon we will discuss the HEW problem. You will be recognized then for any discussion.

Mr. BURLISON. I have one other question, Mr. Chairman, and this concludes.

Did I correctly understand the gentleman to say that you are going to pay attention to what the Congress mandates in these reappropriations, and as the gentleman says, if the Congress mandates for the third time this important water resources project known as the Council Bluffs project, that you will carefully reevaluate and reassess the judgment that you have made in the past in reversing, overturning the mandate of the Congress on the project?

Mr. ASH. As best we can. We carefully assess every program. It does not mean we are perfect in doing so. I certainly would assure you that we do the best that we can. I would like to go into this one in particular. I don't happen to know it. It may be that the Forest Service itself has not recommended that that be spent because there may be some preliminary work yet to be done. We will look into this project.

[The following information was supplied by the Office of Management and Budget.]

The Council Bluffs Reservoir project received an appropriation of \$500,000 in 1974 for an initial stage of a several-stage recreation and development project. Because the initial appropriation represents only a small amount of the total project costs, currently estimated at \$5,226,000, the OMB has placed the amount in reserve until an acceptable benefit/cost relationship for the entire project has been established through systematic analysis. The OMB has recently received a benefit/cost analysis and is thoroughly reviewing it. Our primary concern is that the public benefits of the projects be commensurate with the long-term public costs. If our review indicates that the project is a productive investment, we would expect the funds appropriated for 1974 will be apportioned within the current fiscal year.

Mr. BURLISON. The Forest Service does not legislate: the Forest Service is supposed to carry out the recommendations of the Congress in the appropriations of funds. I hope that you will reconsider the program when the Congress for the third time this year reappropriates this money for this project.

I appreciate the Chairman yielding.

UNCONTROLLABLE SPENDING

Mr. MAHON. Uncontrollable spending and the lack of budget flexibility is one of the most serious and frustrating problems confronting the Congress and the Executive.

For the last 30 years the Appropriations Committee has recommended and the Congress has enacted reductions in the portion of the budget scrutinized by the Appropriations Committee. But through the use of entitlement provisions, contract authority, and the expansion of trust funds, the appropriations process has been circumvented and weakened.

In 1959 only 17 percent of the budget was outside the appropriations process. Today that figure has risen to about 40 percent.

Worse, much of what the committee does see is largely uncontrol-

lable or mandatory spending. In fact, 74 percent of the budget is "uncontrollable" under existing law.

What is particularly distressing is that while the administration has said it supported "budget control" this and past administrations have consistently proposed programs that circumvent the appropriations process—or reduce its effectiveness by supporting programs which mandate appropriations.

The last three budget messages and also the current one are critical of congressional budget procedures and particularly cite "backdoor" and uncontrollable spending as evils that must be exorcised. Yet in the very same budgets this administration has proposed programs that make the situation even worse. Some of these programs are:

A revenue sharing program that contemplated establishment of a permanent indefinite appropriation account from which funds would be automatically disbursed to the States and local governments.

A new trust fund for airway and airport expenditures.

Expansion of the Highway Trust Fund for use in mass transit and urban public transportation projects.

This year's budget is no better and proposes several programs which will make the control of spending even more difficult.

The largest of these proposed mandatory spending programs is for a national health insurance plan. It is estimated that in 1977 this program would cost a minimum of \$6 billion, all of which would be in the form of mandatory spending.

This year the administration is requesting \$900 million in new contract authority to finance a revised subsidized housing program under section 23 of the Public Housing Act.

Other proposed programs which fly in the face of sound budget procedure include a single urban transportation fund for urban mass transit and a \$2 billion proposal for freight car loan guarantees.

ADMINISTRATION RECOMMENDATION ON UNCONTROLLABLE SPENDING PROPOSALS

What new proposals are you making that would circumvent the appropriation process?

There are quite a number of them. You can place them in the record.

[The following information was supplied by the Office of Management and Budget:]

The 1975 budget includes three legislative proposals which would not move within the normal appropriations process. These are not new attempts to circumvent the appropriations process, but represent new thrusts in areas which traditionally have been financed outside regular appropriations channels.

Budget authority and outlays in fiscal year 1975 for each of the programs are as follows:

LEGISLATIVE PROPOSALS OUTSIDE THE APPROPRIATIONS PROCESS

[In thousands]

	Budget authority	Outlays
Social Security Administration: Social security trust funds	\$11,000	—\$345,000
Federal Highway Administration: Highway beautification (trust fund)	50,000	7,800
Railroad Retirement Board: Railroad retirement account	238,000	198,000
Total	299,000	—139,200

Mr. MAHON. Do you as a general proposition favor the earmarking of revenues? Do you feel that earmarking of funds can hamper effective budgetary control?

Mr. ASH. First, we don't propose any program for the purpose of circumventing the Appropriations Committee. That is a matter—

Mr. MAHON. It does circumvent the appropriations review process but you don't recommend it for the purpose of circumventing; is that the point?

Mr. ASH. That is right. We don't recommend it for that purpose. If the Congress would like to rearrange its affairs so that Appropriations Committee assumes responsibility, we would be quite pleased. That is a matter of your business and ours. We recommend what we believe will be effectively designed programs.

TRUST FUND RECOMMENDATIONS

Mr. MAHON. You made recommendations with respect to trust funds. Would you support legislation that would return the financing of some trust fund programs, for example, highways funded under general revenue as provided in 1954, back to the Congress?

Mr. ASH. We had hoped to be able to move it away from the very stringent restrictions that have been on it. It could well be that we would want to consider, after these years have gone by, moving it back into the general budget rather than in a trust fund as it has been.

OMB LEGISLATIVE REVIEW

Mr. MAHON. I want you to respond to this question. The Office of Management and Budget has certain responsibilities to review proposed legislation. In how many instances in the last 4 years have you made recommendations to avoid financing programs which do not promote the objective of budget control? You could give budget control to the legislative and executive branches but you are moving away from budget control in some of your recommendations. That is what I want you to address yourself to.

Mr. ASH. We will research that and put it in the record.

You want to go back over 4 years, in how many areas we have moved away from budget control? Maybe Mr. McOmber would like to respond.

Mr. MAHON. How many you recommended against.

[The information follows:]

The administration's general policy against the enactment of new back door authority is clearly documented in testimony before this committee and others and in the budget documents themselves (see fiscal year 1974 Budget, pp. 8-9).

OMB records on legislative proposals do not provide a clear inventory of comments supporting or opposing particular back door financing proposals. To be sure, the executive has supported back door authority on occasion but, as a matter of policy, it has done so only when such authority was currently in use or when the program concerned was of the highest Presidential interest. Thus, during fiscal years 1969-74, Congress enacted \$48 billion in back door authority, of which only \$13 billion was recommended by the executive.

BACKDOOR AUTHORITY, FISCAL YEARS 1969-74¹

[In millions of dollars]

	Amount requested	Amount enacted	Change
Requested by executive:			
Previous backdoor financing:			
Federal-aid highways (Public Law 91-605).....	1,602	2,205	603
Federal-aid highways (Public Law 93-87).....	5,743	11,612	5,869
Traffic safety (Public Law 93-87).....	180	461	281
Other (Public Laws 91-90, 91-446, 92-36).....	405	3,405	3,000
Newly proposed as backdoor authority: General revenue sharing (Public Law 92-512).....	5,300	2,825	2,995
Initiated by Congress:			
Housing and Urban Development Act (Public Law 91-152).....		1,500	1,500
Expanding mortgage market (Public Law 91-151).....		3,000	3,000
Airport and airways (Public Law 91-258).....		840	840
Stock market insurance (Public Law 91-598).....		1,000	1,000
Emergency home financing (Public Law 91-351).....		750	750
Water pollution control (Public Law 92-500).....		11,050	11,050
Flood insurance (Public Law 92-324).....		750	750
Railway restructuring (Public Law 93-236).....		2,080	2,080
All other (Public Laws 90-401, 90-448, 90-495, 91-123, 91-308, 91-367, 91-373, 91-468, 91-609, 92-65, 92-316, 92-318, 92-503, 93-224).....		1,490	1,490
Total, backdoor authority.....	13,230	48,438	35,208

¹ Source: Reports of the Joint Committee on Reduction of Federal Expenditures and records of the Office of Management and Budget. Our records are inadequate to detail longrun costs of these authorizations. Therefore, amounts shown reflect only 1st year costs.

² Includes \$4,450,000,000 requested in 1973 and enacted in 1974.

³ Includes retroactive payment of \$2,650,000,000 originally requested for 1972.

Mr. MICHEL. To balance out that record it might be well to include how many times the Congress has in itself said that it is back-door spending as against going the appropriation route. As a matter of fact, all this discussion on general revenue sharing brings to mind again the fact that I happened to vote against it simply because the Congress said we were going to be denied that annual review in this committee. The criticism cannot all be leveled down there. Some of it must be directed right here at this body because a majority of the House and Senate and a conference committee agreed to it. It is not all that one-sided. The record ought to be balanced out to show that.

Mr. MAHON. I think that the record should be balanced. We need to show what actions were taken by the Congress that did not have the recommendation and support of the Executive have resulted in back-door spending or bypassing of the regular appropriation process. I think this ought to be clearly set forth in the record. We and our staff will see to that.

Mr. MALEK. If I might add one other point for the record, in no instance did the administration recommend that any special revenue-sharing measure avoid the normal appropriation process and the Congress.

Mr. MAHON. We will discuss that later.

Without objection, the committee will recess until 2 o'clock.

AFTERNOON SESSION

Mr. MAHON. The committee will come to order and we will resume the hearings.

I thought our hearing this morning was somewhat productive, but we would like to have more specific answers to the questions which

plague us. I urge you to do the best that you can under the circumstances.

“OFF-BUDGET” AGENCIES

I would like to talk to you a moment, Mr. Director, about off-budget agencies.

On page 32 of the budget it is indicated that outlays for off-budget agencies have increased from \$100 million to \$2.8 billion since 1972. We have not yet seen the figures for the Federal Financing Bank and U.S. Railway Association. These two new agencies have combined borrowing authority in the tidy sum of \$17 billion.

Question, in view of these dramatic increases, do you think that the time has come for the Congress to get all of these programs back in the budget to where they can be evaluated, the same as any other Federal program? Wouldn't that be to your advantage as Director of the Office of Management and Budget? Wouldn't that be to our advantage?

Mr. ASH. My comment is simple. It would be to our mutual advantage and I would hope it could happen.

RUNNING BUDGET PROJECT

Mr. MAHON. I would like to discuss with you for a moment the so-called “running budget,” future outlays problem. On page 35 of the budget it is stated the outlay estimates reflected requirements through existing law and contractual obligations, extensions of expiring laws, 1975 budget proposals, and necessary minimum pay and price adjustments. Certain figures are provided to us which I shall place in the record at this point.

[The information follows:]

THE 1979 OUTLOOK

[In billions of dollars]

Item	Actual 1973	Estimate			
		1974	1975	1976	1979
Full-employment receipts.....	243	278	311	339	428
Full-employment outlays, current programs.....	245	274	303	329	391
Full-employment margin, current programs....	-2	4	8	10	37

It would be helpful if we had more information on how the administration estimates future year budget outlays and receipts. In making these estimates, can you tell us what assumptions were used, including pay and price adjustments, number of beneficiaries, size of the labor force, and so forth? Can you or some of your people enlighten us on that?

Mr. ASH. Let's ask Mr. McOmber to insert the answer. See if that satisfies you.

Mr. McOMBER. Mr. Chairman, we generally assumed that there would not be any major change in the rate of growth of the labor force. We did assume that there would be what we would call normal increases in pay and price. Other than that, we generally used the same assumptions that were used for the 1975 budget.

Mr. MAHON. Does Mr. Mainland of the staff have a question?

Mr. MAINLAND. What about the labor force? Do you know what the growth rate would be? There are projections as to how many new people would be added to the labor force and you have actuarial tables which could be used to estimate how many would leave, etc. Does not that figure in your estimate?

Mr. McOMBER. I should state that we have simply assumed with respect to those estimates that are affected by the labor force, a normal growth in the labor force. I don't know what that is right offhand, but we can provide that for the record.

[The information follows:]

The estimates assume an average annual rate of growth of 1.7 percent in the civilian labor force. This estimate is based on a recent study by the Bureau of Labor Statistics.

Mr. MAHON. For each of the outlay categories listed in the table on page 37, can you provide us with the detailed data used in making the fiscal year 1976-79 estimates in order for us to assess the relative impact of (a) existing law and contractual obligations, (b) extensions of expiring laws, (c) 1975 budget proposals, (d) pay and price level changes?

Do you want to provide that for the record?

Mr. ASH. Mr. McOmber?

Mr. McOMBER. Mr. Chairman, we want to be responsive to your questions, but that is one area we would prefer not to provide more detail. This is the reason: We do have some confidence in the overall estimates as they stand. But when we consider many of the particular components that go into the overall numbers in terms of making them public, we have much less confidence in the estimates of components. We want to focus on the overall aggregates of the figures and not to focus on the details. With your permission, we would very much prefer to leave the record stand as it is.

Mr. MAHON. Could we get your assurance that you and your staff will cooperate constructively with us in the coming year to develop a running budget procedure, recognizing that we will be learning by doing and that none of us will be satisfied with the initial results? We were thinking primarily of seeking your help in arranging for the collection of 3- to 5-year outlay estimates by account, and for uncontrollables.

Mr. ASH. We would look forward to doing that during this year.

Mr. MAHON. At this point I would like to yield to the gentleman from Pennsylvania, Mr. Flood, chairman of the Health, Education, and Welfare Subcommittee, for the purpose of interrogation.

Mr. Michel, ranking minority member of the Labor-HEW subcommittee is present and he has some questions in this area. We have a number of issues involved here.

Mr. Flood, I recognize you at this point.

UNEMPLOYMENT PROGRAMS

Mr. FLOOD. Thank you very much, Mr. Chairman. With reference to unemployment, you are now going to look into the current problem. You can imagine what is happening, where we are losing jobs every day. People can't get work; but in my area of the country we came

back, by miracles, from 17.5, when I first came here many years ago, and we are now down to 1 percent more than the national average. The 15-year national average has all sorts of problems and we are getting increased unemployment now because of this gasoline shortage. In the next 2 or 3 days we are going to have serious problems with the retailers. Will they walk or what? It is a bad situation and nobody knows the answers.

In this specific area, with reference to the energy crisis and unemployment, can you tell us when you fellows will move in? I don't mean during fiscal year 1975 but on the theory that you are prepared to do something now about unemployment. Are you talking about 1975 or can you move into it at noon today? Can you attack the unemployment problem in any way at all?

Mr. ASH. Certainly—

Mr. FLOOD. I want this for the record, but I would like a statement in the next 2 hours.

Mr. ASH. Certainly the thinking that we have is not related just to fiscal year 1975 because we all know that that could well be much later than we would hope some of these actions could be taken. The contingency thinking we are doing and the plans that we have contemplate the use of those actions, way before we get to fiscal year 1975. For some of them there are different kinds of lead time. As you know, it is very difficult for the Federal Government to do many things this week. Certainly we have in mind those kinds of things that can be done as early as possible. Some do take legislation, like unemployment compensation.

Mr. FLOOD. I am not speaking about that. Do you have in your pocket verse and chorus that you can pull out for me if I need it Friday, within reason?

Mr. ASH. I would say Friday would be a little fast to be able to do the things that have to be done. Certainly to the extent that there are—

Mr. FLOOD. How about Saturday?

Mr. ASH. As far as we can. To the extent there are programs already in progress up there—and I am not sure in that area which Federal programs are in progress that might be expedited—certainly those are the kinds of things that could be done just as fast as possible.

Mr. FLOOD. The answer is yes?

Mr. ASH. The answer is yes.

Mr. FLOOD. Three o'clock in the morning, you can tell Flood this is it.

Mr. ASH. I will await the call.

Mr. FLOOD. I appreciate that.

PUBLIC SERVICE EMPLOYMENT

As you know, in the budget for Labor-HEW there is a long list of items that are so-called uncontrollable. This is the biggest budget in the entire spectrum, Labor-HEW. If you exclude the uncontrollables, you still have a big, fat figure from what it used to be. For our purposes now, title II of the Comprehensive Employment and Training Act enacted December 28, 1973, authorized appropriations for public service employment and training. To qualify, a rate of unemployment beyond 6.5 percent is required for 3 consecutive months.

This is really an extension of the program currently being carried out by the Emergency Employment Act; \$1 billion was appropriated for the Emergency Employment Act for fiscal year 1972 and \$1.250 billion for 1973. According to the 1975 budget appendix, on page 624, an amount of \$1,014,174,000 of these appropriations were actually spent in fiscal year 1973 and \$641 million will be spent in 1974. The President has requested a supplemental appropriation of \$250 million for fiscal year 1974 for the public service employment item.

In 1975, the budget contains \$350 million for this purpose.

Three questions. First, has this Emergency Employment Act program proved to be a very effective way of moving people to jobs? We know about support from local communities. GAO reports are favorable. All the mayors, Governors, and county boards are all for this. What about you?

Mr. ASH. Maybe we are all fortunate to have the associate director responsible for that program here.

Mr. O'NEILL. I think, as you say, the results have been suggested by some to be quite good. The GAO report you cite raises some questions we have been interested in since that program was initiated as to the actual employment effect of the program.

In other words, there have been some cases, we believe, where the Federal dollars provided under the Emergency Employment Act of 1972 were in effect used to hire people or pay salaries of people who would have been on the rolls in any event. As we worked through with the committees last year the development of the Comprehensive Employment and Training Act, we joined together in an idea that the decision as to whether or not manpower money should be used for institutional training or on-the-job training or for public service jobs, is one that ought to be made in the local community and ought to be applicable—

Mr. FLOOD. Public service jobs—you see potential there?

Mr. O'NEILL. We see a potential there where the decision is made by the State and local people. What that bill provides, what that—

Mr. FLOOD. There is no reflection upon anybody.

Mr. O'NEILL. The potential we see with the bill, as we have it, and appropriations as we requested them, is that in fact every dollar of the amount appropriated under that bill can be used for whatever purpose, whatever manpower training purpose, the local people want to use it for.

You were asking Mr. Ash earlier about immediate action. There is nothing we can do about using that \$250 million for title II of the Comprehensive Employment and Training Act until the Appropriations Committee puts it into law.

Mr. FLOOD. As far as this phase, you need law?

Mr. O'NEILL. No, sir; we do not. We need appropriations.

Mr. FLOOD. Strange, that is a law too?

Mr. O'NEILL. Yes, sir.

Mr. FLOOD. I think you need an affirmative act of some kind.

Mr. O'NEILL. Yes, sir.

Mr. FLOOD. I asked Mr. Ash, "Will you comment on that?" What about the problem in Wilkes-Barre for example? What can I do?

Mr. O'NEILL. As Mr. Ash indicated, we have to look at the par-

ticulars of the case. As we look at what is out there in the pipeline right now, I think just a superficial judgment would say that there is a great deal of money in the pipeline for various kinds of public works projects, for things that have been in the pipeline for urban renewal projects. In many cases those projects can be speeded up if the State and local officials want to speed them up.

Mr. WHITTEN. Would my colleague yield?

What about these impounded funds, sewage and all the other public works that you have acknowledged that you have? It wouldn't take any action except your signature to release those immediately, would it?

Mr. ASH. The basic criteria that we have which were discussed earlier were those that could have the most immediate effect, and each situation has to be looked at as to whether it can be translated to immediate effect.

Mr. WHITTEN. That is very informative. My question was all it would take to release it would be your signature. Is that right?

Mr. ASH. That is a way to deal with those funds. Whether it does the job or not is something else. Certainly it is a way to accomplish the task.

Mr. FLOOD. The answer is "Yes."

I am not kidding on this. This is a desperate situation and it is perhaps the worst in the United States. If the unemployment increases—and, of course, it seems likely for a number of reasons—would you expect to request more funds for public service programs?

Mr. ASH. That is clearly one of the possibilities, and we requested—

Mr. FLOOD. It is just one of many possibilities?

Mr. ASH. What we would do is not request it specifically for public service employment, but request additional funds for the total comprehensive manpower assistance program and then let the local decision-makers decide how to use it. Because our basic thrust has been to move out of trying to administer from here the details, community by community, of how such money should be spent. Instead, the responsibility is put in the hands of those that are closer to the problem. We could consider that.

PROGRAM REDUCTIONS UNREALISTIC

Mr. FLOOD. Let us now talk about program reductions. This budget proposes many of the same severe reductions in education and health that Congress rejected last year. These reductions, amount to nearly \$2 billion—that ain't hay either, even here—for fiscal year 1975. I have heard all these platitudes and speeches about what great proposals were being made in this budget. These program cuts are nearly identical to the ones proposed last year. Mr. Chairman at this point I suggest that we insert in the record a partial listing of program reductions in the Labor-Hew area.

Mr. MAHON. It shall be inserted.

[The information follows:]

PROGRAM REDUCTIONS

[In millions]

	Decreases for fiscal year 1975	Decreases in 1974 budget
Health:		
General research support.....	-45	-36
Mental health research and training.....	-41	-39
Drug abuse.....	-27	-
Alcoholism.....	-38	-70
RMP's.....	-37	-134
Health manpower.....	-198	-256
Hill-Burton construction.....	-197	-197
Teaching facilities.....	-114	-100
Community mental health.....	-	-70
Education:		
Impacted area aid.....	-253	-370
Emergency school aid.....	-159	-
Teacher training.....	-52	-45
Bilingual education.....	-15	-10
Direct student loans.....	-288	-288
Student supplementary grants.....	-210	-210
Land grant colleges.....	-12	-10
Veterans cost-of-instruction.....	-24	-25
University community services.....	-14	-15
Libraries and equipment.....	-32	-215
Other: OEO—Community Action.....	-218	-332
Total.....	-2,000	-2,400

Mr. FLOOD. At that time Congress vociferously refused to go along with that. You know that and I know it.

Isn't it somewhat unrealistic to expect that these programs can be abruptly cutback? What major change has occurred since last year which would cause the Congress to change its mind about these programs?

Mr. ASH. Let me talk about the total and then, if you wish, we can talk about the particular ones.

Mr. FLOOD. The whole bag.

Mr. ASH. The President's budget is what he recommends as the best program for the country. It is quite possible that others, particularly as you have indicated, the Congress might not see it exactly the same way. The budget is the President's view of how we can best spend the taxpayer's money, his recommended course of action, and a set of programs and funding levels for those programs. It is not a document that says this is what the President guesses the Congress would recommend.

Mr. FLOOD. Under no circumstances should I be impertinent and presumptuous to say that you fellows sitting around down there saying, "We can cut this thing now, knowing that Congress will put this thing back anyhow. Everybody will be happy."

Mr. O'NEILL. Mr. Chairman, in my defense I would stand on page 41 of the budget, which summarizes HEW outlays for 1973, 1974, 1975: \$82 billion, \$96.8 billion, \$111 billion.

HILL-BURTON TERMINATION

Mr. FLOOD. On Hill-Burton construction, you are again proposing to terminate grants for construction and modernization of hospitals, placing your confidence in the private market to supply all capital needs for construction and modernization of those facilities. You know

more about the climate of Washington than I do, so I give you credit for knowing what you are talking about.

You know more about that than we do, and yet you say "Leave it to the private sector." You know they won't touch it. We have heard many instances in certain areas, not across the board, for one reason or another where they simply can't avail themselves of the resources of the private sector. They wouldn't touch them with a 10-foot pole, for all the reasons you know. There may be a good case on the actual building of additional hospitals, but modernization is a different ball game and there is no such animal. What are you going to do about that?

Mr. O'NEILL. Mr. Chairman, in response to your concern over the response of the private sector to the need for medical facility construction, I invite your attention to a revealing chart on page 146 of the Special Analyses of the 1975 Budget. It graphically portrays the very marked increase from 1962 to 1972 in national expenditures for medical facility construction, with an especially dramatic rise since the enactment of medicare and medicaid. In 1974, HEW has estimated that those programs will provide \$790 million in reimbursements for construction costs, and private insurance companies will provide an additional \$1,020 million in such reimbursements. It is not surprising, as the chart reveals, that the Hill-Burton construction grants program has declined in importance as a source of funds for medical facility construction. The data portrayed in the chart should allay any fears you may have that private industry either now or in the future views the medical care facility field as a poor investment. Enactment of a comprehensive national health insurance program along the lines of the administration's proposal would further assist hospitals to meet their legitimate costs of doing business, including needed modernization of their facilities.

I also would like to go back to the example I used this morning about RMP and indicate—from our point of view and yours too—under court order we are going to spend \$120 million to \$125 million on RMP in the next 4 months.

Mr. FLOOD. You knew I was going to ask about that.

Mr. O'NEILL. Let me finish this point. I think that you and appropriate colleagues of yours will be receiving today from the Secretary of Health, Education, and Welfare a letter nailing down what I said this morning, and recommending that instead of wastefully spending a substantial amount of that \$120 million because the RMPs generally are not prepared to use all of those funds in a useful way, we redirect that money to deal with the apparent problem that you are talking about. We would propose to make about \$80 million available for two things. The first is a one-time funding of selected special projects for the refurbishment of ghetto hospitals, where serious obstacles are encountered in attracting private funds. We think it will be useful to use that money on the books and in large part take care of the ghetto hospital modernization problem.

The other objective would be to enter into contracts with the States, again on a one-time basis, to assist them in gearing up for the very substantial health planning and regulatory responsibilities they will be asked to exercise under both the comprehensive health insurance program, and the health resources planning proposal enunciated in the 1975 budget.

REGIONAL MEDICAL PROGRAM

Mr. FLOOD. On the RMP's this is a different angle. I have heard about that one for some time. You are planning to replace these comprehensive health planning and regional medical programs with something called health resources planning. That is beautiful. Couldn't do better myself.

Concerning the various projects under regional medical programs that are now dealing with care of the people in various specific disease areas, cancer, stroke, heart, kidney disease, and so on, are they going to be terminated? What about these very, very successful programs of the RMP? What is going to happen to them? How in the world do they fit into this health resources planning, if at all?

Mr. O'NEILL. Mr. Chairman, the health resources planning—

Mr. FLOOD. That is a tough question.

Mr. O'NEILL. Very fine question, sir.

The Health Resources Planning Act is designed to deal with the planning function in particular in a different way than we have tried to deal with it before. It is designed to bring together the Government, people in the local area, the providers, hospital people, and the consumer to look at hospital bed needs, how they can attract nurses and physicians, other skills, and balance the overall system in a medical market area. It is not designed or proposed to be a service delivery program. The President's proposal to deal with health care delivery problems is to provide an insurance umbrella to make sure everybody in the country has sufficient health insurance coverage so they can buy what they need, without the Federal Government having to buy it for them under categorical service programs that inherently were spotty in their coverage, and thus inequitable. In this way we can perform the functions that we can do well in Washington, and let the private sector and State governments do what they are best at.

HEALTH MANPOWER CUTBACK

Mr. FLOOD. On manpower, the budget again proposes cutbacks in support of training individuals in fields such as mental health, medical research, education, and rehabilitation. Is there sufficient manpower trained in these areas, including paramedic programs? Doesn't the Federal Government have some responsibility for the distribution and supply of adequate health and education manpower programs?

Mr. ASH. Mr. O'Neill made a speech a little earlier this morning. He might want to refer to it.

Mr. FLOOD. I couldn't do better myself.

Mr. O'NEILL. Mr. Chairman, we are coming back to you this year in the health manpower area with a set of proposals that we think make sense, that are pertinent to our medical manpower training situation now and in the future. Right now—I think you have seen these figures before—we have a situation where we have something on the order of 2 or 2½ qualified people applying for every medical slot that we have got in the country. As we extrapolated the current trends of medical manpower, we think it is fair to forecast—

Mr. FLOOD. You are talking about medical policy?

Mr. O'NEILL. I am talking about the whole range of medical manpower. Dentists—

Mr. FLOOD. You are talking about doctors?

Mr. O'NEILL. The same with paramedics. If you look at the 1975 budget, the President proposed \$125 million for so-called health manpower special projects.

Mr. FLOOD. Georgetown has 6,167 slots.

Mr. O'NEILL. Yes.

Mr. FLOOD. When I went to law school, that was a murder case.

Mr. O'NEILL. The President has proposed a \$125 million special project program. Of that amount, HEW currently plans to make available approximately \$8 million to allied health schools, schools of public health, to do that part of what we think we can do. That is to carefully support curriculum development and other innovations to make sure there is a sound basis for the training of so-called physician-extenders and other allied health personnel.

FINANCING THE SOCIAL SECURITY PROGRAM

Mr. FLOOD. On another subject of importance to me—social security programs. Social security taxes on employees are become quite a tax burden even for the so-called middle-income families. Are you studying any alternatives to finance this social security system? Do you foresee the necessity for financing at least part of the cost from general revenue?

Mr. O'NEILL. Mr. Chairman, if I may, as we followed that program over the years, we think that in a way the basic area—

Mr. FLOOD. There is an audience here.

Mr. O'NEILL. We think in a way we have done a disservice to the program by trying to put into it more objectives than what it started out with. In its original form, it was very strongly a savings program for retirement years with contributions coming from the employer and employees. Thus, they had a stake in the program. In the last 10 years or so, some of that has been eroded because we have gotten confused between that pension objective and the welfare objective. We ought to be moving away from that.

The social security program is a different program. It ought to be looked at as one financed by the employer and employee, saving for retirement years.

Mr. FLOOD. For the record, put some time on that answer?

Mr. O'NEILL. Be happy to.

[The information follows:]

We have two basic programs in this economy for providing income assurance to elderly Americans: one is a retirement program—social security—which provides benefits related to former earnings, and the other is an assistance program—supplemental security income—which provides benefits to older persons based on need.

The assistance program, to help those in need, is the responsibility of all citizens and is properly funded from general tax revenues. On the other hand, the pension program which pays more to one person than another because he formerly earned more than the other, properly requires that a person who takes more out of the system should contribute more to it.

There is no need for these programs to be absolutely separate and watertight. Administrative effectiveness is sometimes served if a limited amount of horizontal income redistribution is allowed to exist in the pension program. However, we believe that the welfare-oriented provisions—the high minimum benefits as well as liberal dependents' and survivors' benefits—have exceeded proper dimensions for a wage-related system.

This confusion of roles between the two systems distorts the equities within the system, necessitating complicated offset systems in the assistance programs to avoid unwarranted windfalls; it also deprives retirees under the social security system from realizing more adequate wage-related benefits because of the drain on the system created by the welfare benefits.

WELFARE REFORM

Mr. FLOOD. In the President's state of the Union message, he appears to have pointed welfare reform in the direction of negative income tax. Recent results in Pennsylvania and New Jersey show some kind of possibilities of this approach. Yet there seems to be no sense of urgency at all to improve the public welfare system. Why the delay? Why don't we have something now?

Mr. ASH. Again, Paul can answer it better than I. Let me make a few comments and see what he wishes to add.

I am sure that most of us here realize that in the last few years there have been many starts, not getting anyplace in true welfare reform. What we have concluded is that if we are truly to achieve that objective—and I think most people believe we should achieve that objective—maybe it is time we should start it a little differently. Instead of putting before the Congress a completely wrapped up package of how we would design a welfare reform program, we start a little more from the ground up and work with the Congress in making sure that we first agree on a statement of the problem.

Mr. FLOOD. You are not going to come in here with one of your sacred cows?

Mr. ASH. We hope together to develop a sacred cow, one we all find acceptable or at least enough of us to at this time get effective legislation. In the past, we have all ended up with nothing, and yet that is deplorable from every point of view. What we think should be done is that we make sure that we all have a generally mutual understanding of what the true problems have been in the present programs, true objectives we would try to seek, and out of that develop a program design that meets those objectives, worked on or developed more between the executive and the Congress than one branch alone. This is our expectation.

Mr. FLOOD. Good luck!

Mr. ASH. Think it will work?

Mr. FLOOD. Yes.

Mr. ASH. It is going to be a problem, and we have to find a different way of working than before.

Mr. FLOOD. Sounds good in theory.

Mr. ASH. The other has not worked, so we might as well try this.

UNEMPLOYMENT COMPENSATION

Mr. FLOOD. Just two more on unemployment compensation.

In the 1975 budget estimates of the outlays from trust funds for 1974 are \$5.8 million, and rise to \$7.1 million for 1975. This is quite a jump. Are these estimates realistic in view of your own statistics on unemployment?

Mr. ASH. They are based on the economic outlook that we now have for that period of time. Obviously this is a very difficult matter to forecast. I wouldn't guarantee that to be right plus or minus 1 or 5 percent.

Certainly it is going in the right direction and about the right scale of numbers and it is based at least on our present view which, as we discussed earlier this morning, could well change as we go through the year.

Mr. FLOOD. We have been reading stories in the newspapers about an administration proposal to provide extended—underlined—unemployment compensation benefits which will cost probably an additional \$1 billion. As far as we can tell, there is no proposal anyplace in the budget request. Will you describe the proposal and tell us what effect it will have on the 1975 budget, if enacted?

Mr. ASH. That specifically is not in there in the \$7.1 billion shown here. It could add on, if enacted, a \$300, \$400, \$500, or \$600 million additional amount in fiscal year 1974; \$300 to \$600 million, depending on what may transpire in the way of actual unemployment during that time. That would be the range of possibility that it could cost this fiscal year.

Mr. FLOOD. Thank you.

Mr. MAHON. Thank you, Mr. Flood.

Mr. Michel.

Mr. MICHEL. Thank you, Mr. Chairman.

Following up that question by Mr. Flood with respect to the \$300 to \$600 million in unemployment compensation, that would have to come up here in a supplemental if we were to enact the extended unemployment bill which has been pending, if I understand it, before the Ways and Means Committee for about a year?

Mr. O'NEILL. Yes, sir; pending since last April.

Mr. MICHEL. To make certain here, there is nothing in the budget for implementing that extended measure?

Mr. ASH. It is not calculated in the \$7.166 billion number shown here. It would require a supplemental, in that it would, after being passed, not automatically come out of and be a charge against the unemployment trust fund.

ESTIMATED 1974 EXPENDITURES

Mr. MICHEL. When the chairman began this hearing this morning, I think he said that in 16 out of the 20 years actual outlays have outdistanced estimated expenditures. You are testifying here, Mr. Ash, today to a \$304 billion budget that has a planned deficit in fiscal year 1975 of—how much?

Mr. ASH. \$9 billion actual deficit, full employment surplus of \$8 billion. I think that you are talking about the actual.

Mr. MICHEL. What are the best estimates currently in fiscal year 1974? What are the best estimates of what our deficit will be when we close the books June 30?

Mr. ASH. The deficit for that year will be \$4.7 billion. That is what we expect it to be at this moment for 1974.

FINANCING ADDITIONAL DEBT

Mr. MICHEL. We have heard a good deal of testimony and haggling and haranguing around here in this hearing today with respect to the impoundment of funds. If we would add the \$11.8 billion of impoundment funds to the \$4.7 billion deficit you say we are going to have on June 30, we would end up with a \$16.5 billion deficit this year?

Mr. ASH. Some of the reserved funds are to be released during the current fiscal year and some positions of those releases will be reflected in outlays. This is included in the budget totals. But if all reserved funds were released and if we were able to spend them in this fiscal year the deficit would certainly be higher.

Mr. MICHEL. If not, it would pile onto the \$9.3 deficit you have planned for 1975?

Mr. ASH. Releasing all reserved funds would increase the 1975 deficit; yes.

Mr. MICHEL. Where do we borrow those additional billions of dollars to fund that kind of deficit? Where do we go?

Mr. ASH. As you know, a limited number of places. If we just picture it as a surcharge on the personal income tax rate we would be talking about 10 percent more if it were paid out of 11-year increment to personal income tax. At least that is the scale of it. It is a number that is important.

Mr. MICHEL. If we go into the market to borrow, we go into completion with all the other money available. We decry interest rates of 9 percent, but obviously if the Government has to go in to borrow all the more it can't help but buttress that, and put more upward pressure on interest rates.

POSITIVE ASPECTS OF RELEASING IMPOUNDED FUNDS

Mr. WHITTEN. Would my colleague yield?

I notice that the gentleman asking the question was overlooking the fact that this runs counter to your earlier argument. If you release \$11 billion in expenditure for public works, and other projects, that gives employment which decreases unemployment compensation, and increases taxes on profits, so the budget deficit wouldn't increase as much as you suggest. Not only am I right about that being a factor, but you in your testimony have pointed to this as a means that you might be forced to use so as to keep the economy going.

Your 1, 2, 3 answer about this deficit is a little too simple, wouldn't you say?

Mr. ASH. Let me say, as I said earlier, a budget attempts to walk a fine line between overspending and underspending, realizing that overspending contributes to inflation. Underspending could contribute to unemployment, and the real job is to walk that fine line. We believe that we have found the fine line for economic outlook as we now see it and hope we wouldn't vary from it except for good reason.

Mr. WHITTEN. I asked you if you were not overlooking the fact that employment in public works would decrease the amount of unemployment compensation and generate income and taxes.

Mr. ASH. But it would reduce unemployment—

Mr. WHITTEN. You started with a "but," and that is not the way to start off an answer.

Mr. ASH. It would reduce unemployment compensation much less than it would increase total outlays. Therefore, total outlays of the Federal Government to be covered by taxes or debt would then substantially go up.

Mr. WHITTEN. I thank my colleague.

Mr. MICHEL. I would like to make the point that the economy is operating pretty much at 100 percent of capacity. There have been

additional public works. Where will you get the wherewithal to do the kind of things that the gentleman speaks of, particularly if you are to confine it to water treatment plants, sewage disposal plants, and this kind of thing?

I think what you testified to earlier was a more orderly expansion of that program, which makes much more sense than the Congress ballooning the program up far beyond our capacity to meet it without encouraging additional expense in the cost of materials that go into those actual projects. As you say, I think so very well here, Mr. Ash, it is a question of walking a very fine, thin line.

Let me get to the manpower and labor areas, and then on to the health items, if I might.

PUBLIC SERVICE EMPLOYMENT

The new comprehensive manpower legislation that was passed in 1973 consolidates many of the separate manpower programs and provides a formula for the distribution of funds to prime sponsors. Generally, cities over 100,000 and areas with unemployment over 6½ per cent can have public programs, as I recall.

In the 1974 supplemental which the chairman of our subcommittee alluded to, you ask for \$250 million, and then in 1975, \$350 million is requested for public employment programs.

If my memory serves me correctly, during the past 30 months that the emergency employment assistance program has been in effect, 325,000 or 330,000 people, all-told, drew benefits. Are there any estimates of the number of people who would be employed by the new program?

Mr. O'NEILL. I can get that number for you for the record.

Mr. MICHEL. Would you supply it for the record?

Mr. O'NEILL. Yes, sir.

[The information follows:]

It is estimated that the \$250 million for fiscal year 1974 and the \$350 million for fiscal year 1975 which are requested for distribution to high unemployment areas for employment and training programs under title II of the Comprehensive Employment and Training Act could, if used entirely for public employment, fund 35,700 employment opportunities in 1974 and 50,000 in 1975.

COST CALCULATIONS ON FOOD ASSISTANCE PROGRAMS

Mr. MICHEL. Let me move to the food assistance program. The bulk of the spending on food assistance programs is tied by law to food prices and reimbursement rates in the school feeding programs and food stamp allotments. The income eligibility limits in the food stamp program are automatically increased or decreased semiannually as food prices increase or decrease.

What are the USDA's expectations with regard to food price changes during the fiscal year 1975, if any? Have we any kind of calculation on that?

Mr. ASH. We do not have the factors that they have for food price increases. We can certainly get those as well.

Mr. MICHEL. Were they used at all in the makeup of the 1975 budget?

Mr. ASH. Yes, sir, but we do not have the particular factors used.

There were some used. In fact, that is largely what is causing the increase shown here.

Mr. O'NEILL. I do not recall the precise figures but to give you an example I would like to place your question in the context of the food stamp program. The farm bill which passed last August specified semiannual adjustment to the coupon allotment beginning January 1, 1974. Thus, for a family of four the food stamp benefit increased from \$116 to \$142. Instead of having a limit on income eligibility for a four-person family of about \$4,600 which we had until December 31; on January 1 we went to \$5,700. So, any four-person family in this country with adjusted total income less than \$5,700 is eligible for food stamp benefits.

Under the farm bill, benefit levels change every 6 months to reflect changes in the Consumer Price Index for food. We will get you the precise estimate.

Mr. MICHEL. Last night I saw a program on television about the plight of the poor with the increased cost of food. It indicated the Federal Government was lagging in what it was doing. I would like to have spelled out specifically for the record what we are doing by way of increases in 1975 over 1974, and the number of people so affected.

Mr. Chairman, I will ask unanimous consent that they be permitted to respond to several other questions on this subject for the sake of the record.

Mr. MAHON. Without objection.

[The information follows:]

FOOD STAMP PROGRAM

Question. How many new participants will be brought into the food stamp program in fiscal year 1974 and 1975 due to geographic expansion as mandated by Public Law 93-86?

Answer. About 1 million new participants will be brought into the program in fiscal year 1974 and another 1.6 million in fiscal year 1975.

Question. What will this increased participation cost in 1975 as compared with the cost of the commodity program in those areas that are switching over?

Answer. On an annual basis this increased participation in the food stamp program will cost around \$500 million compared with a little over \$200 million for the commodity program.

Question. What will be the additional State and local administrative cost involved in operating the food stamp program as opposed to the commodity program and what will be the Federal share of that cost?

Answer. State and local administrative costs vary substantially in both programs from State to State and county to county. These variations are greatly influenced by the manner in which the State is organized to run the two programs. Because the Federal contribution to the food distribution program was made available primarily to secure expansion in programs that had no family assistance program, there are some counties where the local or State contributions have been virtually nothing. In such counties there will be a significant increase in local costs.

State and local costs of the food stamp program include 100 percent of the administrative issuance costs (approximately \$1 per household per month) and approximately one-third of the direct certification cost. Roughly the State and local share of certification cost would average \$1 per month per participating household. Thus the total direct cost to State and local governments is about \$2 per participating household per month. Overhead costs at State and local expense vary widely and we do not have an estimate.

Question. How many areas (that is, county, States and territories) are expected to remain in the commodity distribution program through fiscal year 1975?

Answer. None is expected to remain in the commodity distribution program through fiscal year 1975.

Question. What set of criteria is the USDA using in making the judgment that any particular area may remain in the commodity distribution program rather than transfer to the food stamp program?

Answer. No State has requested that the commodity distribution program be continued in a specific area. Some have requested delay. Our criterion has been whether a State's request for delay in implementation is reasonable because of the sheer number of localities that will be switching to the food stamp program. Such States include the Navajo and Papago Indian Reservations in Arizona and the State of Virginia which has 42 counties which will be switching over, which expect to have statewide implementation by September. Because of the magnitude of the program, Puerto Rico expects to complete islandwide implementation by March 1975.

Question. What rationale has been put forward in State plans for leaving specific areas under the commodity distribution program rather than switching them over to food stamps?

Answer. None of the States has asked that commodity distribution be continued.

Question. What has been the impact of the new quality control system on the caseload of the food stamp program? Has there been significant reduction?

Answer. While this is a difficult area to judge because the quality control program was just getting underway, it with other administrative actions including the registration of household members who are eligible for work, monitoring of households participating in the program with zero purchase requirements, administrative reviews by regional offices, and increased number of audits have had a significant impact on stabilizing participation. In fact, the level of participation for those project areas which were operating the food stamp program in October 1972 actually showed a decrease of 1.1 percent when compared with the October 1973 level of participation. The increase in program participation from October 1972 through October 1973 is attributed totally to the transfer of project areas from the food distribution program to the food stamp program.

Question. Which States have not implemented quality control programs and why not?

Answer. All 49 States operating a food stamp program report they have implemented a quality control program. However, their most recent reports indicate only 27 States have completed at least 85 percent of the required sample which is needed to produce statistically valid results.

The reasons the remaining States did not reach 85 percent were because of problems in sample selection, insufficient staff, and because adequate staff was not assigned early enough to begin a full-scale quality control program. Ten States completed between 50 and 85 percent of their required sample. The remaining 12 States completed less than 50 percent.

In some States, pressure from HEW to complete the AFDC quality control sample has resulted in the diverting of food stamp quality control staff to work on AFDC cases.

Question. Are "allowable error" standards used in a food stamp quality control program similar to or the same as those used by HEW? Does the USDA have any penalties, fiscal or otherwise, which it can impose if States do not reduce the errors they are making in administering the food stamp program to acceptable levels?

Answer. The allowable error rates used in food stamp quality control are the same as those used by HEW—3 percent for eligibility and 5 percent for basis of issuance factors. A further review of these rates may be required but cannot be done immediately because of the lack of basic data. A review of the food stamp caseload, however, indicates that we have a much less stable population than does HEW. The food stamp caseload is composed mainly of the working poor who are in and out of employment. They have frequently changing incomes and may be in and out of the program.

We do have penalties for gross negligence and have billed States for the full value of bonus coupons issued in "gross" violation of program regulations. We are now tightening our rules in areas where a previous warning has been issued to the State. HEW pays only a portion of the grant paid to a public assistance recipient, while USDA provides the full amount of the bonus dollars.

We are concentrating our efforts at this time in assisting the States in fully implementing their systems. We have conducted training sessions in every State

within the past month, have provided training materials for State use, and provided statistical and other assistance as requested. As a result of quality control reports, changes are being made at the Federal level in food stamp regulations and operating procedures which more clearly define participation criteria and will reduce caseload errors.

Finally, Food and Nutrition Services is using its other tools of program monitoring, such as administrative audits, and statistical reviews to focus the findings of quality control both on statewide programs and to the subunits of local administration.

INCREASING HEALTH COSTS—PRICE CONTROLS

Mr. MICHEL. May I move on to health.

More than 80 percent of the fiscal 1975 budget for health purposes will involve expenditures for services provided under the medicare and medicaid program. According to HEW's press release on the budget, estimated outlays for medicare include the assumption that phase IV economic controls will remain in effect for the health industry. The same controls, of course, as we know, also affect estimates for medicaid. The HEW press release conceded that these estimates would be much larger if the economic controls were removed.

Two months ago, the Cost of Living Council was enjoined by the U.S. District Court for the District of Columbia from implementing or enforcing its phase IV controls on institutional providers insofar as nursing homes are concerned. In January, the American Hospital Association also filed suit against the Government, seeking similar relief.

If this challenge succeeds, the Cost of Living Council's phase IV will be virtually destroyed; and if these controls are voided, what impact on the budget can we expect, Mr. Ash?

Mr. ASH. It would, obviously, cause the budget numbers to increase. Already, medicare, which was \$12 billion in 1974, has moved to \$14 billion in 1975. That \$2 billion, or about 16 percent, is the increase in medicare before any other erosion of the ability to hold these lines through court action might take place.

Those numbers are moving up pretty fast. They certainly would not go down.

Mr. MICHEL. Medicare accounts for the biggest increase in the health budget, does it not?

Mr. ASH. Yes; it certainly does. In fact, medicare and medicaid together account for \$2.7 billion of the total health increase of \$3 billion.

HEALTH MANPOWER

Mr. MICHEL. There are sharp differences of opinion about our reliance in this country on imported doctors. An estimated 68,000 foreign-trained doctors in the United States make up one-fifth of our country's physicians.

This is indicative, I would say, of a shortage in this country. Does this not have an effect on health care costs in our own country? Does the budget address this problem at all?

Mr. ASH. The main thrust of the budget regarding health manpower is to provide the funds for those individuals in need, rather than to institutions. This may go a long way toward developing a greater supply of national health manpower, rather than foreign health manpower, if we deal with individuals.

Mr. MICHEL. The only thing that disturbs me about that composition, however, is that we have experienced 7- or 8-percent inflation in the past year, and we expect a comparable amount in the coming year. Does not that inflation have more of a bearing, really, on the institution and its increasing costs than it has as an adverse effect on the individual, particularly those we have been talking about who are attending professional and medical schools?

Mr. ASH. Certainly, institutions are under the same kind of pressure that individuals are. But, if we put the funds into the hands of the individuals, they in turn can buy their own medical education from those very institutions. They can determine what institution to get their education from, and we could well end up, which is our hope here, not merely providing funds through institutional help to those who may not need financial help but, instead, providing funds to only those who do need them. We should let those who can help repay their own education costs, particularly in the medical field, where they earn a substantial salary after graduation.

Mr. MICHEL. It really does disturb me—the makeup of this budget when you look at health manpower. I am as sure as I am sitting here that we will run into some real flack in this all-important area of manpower. If you look at it cold turkey, it represents about a substantial reduction at a time when the Congress has spoken repeatedly in the last couple of years of the need for providing additional doctors, additional nurses, and the manpower necessary to meet this whole problem.

How do I, as a member of the same party as the administration on this side of the aisle, counter those arguments—arguments that in the main are pretty legitimate with respect to a significant cut in health manpower? That is a tough one for me to defend.

Mr. ASH. Is this not really largely the point Mr. O'Neill was making this morning, that it is difficult to rationalize imposing on the taxpayer a burden to in turn train those who go out and generate such high levels of income from that very education that the taxpayer has paid for? Is it not better to work in a different direction?

HIGHER EDUCATION POLICY

Mr. MICHEL. I appreciate that in the field of higher education, through the basic opportunity grants, we are putting more money there than we ever have before in the history of the country. It still seems to me that when we are talking of an extended period of training time, we have some real problems if we do not want to sacrifice quality—and we certainly do not want to do that in this country. We are about the best and we want to remain the best. We can make some reduction from an 8-year training period to 7 or maybe 6, but, nevertheless, the cost increases more than make up for the difference between the telescoped period of time.

Mr. O'NEILL. I would like to add a couple of thoughts to what Mr. Ash said.

As we have looked at what we have done in the last 10 years or so in health manpower, I guess we have come more and more to the view that in part what we have been doing with institutional aid has been counterproductive. Instead of the schools relying more on charging people something that is somehow related to the cost of the education

they are getting, our institutional aid and other forms of support to medical schools has made it possible for schools to maintain a tuition charge that is less than \$1,000 in some places or \$2,000, for a medical education maybe costing somewhere between \$6,000 and \$8,000 a year, depending on whose statistics you look at. Annual health manpower capitation amounts to about \$2,000 of the costs for each individual.

Then as we look at what happens to an individual when he comes out of that learning stream, we find they are earning, on an average, \$40,000 or \$50,000, and many of them more than that. There have been stories here in the District of an individual earning from a Federal program over \$200,000 annually.

As we look at this, we think it makes an awful lot of sense for the Federal Government to try to provide financial assistance to those individuals who cannot afford to finance their own medical education, and let the medical institutions charge an appropriate tuition fee.

Mr. FLOOD. Did you say can, or cannot?

Mr. O'NEILL. For those that do not have the financial wherewithal, for the Federal Government to make sure they do have the financial wherewithal, but not through a grant program which just gives them the money and that is the end of it.

For example, the administration now has before the Congress legislation to extend and liberalize the national health service scholarship program—analogous to the health professions scholarship program successfully being run by the Department of Defense—under which students in medical and other health professions schools could have all their medical education costs paid by the Government, as well as have a generous stipend to live on during that time. Upon completion of their training, they would agree to provide medical care to meet whatever public needs the Secretary of HEW has identified, such as in the National Health Service Corps or the Indian Health Service. The 1975 budget would provide \$23 million for this activity, and if the Department can demonstrate a need for even more funds, I believe the administration would be prepared to come back to the Congress and request additional appropriations.

We also are proposing this year to expand the student guaranteed loan level from the current \$10,000 limit to \$25,000. So, especially for medical professionals, they will have the opportunity to get the money they need to go to school. When they have completed their training, they can pay it back, and not, in effect, have been given an education that will earn them hundreds of thousands of dollars at the expense of the taxpayer who, on the average, earns less than one-third of their annual income.

COMMUNITY MENTAL HEALTH CENTERS

Mr. MICHEL. Last year's budget was designed to phase out the Community Mental Health Centers and put in an additional amount in the budget to fund those that were already on the boards for the balance of their 8-year life. Does this year's budget differ from last year's budget in that regard? Do we have knowledge that we will have a continuation?

Mr. O'NEILL. I think it does in several important respects.

No. 1, when the President signed the Labor-HEW appropriation bill for 1975 and decided not to continue the argument over the interpretation of the continuing resolution for 1973, we, in effect, let loose an

enormous amount of money, and part of that money over this next 6 months or year will result in the establishment—as I recall—of an additional 86 Community Mental Health Centers on top of those that are already in place.

The 1975 budget says, let's go ahead and do that which we are going to with the 1973 and 1974 funds. We are not asking for any new money for further new starts, but we are asking for the dollars that are necessary for the Federal Government to meet its commitment with every single one of those community mental health centers for the life of its commitment. We have not asked for all the budget authority this year. We have asked for that which is necessary to meet that commitment in fiscal year 1975, and we would propose to do so in 1976 and the years beyond.

One other important factor is the President's proposed comprehensive health insurance plan. We would for the first time, as a general proposition, provide for mental health coverage under this broad health insurance plan. We think under those circumstances everybody would be able—

Mr. MAHON. Could you amplify that for the record?

Mr. O'NEILL. I will be happy to do so.

[The information follows:]

The mental health benefits in the comprehensive health insurance plan include 30 full days or 60 partial days of inpatient care per year, and 30 outpatient visits to a comprehensive community care center or private practitioner per year (the latter not to exceed 15 visits). These benefits are designed to cover the vast majority of treatment for acute episodes, and would be the same under the employee health insurance plan, the assisted health insurance plan, and medicare. In addition, mental hospital benefits would be continued under the residual medicare program, pending a comprehensive proposal on long term and chronic care.

Mr. MICHEL. I will also ask, in keeping with that, unanimous consent to insert a number of other questions in this whole general field of health manpower, alcoholism, and mental health that I think we ought to have developed in a general way here.

[The following answers to questions from Mr. Michel were submitted for the record.]

HEALTH MANPOWER

Question. The \$369 million Fiscal Year 1975 budget request for health manpower is almost 50 percent lower than \$711 million appropriated for fiscal year 1974. Are you preparing us for next year's request for zero-funding for health manpower?

Answer. The administration has no intention to propose termination of all Federal health manpower programs. In 1976, for example, we anticipate that the budget would reflect continuing large-scale support for activities to help remedy health manpower distributional problems, and to improve access to health manpower education by all segments of the society. Furthermore, the administration's proposals for institutional support to health professions schools will involve a gradual phasing down over 3 years of capitation grants, with the goal of phasing-out the program within 5 years, to allow time for the schools and the students to work out alternative ways of meeting the educational costs. Accordingly, under the administration's proposals, a lower level of institutional support would continue to be provided in next year's budget.

Question. If the fiscal year 1975 request were appropriated, what impact would it have on enrollments, and general operations in health professions and nursing schools nationwide?

Answer. The administration does not believe that the 1975 budget will impact adversely on enrollments. Legislation that the administration will shortly be submitting to Congress will require institutions receiving capitation support to maintain enrollments as a condition of support.

Health professions training institutions—and medical schools, in particular—are very complex entities, involved in multiple and overlapping missions and with annual revenues in the tens of millions of dollars. Although certain of the categorical Federal health manpower activities are proposed for termination or reduction in the 1975 budget, total Federal outlays in 1975 for health training and education would remain at about the same level as in 1974 as shown in the following table from the special analysis volume of the budget:

TABLE J-12.—FEDERALLY AIDED HEALTH TRAINING AND EDUCATION

[In millions of dollars]

	Outlays		
	1973 actual	1974 estimate	1975 estimate
Degree or certificate training.....	(929)	(1,093)	(1,058)
Research personnel.....	109	130	123
Physicians.....	370	458	465
Dentists.....	68	82	80
Nurses.....	129	127	92
Mental health professionals.....	42	40	44
Other health professionals.....	114	129	121
Paramedical personnel.....	97	127	133
All other training.....	289	296	275
Total.....	1,218	1,389	1,332

In the case of medical schools, total Federal outlays in 1975 would continue to increase over prior years.

TABLE J-13.—FEDERAL FUNDS TO MEDICAL SCHOOLS

[In millions of dollars]

Agency	Outlays		
	1973 actual	1974 estimate	1975 estimate
Department of Health, Education, and Welfare.....	(933)	(1,086)	(1,096)
Research and development.....	546	715	743
Education and training.....	224	262	238
Construction.....	152	94	100
Hospital and medical services.....	10	14	13
Other.....	1	1	1
Department of Defense.....	(5)	(15)	(15)
Education and training.....	5	15	15
Veterans' Administration.....		(5)	(10)
Education and training.....		5	10
National Aeronautics and Space Administration.....	(3)	(4)	(3)
Research and development.....	3	4	3
Special Action Office for Drug Abuse Prevention.....		(3)	(4)
Research and development.....		3	4
Total.....	941	1,113	1,127
Research and development.....	549	722	750
Education and training.....	229	282	263
Construction.....	152	94	100
Hospital and medical services.....	10	14	13
Other.....	1	1	1

In short, it is impossible to predict an aggregate response to the 1975 budget in terms of enrollments. Most health professions schools continue to have at current tuition levels two to three times the number of qualified applicants for each entering position, with no indication that widespread student interest in a health career is abating. Rather it appears to be increasing dramatically. Thus, there is no reason to believe that either overall enrollments or general operations of these institutions will be adversely affected by the 1975 budget.

Question. Have all shortages of health manpower disappeared?

Answer. The concept of "shortage" in a professional field such as health manpower is an elusive one and inherently arbitrary. There is no agreement in absolute terms on what would constitute an optimal level of the many types of manpower relative to the population as a whole. If "shortage" is taken to refer to unfulfilled need for medical care, then certain health manpower "shortages" will be with us forever, without regard to the numbers of such personnel ultimately produced. Further, certain geographic areas of the country will probably continue to experience markedly different ratios of health care providers to populations, although measures to ameliorate gross maldistribution will be a part of the administration's proposed health manpower legislation, including the proposed scholarship legislation already before Congress.

All that can be said with certainty is that the Nation already is experiencing a significant increase in the aggregate supply of health manpower, and that based on conservative projections of current enrollments in U.S. schools and accessions of doctors trained abroad, further significant increases can be anticipated. (See attachment, pp. 141-142, *Special Analyses, Budget of the United States Government, 1975.*)

Question. Who will fill the gap left by these significant decreases in the Federal health manpower dollar?

Answer. As noted in a previous answer, although some funding of categorical health manpower activities would be reduced under the administration's proposals, total Federal spending for health training and education would not be markedly reduced. In the case of medical schools funds would actually continue to increase.

Certain institutions, of course, may experience actual increases in total revenues from Federal sources, while others will have decreases. Those in the latter category may choose to modify their programs or staffing patterns, or may seek increased funds from other sources. One such source is to increase tuition revenues, since tuition as a source of income for such schools has generally diminished in importance over the past decade. In medical schools, for example, from 1959 to 1970, tuition dropped from 7.6 percent to 3.7 percent of total revenues.

SOURCES OF FINANCIAL SUPPORT FOR MEDICAL SCHOOLS

(Dollar amounts in millions)

Source of support	1959		1970		1959-70— Percent change
	Total amount	Percent of total	Total amount	Percent of total	
Total.....	\$319.0	100.0	\$1,712.9	100.0	437
Federal funds.....	94.0	29.5	778.6	45.5	728
Non-Federal grant and contracts.....	41.2	12.9	244.6	14.3	494
Tuition and fees.....	24.4	7.6	63.3	3.7	159
Endowment income.....	5.3	1.6	24.2	1.4	357
Medical services funds.....	10.6	3.3	115.2	6.7	987
State appropriations.....	49.8	15.6	260.6	15.2	423
State, city, county grants in aid.....	8.2	2.5	22.6	1.3	176
Gifts.....	11.0	3.4	20.3	1.2	85
Teaching hospitals and clinics.....	13.7	4.3	57.9	3.4	323
Other.....	60.8	19.1	123.6	7.2	103

Source: Association of American Medical Colleges, "Medical Education In The Institution, Characteristics and Programs." A background paper prepared for Secretary Weinberger.

Question. The health professions capitation grant program was intended to provide a reliable, steady base of support for health professions schools. Wasn't the capitation program a major part of the administration's 1971 health manpower bill? Why does the administration want to phase out this program?

Answer. The capitation grant approach to Federal support of health manpower education was indeed espoused by the administration in 1971. Events since that time, however, lead us to conclude that capitation grants are an inefficient mechanism of support, and reflect an inappropriate Federal role in health man-

power education vis-a-vis the Federal approach to higher education generally. Specifically—

Such funds were not targeted based on an assessment of need for assistance;

Due to the allocation formula, some schools reaped windfalls while others could have used more funds;

The incremental enrollment increases brought about through the capitation grants proved to be very costly to the general taxpayer;

The amounts authorized and appropriated were unrelated to "real" educational costs;

Continued capitation grants threatened to make many of the health professions schools increasingly and excessively dependent upon the vagaries of the Federal budget process;

The historical and continuing excess of demand for places in health professions schools, the rapid increases in aggregate health manpower supply, and the extraordinarily favorable lifetime earnings potential of most health professionals, bring into question the appropriateness and equity of continuing to single out the health professions for a level of public subsidy provided to no other class of professions; and

Formula-type, across-the-board institutional support for health manpower schools is fundamentally at odds with the Federal role in post-secondary education generally, where support is targeted on assuring students financial access to higher education, rather than supporting the institutions themselves.

Question. You have indicated that within the next 10 years or so there may be a surplus of medical personnel if training capacity continues to increase. Can you give us some projections regarding supply and requirements for medical personnel during this period?

Answer. Estimates of increased health manpower supply were cited in a prior answer. These projections point to marked increases in aggregate physician manpower, relative to the general population, by 1980 and 1985. Estimating requirements for health manpower is both difficult and hazardous, due to a critical series of heroic assumptions that must be made with regard to such matters as:

Degree of population growth;

Changes in mix of health manpower actually delivering care;

Changes in provider productivity;

Changes in effective demand for medical services due to general economic conditions or availability of improved health insurance coverage; and

Changes in the organizational arrangements for health services delivery (for example, increased numbers of HMO's).

The Department of Health, Education, and Welfare, nevertheless, has estimated the supply and requirements for certain categories of health manpower in 1980, as follows:

	Supply	Requirements
Physicians.....	432,000 to 448,000.....	400,000 to 450,000.
Dentists.....	126,000 to 127,000.....	115,000 to 130,000.
Nurses, registered nurses.....	1,000,000 to 1,150,000.....	950,000 to 1,100,000.

HEW soon will be submitting to the Congress the administration's legislative proposal for health manpower. When hearings are held later this year on this subject, the Department will be prepared to discuss in detail the methodology and assumptions supporting these estimates.

Question. If the capitation grant program were terminated, what financial adjustments will schools be required to make up for the loss of Federal support?

Answer. As noted in a prior answer, individual schools can be expected to respond differently to reduced categorical health manpower institutional support, in most cases through a combination of program or staffing modifications and increased funding from other sources.

Question. Nursing capitation support has been a bone of contention between Congress and the administration since it was authorized in 1971. Once again

you are not requesting funds for this program. You estimated a 157,000 shortage of nurses in 1972. Has the shortage of nurses disappeared?

Answer. We are unaware of the source or basis for an asserted "157,000 shortage of nurses." As noted previously with regard to physicians, the "shortage" concept is elusive, and claimed shortages are always arbitrary and often self-serving.

Current data show a very substantial increase in the supply of active nurses (R.N.'s). This is due to greatly expanded output from U.S. nursing schools, as well as the lengthening career span of nurses and the increased willingness of employing institutions to adopt their working patterns to the family needs of married nurses.

NUMBER OF ACTIVE REGISTERED NURSES, BY FULL-TIME AND PART-TIME STATUS: SELECTED YEARS, DEC. 31
1955-72

Year (Dec. 31)	Number active			Percent distribution		
	All	Full time	Part time	All	Full time	Part time
1955 ¹	430,000	388,000	42,000	100	90.2	9.8
1957 ¹	460,000	384,000	76,000	100	83.5	16.5
1959.....	504,000	414,000	90,000	100	82.1	17.9
1961.....	550,000	433,000	117,000	100	78.7	21.3
1963.....	582,000	450,000	132,000	100	77.3	22.7
1965.....	621,000	466,000	155,000	100	75.0	25.0
1966.....	640,000	474,000	166,000	100	74.1	25.9
1967.....	659,000	483,000	176,000	100	73.3	26.7
1968.....	680,000	493,000	187,000	100	72.5	27.5
1969.....	700,000	503,000	197,000	100	71.8	28.2
1970.....	723,000	515,000	208,000	100	71.2	28.8
1971.....	748,000	524,000	224,000	100	70.1	29.9
1972.....	777,000	551,000	226,000	100	70.9	29.1

¹ Estimates exclude Alaska and Hawaii.

Source: Interagency Conference on Nursing Statistics (Estimates of Jan. 1 of the following year).

On an aggregate basis, HEW expects nursing supply and requirements to be in rough balance in the future, with some geographic areas having a surplus. Anecdotal evidence for this conclusion consists of scattered reports of nursing underemployment in such areas as New York City, California, Seattle, and Salt Lake City. The American Nurses Association, moreover, in a January 1973 letter to the Manpower Administration of the Department of Labor, noted reports over the previous 2 years of unemployment of registered nurses in at least 16 States, and stated that "The supply of nurses appears to be approaching the demand at the first level staff nurse position."

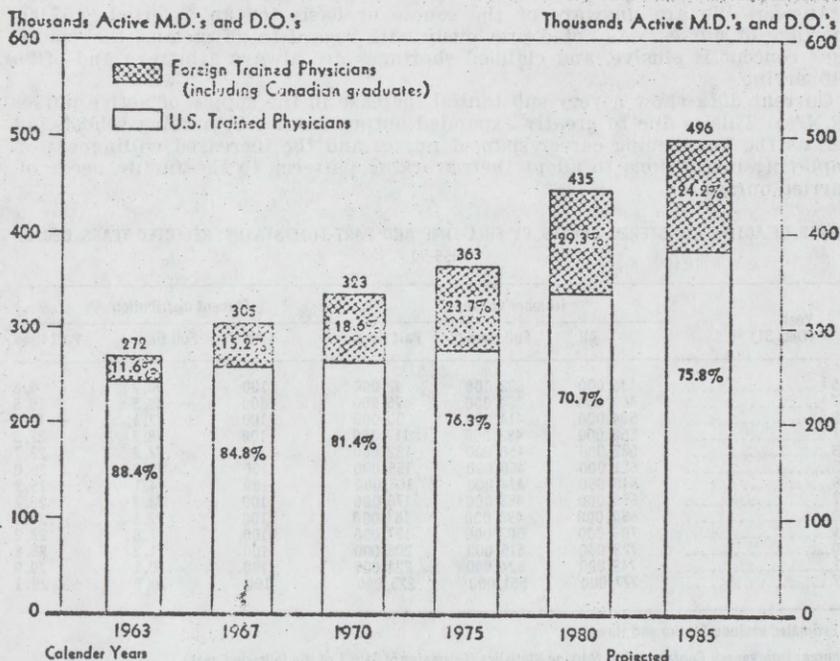
Question. Have nursing school enrollments and graduations increased enough to meet current and future demands for nursing services?

Answer. As previously noted, HEW anticipates nursing supply and requirements to approach a state of rough equilibrium in the near future. The following chart from the special analysis illustrates this:

Training and education.—Since 1963, the number of U.S. medical and osteopathic schools has grown from 92 to 119; total enrollment has increased 52 percent from 33,072 to 50,125; and graduates have increased 45 percent, from 7,631 to 11,038. The pool of foreign-trained physicians—including many U.S. citizens—has doubled to approximately 65,400, or 20 percent of all active physicians. The Nation's supply of active physicians (M.D.'s and D.O.'s) grew from about 252,000 in 1960 to 323,000 in 1971, an increase of 28 percent over an 11-year period. Similarly, the number of active registered nurses grew from 582,000 in 1963 to 777,000 in 1972, a one-third increase.

Active Physicians, Domestic and Foreign Trained

J-9



Without major alterations in either present output from domestic schools or immigration patterns, the physician supply is projected to increase to between 435,000 and 446,000 by 1980, an increase of 35 to 38 percent over the 1971 level. This increase would be $3\frac{1}{2}$ times the expected rate of increase in the size of the U.S. population during the same period. Accordingly, the overall national ratio of physicians per 100,000 of the population would increase from 156 in 1971 to 192 in 1980.

This increase in overall physician supply, however, has not significantly altered the imbalance in the geographic and medical specialty distribution of physicians. The projected increase in supply could bring about little change in this regard. Both United States and foreign-trained physicians have tended to locate disproportionately in more populous, urbanized settings, especially in the Middle Atlantic and East North Central States. Figure J-10 illustrates how little the geographic distribution—shown in thousands of physicians per major census area—changed from 1963 to 1971.

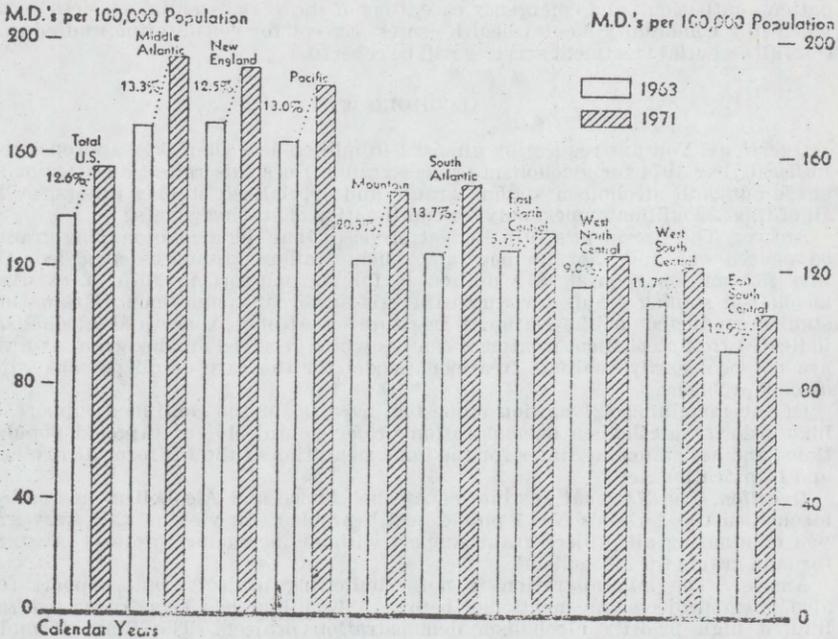
COMMUNITY MENTAL HEALTH CENTERS

Question. The Community Mental Health Center program is being phased out on the grounds that it has been a successful "demonstration" program. Legislative history, however, shows that Congress hardly intended for the program to be a short-term demonstration: It is . . . positive that the new Federal legislation must adopt changes which will enhance the ability of all communities to share in the opportunity for the promotion of mental health and enlightened care of the mentally ill. (Report of the Committee on Interstate Foreign Commerce, December 10, 1969.)

In view of the congressional intent regarding this program, why are you proposing termination before the goal of a center for each catchment area has been reached?

Geographic Distribution of U.S. Physicians—1963 and 1971

J-10



Answer. By the end of this fiscal year, about 626 community mental health centers (CMHC) will have been funded and every State will have at least two CMHC's. This concept of delivering essential mental health services through a community-based delivery program has been adequately demonstrated and documented. We believe that the administration's proposal is conceptually consistent with the intent of Congress. Demonstration of the delivery of mental health services in 626 CMHC's does enhance the ability of all communities to share in the opportunity for the promotion of mental health and the enlightened care of the mentally ill.

The administration has never endorsed the goal that the Federal government directly provide a CMHC for every catchment area. Traditionally, the care of the mentally ill has been the responsibility of the States. The administration's comprehensive health insurance plan (CHIP) is designed to cover virtually all acute mental health care and treatment on an equitable basis. Those communities that determine that a CMHC is the ideal mental health delivery system for their mental health needs can establish their own CMHC, especially since most acute mental health services would be covered by CHIP.

Question. In the fiscal year 1974 budget, one of the major justifications given for phasing out the program was that "critical mental health services will be provided more equitably on a national basis by financing these services under national health insurance." To what extent will each of the "five essential services" required in a community mental health center be covered by the comprehensive health insurance plan?

Answer. The comprehensive health insurance plan (CHIP) would include the following mental health benefits:

Thirty full days or 60 partial days of inpatient care per year; and

Thirty outpatient visits to a comprehensive community care center or private practitioner per year (the latter not to exceed 15 visits).

These benefits are designed to cover the vast majority of treatment for acute episodes, and would be the same under the employee health insurance plan, the assisted health insurance plan, and medicare. In addition, mental hospital benefits would be continued for the poor and institutionalized under the residual

medicaid program, pending a comprehensive proposal on long-term and chronic care. Therefore, CHIP would provide coverage for partial hospitalization, inpatient, outpatient, and emergency care, four of the "five essential services" provided in a community mental health center. Except for consultation and education, all essential treatment services will be covered.

ALCOHOLISM

Questions. You are requesting almost \$40 million less than was appropriated in fiscal year 1974 for alcoholism project grants. Does this reflect an attempt to phase out both alcoholism staffing grants and specialized staffing grants, or is all of this \$32 million request only for continuation of staffing grants?

Answer. The President's 1975 Budget proposes that the alcohol staffing grants be phased out and that no new alcoholism staffing grants be awarded. Of this \$32 million request, \$11 million is for the support in 1975 of existing alcoholism staffing grants for which there is an 8-year commitment. Evaluation studies conducted by the National Institute on Alcohol Abuse and Alcoholism indicated that alcoholism treatment centers which received staffing grant awards are not necessarily the best treatment model for the care of all persons with alcohol problems.

Of the remaining \$21 million requested, most is for the continued support of high priority alcoholism demonstration projects, projects for targeted populations, and assistance to States for the implementation of the Uniform Alcoholism and Intoxication Act.

Question. The National Institute of Alcohol Abuse and Alcoholism has called alcoholism the Nation's No. 1 public health problem. In view of this, why are you eliminating all project grant support without increasing the level of State formula grants for alcoholism?

Answer. The administration is not eliminating project grant support for alcoholism projects. As mentioned before, \$21 million has been requested for limited high priority alcoholism demonstration projects. The State formula grant programs would be continued at the 1974 level of \$45.6 million in recognition of the traditional State responsibility for alcoholism services. We anticipate giving priority to the award of project funds from the 1974 appropriation to projects that will be able to obtain third party financing.

The administration recognizes that alcoholism is one of the Nation's more serious public health problems. We believe that the proper direct Federal role in alcoholism should stress the research and development of new alcoholism treatment methodologies and services and limited demonstration programs. The primary responsibility must rest with the private sector, States, and localities to design and support appropriate alcoholism activities of their choice. The private sector, States, and localities have traditionally assumed the major delivery responsibilities for alcoholism.

The Federal Government, however, should assure as equitably and effectively as possible that all people have the means to purchase services rather than selectively financing certain services through direct Federal grants to a limited number of communities. The President has proposed a Comprehensive Health Insurance Plan which would finance for all Americans essential medical and mental health services. Mental health services provided in psychiatrists' offices and community treatment programs would be covered for the treatment of alcoholism problems.

Current programs are already consistent with this appropriate Federal role. Financing for the medical treatment of alcoholism is provided for aged and disabled under medicare and for the poor under medicaid. Social services for alcoholism are available to the needy under the social services program of grants to the States. In addition to Federal efforts, of course private health insurance already covers alcohol-related medical services for most persons and rehabilitation services are available through State and local social and medical services programs.

EDUCATION

Question. Do you anticipate sharply higher costs of education in this country as a result of increased food, fuel and other prices?

Answer. It is safe to say that increases in any of the basic commodities you cite will result in concomitant increases in the cost of providing education, since they are so closely linked.

Question. Is the Federal Government an appropriate place for State and localities to turn for relief from higher costs?

Answer. We do not believe that the Federal Government should be expected to offset any increases in the costs of providing basic educational services. This has been the traditional responsibility of State and local educational authorities and we believe the Federal role should remain primarily that of providing compensatory and innovative support to school districts and to State education departments.

Question. In both health and education, doesn't a shift from funding the institution to funding the student leave many institutions high and dry in a time of rapidly escalating costs?

Answer. In higher education, the budget request for 1975 includes increases of \$320 million for student assistance, as well as, proposed decreases in institutional aid. As a result, Federal funds for higher education will increase significantly from 1974 to 1975. We do not expect that the terminations of the relatively small Federal programs in university community service, veterans cost of instruction, undergraduate instructional equipment and college library resources will impact significantly on higher education finance; particularly in light of the significant increases in Federal student assistance.

In the health education area, there are no grounds for believing necessarily that a shift of Federal funding support from the institutions to the students will financially jeopardize the schools. There are multiple adjustments the schools can make in response to reduced institutional support, ranging from modifications of programs and staffing patterns to increased revenues from other sources, including tuition. In health professions schools, tuition as a source of income generally has diminished in importance during the past decade. In medical schools, for example, from 1959 to 1970 tuition dropped from 7.6 percent to 3.7 percent of total revenues.

IMPACTED AREA SCHOOL AID

Question. The administration is again proposing nearly total elimination of the payments for "b" children (children whose parents either live or work on Federal property). However, you are providing \$40 million in order to help insure that no school district loses more than 5 percent of its total current expenditures. How many school districts do you project will totally lose their section 3"b" payments in 1975 as a result of your request?

Answer. Our current estimate is that nearly 4,500 school districts will lose some funds as a result of the administration's proposal to terminate funding for "b" category children.

Question. What is your estimate of how many districts will hit the 5 percent reduction floor?

Answer. Of these nearly 4,500 districts, approximately 355 would qualify for payments to insure that no district will lose more than 5 percent of its total operating budget.

Question. How much beyond this \$40 million would be needed to guarantee that no school district would lose more than 5 percent?

Answer. We do not estimate the cost of his provision to exceed \$40 million and its cost may be as low as \$30 million.

INCREASE IN SUPPLEMENTAL SECURITY INCOME

Mr. MICHEL. One question on supplemental security income.

As I understand, this past year we have had only 3 million-plus persons on the rolls, although some 7 million would be qualified.

Mr. O'NEILL. Yes, sir.

Mr. MICHEL. The budget provides for the participation of what? Five million?

Mr. O'NEILL. Yes, sir, a little over 5 million by the end of fiscal 1975.

Mr. MICHEL. My question is: How do you account for the increase from those who are currently on, 3 million-plus, to the 5 million in the budget, and then where is the void between the 5 million and the 7 million who are eligible?

Since I will not have any other questions, in the interest of time, will you simply put your response to this in the record, expanding as much as you feel necessary?

Mr. FLOOD. Could we have one sentence on that?

Mr. MICHEL. Just a sentence or two on that?

Mr. O'NEILL. I will try to put a lot of commas in it.

We think we have the same situation with SSI that we have had with other entitlement programs. I think if you look at the food stamp program, you see another example, The basic authority was put into effect back in 1968. We have had a gradual increase in the participation in that program.

So, even this year, we are seeing a proposed growth from 12 million food stamp recipients to 15 million. It is a natural kind of phenomenon. Somehow, people who have entitlement are not aware of it or they are not interested in taking part in it because they do not like the idea of receiving Federal assistance. It takes some time for a new program to get into effect and for eligible people to take advantage of it.

[The information follows:]

The basic explanation for growth of programs over time, and for the gap between the level of participation and the number of eligible individuals is as outlined above. First, it takes time for a program to become operational and for eligible individuals to learn of its existence and apply for the benefits to which they would be entitled. Second, some individuals, for a wide variety of reasons, voluntarily choose not to apply for benefits, even though they would be eligible for them. For example, a person whose benefits would be only \$10 per month may decide it is not worth the effort. Similarly, individuals who believe they may be on the borderline of eligibility may feel it is not worth the effort of applying to find out. Finally, despite the administration's major efforts to project a positive image of the SSI program, many individuals probably still view it as a "welfare" program, with all the demeaning connotations of that label and refuse to apply for reasons of pride and self-esteem.

IMPORTATION OF DOCTORS

Mr. MAHON. You have made some very interesting observations in connection with your discussion of the importation of doctors. I wish you would rationalize as best you can this matter of our taking so many doctors from the undeveloped world and from the rest of the world which needs doctors more than we do, and failing to train enough doctors to work in this country.

I know that issue has been before you, and I know you have some sort of answer. Will you put it in the record at this point?

Mr. O'NEILL. Yes, sir.

May I say just one sentence about that?

Mr. MAHON. Yes.

Mr. O'NEILL. I think the numbers of trained people we are seeing coming in is a tribute to the open door policy of this country. People look at our medical system and society and say, "We want to practice medicine here in the United States because the Government does not control it."

Mr. MAHON. Of course they would like to practice medicine here but, after all, why should we not try to encourage these people to stay at home where they are needed more than they are needed in this country?

[The information follows:]

Graduates of foreign medical schools—FMG's—have become an increasingly significant portion of the Nation's total health resources. Their proportion of

total U.S. physicians was 11 percent in 1963 and 18 percent in 1970. In fact, the improvement in the overall national physician-to-population ratio during the decade of the 1960's was attributable to a large extent to the growing input of FMG's. About half of the inflow in recent years has come from schools in India, South Korea, and the Philippines. An estimated 10 percent of the FMG's are U.S. citizens who studied abroad and who are returning for their graduate training and to practice medicine.

These developments are a tribute to the attractiveness of medical careers in the United States, especially the opportunities open to young doctors for advanced training in sophisticated fields of human medicine, as well as to the advantages generally speaking to many foreigners of living in a free and affluent society. Foreign-trained doctors have distinguished themselves in many fields of medical endeavor, both in clinical care and in biomedical research.

Our increased reliance on FMG's, however, is understandably a source of concern to many people. That concern usually is reflected in one of two major respects: first, that the annual net increases—currently about 5,000—in the U.S. supply of FMG's constitute a "brain drain" from countries needing doctors; and second, that many FMG's possess medical skills that are inferior to those of most U.S. graduates, and therefore persons dependent upon FMG's receive a lesser quality of care.

These concerns certainly are not trivial, and deserve careful attention by the medical profession and by government at all levels. It is especially important, we think, to improve the opportunities now available to many FMG's for integration into the graduate medical education system, so that their clinical skills can be of a level comparable to graduates of U.S. schools.

The "brain drain" issue is a delicate one to deal with. The major doctor-exporting countries are generally among the so-called underdeveloped countries, and themselves face quite severe health problems. Those health problems, however, often involve needed improvements in public health, sanitation, nutrition, housing, and so forth, although more health personnel (not necessarily doctors) are needed in the rural areas of those countries. The fact of the matter is that those countries' doctors, just as in the United States, tend to cloister disproportionately in the urban areas, where their advanced training and skills can be put to fullest use, and they resist practicing medicine in peasant communities. They are attracted to the United States, Canada, the United Kingdom, and other industrialized nations, both because of the opportunities previously mentioned, and because there are too few opportunities to apply their skills and training in their own lands. If they were not emigrating to the United States, they likely would be immigrating in greater numbers to other Western nations and even if we wanted to control access to our country we couldn't control access to those.

"The large immigration of FMG's from these poorer countries may well have crested, however, and various developments now underway may noticeably stem their future inflow. The first of these is a 1972 change in U.S. immigration policy, requiring foreign physicians from doctor-short countries here on exchange visas to return to their homelands before applying for entry to the United States as regular immigrants. Secondly, there is some evidence that certain of the major doctor-exporting nations are taking steps to diminish the emigration of their doctors. Third, a major source of attraction for FMG's—large numbers of unfilled U.S. residency positions—may dwindle away as the output from U.S. medical schools grows significantly (1st-year residencies equal about 16,000, and annual U.S. graduates are expected to reach that number in 4-5 years).

Despite the concerns over FMG's they necessarily will constitute a significant amount of U.S. health manpower resources for the next few years, until the recent major expansion in the output capacity of U.S. schools begins to be reflected in the supply of practicing physicians. FMG's now fill major service voids in inner-city hospitals and in certain less-attractive specialties—service which most U.S. graduates currently shun. The population receiving their services might prefer to have care from U.S. graduates, but absent the FMG's they might not be receiving care at all.

When the administration testifies before the Congress on the health manpower legislation later this year, the Department of Health, Education, and Welfare will be prepared to address the FMG question in much greater detail.

INVESTMENT OF TRUST FUND RECEIPTS

Mr. NATCHER. Mr. Ash, I want to direct your attention just for a moment or two to the investment of trust fund receipts in public debt securities.

A lot of people in this country do not know that the social security trust fund money, highway trust funds, and other trust funds, are invested in the public debt.

As far as the public debt is concerned, I believe it is anticipated that the public debt at the close of 1975 will be about \$495 billion. As of February 13, it was \$466 billion.

By the end of fiscal year 1975, the trust funds and the other Government accounts are estimated to own \$147 billion of public debt securities. Is that figure about right?

Mr. ASH. That is correct, yes, sir.

Mr. NATCHER. \$147 billion of the total public debt will be owned by the trust funds?

Mr. ASH. That is right.

Mr. NATCHER. What trust funds are we speaking about? We have a great many. Just three or four or five of the large trust funds. Social security; highway trust; what others?

Mr. ASH. The Federal employees retirement and the health insurance trust funds are the big ones.

You have indicated the highway trust fund. The unemployment trust fund, and social security. Those are big ones. There are a number of others, of course, that add up to all of that. There are about 15 major trust funds in total.

Mr. NATCHER. Mr. Ash, then we have about a one-fourth ownership insofar as trust funds are concerned.

Mr. ASH. That is about right.

Mr. NATCHER. Does this cause any problem as far as trust funds are concerned? What would happen, for instance, Mr. Ash, if the trust needed all of the money invested?

Mr. ASH. This is all based on actuarial calculations of need, and the likelihood of that is very low, but let us stipulate it might. Obviously the opportunities and the possibilities are limited.

One is that the Federal Government would have to borrow in the open market to substitute for the borrowings that it is making from these trust funds.

The other alternative is to raise taxes or lower budget outlays or some combination of the two.

Those are the only two alternatives that are available.

Mr. NATCHER. Actuarially, are the trust funds sound, Mr. Ash, as liquidity is concerned? Do we go back to the statement that as long as the Federal Treasury is sound, our trust fund program is sound?

Mr. ASH. We moved long ago, as you know, away from a standard actuarial calculation in social security, so no longer can we really say the funds that are in it will provide full benefits for all those who have a vested interest. It is on a totally different basis.

Each of the other trust funds has a different actuarial base. I think you can say in general, and particularly with the weighting of the social security fund, that it is quite different than if it were a privately financed trust fund for the same kind of purpose.

Mr. NATCHER. As you know, all of the trust fund legislation in the main provides for investment of one trust fund money. That is in the organic or basic law.

Mr. ASH. Yes, sir.

Mr. NATCHER. Is this the best procedure to follow as far as trust fund investment is concerned?

Mr. ASH. When you consider the alternatives, it probably is. The alternatives are that they would invest their funds in any market that they chose to invest. I would think it would be better to have the Federal Government itself borrow those funds and then, in turn, go out into that public market so it could be a more orderly marketing and management of Federal Government securities in the public market.

One of the worries that we continue to have is that those agencies, that at this time, go out independently into the public market do so in a way unrelated to other activities of the Federal Government. Thus, the recently proposed legislation on the Federal financing bank provides for an orderly process of Federal Government involvement in the private securities market.

Mr. NATCHER. Thank you, Mr. Ash.

Thank you, Mr. Chairman.

FUTURE TRUST FUND SURPLUSES

Mr. MAHON. I would like you, in connection with your responses to Mr. Natcher, to project for us what you think will happen to trust funds. Will we continue to be able to borrow from them, to the tune of \$10 billion or \$15 billion a year, for financing the regular expenses of the Government? Haven't trust fund balances gone up and down? I wish you would include a table and give us your best judgment as to the future. I do not ask you to comment on it now.

Mr. ASH. All right, sir. We will.

[The information follows:]

The trust fund surpluses—by law—are invested in Federal debt securities. This is, however, not a question of the Federal funds “dipping into” the trust funds. Rather, economic policy is set on the basis of the total budget impact on the economy; if the trust fund income and outgo are predetermined, the Federal fund income or outgo must be adjusted to counterbalance the trust funds and end up with a total budget impact on the economy that is fiscally sound.

The trust fund surpluses consistent with the 1975 budget estimates are as follows (fiscal years—in billions of dollars): 1975, 8.4; 1976, 9.5; 1977, 8.0; 1978, 12.8; 1979, 12.9.

These estimates assume renewal of expiring legislation (such as general revenue sharing and the highway fund) and enactment of proposals in the 1975 budget. These estimates will change over time as our economic assumptions change and as legislation is passed affecting trust fund receipts and outlays.

Statement of Liabilities and Other Financial
Commitments of the United States
Government as of June 30, 1973

This report is compiled in accordance with Section 402 of Public Law 89-809 approved November 13, 1966 (31 U.S.C. 757f). It shows the liabilities of the Federal Government as of June 30, 1973 (Section I), and amounts representing financial commitments which may or may not subsequently become liabilities, depending upon a variety of future conditions and events (Sections II, III, and IV).

A word of caution about the use of the data is essential. The four sections of the report deal with basically dissimilar types of commitments which cannot be aggregated in any meaningful sense. Within Sections III and IV, even the individual line items are largely dissimilar and not susceptible to meaningful addition.

The "Liabilities" in Section I represent existing liabilities to pay for such things as (1) money borrowed, (2) goods and services actually received, and (3) adjudicated claims. The existence of the liability in each of these categories is certain and unconditional in all material respects and the amount owing is fixed or reasonably determinable, but simply has not yet been paid.

The "Undelivered Orders" in Section II represent obligations for goods and services ordered but not yet received and other legal commitments against appropriations, all pursuant to Section 1311 of the Supplemental Appropriation Act of 1955 (31 U.S.C. 200). These commitments will mature into liabilities in Section I when the goods and services ordered are delivered or when other performance stipulations have been fulfilled. The maturation of undelivered orders in Section II into Section I liabilities is a normal expectancy in the regular course of events in a relatively short time and the amounts of the undelivered orders are a reasonable measure of such future liabilities.

The "Long-Term Contracts" in Section III represent commitments of a general nature which have some similarity to those in Section II but differ from the latter insofar as (1) they are not legal commitments against appropriations, (2) maturation to a liability stage is of longer range nature, and (3) they are more susceptible to cancellation or modification and hence are much less susceptible to use as a measure of future liabilities.

The "Contingencies" in Section IV represent commitments which have the basic characteristic of uncertainty (1) as to whether the conditions or events implicit as a matter of conjecture will ever occur to cause any liability to be incurred or (2) if they do occur, as to when, with what frequency and to what degree.

Clearly, there is a vast difference between items in Section I -- where the liability is certain and the amounts relatively precise -- and Section IV -- where the possible future liability is highly speculative, and may never arise and where the amounts, if they can be projected at all, are stated for the most part in terms of maximum theoretical risk exposure (the upper limit of the Government's financial commitment) without regard to probability of occurrence and without deduction for existing and contingent assets which would be available to offset potential losses.

The explanatory notes accompanying the data, particularly for Sections III and IV, are intended to assist interested parties in assessing broadly any risk of probable loss; for most of the items in Section IV, quantitative assessment becomes highly illusory.

Department of the Treasury
 Fiscal Service
 Bureau of Accounts
 January 1974

Summary Statement of Liabilities and Other Financial Commitments
of the United States Government as of June 30, 1973
(in millions)
(Details may not add to totals due to rounding.)

Section	Description	Total	Applicable to other Government funds	Applicable to the public
I.	Liabilities:			
	The public debt on June 30, 1973, as published in the daily Treasury statement (Schedule 1).....	\$458,142	\$124,210 <u>L</u>	\$333,932
	Agency securities issued and outstanding (Schedule 2).....	11,109	1,996	9,113
	Total public debt and agency securities.....	469,251	126,206	343,045
	Net public debt transactions in transit as of June 30, 1973.....	-6	-	-6
	Deposit fund liability accounts (Schedule 3).....	3,653	-	3,653
	Checks and other instruments outstanding (Schedule 4).....	7,075	-	7,075
	Accrued interest on the public debt, not due (Schedule 4).....	2,874	-	2,874
	Unamortized premium from sale of public debt securities (Schedule 4).....	107	-	107
	Other liabilities on the books of the Treasury (Schedule 4).....	317	-	317
	Accounts payable and accruals on the books of Government agencies (Schedule 5)....	37,426	6,377	31,049
	Total liabilities.....	520,697	132,583	388,114
II.	Undelivered orders (obligations incurred under law against appropriations and funds for goods and services not yet received) (Schedule 6).....	102,095	5,908	96,187
III.	Long-term contracts (subject to future modification or cancellation in advance of delivery of goods or services) (Schedule 7).....	8,916	-	8,916

Summary Statement of Liabilities and Other Financial Commitments
of the United States Government as of June 30, 1973--Continued
(In millions)

Section	Description	Maximum theoretical measure of contingency
IV.	Contingencies:	
	Government guarantees, insuring private lenders against losses (Schedule 8).....	\$157,753
	Insurance commitments (Schedule 9).....	1,021,915
	Actuarial status of annuity programs (Schedule 10).....	2/
	Unadjudicated claims (Schedule 11).....	5,762
	International commitments (Schedule 12).....	7,605
	Other contingencies not included above (Schedule 13).....	17,502

Note: The data presented in this report were compiled from reports submitted by the agencies in accordance with Department Circular No. 966, Revised, dated December 20, 1972, and Treasury Fiscal Requirements Manual Transmittal Letter No. 95. In several instances, incomplete data have been submitted by certain agencies since their accounting systems have not yet been developed to the point where they are able to provide the required information. In other instances the data furnished were on the basis of estimates by the reporting agencies.

- 1/ Includes \$825 million of public debt securities held by the International Monetary Fund.
- 2/ Because the various annuity programs have been computed on different actuarial bases, it is not possible to compute a total. Details of individual programs are given in Schedule 10.

Schedule 1 - The Public Debt
as of June 30, 1973

Public debt securities held by	Amount of public debt securities outstanding
Government Accounts:	
Legislative Branch:	
United States Tax Court:	
Tax court judges survivors annuity fund	\$ 348,500.00
The Judiciary - Judicial survivors annuity fund	8,148,000.00
Funds appropriated to the President:	
Overseas Private Investment Corporation	127,590,000.00
Department of Agriculture:	
Milk market orders assessment fund	1,033,000.00
Rural Telephone Bank	6,969,000.00
Department of Commerce:	
Federal ship financing fund	42,580,000.00
War risk insurance fund	5,531,000.00
Gifts and bequests	125,000.00
Department of Defense	1,017,075.00
Department of Health, Education, and Welfare:	
Federal old-age and survivors insurance trust fund	34,945,623,000.00
Federal disability insurance trust fund	7,803,229,000.00
Federal hospital insurance trust fund	4,172,365,000.00
Federal supplementary medical insurance trust fund	699,631,000.00
Other	81,500.00
Department of Housing and Urban Development:	
New communities guarantee fund	8,338,000.00
Federal Housing Administration fund	1,138,377,500.00
Rental housing assistance fund	8,571,000.00
Participation sales fund	877,116,000.00
Guantees of mortgage-backed securities fund	8,082,000.00
National insurance development fund	80,986,000.00
Department of the Interior	914,500.00
Department of Labor:	
Unemployment trust fund	10,956,747,000.00
Other	31,000.00
Department of State:	
Foreign service retirement and disability fund	64,562,000.00
Conditional gift fund, general	190,000.00
Department of Transportation:	
Coast Guard	22,650.00
Highway trust fund	5,550,051,000.00
Department of the Treasury	2,968,157,273.61
General Services Administration	2,481,500.00
Veterans Administration:	
Servicemen's group life insurance fund	
Veterans reopened insurance fund	252,993,000.00
Veterans special life insurance fund	352,638,000.00
National service life insurance fund	6,427,365,000.00
United States Government Life Insurance fund	689,705,000.00
General Post Fund, National Homes	1,429,000.00
Other independent agencies:	
Civil Service Commission:	
Civil service retirement and disability fund	30,490,779,000.00
Employees health benefits fund	188,607,000.00
Employees life insurance fund	1,242,781,500.00
Retired employees health benefits fund	36,381,000.00
Emergency Loan Guarantee Board:	
Emergency loan guarantee fund	4,315,000.00
Federal Deposit Insurance Corporation	5,635,828,500.00
Federal Home Loan Bank Board:	
Federal Savings and Loan Insurance Corporation	2,906,576,000.00
National Credit Union Administration:	
National credit union share insurance fund	27,089,000.00
United States Postal Service	1,084,912,500.00

Schedule 1 - The Public Debt
as of June 30, 1973-Continued

Public debt securities held by	Amount of public debt securities outstanding
Other independent agencies--Continued	
Railroad Retirement Board:	
Railroad retirement holding account	\$3,785,000.00
Railroad retirement account	4,516,586,000.00
Railroad retirement supplemental account	38,531,000.00
Small Business Administration:	
Lease and surety bond guarantees revolving fund	5,630,000.00
Total held by Government accounts	123,384,829,998.61
Non-interest-bearing public debt securities held by:	
International Monetary Fund	825,000,000.00
The public:	
Interest-bearing	332,968,564,345.17
Non-interest-bearing	963,210,968.31
Total held by the public	333,931,775,313.48
Total public debt securities.....	458,141,605,312.09

Schedule 2 - Agency Securities Outstanding
as of June 30, 1973

Issuing agency	Total agency securities outstanding	Agency securities held by Government accounts	Agency securities held by the public
Department of Defense:			
Family housing mortgages	\$1,480,837,746.68	\$192,026,359.67	\$1,288,811,387.01
Homeowners assistance mortgages	2,710,852.15	-----	2,710,852.15
Department of Housing and Urban Development:			
Federal Housing Administration fund	411,650,450.00	58,106,850.00	353,543,600.00
Government National Mortgage Association:			
Participation sales fund	4,480,000,000.00	1,695,350,000.00	2,784,650,000.00
Department of Transportation:			
Coast Guard - Family housing mortgages	2,628,311.13	-----	2,628,311.13
Department of the Treasury:			
Federal Farm Mortgage Corporation (in liquidation)	65,200.00	-----	65,200.00
Other independent agencies:			
Export-Import Bank of the United States: <input checked="" type="checkbox"/>			
Agency securities	2,221,056,159.37	-----	2,221,056,159.37
Federal Home Loan Bank Board:			
Federal Home Loan Bank Board - Revolving fund	4,910,680.00	-----	4,910,680.00
Home Owners' Loan Corporation fund	203,425.00	-----	203,425.00
United States Postal Service	250,000,000.00	-----	250,000,000.00
Tennessee Valley Authority	2,255,000,000.00	50,760,000.00	2,204,240,000.00
Total agency securities	11,109,062,824.33	1,996,243,209.67	9,112,819,614.66

Pursuant to an act approved August 17, 1971 (12 U.S.C. 635(a)), the net outlays of this Bank were reclassified outside the unified budget, effective as of the close of business August 16, 1971.

Schedule 3--Government's Liabilities for
Deposit Fund Accounts
as of June 30, 1973

Agency	Amount
Legislative Branch	\$5,176,697.28
The Judiciary	15,475,019.19
Executive Office of the President	247,718.51
Funds appropriated to the President	60,793,512.73
Department of Agriculture	117,143,627.88
Department of Commerce	8,876,701.91
Department of Defense	414,091,195.30
Department of Health, Education, and Welfare	70,113,636.49
Department of Housing and Urban Development	25,212,316.01
Department of the Interior	971,546,131.32
Department of Justice	37,545,510.69
Department of Labor	9,475,699.90
Department of State	2,985,380.71
Department of Transportation	7,720,582.54
Department of the Treasury	1,283,178,357.88
Atomic Energy Commission	270,171,508.07
Environmental Protection Agency	815,101.84
General Services Administration	9,155,637.63
National Aeronautics and Space Administration	49,201,765.63
Veterans Administration	61,379,385.76
Other independent agencies	153,567,488.23
District of Columbia	79,579,488.97
Total Deposit Fund Liabilities	<u><u>3,653,452,464.47</u></u>

Note: Excludes holdings of public debt and agency securities and participation certificates which are shown as liabilities of the Government in other schedules of this report.

Schedule 4--Other Liabilities on the Books of the Treasury
as of June 30, 1973

Description	Amount	Explanatory notes
Checks and other instruments outstanding: Accrued interest due and payable on the public debt. Disbursing officers' checks <u>1/</u> Military Payment Certificates <u>2/</u> Total checks and other instruments outstanding.....	\$123,206,099.53 6,939,198,116.47 12,927,531.06 7,075,331,747.06	1/ Includes postal money orders outstanding. 2/ Military payment certificates are issued in certain overseas areas by military finance officers in lieu of dollar instruments to discharge obligations incurred under appropriations of the Department of Defense.
Accrued interest on the public debt: <u>3/</u> Accrued interest payable - not due..... Accrued interest on deferred public debt subscriptions - not due..... Total accrued interest on the public debt.....	2,873,983,129.82 16,499.39 2,873,999,629.21	3/ This liability does not include interest on savings bonds of any series. The liability for interest on savings bonds which are sold at a discount is included in the public debt principal on the basis of the increment in redemption value. The liability for interest on other savings bonds is recorded when the interest checks are issued with a corresponding liability for interest due and payable (equivalent, in this case, to checks outstanding).
Unamortized premium from sale of public debt securities: Public debt interest premium..... Undistributed and other deferred credits <u>4/</u>	107,331,978.57 317,336,063.87	4/ Represents deposits in the Treasurer's Account and cash held outside Treasury in accounts of certain collecting officers not classified on June 30.
Total other liabilities on the books of the Treasury.....	10,373,999,418.71	

Schedule 5 - Accounts payable and accruals
on the books of Government agencies
as of June 30, 1973
(In millions)

Agency	Total	Funded		Due the public	Unfunded— Due the public	Total due the public
		Due Government agencies	Due Government agencies			
Legislative Branch.....	\$103		\$12	\$91	\$8	\$99
The Judiciary.....	18		-	18	-	18
Executive Office of the President.....	8		4	4	1	5
Funds Appropriated to the President.....	1,290	867		423	86	909
Department of Agriculture.....	1,713	341		1,372	231	1,603
Department of Commerce.....	8,937	64		332	120	452
Department of Defense.....		2,320		6,617	1,878	8,495
Department of Health, Education, and Welfare.....	7,815	126		7,689	300	7,989
Department of Housing and Urban Development.....	1,415	618		797	31	828
Department of the Interior.....	1,282	71		211	58	269
Department of Justice.....	90	13		77	83	160
Department of Labor.....	95	5		90	777	867
Department of State.....	110	9		101	32	133
Department of Transportation.....	787	52		735	111	846
Department of the Treasury.....	1,842	30		1,812	168	1,980
Atomic Energy Commission.....	334	245		89	129	218
Environmental Protection Agency.....	437	20		417	-	417
General Services Administration.....	407	326		81	39	120
National Aeronautics and Space Administration.....	613	142		471	53	524
Veterans Administration.....	1,268	36		1,232	216	1,448
Other independent agencies.....	4,751	1,076		3,675	396	4,071
Total.....	32,709	6,377		26,332	4,717	31,049

Schedule 6 - Undelivered Orders
as of June 30, 1973
(in millions)

Agency	Total	Obligations to other Government accounts	Obligations to the public
Legislative Branch.....	\$78	\$32	\$46
The Judiciary.....	3	-	3
Executive Office of the President.....	39	*	39
Funds appropriated to the President.....	13,705	2,770	10,935
Department of Agriculture.....	4,704	21	4,683
Department of Commerce.....	1,387	40	1,347
Department of Defense.....	32,078	1,909	30,169
Department of Health, Education, and Welfare.....	9,990	306	9,684
Department of Housing and Urban Development.....	9,720	1	9,719
Department of the Interior.....	1,032	23	1,009
Department of Justice.....	1,117	24	1,093
Department of Labor.....	1,904	4	1,900
Department of State.....	68	3	65
Department of Transportation.....	9,380	150	9,230
Department of the Treasury.....	59	28	31
Atomic Energy Commission.....	1,508	-	1,508
Environmental Protection Agency.....	3,925	471	3,454
General Services Administration.....	552	15	537
National Aeronautics and Space Administration.....	648	51	597
Veterans Administration.....	328	26	302
Other independent agencies.....	9,871	34	9,837
Total.....	102,095	5,908	96,187

* Less than \$500,000.

Schedule 7 - Long-term Contracts
as of June 30, 1973
(In millions)

Agency	Annual rental or cost	Remaining life of contracts (years)	Costs of remaining portion of contracts	Explanatory notes
Department of Agriculture: Forest Service	\$3	1/4-3 1/4	\$6	
Commerce Department: Maritime Administration	170	20	3,400	Operating differential subsidy contracts are made generally for 20 years. Annual payments under these contracts over the past 10 years have ranged from \$112 million to \$227 million. Subsidies under the contracts are paid subject to final adjustments at the end of operators' recapture periods which are established by contracts generally as 10-year terms. Operating differential subsidy contracts provide for the payment of the difference in the voyage costs of American-flag ships as compared with the voyage costs if the same ships were operated under foreign flags over designated strategic trade routes. Each contract specifies the maximum number of voyages which may be made on each designated route, but this number may be changed from time to time by contract amendment. No limitations are specified as to the maximum amount of payments.
Department of Defense: Panama Canal Company	-	22	32	Electric power contract with an autonomous agency of the Republic of Panama.
Department of Housing and Urban Development: Federal Housing Administration	-	-	98	Incomplete portion of contracts for property repairs.
Department of Transportation: Coast Guard	3	1	3	Letter agreements with foreign countries to operate and maintain Loran Stations in the host nation for the benefit of the United States. These agreements have been in effect for 6 years or more and can be cancelled by giving appropriate notice (at least 1 year).

Schedule 7 - Long-term Contracts
as of June 30, 1973--Continued
(In millions)

Agency	Annual rental or cost	Remaining life of contracts (years)	Costs of remaining portion of contracts	Explanatory notes
General Services Administration:				
Building leases	\$ 287	1/12-20	\$ 1,615	7,141 building leases, including 2,100 leases expiring in fiscal year 1974 which have an annual rental of \$44.7 million and a potential liability of \$25.2 million.
Building lease-purchase contracts	2	12-30	31	Includes principal and interest, assessments and taxes and estimated payments in lieu of taxes in determining cost of remaining portion of contracts.
Other long-term contracts	1	1/12-4 1/3	1	Contracts for leasing postal facilities.
United States Postal Service	214	0-29	1,631	Equipment rentals.
Veterans Administration	2	-	2	Includes long-term power fuels contracts, power plant lease, and other contracted commitments.
Tennessee Valley Authority	141	11 1/2-15	2,097	
Total.....			8,916	

Note: Data for Department of Defense (other than Panama Canal Company) and certain other agencies not available.

Schedule 8 - Government Loan and Credit Guarantees as of June 30, 1973 (In millions)

Agency and program	Amount of contingency			Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
	Total	For guaranties and insurance in force	For commitments to guarantee or insure			
Funds appropriated to the President; Agency for International Development; Housing guaranty fund.....	\$277	\$277	-	-	\$277	Includes extended risk guarantee contracts for housing signed as of June 30, 1973. Represents guarantees of credit for sales of defense articles and services.
Foreign military sales funds.....	244	244	-	-	244	
Overseas Private Investment Corporation.....	218	191	\$27	\$91	127	This corporation offers U.S. lenders protection against commercial and political risks by guaranteeing payment of principal and interest on loans made to eligible private enterprises in foreign countries.
Department of Agriculture; Farmers Home Administration; Agricultural credit insurance fund.....	2,874	2,735	139	139	2,735	This fund is used to insure farm ownership loans and soil and water conservation loans. Loans may be insured or made to be sold and insured.
Rural development insurance fund	1,509	838	671	671	838	This fund is used to make, sell, or insure water facility loans, rural electrification and telephone loans, industrial development loans, and community facility loans.
Rural housing insurance fund....	6,180	5,869	311	311	5,869	This fund is used to insure rural housing loans, farm labor housing loans, and loans for rural rental and cooperative housing. Loans are made to persons of low income and others in rural areas.

Schedule 8 - Government Loan and Credit Guarantees as of June 30, 1973--Continued (In millions)

Agency and Program	Amount of contingency			Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
	Total	For guarantee insurance in force	For commitments to guarantee or insure			
Department of Commerce: Economic Development Administration: Economic development revolving fund.....	\$48	\$48	-	-	\$48	Outstanding guaranteed loans disbursed by financial institutions to private borrowers for working capital in connection with projects in redevelopment areas.
Maritime Administration: Federal ship financing fund, revolving fund.....	2,579	1,260	\$1,319	-	2,579	U.S. Government securities and cash of \$97,104,901 were held in escrow by the Government in connection with insurance of loans and mortgages which were financed by the sale of bonds to the public prior to the completion of construction of ships under mortgage commitments.
National Oceanic and Atmospheric Administration: Federal ship financing fund, fishing vessels.....	12	12	-	-	12	Represents insurance of loans for construction or purchase of fishing vessels.
Department of Health, Education, and Welfare: Medical facilities guarantee and loan fund.....	455	47	408	-	455	Guarantees in force represent medical facilities guaranteed loans.
Student loan insurance fund.....	2,099	2,099	-	-	2,099	Guaranteed loans - reinsured. Estimate of expected losses is \$130 million. Funds are requested and appropriated by Congress to cover losses recognized during year in which claims are received.

Schedule 8 - Government Loan and Credit Guarantees
as of June 30, 1973--Continued
(in millions)

Agency and Program	Amount of contingency			Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
	Total	For guaranties and insurance in force	For commitments to guarantee or insure			
Department of Housing and Urban Development; Low-rent public housing program.	\$11,783	\$11,783	-	-	\$11,783	Represents guarantees of bonds and notes issued by local housing authorities to private investors.
New communities guarantee fund..	294	198	\$96	-	294	Guarantees of loans issued by private developers to finance land acquisitions and development costs of new communities.
Federal Housing Administration..	93,432	86,877	6,555	-	93,432	Insurance of loans for financing the production, purchase, repair, and improvement of residential properties. The FHA is indemnified against loss by trust agreements, performance bonds, and personal demand notes to the extent of \$1 million.
Urban renewal fund.....	3,651	3,651	-	-	3,651	Guarantee of non-Federal loans.
Department of Transportation: Federal Aviation Administration: Aircraft loan guarantees.....	11	11	-	-	11	Represents guarantee of one aircraft loan.
Federal Railroad Administration: Railroad loan guarantees.....	275	171	104	-	275	Represents a guarantee of \$68 million on a loan made to the National Rail Passenger Corporation and guarantees of \$103 million on trustee certificates of railroad companies undergoing reorganization.
Urban Mass Transportation Administration: Washington Metropolitan Area Transit Authority bonds.....	445	445	-	-	445	Principal and interest on bonds and other evidences of indebtedness of the WMATA may be guaranteed by the Secretary of Transportation. Periodic payment of one-fourth of the net interest cost to the Authority is provided.

Schedule 8 - Government Loan and Credit Guarantees
as of June 30, 1973--Continued
(In millions)

Agency and Program	Amount of contingency			Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
	Total	For guarantees and insurance in force	For commitments to guarantee or insure			
General Services Administration: Defense production guarantees ..	\$ 49	\$ 5	\$44	-	\$ 49	Guarantees are given on loans made by public and private financing institutions to facilitate performance of defense production contracts.
Expenses, disposal of surplus and related personal property..	2	2	-	-	2	Mortgage sold with full recourse to the U.S. Government secured by real property.
Real property activities	633	633	-	-	633	The GSA building construction program includes projects financed by purchase contracts under the Public Buildings Amendments of 1972.
Veterans Administration: Loan guaranty revolving fund ...	25,372	24,420	952	-	25,372	Represents the guaranteed portion only of total loans of \$47,165 million made to veterans for purchase of homes, farms, and business property; the remainder of \$22,745 million is nonguaranteed; cumulative gross claims of \$1,698 million were paid through fiscal year 1973 out of \$20,841 million guarantees issued. Salvage operations (acquisition and resale of security properties) have resulted in recovery of all but \$94.8 million of the total claim payments.
Other independent agencies: Emergency Loan Guarantee Board: Emergency loan guarantee fund.	250	150	100	-	250	The Board may guarantee loans made by private lenders if necessary in order to prevent adverse and severe effects on the economy, if credit is not otherwise available on reasonable terms.
Export-Import Bank of the United States.....	4,576	1,784	2,792	\$1,525	3,051	Represents loans sold with recourse and medium-term guarantees.

Schedule 8 - Government Loan and Credit Guarantees
as of June 30, 1973--Continued.
(In millions)

Agency and Program	Amount of contingency				Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
	Total	For guaran- tee and insurance in force	For guaran- tees and guarantee or insure	For com- mit- ments to guarantee			
Other independent agencies--Continued							
Interstate Commerce Commission.....	\$42	\$42	-	-	-	\$42	Loan guarantees to railroads under Part V of the Interstate Commerce Act, as amended. This guaranty program ended as to receipt of new applications, on June 30, 1963. All applications pending on that date have been processed, and the proceeds of all the guaranteed loans have been fully disbursed. The appraised value of collateral pledged is \$66.1 million.
National Credit Union Adminis- tration:							
National credit union share insurance fund.....	4	4	-	-	-	4	The fund has guaranteed the loans purchased by successful credit unions from liquidating credit unions at a price to permit payoff to members at par.
Small Business Administration: Business loan and investment fund.....	3,393	2,673	\$720	\$222		3,171	Represents guaranteed portion of loans held by private lenders as follows: business loans \$2,755.5 million, displaced business loans \$1.4 million, economic opportunity loans \$89 million, local development company loans \$52.4 million, and investment company loans and debentures of \$200.8 million. The nonguaranteed portion of loans, or participants' share is \$426.1 million. The nonguaranteed portion or participants' share is \$671,000.
Disaster loan fund.....	6	5	1	1		5	
Total	160,713	146,474	14,239	2,960		157,753	

Schedule 9 - Insurance Commitments
as of June 30, 1973
(In millions)

Agency and Program	Amount of insurance in force	Amount of commitments to insure	Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
Funds appropriated to the President: Overseas Private Investment Corporation	\$3,509	\$2,990	-	\$6,499	This corporation insures U.S. investors against political risks of expropriation, inconvertibility of local currency holdings and damage from war, revolution, or insurrection.
Department of Agriculture: Federal Crop Insurance Corporation .	854	-	-	854	Represents the gross or maximum amount of 1973 crop insurance coverage provided. For fiscal year 1974 it is estimated that premiums of \$46 million will exceed indemnities of \$41.5 million by \$4.5 million.
Department of Commerce: War risk insurance revolving fund: Builders' risk insurance	33	-	-	33	Conditional liabilities for prelaunching war risk builders' risk insurance on two vessels.
Insurance under binder contracts ..	18,000	-	-	18,000	Represents the estimated insurance exposure under binder contracts. 1,100 contracts for hulls, 1,039 for protection and indemnity, and 779 for insurance on crew life and personal effects; and post-launching war risk builders' risk insurance policies; all of which become effective in the event of the outbreak of war.
Department of Health, Education, and Welfare: Student loan insurance fund	1,915	296	-	2,211	Represents Federal insurance program. Loss on insurance in force is estimated to be \$172 million. The loss will be requested, appropriated by Congress, and recognized in the year in which claims are received.

Note: Data on indemnity agreements issued by Department of Defense not available.

Schedule 9 - Insurance Commitments
as of June 30, 1973--Continued
(in millions)

Agency and Program	Amount of insurance in force	Amount of commitments to insure	Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
Department of Housing and Urban Development: Federal Insurance Administration: Crime insurance	\$77	-	-	\$77	This insurance program enables businessmen and residents of homes and apartments to get crime insurance in States where crime insurance is difficult to get or excessively costly. Citizens of States designated to need the Federal program may purchase the Federal policies through any licensed insurance agent or broker.
Flood insurance	4,000	-	-	4,000	This insurance program enables persons to purchase insurance against losses resulting from physical damage to or loss of real or personal property arising from floods or mudslides. After communities are designated eligible, Federal insurance policies may be purchased from any licensed insurance agent or broker.
Riot reinsurance	125,000	-	-	125,000	This reinsurance program helps property owners in urban areas get insurance protection on property in areas subject to riots or civil disorders. Federal reinsurance is available for companies participating in Fair Access Insurance Requirements (FAIR) plans under supervision of the State insurance authority. These companies agree to provide coverage on insurable property. Owners who cannot get insurance in the private market are referred to the FAIR plan headquarters, the property is inspected, the rate determined, and the policy is issued if requirements are met.
Department of Transportation: Aviation war risk insurance revolving fund	42,085	\$4,721	-	46,806	Insurance in force of \$42,068 million is covered by an indemnity agreement with the Department of Defense. Full insurance in force of \$17 million is covered by FAA. Commitments to insure are binder agreements to provide insurance in a state of emergency.

Schedule 9 - Insurance Commitments
as of June 30, 1973--Continued
(In millions)

Agency and Program	Amount of insurance "in force	Amount of commitments to insure	Less: Amount shown as undelivered orders in Section II	Net amount of contingency	Explanatory notes
Atomic Energy Commission	\$125,000	-	-	\$125,000	Atomic Energy Commission has about 250 indemnity agreements in effect. Maximum liability coverage provided by an agreement is \$500 million for a nuclear incident.
Veterans Administration:					
From appropriations	27	-	-	27	This fund holds \$690 million of public debt securities.
U.S. Government life insurance fund	704	-	-	704	This fund holds \$6,427 million of public debt securities and agency securities of \$310 million.
National service life insurance fund	27,513	-	-	27,513	
Service-disabled life insurance fund	1,304	-	-	1,304	
Veterans special life insurance fund	5,295	-	-	5,295	This fund holds \$353 million of public debt securities.
Veterans reopened insurance fund	1,310	-	-	1,310	This fund holds \$253 million of public debt securities.
Export-Import Bank of the United States	924	\$1,912	\$747	2,069	Represents short- and medium-term insurance and war risk consignment insurance.
Federal Deposit Insurance Corporation..	435,300	-	-	435,300	Represents estimated insurance coverage of total deposits in insured banks as of June 30, 1973. This corporation holds \$5,636 million of public debt securities.
Federal Home Loan Bank Board:					
Federal Savings and Loan Insurance Corporation	204,574	-	-	204,574	Represents estimated potential insurance liability of the corporation. This corporation holds \$2,906 million of public debt securities and agency securities of \$141 million.
National Credit Union Administration:					
National credit union share insurance fund	14,980	-	-	14,980	Represents estimated insurance liability of insured credit unions. The fund holds \$27 million of public debt securities. The estimated loss for the fund is \$700,000.
Small Business Administration:					
Lease and surety bond guarantee revolving fund	241	98	-	339	The nonguaranteed portion is \$27 million.
Total	1,012,645	10,017	747	1,021,915	

Schedule 10 - Actuarial Status of Annuity Programs
as of June 30, 1973
(in millions)

Agency and Program	Valuation date and valuation period	Valuation interest rate	Actuarial liabilities	Actuarial assets	Actuarial deficiency (-) or surplus (+)
Department of Commerce: National Oceanic and Atmospheric Administration: Retired pay, commissioned officers.....	6/30/73	5%	\$26	-	-\$26
Department of Defense: Retired pay.....	6/30/73	3½%	137,136	-	-137,136
Panama Canal Company: Retired benefits to certain former employees.....	6/30/73	-	12	\$12	-
<p>Note: Non-United States citizen employees who retired prior to October 5, 1958, are not covered by the Civil Service Retirement System but do receive retirement benefits under a separate annuity plan.</p>					
Department of Health, Education, and Welfare: Social Security Administration: Federal old-age and survivors insurance trust fund.....	7/1/73(1973-2047)	6%	4,745,381	4,683,399	-61,982
Federal disability insurance trust fund.....	7/1/73(1973-2047)	6%	780,554	666,683	-113,871
Federal hospital insurance trust fund.....	7/1/73(1973-1998)	6%	414,358	432,605	+18,247

Note: The actuarial liabilities and assets have been computed over the valuation periods indicated, taking into account the assets at the beginning of the periods indicated and the present values of all income and outgo items during the period. These estimates are prepared on the bases used by the Congress in making provision for financing the program -- bases regarded by the Congress and the trustees of the trust funds as the correct ones to use in a social insurance program -- namely, that future young workers will be covered by the program as they enter the work force. If the estimates were to be prepared on the assumption that no workers were to be covered in the future other than those who were age 23 and over in the middle of 1973 (that is, contrary to the basis on which the Congress has provided for financing the program), there would be a deficiency of \$2,118 billion for the OASDI program, computed on the dynamic assumptions basis, rather than the level-earnings assumptions basis customarily used in prior years.

No long-range data are furnished for the Federal supplementary medical insurance trust fund, since this program is operated on a 1-year term insurance basis, with the premium rate being adjusted by the Secretary of Health, Education, and Welfare so as to finance the cost of the program. Therefore, this system is not susceptible to long-range actuarial analysis, and it has no actuarial deficiency on this basis, but rather only for the existing situation as to incurred liabilities and funds on hand.

Schedule 10 - Actuarial Status of Annuity Programs
as of June 30, 1973--Continued
(In millions)

Agency and Program	Valuation date and valuation period	Valuation interest rate	Actuarial liabilities	Actuarial assets	Actuarial deficiency (-) or surplus (+)
Department of Labor: Federal Employees' Compensation Act.....	6/30/73	-	\$1,062	-	-\$1,062
<p>Note: Actuarial liabilities for Federal Employees' Compensation Act represent estimated future costs for death benefits, disability compensation, medical, and miscellaneous costs for compensated cases on rolls as of June 30, 1973.</p>					
Department of State: Foreign service retirement and disability fund.....	6/30/73	5%	1,101	\$ 374	-727
Veterans Administration: Compensation and pensions fund.....	6/30/73 (FY 1974-FY 2000)	-	205,279	-	-205,279
<p>Note: This is an estimate of compensation, pensions, and other benefits costs as shown in the long-range plans of the agency.</p>					
Veterans insurance and indemnities.....	6/30/73 (FY 1974-FY 2000)	-	584	-	-584
<p>Note: This is an estimate of the claims costs as shown in the long-range plan of the agency.</p>					
Civil Service Commission: Civil service retirement and disability fund.....	6/30/73	5%	154,609	85,933	-68,677
Railroad Retirement Board: Railroad Retirement System.....	6/30/73	5-3/4%	43,690	36,852	-6,838

Note: The above data pertain only to the regular benefit program for which financing is handled through the Railroad retirement account. The Supplemental annuity program financed through the Railroad retirement supplemental annuity account has been excluded because it is financed on a pay-as-you-go method with the contribution rates subject to change quarterly.

Actuarial data are as of June 30, 1973 but reflect effects of Public Law 92-336 (1972 social security amendments providing 20-percent increases in benefits effective in September 1972, expanded wage base for payroll taxes, and automatic future adjustments in benefit levels and taxable wage base for cost-of-living changes) which was signed into law on July 1, 1972. Figures exclude effects of future cost-of-living increases. The actuarial valuation was made under an open-end approach, that is, account is taken of the expected income and outgo with respect to individuals who will enter railroad service in the future. For the closed group of former and present employees, the actuarial figures would show a substantial deficit.

The liabilities include allowances for administrative expenses and for the net costs due to the Board's participation in the administration of Part A (hospital insurance) of the medicare program.

The assets include railroad retirement taxes (exclusive of medicare taxes), expected gains from the financial interchange with social security (OASDI) and interest on the funds on hand on the valuation date.

Schedule 10 - Actuarial Status of Annuity Programs
as of June 30, 1973-Continued

Agency and Program	(in millions)					Actuarial deficiency (-) or surplus (+)
	Valuation date and valuation period	Valuation interest rate	Actuarial liabilities	Actuarial assets		
Tennessee Valley Authority: Retirement System: Fixed benefit fund.....	6/30/72	4-1/2%	\$517	\$417	-\$100	
Variable annuity fund.....	12/31/72	4%	81	81	-	

Note: The amount shown for actuarial assets represents the book value of assets held by the fund plus the present value of prospective TVA contributions for currently accruing benefits. The amount shown for the actuarial deficiency represents the present value of prospective IVA contributions for past service benefits.

Note: The amount shown for actuarial assets represents the market value of assets held by the fund.

Tax Court of the United States:
Tax Court Judges Survivors Annuity Fund--This fund was established under 26 U.S.C. 7448, and is used to pay survivorship benefits to eligible widows and dependent children of deceased judges. Participating judges pay into the fund 3% of their salaries or retired pay to cover creditable service for which payment is required and such additional funds as are needed are provided through appropriations. No actuarial status of the fund is available as of June 30, 1973. Eighteen judges are participating in the fund, and two eligible widows are receiving survivorship annuity payments. This fund holds \$348,500 of public debt securities.

Note: Because the various annuity programs have been computed on different actuarial bases, it is not possible to compute a total.

Schedule 11 - Unadjudicated Claims
as of June 30, 1973
(In millions)

Agency	Total amount of unadjudicated claims	Less: Amount included in Section II	Net amount of unadjudicated claims	Explanatory notes
Legislative Branch: General Accounting Office	\$18	-	\$18	Freight and passenger transportation claims of carriers against the United States and other claims.
Funds appropriated to the President: Office of Economic Opportunity	2	\$2	-	
Department of Agriculture: Commodity Credit Corporation	2	2	-	
Forest Service	23	-	23	
Department of Commerce: Maritime Administration: Vessel operations revolving fund	4	-	4	Composed of 202 claims. Based on previous experience, it is anticipated that settlement of these claims will be made for amounts substantially less than the gross amount of the claims.
Other	25	-	25	Composed of 27 claims. Based on previous experience, it is anticipated that settlement of these claims will be made for amounts substantially less than the gross amount of the claims.
Department of Defense: Corps of Engineers	115	-	115	The maximum liability which could result from outstanding claims and lawsuits is estimated at \$7 million.
The Penuma Canal Company	7	-	7	The maximum liability which could result from outstanding claims and lawsuits is estimated at \$2 million.
Canal Zone Government	2	-	2	
Department of Health, Education, and Welfare: Social Security Administration: Federal old-age and survivors insurance trust fund	161	-	161	Benefits payable on all claims filed, but not yet adjudicated.
Federal disability insurance trust fund	130	-	130	Do
Federal hospital insurance trust fund ..	815	-	815	Claims that have not yet been paid, whether or not yet filed.
Federal supplementary medical insurance trust fund	752	-	752	Includes incurred but unpaid benefits only.

Schedule 11 - Unadjudicated Claims
as of June 30, 1973--Continued
(In millions)

Agency	Total amount of unadjudicated claims	Less: Amount included in Section II	Net amount of unadjudicated claims	Explanatory notes
Department of Health, Education, and Welfare--Continued				
Health Services and Mental Health Administration:				
Buildings and facilities	\$1	-	\$1	Construction contractor claims.
Howard University	5	-	5	Estimated contractor claims for delays and design errors in contract documents for Howard University, Washington, D.C.
Department of Housing and Urban Development: Low-rent public housing programs	-	-	-	Suits and claims against the Housing Assistance Administration were negligible as of June 30, 1973. However, contractors' suits were pending against local housing authorities, but estimated amounts are not available. Any payments by the local housing authorities arising from these suits will result in additional project development costs and an increase in this agency's annual contributions to local housing authorities.
Department of the Interior:	9	-	9	Appeals from contractors (\$6.35 million) and tort claims (\$2.35 million).
Bonneville Power Administration				
Bureau of Mines:	475	-	475	Secretary of Interior has determined these crude helium purchase contracts to be cancelled. Northern Helix, annual payment of \$9.5 million, filed suit on breach of contract. National Helium, Cities Service, and Phillips Petroleum, annual payment of \$38 million, are operating under an injunction.
Helium operations				
Department of Justice:	16	-	16	Represents the maximum amount this Office would be required to pay to individuals whose property was vested under the Trading with the Enemy Act during World War II and have filed claims or brought suits against this Office for the recovery of their property. The maximum estimated payment in 1974 is \$12 million (which includes \$0.4 million for income and estate taxes and administrative expenses). In 1975, the maximum estimated payment is \$5 million (which includes \$0.2 million for income and estate taxes and administrative expenses).
Office of Alien Property				

Schedule 11 - Unadjudicated Claims
as of June 30, 1973--Continued
(In millions)

Agency	Total amount of unadjudi- cated claims	Less: Amount included in Section II	Net amount of unadjudicated claims	Explanatory notes
Department of Labor: Federal Employees' Compensation Act.....	\$13	-	\$13	Represents estimated future medical and compensation costs for cases reported as of June 30, 1973. The Office of Workmen's Compensation Programs also administers five other compensation acts covering employees in private employment. Compensation for these acts is covered by private insurance. While OWCP administers several small trust funds in connection with these private acts, contingent liability is less than one-half million dollars, and so is not reported here.
Department of Transportation: Coast Guard.....	1	-	1	Claims by contractors stated at the maximum limit of risk, not the expected cost.
Federal Aviation Administration.....	779	-	779	Excludes claims transferred to the General Accounting Office and the Department of Justice.
Department of the Treasury: Internal Revenue Service.....	1,752	-	1,752	Claims for refunds, overassessments, refund suits, and interest.
Bureau of Customs.....	120	-	120	Estimate based on fiscal year 1973 drawback payments and refunds of duties and miscellaneous receipts.
Bureau of the Mint.....	1	-	1	Construction claims by contractors.
Federal Law Enforcement Training Center.....	1	-	1	Post construction claims by contractors.
Atomic Energy Commission.....	11	-	11	Claims filed by contractors or vendors for additional amounts due, tort claims for personal injury or property damage, etc.
General Services Administration.....	42	-	42	
National Aeronautics and Space Administration.....	4	-	4	In addition to these claims there are 13 pending claims for patent infringements, the amounts of which are not specified by the claimants; therefore, the maximum limit of risk and the expected probable risk are not now known.

Schedule 11 - Unadjudicated Claims
as of June 30, 1973—Continued
(In millions)

Agency	Total amount of unadjudi- cated claims	Less: Amount included in Section II	Net amount of unadjudicated claims	Explanatory notes
Veterans Administration: Loan guaranty revolving fund	\$25	-	\$25	Represents 1,244 claims, average amount \$20,000.
Other independent agencies: Indian Claims Commission	260	-	260	Pending suits and damage claims.
United States Postal Service	193	-	193	
Smithsonian Institution	2	-	2	Contractor claims for suspension of work costs at Hirshhorn Museum and Sculpture Garden, Washington, D.C.
Total	5,766	\$4	5,762	

Schedule 12 - International Commitments
as of June 30, 1973
(In millions)

International organization	Amount	Explanatory notes
Inter-American Development Bank.....	\$1,570	Represents the unpaid authorizations to invest in callable capital stock of \$1,224 million, and paid-in capital stock of \$347 million.
Asian Development Bank.....	100	Represents the U.S. subscriptions to callable capital stock authorized by Public Law 89-369, approved March 16, 1966.
International Bank for Reconstruction and Development.....	5,826	Represents the unpaid authorizations to invest in callable capital stock, as authorized by 22 U.S.C. 286.
World Food Program.....	2	The United States has pledged up to \$3 million for the fifth period (1973-74). An amount of \$1.5 million has been requested in the fiscal year 1974 to meet the second half of the 2-year pledge.
Indus Basin Development Fund.....	47	Under the IDBF agreement as amended in April 1964, the United States pledged to contribute \$51.8 million, (consisting of \$295.6 million in grants, \$121.2 million in loans, and \$235 million in Pakistan rupees), as its share of total commitments of \$1.280 billion for construction of works in Pakistan. Thus far, the United States has paid in \$250.6 million in grants, \$119 million in loans, and \$235 million in rupees. The U.S. unappropriated commitment is \$47.2 million.
Agreement of Friendship and Cooperation Between the United States and Spain.....	9	An agreement was signed August 6, 1970 for a period of 5 years, with an option for extension for another 5 years. The agreement of friendship and cooperation also called for assistance in cultural-educational and scientific programs. Funds will be expended as mutually agreed upon by the United States and Spain.

Schedule 12 - International Commitments
as of June 30, 1973--Continued
(In millions)

International organization	Amount	Explanatory notes
Southeast Asia Ministers of Education Organization.....	\$ 7	The United States pledged contributions at the Southeast Asia Ministers of Education meeting in Manila in November 1966. The six centers established and funded are in varying stages of development.
North Atlantic Treaty Organization (Malta).....	28	As a result of an agreement signed March 26, 1972, between the United Kingdom and Malta, the Government of Malta receives payment of 14 million pounds sterling (about \$37 million) for a 7-year period. The U.S. annual share in NATO supporting assistance funds will be \$9.5 million.
Organization of American States: Capital Markets Development Program.....	1	This is a fund for fostering development of capital markets in Latin America. Studies made under this program are to result in recommendations concerning (1) desirable changes in national economic and institutional policies and practices, and (2) use of financial and technical assistance needed to support such efforts. The United States paid \$2 million in FY 1970, \$1 million in FY 1972, \$1 million in FY 1973, and \$1 million in FY 1974 for this program.
Inter-American Export Promotion Center.....	1	The Center began operations in 1969 as part of a drive to expand and diversify Latin American exports. The goal is to expand and diversify nontraditional exports, thereby helping to accelerate the economic integration and growth of Latin America. The Center furnishes short courses on export practices and provides technical assistance through national export promotion centers.

Schedule 12 - International Commitments
as of June 30, 1973--Continued
(In millions)

International organization	Amount	Explanatory notes
Organization of American States--Continued Special Development Assistance Fund	\$ 5	This is a continuing program, funded by voluntary contributions of OAS members. It supports multilateral technical assistance, research, and training activities. SDAF funds are used for activities such as natural resources work, tax policy formulation and reform, public administration, social development, and support for eight Inter-American training centers. SDAF support is 66% from the U.S. and 34% from other members. The U.S. pledged up to \$5 million during FY 1974, subject to availability of funds and at a 66/34 ratio.
Special Multilateral Fund	9	This fund was initiated in 1968 in response to the Declaration of the Presidents in 1967 concerning the need for expanded multilateral programs in education, science, and technology. Funded by voluntary contri- butions of OAS members, it supports two programs directed by two specialized committees comprised of distinguished educators and scientists of Latin America. The science program encourages research and new techniques in soil research, metallurgy, food technology, and nuclear energy. The education program focuses on curriculum and education technology including adult education. For FY 1973 the U.S. pledged \$9 million which will be due if matched at the 66/34 ratio by other members' contributions during FY 1974.
Total	7,605	

Schedule 13 - Other Contingencies
as of June 30, 1973
(In millions)

Agency	Amount	Explanatory notes
Legislative Branch: General Accounting Office.....	\$ 4	Transportation and previously reported suits. There are 850 court cases brought by household goods forwarders against the U.S. but due to the nature of filings no reasonable estimate of the potential liability of the Government can be given.
Funds appropriated to the President: Agency for International Development: Alliance for Progress fund.....	104	Represents funds committed for loans that have not been signed into loan agreements.
Cooley loan program.....	3	Dollar equivalents of local currencies committed for loans that have not been signed into loan agreements.
Housing guaranty fund.....	38	Represents contracts of guaranty authorized, but not yet executed by AID and the prospective investors.
New development loan fund.....	102	Represents funds committed for loans that have not been signed into loan agreements.
Other Public Law 480 loans.....	27	Represents line of credit not implemented by project agreements.
Department of Agriculture: Farmers Home Administration: Agricultural credit insurance fund.....	316	The fund is liable for an estimated amount of interest due investors on net amount of contingent liability for periods subsequent to June 30, 1973.
Rural development insurance fund.....	187	Do.
Rural housing insurance fund.....	307	Do.
Forest Service.....	14	Unfinanced continuing contracts.
Department of Defense: Corps of Engineers.....	688	
Panama Canal Company.....	5	
Department of Housing and Urban Development: Federal Housing Administration.....	173	Contingent insurance claims partially offset by contingent assets of \$153 million.

Schedule 13 - Other Contingencies
as of June 30, 1973--Continued
(In millions)

Agency	Amount	Explanatory notes
Department of Justice: Office of Alien Property.....	\$ 4	Estimated amount of transfer to the War Claims Fund in the U.S. Treasury for payment of awards issued by the Foreign Claims Settlement Commission in settlement of claims of American citizens for loss of property in Germany during World War II.
Atomic Energy Commission.....	721	Cancellation provisions of contracts for supply of electric power and natural gas for production facilities.
General Services Administration: Federal telecommunications fund.....	2	Terminating charges if communications installations are discontinued before a certain period has expired.
National Aeronautics and Space Administration..	65	Cancellation provisions of contracts relate to the supply of electric power and communications services. Cancellation provisions relating to some 3,500 mortgages.
Veterans Administration: Readjustment benefits.....	13,185	Estimate of costs for the period fiscal year 1974 through fiscal year 1979 based on data used in the fiscal year 1975 preview estimates.
Other independent agencies: Export-Import Bank of the United States.....	1,157	Unsigned loan agreements.
Small Business Administration: Business loan and investment fund.....	132	Reflects undisbursed commitments which have not matured into valid obligations, and pending legal actions.
Disaster loan fund.....	261	Do.
U.S. Information Agency.....	7	
Total.....	17,502	

Mr. WHITTEN. May I ask you a question at this point?

Mr. Natcher has done a fine job, and the chairman, too, in developing that phase of the trust fund investments. In some areas, such as military and other retirements, we do not have any trust funds as such to offset the obligations incurred or that are being incurred by the Government.

We have a number of big programs, have we not, where there are no trust funds set aside, but they are still outstanding obligations of the Government? Am I correct in that?

Mr. ASH. You have identified military retirement as one of the biggest of all of those. If you wish, we can add to that list other kinds of obligations. It is a little difficult actually to know where to draw the line, but we will do the best we can as to what constitutes that kind of obligation and what does not.

[The information follows:]

A report on total liabilities and other financial commitments of the Federal Government is submitted annually to Congress pursuant to section 402 of Public Law 89-809. This report is commonly referred to as the Saltonstall report—a copy of which is to be attached to the testimony.

Mr. MAHON. I regard the trust fund which provides for revenue sharing as an unadulterated shenanigan. It is not really a trust fund. It was made a trust fund by law, but it is not.

I wonder if there are other cases where the question of whether or not a trust fund is valid?

I wish you would discuss this at this point in the record.

[The following was supplied by the Office of Management and Budget:]

Federal funds are predominantly general funds of the Treasury that are earmarked by law for any specific purpose or program, while trust funds are established by law to account for receipts that are earmarked for use in carrying out specific purposes or programs. In fact, however, there is not always a clear line of distinction between them technically, and there is no difference between them, per se, in economic impact. For example:

The Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation perform very similar functions, have similar financing, and are under similar control (Presidential appointees confirmed by the Senate). Yet one is classified as a Federal (public enterprise) fund and one as a trust fund.

The Federal Government levied excise taxes for years and conducted a program of highway development. Then, in accordance with the Federal Aid Highway Act of 1954, excise taxes began to be earmarked for financing highway construction, and the earmarked funds were classified as trust funds. Yet, they are the product of general tax laws and are not significantly different in nature from—for example—the Land and Water Conservation fund which is a Federal (special) fund. Veterans and civil service employee life insurance are treated as trust funds, yet housing insurance is treated as Federal funds (Federal Housing Administration).

The Military Assistance trust fund is virtually indistinguishable from other deposit funds which are not included in the unified budget.

Even in the case of the largest trust fund group of all, the social security trust funds, it is difficult to identify clearly what is in "trust"—except a commitment by the Federal Government. The population served by the system is nearly coterminous with the national population. To be sure, the beneficiaries have the right to benefit payments if they qualify under terms of the Social Security Act. But retired military personnel, veterans beneficiaries, and elderly poor also have the right to benefit levels set by other laws, even though the benefits come from Federal funds.

Not even the argument that trust funds are financed by special taxes or contributions will withstand scrutiny in all cases. The bulk of the income of the civil service retirement fund arises out of payments from Federal funds; in 1975 about two-thirds will come from Federal funds and an additional 7½ percent from off-budget agencies.

In sum, the classification of accounts as Federal funds or trust funds is based on the requirements of particular statutes, or tradition, and even happenstance, as well as on the conceptual distinctions referred to above. As the illustrations given above attest, the distinction is not necessarily a clear-cut accounting, legal, or economic difference of substance.

Mr. MAHON. Mr. Steed?

GSA FEDERAL BUILDING FUND

Mr. STEED. I would like to ask Mr. Ash a question about the new Federal Building Fund under GSA.

The Public Building Amendments of 1972, Public Law 92-313, established the Federal building fund under the control of GSA. They would use the funds to finance public buildings services, which include the operation, maintenance and repair, leasing, and construction of public buildings. The act permits GSA, beginning in fiscal year 1975, to charge all the agencies of the Government rent for the space they occupy in GSA-controlled buildings. These rental proceeds would be deposited in the Federal buildings fund and used by GSA to finance its public building operations.

Federal agencies have therefore included in their budget requests for 1975 amounts for these rental charges, and all the subcommittees are going to have all their agencies bringing in this new item this year for this purpose.

The act also specifies that money deposited in the new fund shall be available for expenditure in such amounts as are specified in annual appropriations acts.

My question is: How do you intend to comply with the requirement for annual congressional appropriation action? What will be the criteria used to establish the amounts?

Mr. ASH. I do not think you wish me to elaborate on how the amounts are collected. That is pretty well fixed in the system as a result of that legislation.

Mr. STEED. We will develop in our hearings how the rates are arrived at and the amounts to be charged to different agencies for the space they use, but right now, since we have separate items in the old budgeting system for the operation and maintenance fund and line item authority for the building funds, they are all mixed into one thing.

One way to interpret this is that it gives GSA a blank check. I am interested to know how this thing is going to be presented to give the Congress any control whatsoever over the use of this fund.

Mr. ASH. Walter Scott, the Associate Director particularly responsible for this act, can respond.

Mr. SCOTT. The rentals, obviously, will give the individual subcommittees the opportunity to be reviewing the space utilization of the individual agencies. Within that context, each year we are proposing to in fact return to the general fund the excess of rentals over maintenance, alterations, and other expenditures that may relate to the GSA program.

So, within the context of reviewing rentals, there will be the opportunity also to look at maintenance and other expenditures.

Mr. STEED. The best estimate I can make on this is that we will be dealing here with over a billion dollars a year. How will the subcommittee that I chair arrive at a figure limiting the amount of this billion dollars that can be spent by GSA, and on what basis will this total be arrived at?

Mr. SCOTT. It will be derived based upon the scrutiny of the rental side itself. In the GSA budget the overall governmental level of expenditures will be included. You will have an accounting of it there.

Mr. STEED. Assume that a ceiling amount were put in the appropriation, and it did not require all that, or in the matter of new construction it was not all used, would you treat this as an impoundment, or how would any such surplus as that be carried?

Mr. ASH. This surplus is returned to the Treasury. Then after having developed the rental receipt level, which I think is \$1.2 billion this year and is set forth in the budget, it comes before the Congress for your consideration.

Furthermore, I am sure during the hearings you will have with GSA you will go further into that.

Our proposal—

Mr. STEED. I am speaking of the probability of two surpluses, one in the total receipts of \$1 billion. Assume Congress authorizes only \$900 million, and then you decided to use only \$800 million. You would have a surplus in the total funds authorized in the appropriation, and then you might have a residual from the amount that was authorized in the appropriation. I am talking about the second amount. Would that be considered an impoundment in the event it was not all used?

Mr. SCOTT. There will be an appropriated amount each year for the expenditures, the maintenance, and so on. On the other side, in this \$1.2 billion figure, it is anticipated in the first year approximately \$200 million will not in fact be spent on these various kinds of expenditures. It is proposed in the budget that \$80 million of those dollars be put aside as a reserve fund in those years when there is not a matching, and that \$124 million of the figure be returned to the general fund.

Mr. STEED. On the part of the fund total that is put in the appropriation bill for expenditure that is set aside for new construction, what control will the Congress have, under this bill, over the use of that money?

Mr. SCOTT. There will be proposed and there is proposed in this year's budget a funding level for new buildings of \$275 million, as opposed to the figure for last year of \$220 million. This does not mean that all of these buildings will be proposed in fact for direct Federal construction. Some of these might be for purchase contract or lease contract. In fact, of the \$275 million figure, which you will have the opportunity to review as well as the Public Works Committee, \$25 million is proposed for direct Federal purchase.

Mr. STEED. As I remember, at the present time the Federal Government owns about 10,000 buildings and leases about 3,000 buildings, which means that out of this fund, rentals will be paid in two different categories. What will be the rate of the privately-owned buildings leased to GSA as compared to the federally owned buildings leased to GSA?

Mr. SCOTT. GSA has done a survey throughout the country in all areas where there are Federal buildings, to determine what the comparable commercial rates would be for those buildings. They have used as a comparison much of the space where the Federal Government is presently leasing space and GSA subletting it to Federal Government tenants. The rental rates that have been established are

based upon measurements which have taken place throughout the country to try to come up with appropriate commercial kinds of rates.

We have also tried to factor in there what the leases to individual Government agencies, if they had been done on a commercial basis, would have been over a period of years. So, we have reduced the rental rate 13 percent of what new rents would be today to reflect this "over a period of years" factor. The same rate would be applied to leased and Government-owned buildings if they were located in the same area, represented the same type of space, and had the same quality rating.

Mr. STEED. Under the old system, if an agency desired to acquire additional or new property leases, it would make the first contract itself, and then at the end of that fiscal year the ongoing rent for that space would be picked up and carried in the General Services account.

Mr. SCOTT. That is correct.

Mr. STEED. Will that system be altered any by this change?

Mr. SCOTT. It will be altered in the sense that the individual agency will in fact be paying rentals to GSA, so the rentals themselves will be factored into the scrutiny that takes place within the individual agency.

Mr. STEED. The responsibility for the agency's moving costs and additional rental space for part of the first year, then, will be involved in their total rental?

Mr. SCOTT. In the agency budget.

Mr. STEED. Will this fund and its operation have any impact on grants-in-aid to local and State governments?

Mr. SCOTT. No, it shouldn't.

Mr. STEED. Are there any situations where we have joint problems with State and local governments on rent, where the Federal Government has a grant-in-aid type program where part of the Federal payment is involved in the rental of the property? Will that in any way be involved?

Mr. SCOTT. Not that I am aware of, and I will verify it to be sure that is the case.

[The following information was supplied by the Office of Management and Budget.]

A question has arisen concerning the application of rental charges to space in Federal buildings assigned to the Department of Agriculture and occupied by State agriculture extension service agencies. This is now under review by GSA and the Department of Agriculture and will be resolved before the new program takes effect on July 1, 1975.

Mr. STEED. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Conte?

PUBLIC LAW 480 PROGRAM

Mr. CONTE. Mr. Ash, one thing bothers me about Public Law 480 where you are asking total program costs of \$981 million, \$739 million under title I and \$242 million under title II.

I am wondering how we can have a Public Law 480 program this year with the situation we are in, with the shortage of wheat and other foodstuffs in this country. Why can we not suspend this at this time?

Mr. ASH. It is true that some food supplies are tight now, even though we will have large quantities available for export in the very

near future. On the other hand, we have to place some value on the very sensitive international relations factors, and particularly those which relate to countries in some cases in very dire need.

I think our humanitarian instincts are ones that we should still respond to. There are various cases for relief that we cannot walk away from.

We are however spending the moneys that we intend to spend more selectively and with greater discrimination in those decisions.

I think what we should not do is to say let's reduce it to zero. We still have to live with the rest of the world in ways that require a degree of Public Law 480 food.

On the other hand, it is down from what it has been, reflecting the very factor that you have mentioned.

Mr. CONTE. My good friend from Ohio has taken on the chore that I used to harp on for years in the foreign aid committee: Why can't we drive a harder bargain on some of these Public Law 480 and other foreign aid programs, and barter for goods? If we had bartered with the Arab States for oil for the billions of dollars we have given them over the years, what a beautiful position we would be in today. Did you ever think about bartering for minerals?

Mr. ASH. In fact, I think in the last few years, particularly this year, we have seen a number of opportunities that we all should give attention to, of keeping our eyes open for our own interests, even as we do business with countries around the world. It is essential to have a world of international business and trade relationships, and we could well watch out for our own interests as well.

You are suggesting this, and I think many others would join in that suggestion, particularly at this time, given what has been happening.

Mr. ADDABBO. Mr. Director, you said we are humanitarian. Did you ever hear the old saying that charity should begin at home? The export of food products by your own direction is expected again this year to affect our food prices right here at home. Should we not be worrying about problems here at home? Have you any program which will correct the high food prices here at home without worrying about being great humanitarians throughout the world?

Mr. ASH. The main solution to our problem here at home is one that Congress itself took a large step toward last year when we changed the whole agricultural price support program in a direction that would generate the maximum amount of supplies rather than reduce supplies and maintain prices. I think this is probably the main answer, not only to our own needs, but the answer to our relationships with the rest of the world.

Certainly, that is a program that is moving ahead, and moving ahead fast, as a result of last year's congressional action.

Mr. ADDABBO. Is that increase in production commensurate with our expected increase of exports of food products?

Mr. ASH. Are the numbers of increased production more or less than the percentage of increase in exports? I do not happen to have in my head the relative numbers of the two.

Mr. MAHON. You may expand that for the record.

[The following information was supplied by the Office of Management and Budget:]

Projections of future supply and demand for the basic food and feed grains show substantial increases in ending stocks for the 1974-75 marketing year. This salutary development is anticipated to result from record high domestic production of these commodities and modest declines in export demand, even including allowances for shipments under Public Law 480. Projected inventories of soybeans are also expected to rise by the end of 1974-75, as production exceeds increased domestic use and exports. The projected inventory buildup is significant because it implies some relief from rising prices for these important, bellwether commodities. Detailed figures are shown in the tables below:

TABLE SHOWING PRODUCTION OF FOOD AND FEED GRAINS, AMOUNT TO BE EXPORTED, AMOUNT TO BE CONSUMED DOMESTICALLY, AND AMOUNT TO BE STOCKPILED (NOTE PARENTHESES):

WHEAT			
Item	1972-73 preliminary	1973-74 indications	1974-75 projected ¹
Acreage (million acres):			
Set-aside.....	20.1	7.4	0
Planted.....	² 54.9	59.0	70.0
Harvested.....	47.3	53.9	64.0
Yield per harvested acre (bushels).....	32.7	31.8	32.2
(Million bushels)			
Supply:			
Beginning stocks.....	863.0	438.0	178.0
Production.....	1,545.0	1,711.0	2,060.0
Imports.....	1.0	1.0	1.0
Total.....	2,409.0	2,150.0	2,239.0
Disappearance:			
(Domestic).....	787.0	772.0	760.0
(Exports).....	1,184.0	1,200.0	1,000.0
Total.....	1,971.0	1,972.0	1,760.0
(Ending stocks).....	438.0	178.0	479.0
RICE			
Acreage:			
Allotment (million acres).....	1.84	2.22	2.10
Planted (million acres).....	1.82	2.18	2.31
Harvested (million acres).....	1.82	2.17	2.30
Yield/harvested acre (pounds).....	4,700	4,277	4,700
Million hundredweight			
Supply:			
Beginning stocks, Aug. 1.....	11.4	5.1	4.7
Production.....	85.4	92.8	107.9
Imports.....	.5	.5
Total.....	97.3	98.4	112.6
Disappearance:			
(Domestic).....	35.8	38.3	38.3
(Exports).....	54.0	55.4	61.2
Total.....	89.8	93.7	99.5
Ending stocks, July 31.....	5.1	4.7	13.1
Difference unaccounted.....	+2.4

See footnotes at end of table.

TABLE SHOWING PRODUCTION OF FOOD AND FEED GRAINS, AMOUNT TO BE EXPORTED, AMOUNT TO BE CONSUMED DOMESTICALLY, AND AMOUNT TO BE STOCKPILED (NOTE PARENTHESES)—Continued

	1972-73 preliminary	1973-74 indications	1974-75 projected ¹
FEED GRAINS ³ (INCLUDES CORN, SORGHUM, OATS AND BARLEY)			
Acreage (million acres):			
Set aside.....	36.6	9.4	0
Planted.....	115.1	121.4	127.0
Harvested.....	94.0	102.3	107.7
Yield per harvested acre (tons).....	2.13	2.00	2.18
Million short tons			
Supply:			
Beginning stocks.....	48.4	32.4	26.6
Production.....	199.9	205.0	234.8
Imports.....	.4	.4	.4
Total.....	248.7	237.8	261.8
Disappearance:			
(Domestic).....	173.2	171.4	182.2
(Exports).....	43.1	39.8	36.7
Total.....	216.3	211.2	218.9
(Ending stocks).....	32.4	26.6	42.9
CORN ⁴			
Acreage (Million acres):			
Set aside.....	24.4	6.0	0
Planted.....	67.0	71.6	78.8
Harvested.....	57.4	61.8	68.8
Yield per harvested acre (bushel).....	97.1	91.4	97.0
Million bushels			
Supply:			
Beginning stocks.....	1,126	709	608
Production.....	5,573	5,643	6,674
Imports.....	1	1	1
Total.....	6,700	6,353	7,283
Disappearance:			
(Domestic).....	4,733	4,620	5,075
(Exports).....	1,258	1,125	1,050
Total.....	5,991	5,745	6,125
(Ending stocks).....	709	608	1,158
SOYBEANS			
Acreage:			
Planted (million acres).....	46.9	53.3	55.4
Harvested (million acres).....	45.7	56.4	54.4
Yield per harvested acre (bushel).....	27.8	27.8	28.5
(Million bushels)			
Supply:			
Carryin, Sept. 1.....	72.0	60	240
Production.....	1,270.6	1,567	1,550
Total.....	1,342.6	1,627	1,790
Disappearance			
(Crushings).....	722	775	825
(Exports).....	480	525	575
(Seed feed and residual).....	81	87	90
Total.....	1,283	1,387	1,490
(Carryover Aug. 31).....	60	240	300

See footnotes at end of table.

TABLE SHOWING PRODUCTION OF FOOD AND FEED GRAINS, AMOUNT TO BE EXPORTED, AMOUNT TO BE CONSUMED DOMESTICALLY, AND AMOUNT TO BE STOCKPILED (NOTE PARENTHESES)—Continued

	1972-73 preliminary	1973-74 indications	1974-75 projected ¹
SOYBEAN OIL			
Million pounds			
Supply:			
Carryin, Oct. 1	785	516	716
Production	7,501	8,450	8,251
Total	8,286	8,966	9,541
Disappearance:			
(Domestic)	6,702	7,150	7,450
(Exports)	1,068	1,100	1,100
Total	7,770	8,250	8,550
(Carryover, Sept. 30)	516	716	991

	1,000 short tons		
SOYBEAN OIL			
Supply:			
Carryin, Oct. 1	192	⁵ 183	233
Production	16,709	18,725	19,550
Total	16,901	⁵ 18,908	19,783
Disappearance:			
(Domestic)	11,973	⁵ 13,200	14,000
(Exports)	4,745	⁵ 5,475	5,600
Total	16,718	⁵ 18,675	19,600
(Carryover, Sept. 30)	183	⁵ 233	183

¹ The 1974-75 projections in these tables are rough approximations based on presently available data. They are mainly indications of change. Each of the numbers should be considered as representative of a fairly wide range rather than as a precise estimate.

² Includes 2,600,000 acres planted and subsequently designated as voluntary set-aside.

³ Marketing year beginning Oct. 1, for corn and sorghum, July 1, for barley and oats.

⁴ Marketing year beginning Oct. 1.

⁵ Based on an Oct. 1 marketing year crush of 790,000,000 bushels.

TRANSPORTATION POLICY

Mr. CONTE. Mr. Ash, the budget document states that one goal of the administration is to accelerate reduction in energy consumption and pollution; yet the outlays for the railroads decrease from \$292 million in fiscal year 1974 to \$265 million in fiscal year 1975, while the outlays for air transportation investment, a much less efficient mode of energy consumption, will increase from \$1.9 billion in fiscal year 1974 to \$2.1 billion in fiscal year 1975.

How is this trend compatible with energy conservation policies?

Mr. ASH. Mr. Scott can answer that one as well.

Mr. SCOTT. The principal reasons that the outlays are diminished, as you indicated, within the budget do not relate to any restraints in terms of more money going into that side of the picture, because there are a number of initiatives, as you are well aware, that will in fact reflect substantially increased resources level.

Let me go through them quickly.

In Amtrak, the level of investment primarily in loan guarantees, which is the reason the outlays are reflected as they are there, will be increased totally by about \$200 million in terms of the amount of

money available for new equipment and for improvement to roadbed.

As you are well aware, within the Northeast railroad legislation that was recently passed, there are in excess of \$2 billion which will be going, in one form or another, into improvement of the railroad picture in the eastern sector of the country and the Middle West.

Finally, the Transportation Improvement Act which has just been sent up to the Hill would include \$2 billion worth of loan guarantee funds which could be made available generally throughout the country to support strengthening of the rail structure throughout the Nation.

Mr. CONTE. Since 1970, the percentage of Federal outlays for transportation programs has remained relatively constant, just under 3½ percent of the Federal outlays. Few would disagree the transportation system which services the United States leaves much to be desired in terms of efficiency, quality, and safety. Nearly every merchantable characteristic of transport in the United States needs drastic improvement.

Yet, year after year, the level of Federal outlays for transportation programs remains relatively constant, declining slightly or increasing at a lesser rate than the total outlays since 1970.

The question is this: Why is this particular percentage, 3.2 percent of the total outlays for fiscal year 1975, the best aggregate level of support for Federal transportation programs? Why not 1 percent? Why not 6 percent or 5 percent? Is there some system of analysis and evaluation, some national policy that OMB or DOT follow that produces nearly the same aggregate percentage level of support each year, or does it just happen by chance to come out that way?

Mr. ASH. We do not have a set of factors that says year in and year out we will spend so much of the budget or gross national product for transportation and so much for health and so much for defense.

Obviously, the mutual objective that we have in the Congress and the executive branch is to look at the particular issues of that year and that era.

No; we do not have a factor that we feel should fit over a period of time. I think the best answer I could give is that in the administration and in the President's budget, we view what is proposed here as the best tradeoff, not only within the various kinds of transportation programs, but between transportation and all the rest of the economy.

Surely, there can be different points of view. This is proposed as the President's point of view, and one that we would, therefore, recommend. Certainly a computer does not have this all preprogrammed so that the President's budget is the only possibility.

Mr. CONTE. That would not be just by coincidence?

Mr. MALEK. I think you have to get back to the point that Mr. Scott made, that outlays are not always the most accurate indication, because the loan guarantee programs do not show up much in the way of outlays, and yet we are moving significantly in that direction in support of the railroads.

Mr. MAHON. You may expand that for the record.

[The information follows:]

In this budget, we are proposing in the Transportation Improvement Act to provide \$2 billion in loan guarantee assistance to the Nation's railroads,

in addition to the \$1.5 billion loan guarantees provided by the Regional Rail Reorganization Act of 1973 and the \$200 million Amtrak loan guarantees that were discussed earlier. We are also requesting \$143 million for grants to cover Amtrak operating deficits; \$50 million for authority to pay interim operating assistance for northeast railroads; \$86 million for Federal Railroad Administration obligations for research, planning, and administrative expenses; \$20 million authority for administrative expenses of the U.S. Railway Association; and over \$5 million new authority for the new Rail Services Planning Office in the ICC. This compares with a total Federal rail program, exclusive of regulatory expenses, of less than \$20 million in 1969.

Mr. MAHON. Mr. Shriver has been seeking recognition.

FOREIGN AID INCREASE

Mr. SHRIVER. Mr. Ash, the 1975 budget request for those items which are the responsibility of the Foreign Operations Subcommittee comes to a total of \$4.46 billion. This represents an increase of \$1.18 billion in the appropriation for this fiscal year when the \$2.5 billion emergency relief for Israel is not considered.

My question is a general one. In view of the prevailing feeling in this country to concentrate our limited resources on problems here at home—a feeling which I think was reflected in the overwhelming vote in the House against increased U.S. contribution to the International Development Association not long ago—why is it in our national interest at this time to increase foreign aid by over a billion dollars?

Mr. ASH. Maybe I can start by branching off from the answer to the last question about transportation.

It is difficult to say one level is good for all time. The response in the 1975 budget is to a changing world situation, including, as we know, the supplemental for Israel along with the changing view of the rest of the world.

I think when we look at our foreign activities, surely it is a temptation to say, "Why don't we take care of everything at home before we deal with anything abroad?" But, I think if we are to have a little longer view and one that really has as much self-interest in it as even the interest we have in things at home, it is essential that we maintain a world of peace, a world of order in the sense that our own security derives out of that, and in many ways our own economic well-being derives out of that.

It is essential, we think, that we continue to make an investment in some of the foreign programs for that very kind of self-interest, no less self-interest than we make in programs here at home.

NEW EDUCATION PROPOSAL

Mr. SHRIVER. Let me turn to another subcommittee where I serve—the HEW. You are proposing a supplemental appropriation for this fiscal year of \$2.9 billion for advance funding for education programs. Which education programs are included, and are any higher education programs included?

Mr. O'NEILL. No, sir. Basically, those are the programs the President proposed be consolidated in the elementary and secondary education area, and the proposal is now being considered under H.R. 69, I believe, on the House side, by the Labor and Education Committee.

Mr. SHRIVER. What are they?

Mr. O'NEILL. I will include a listing of the authorities proposed for consolidation in the fiscal year 1975 budget for the record.

[The information follows.]

Elementary and Secondary Education Act:

Title I, Education of the Disadvantaged.

Title II, School Library Resources.

Title III, Supplementary Plans and Centers.

Title V, Strengthening State Departments of Education.

Title VIII, Nutrition and Health; Dropout Prevention.

National Defense Education Act: Title III, Equipment and Minor Remodeling.

Environmental Education Act.

Vocational Education Act.

Adult Education Act.

ALLOWED REDUCTIONS IN 1974 LABOR-HEW BILL

Mr. SHRIVER. In the compromises worked out on the 1974 Labor-HEW appropriation bill, cuts of up to 5 percent per program were allowed. The budget documents show the 1974 figures with this cut. Were there any programs where the 5 percent cut was not made?

Mr. O'NEILL. There is one case that quickly comes to mind, and that has to do with OEO. If a program had a requirement for pay increases, the additional amount needed for that purpose was taken out of the 5 percent. I will provide more detailed information on this for the record.

The following information was supplied by the Office of Management and Budget:

FEBRUARY 4, 1974.

1974 LABOR/HEW APPROPRIATIONS—FUNDS WITHHELD FROM OBLIGATION AND EXPENDITURE

The 1974 appropriations act for the Departments of Labor, and Health, Education, and Welfare, and related agencies (Public Law 93-192) contains the provision that "not to exceed \$400 million, . . . may be withheld from obligation and expenditure. . . ." The appropriation language also specifies that no individual appropriation provision may be reduced by more than five percent. In addition, the conference report (H.R. 93-682) establishes dollar limitations for the reductions that may be made to specified programs.

The following table shows the effect of the amounts withheld from programs receiving appropriations under this act. A comparison is drawn between amounts authorized to be withheld in the conference report and actual amounts withheld, as reflected in the 1975 Budget Appendix:

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

[In thousands of dollars]

	Authorized to be withheld (conference report)	Amounts withheld (1975 budget)	Difference
HEALTH			
Health Services and Mental Health Administration:			
Mental health.....	26,874	9,567	-17,307
Health services planning and development ¹	17,509		
Health services delivery ¹	2,800	25,937	-16,649
Health manpower ¹	22,277		
Preventive health services.....	4,936	0	-4,936
Subtotal.....	(74,396)	(35,504)	(-38,892)
National Institutes of Health:			
National Cancer Institute.....	27,560	23,706	-3,854
National Heart and Lung Institute.....	15,145	13,365	-1,780
National Institute of Dental Research.....	2,278	1,607	-671
National Institute of Arthritis, Metabolism and Digestive Diseases.....	7,972	6,486	-1,486
National Institute of Neurological Diseases and Stroke.....	6,250	5,042	-1,208
National Institute of Allergy and Infectious Diseases.....	5,700	3,596	-2,104
National Institute of General Medical Sciences.....	8,838	8,449	-389
National Institute of Child Health and Human Development.....	6,512	5,357	-1,155
National Eye Institute.....	2,081	1,684	-397
National Institute of Environmental Health Sciences.....	1,443	482	-961
Research resources.....	6,672	5,153	-1,519
John E. Fogarty International Center.....	237	0	-237
National Library of Medicine.....	877	0	-877
Subtotal.....	(91,564)	(74,927)	(-16,637)
Total, health.....	165,960	110,431	-55,528
EDUCATION			
Office of Education:			
Elementary and secondary education.....	96,725	94,979	-1,746
School assistance in federally affected areas.....	16,584	16,584	0
Education for the handicapped.....	5,325	5,325	0
Occupational, vocational and adult education.....	26,354	26,354	0
Higher education.....	29,167	29,167	0
Library resources.....	8,585	3,688	-4,897
Educational development.....	4,487	4,487	0
Salaries and expenses.....	93	93	0
Total, Education.....	187,320	180,677	-6,643
WELFARE			
Social and Rehabilitation Service:			
Grants to States for public assistance.....	2,500	2,500	0
Social and rehabilitation services.....	7,775	7,775	0
Subtotal.....	(10,275)	(10,275)	(0)
Office of Child Development: Child development.....			
	15,500	9,020	-6,480
Subtotal.....	(15,500)	(9,020)	(-6,480)
Total, welfare.....	25,775	19,295	-6,480
RELATED AGENCIES			
Corporation for Public Broadcasting.....	2,500	2,250	-250
Office of Economic Opportunity.....	17,315	9,800	-7,515
Total, related agencies.....	18,815	12,050	-7,765
Total, HEW and related agencies.....	398,870	322,453	-76,416

¹ The 1974 activities of these programs are divided between Health Services Administration and Health Resources in the 1975 budget appendix.

² This withholding does not appear in the 1975 budget appendix.

³ In the 1975 budget appendix, this figure is shown as an unobligated balance lapsing.

HIGHER EDUCATION

Mr. SHRIVER. Also, you may put in the record your answer to this, which may go back to the philosophy you were expressing earlier.

You are again proposing to eliminate institutional aid for higher education, such as veterans' cost of instruction, undergraduate institutional equipment, college library resources, and university community services. I am wondering why those were picked out. You may put your answer in the record.

Mr. O'NEILL. I will be very happy to. Yes, sir.

[The information follows:]

The 1975 budget emphasizes student choice in postsecondary education by placing the top priority in higher education on student assistance. The budget proposes \$1.3 billion to fully fund basic educational opportunity grants of up to \$1,400 a year for an estimated 1.6 million students. By channeling funds to students according to need rather than to institutions according to formula, the budget maximizes the effect of Federal dollars on increasing access to higher education for deserving students. The 1975 request for higher education is \$247 million greater than the 1974 level. This is the result of significant increases in student assistance, partially offset by decreases in some institutional support programs which are not primarily oriented toward the equal access goal.

Veterans cost of instruction is a prime example of the shift in funding strategy. The 1975 budget provides an increased level of educational benefits to veterans under the GI bill. Thus, each veteran will receive more financial assistance toward his education. At the same time, the veterans cost of instruction program, which pays schools for increasing their enrollment of veteran, is proposed for termination. This is wholly consistent with the policy of providing funds to veterans and other students so that they may attend school, rather than paying schools to enroll them.

The university community service program is peripheral to the Federal role in higher education. This program scatters small grants among institutions to encourage their efforts at solving community problems. The budget does not question the goal of the program; it does maintain that the program is a marginal one, and that the \$14 million appropriated for it in 1974 would be better spent if in 1975 it is appropriated instead to increase aid for needy students.

UNDERGRAD INSTRUCTIONAL EQUIPMENT COLLEGE LIBRARY RESOURCES

The college libraries program supports grants to institutions of higher education for the purchase of materials suitable to academic libraries including books, periodicals, documents, magnetic tapes, photograph records, and audiovisual materials. The program provides for basic grants of \$5,000 to each eligible institution and, when funding is available, supplemental grants for libraries where there is a volume deficiency based on student enrollment as well as limited number of special purpose grants.

The provision of grants to all institutions runs counter to the primary administration policy of placing aid directly upon the student. The budget of academic institutions varies significantly from \$10,000 per year to well over \$1 million for some of the larger universities; \$5,000 will have little if any impact upon the programs of the larger institutions. Needy institutions are not recognized by the basic grant formula.

The undergraduate instructional equipment program provides financial assistance, on a matching basis, for the acquisition of laboratory and other special equipment.

This program is inconsistent with the administration's primary policy of concentrating higher education funds on students, rather than on institutions. This student aid will provide help to allow maximum choice.

Mr. MAHON. Mr. Smith.

ASSUMPTIONS ON ENERGY CRISIS

Mr. SMITH. In formulating the President's budget, did you assume or estimate the gasoline shortage would be over this year?

Mr. ASH. Not by the 1st of January.

Mr. SMITH. Did you assume it would be over in the fiscal year?

Mr. ASH. The economic forecast on which the budget is based translates the effect of the energy shortage into an increase in unemployment in the first and second quarters. Going even beyond that, we see a decrease in real economic growth in the first quarter, with an increase in inflation that is high in this first quarter but which declines as the year progresses.

All of those interacting effects—unemployment, real growth, inflation—where we see the energy shortage at this time, have been incorporated into the budget and translated into all of the economic premises behind the budget.

Mr. SMITH. My question is: What date did you use as the date when you think it will be over, or did you use a date?

Mr. ASH. We did not use a date when we thought it would be over. There are a number of different dimensions to the problem. I think we must make clear which one we are talking about.

We will have for many years ahead, a problem of shortage of domestic supply of petroleum products and energy products in general. Until we get to that degree of near self-sufficiency of domestic supply, we would have to say that we have a problem and a continuing problem.

Mr. SMITH. Did you assume that any of these petroleum products will be available in enough supply to meet demand within the fiscal year involved in this budget?

Mr. ASH. We assumed that the embargo would continue. That is one of the assumptions through the whole course of this period. We would assume that, of course, demand will meet supply. We cannot consume more than exists. Obviously, demand meets supply.

The question is, At what level? That level for the period of this budget at which demand will meet supply, assuming the embargo exists, will be a lower level than we have had in the past.

Mr. SMITH. Do you expect the lines at gasoline stations to continue throughout the fiscal year?

Mr. ASH. I have confidence that the Federal Energy Office in a little time will be able, to deal successfully with that kind of problem.

Mr. SMITH. What date are you talking about?

Mr. ASH. Again, let us refer back to the President's State of the Union message when he said we would break the back of the energy crisis this year. That means that the traumatic aspects of the energy crisis should be behind us at that time. It does not mean that all of our problems will be over. We will have a continuation of them for years yet to come.

OIL EMBARGO ASSUMPTION

Mr. MAHON. I would like to get you to give an unequivocal answer, as to whether or not this budget takes into consideration termination of the Arab embargo.

Mr. ASH. It assumes a continuation of the Arab embargo. That is assumed in the budget.

Mr. MAHON. In the 1975 budget?

Mr. ASH. In the 1975 budget.

Mr. MAHON. When you prepared the budget, you took into consideration the embargo?

Mr. ASH. And its continuation.

Mr. MAHON. And its continuation.

Mr. SMITH. For the entire year?

Mr. MAHON. For fiscal year 1975?

Mr. ASH. Yes, sir.

Mr. MAHON. I recognize Mr. Evans of Colorado.

TOTAL ENERGY CONSIDERATIONS

Mr. EVANS. of Colorado. You have testified that in the third and fourth quarters of the next fiscal year, there will be an upturn; that, as I understood it, unemployment is going down and the economy is going surging ahead. To me, this will not be, because of the shortage of energy. I certainly hope you are right. I am glad the gentleman from Iowa brought this up, because we are told in our neck of the woods that we can expect to be somewhere in the vicinity of 24 to 28 percent behind where we were in 1972.

Mr. ASH. I do not know where you got that particular number.

Mr. EVANS of Colorado. This was on the basis of the Texaco Oil Co.

Mr. ASH. There are big problems of equitable distribution of the supplies that are and will be available. There is no question about that.

Of course, one of the main efforts that FEO is undertaking is to provide equitable distribution of the available product.

But let's first start at the macroview, the overview, and then work down to the specific problem.

I think we will all agree—I know of nobody who has any other data—that the embargo has resulted in a reduction of the total energy resources that we have available to us of 7 percent. It is more than that percentage of oil, of course. It is twice that because we use gas, coal, nuclear, hydroelectric and other energy sources as well as oil. Our total energy resources and supply are reduced by 7 percent as a result of the embargo and its prospective continuation.

The real problem is to rearrange product mix like substituting coal for oil where we can, and gas and other things, to rearrange the distribution system to equitably distribute the 93 percent, and rearrange consumption patterns so we can find ways to live with 7 percent less without an adverse effect on the economy.

Most of us can look around at light levels and what we do at home and what we drive around, and we must say intuitively, without any big calculation, it is probable we can live with 7 percent less if we can redistribute it equitably, and without adverse effects on the economy. That is the big challenge.

Mr. EVANS of Colorado. One final question while we are on this subject.

We all have different points of view. That is true of Congress and it is also true in the executive branch. Does this budget reflect the majority view? For example, is Mr. Simon in agreement with you in terms of the energy facts in the next fiscal year?

Mr. ASH. Yes, and I with him, and both of us with the President.

OIL IMPORTS

Mr. ADDABBO. Are imports of oil into this country because of the embargo as low as predicted?

Mr. ASH. We are down virtually that low, 2 million barrels a day. In effect, there was some leakage for a while so we did not fall down to that lower level. We do not have that same leakage any more, and we are down to importing 5 million barrels a day from what it had been. We are now really living at about that level that is the equivalent to the 2 million barrels a day we originally calculated as the shortfall from the embargo.

Mr. ADDABBO. The Defense Subcommittee was told that we did not actually lose 12 percent; that the oil companies through some other means brought that oil into this country, and there was no actual loss.

Mr. ASH. Our Associate Director who particularly deals in this energy area—I am not sure whether he works for OMB or FEO, because he is full time with each right now—can probably better answer that question.

Mr. ZARB. I am not sure of the source of the information that was given to your subcommittee. There was at the outset, as you know, a considerable amount of oil leakage in the embargo, and for at least 8 weeks it appeared as though the embargo would not be nearly as effective as we originally thought.

Over the last 3 weeks, the numbers have turned down sharply to a point where we are at the worst projected level of embargo effectiveness, and perhaps will dip below that number.

Mr. ADDABBO. The members of this committee have called upon the administration for many years to raise the import quota level. Why were we not ready for any embargo? Why did we not have on hand at least a sufficient reserve supply so we would be able to fight off any embargo or blackmail raising of the prices of fuel oil to the American public?

Mr. ASH. I guess we can line up in a circle and ask ourselves that question in the circle.

Mr. ADDABBO. Members of the committee told the administration away back in the 1970 report, and Mr. Giaimo tells me there was a Presidential Commission that said this would happen away back in 1970, not up here, but down there on the other side of the microphones where the fault rests.

Mr. ASH. In 1971, the President gave his first energy message to the Congress on his view of what needed to be done. I think in retrospect, we can look back and see a lot of things that were being said, and in some cases were being considered, but the net of it is that not a lot of things were done.

Mr. ADDABBO. Just words are being spoken here today, Mr. Ash. You speak of unemployment, and we see at a budget where you cut vocational education, where you cut veteran training. The same thing is being said here today about food prices, and the continued exporting of food.

You are speaking about oil and what we are going to be doing about energy. The same things are being said and nothing concrete is being told us.

Mr. ASH. I think on that one you have mentioned, there may be a fact not in evidence there.

Mr. O'NEILL. I would like to say we are not proposing to cut vocational education. We are, in fact, proposing to consolidate the funding for vocational education to allow greater discretion on the part of State and local educational authorities to adapt Federal funds to individual local and State priorities. In addition, under this consolidation, we are proposing to increase funding for all of vocational education by nearly \$12 million. We are not proposing to cut the level of assistance for veterans' education.

SUPPLEMENTAL REQUESTS FOR FISCAL YEAR 1974

Mr. GIAIMO. Mr. Ash, in your 1975 budget you are requesting a substantial supplemental budget for 1974 amounting to an additional \$14.5 billion. This is as large or larger than any other supplemental request since the Vietnam buildup period in 1966-67. The budget itself contains a supplemental request of approximately \$10.6 billion. In addition, it is stated an additional request for about \$3.3 billion in increased budget authority and approximately \$500 million for allowances will also be submitted.

By including such a large supplemental increase in 1974 and then comparing your requested 1975 budget authority with the increased 1974 budget authority, it is implied that a much smaller increase is being requested.

Last year at this time we were reviewing a request for \$288 billion. This year you are requesting new budget authority of \$322 billion for fiscal year 1975, and another \$14.5 billion for fiscal year 1974.

The question is: Are you in effect reducing the fiscal year 1975 budget request by shifting some of the requested budget authority to fiscal year 1974? Is this the beginning of the budget-busting that some of your officials say may be necessary in order to avoid a recession?

Do you want to answer that briefly and then expand for the record, if you wish.

Mr. ASH. First, it is not what you characterize it to be, but let us go on and state what it is, and Mr. McOmber will do that.

Mr. McOMBER. You have included in that \$14.5 billion estimate \$3.9 billion proposed for later transmittal. There are several unique reasons for the supplemental requests sent up with the budget. One of them is the fact that this year we have had two pay increases applicable to both civilian and military personnel.

Mr. GIAIMO. But that pay increase for the military personnel was in 1974.

Mr. McOMBER: No, sir. It was not included in the 1974 budget.

Mr. GIAIMO. I know that, but it was for pay for the 1974 fiscal year which was left out of the 1974 budget and put in the fiscal year 1974 supplemental, was it not?

Mr. McOMBER. It was not requested in the 1974 regular appropriation.

Mr. GIAIMO. I understand.

Mr. McOMBER. Therefore, the supplemental is unusually high because we are asking for some \$3.6 billion in pay increases.

Mr. GIAIMO. Of which, part was for that military pay increase which took place in fiscal year 1974.

Mr. McOMBER. That is correct.

Mr. GIAIMO. You did not put it in the fiscal year 1974 budget, thereby keeping it lower by \$2.8 billion. Is that the figure?

Mr. McOMBER. That is approximately right.

Mr. GIAIMO. It is in that neighborhood. You put it in the supplemental.

Now proceed.

Mr. McOMBER. Further, there is some \$2.1 billion for additional payments that are required for uncontrollable purposes. Among those are some \$900 million for veterans' programs, mainly as a result of congressional action during the current year; approximately \$500 million, for food stamp programs as a result of congressional action; and several other similar kinds of items.

In addition, of course, there is the \$2.8 billion supplemental for the Department of Defense readiness and modernization.

I should supplement that, sir, by one other point, the point made a moment ago. When you speak of the \$14 billion figure, that includes \$2.8 billion for the additional advance appropriation for consolidated education grants.

Mr. GIAIMO. Would you review what we have said here and try to give us a more responsive answer for the record?

[The information follows:]

Budget authority requested for 1974 in the 1975 budget is not budget authority planned for 1975 and shifted to 1974. The \$10.4 billion represents: (a) The sum of \$3.6 billion for the 1974 cost of statutory pay increases approved by the Congress, and (b) other costs unforeseen at the time the 1974 budget was transmitted. Included are \$2.8 billion for Defense readiness, \$2.1 billion for payments required under present law, and \$1.9 billion for other essential programs.

Mr. GIAIMO. If there is not a funding shift for 1974 and 1975, then does the 1975 budget fully reflect the 1974 base which would be greatly increased by providing some \$10 billion in supplementals for at least a 3-month period at the end of this fiscal year?

Mr. ASH. It does. It reflects all of that. The 1975 budget contemplates the 1974 supplemental being enacted.

FISCAL YEAR SPENDING PATTERNS

Mr. GIAIMO. In examining the expenditure pattern for the first half of this fiscal year in relation to previous fiscal years, we find that the percentage spent in the second half of the fiscal year seems to be growing in relationship to earlier fiscal years.

For example, in fiscal year 1974, the percentage of the total spent was 47.46 percent in the first half, and 52.54 percent in the second half, up from 51.9 in the second half of 1973.

How do you account for the smaller percentage of expenditures occurring in the first half of this fiscal year as compared with previous fiscal years?

Mr. ASH. It follows generally the same pattern. During the first half of this fiscal year, fiscal 1974, outlays have been \$130.4 billion of a planned total outlay for the fiscal year of \$274.7 billion, the requiring \$144.3 billion in the second half. That tends to follow the pattern of earlier years.

Mr. GIAIMO. Let me go back.

In the second half of fiscal year 1971, you spent 50.7 percent; in fiscal 1972, 51.8; in 1973, 51.9; 1974, 52.5 percent. There is an upward trend.

Mr. ASH. Yes. There have been a number of delayed appropriations this year that have contributed to it. I can go through some of the particular areas if you wish, or put that in the record.

[The following information was supplied for the record.]

FISCAL YEAR OUTLAY ESTIMATES AT MIDYEAR

In billions of dollars]

Description	1974 budget estimate	July- December 1973 (actual)	January- June 1974 (estimate)	Comments
Department of Defense, military, and MAP.	79.5	36.9	42.6	Implies a spending pattern almost identical to fiscal year 1973. (53.5 percent in 2d half fiscal year 1973 compared to 53.6 percent in fiscal year 1974.)
Foreign economic assistance.....	2.2	.9	1.3	Late enactment of appropriation bill accounts for larger 2d half.
Agriculture: CCC, foreign assistance, and special export.	1.8	2.6	-.7	Normal pattern; virtually all outlays in fall; negative outlays in spring as loans are paid.
Other agriculture.....	7.5	2.9	4.5	FHA had its asset sales in 1st half which will not reoccur. Food stamp higher bonus allotments and higher reimbursement rates to schools for child nutrition account for most of the rest of the increase.
HEW:				
Trust funds.....	68.4	31.6	36.7	Reflects payment of recently enacted social security benefit payment increases.
Other HEW.....	28.4	12.2	16.2	Institution of supplementary security income payments, release of reserved funds (mostly welfare and education) and enactment of Labor-HEW appropriation bill at higher than requested levels.
HUD.....	5.0	3.0	2.0	High loan levels in 1st half are expected to decline, but normal loan repayments, are expected to continue in the 2d half, making 2d half appear smaller.
Interior:				
Office oil receipts.....	-6.0	-1.9	-4.1	Effect of 2 additional sales plus receipts of already completed December sale.
All other.....	2.2	1.1	1.1	
Labor:				
Unemployment trust fund....	5.8	2.2	3.6	Heavy seasonal factors. Pattern of 1974 spending is consistent with prior years.
All other.....	2.7	1.5	1.3	
Treasury.....	35.8	17.4	18.5	Normal pattern.
AEC.....	2.3	.9	1.4	Nonrecurring receipts in 1st half plus increased construction in 2d half, especially in fast flux test facility.
EPA.....	2.6	.5	2.1	Payments to States for reimbursement of prior years construction outlays are due in the 4th quarter of fiscal year 1974.
GSA:				
Offsetting receipts.....	-1.3	-.4	-.9	Stockpiles are selling at an accelerated rate and new legislation begins to take effect in 2d half.
All other.....	1.0	.5	.5	
VA.....	13.2	6.5	6.7	Normal growth.
CSC.....	5.9	2.7	3.2	Cost-of-living increase is effective January 1974, and the number of annuitants receiving retirement benefits continue to increase.
FDIC.....	-.6	.1	-.6	Assessment of insured banks takes place in January.
Postal Service.....	2.0	1.4	.6	Payments to USPS continue as planned.
SBA.....	.8	.6	.1	Repayments of loans and higher receipts will cause lower net outlays.
All other.....	25.2	12.0	13.1	
Allowances.....	.3		.3	
Undistributed intragovernmental transactions.....	-10.0	-4.8	-5.2	Receipt of USPS share of employers contributing will occur in 2d half.
Total budget outlays.....	274.7	130.4	144.3	

Mr. GLAIMO. Let me give you several other questions on this point and, if you would, provide answers for the record.

Can we assume the spending rate of the second half of this fiscal year will be at an annual rate of \$28 billion more than the first half? There is a \$14 billion difference, as you know.

How much of the new budget authority associated with the \$6.3 billion of programed supplementals in 1974 will actually be spent in fiscal year 1974?

Do you think this is too optimistic, considering the relative short period of time that will be available between enactment of supplementals and June 30?

And a last question: What date of enactment of the supplemental was assumed in developing your estimate?

If you would supply answers to those for the record, that would be helpful to the committee.

[The information follows:]

Traditionally, budget outlays rise in the second half of the fiscal year. This year the amount of increase is greater than usual. However, it is fully expected that the additional \$14 billion of spending anticipated in the second half of the year will take place as planned for the reasons outlined in the table inserted above.

PROGRAM SUPPLEMENTALS, FISCAL YEAR 1974

[In millions of dollars]

Description	Budget authority	Current outlays	Percentage spent in fiscal year 1974
Uncontrolled under present law.....	2, 147	2, 129	99
Payments to trust funds.....	323	323	100
Other Federal payments.....	76	74	98
Child nutrition and Forest Service.....	162	162	100
Defense programs.....	¹ 2, 973	1, 242	42
All other.....	650	186	29
Total program supplementals.....	6, 331	4, 116	65

¹ Includes \$2,818,000,000 for Defense readiness.

The above table summarizes the program supplementals requested in the budget for fiscal year 1974. Over \$2.7 billion of the budget authority requested is of the type that is already being expended under authority of law applicable to deficiencies or will be fully expended within a short time after enactment. The remainder has been estimated at a very conservative 39 percent spend-out rate.

As with all legislation that is transmitted to the legislative branch we assume enactment before the end of the fiscal year.

CAMBODIAN EXPENDITURES

Mr. GLAIMO. In an earlier colloquy today with Mr. Michel on impoundment, the \$11 billion figure, you spoke about the \$4.5 billion deficit, and if you added the \$11 billion to that, you would have a deficit of about \$16 billion.

Is it not so that part of the problem in impoundments is the substitution of judgment as to where money shall be spent? Congress says spend it in X, Y, and Z areas, and you do not think that is correct, so you impound it or, let us say, reserve it in X, Y, Z expenditures, but you do spend it in other areas.

Your budgets and your deficits have been larger than at any time in the history of the United States in peacetime.

Let me ask you the question: How much money was spent in the last fiscal year in the entire Cambodian operation, the secret bombing war in Cambodia. There were no requests of Congress for funds to do this, as I recall. You did spend substantial sums of money. How much was spent, and where did you find that money?

Mr. ASH. First, the Defense Department probably is better able to answer that question.

Mr. GIAIMO. Yes, but I think you are equally capable of answering it. After all, your function is to oversee the expenditure as the President's staff adviser on all Federal funds. The U.S. budget is your baby. Where did the funds come from in that budget? How much was spent in Cambodia in the entire operation last year?

Mr. ASH. I do not have the data right here. We will have to get from Defense or some source the data—

Mr. GIAIMO. You mean you do not know?

Mr. ASH. I do not know in my head, no. I do not have data in front of me that answers that particular question. That budget book has a thousand pages in it.

Mr. GIAIMO. You do not have the book. You are talking about the necessity to reserve funds. You have in fact reserved billions of dollars of funds. Frankly, I prefer to use the word "impound" rather than "reserve," because I think the American people understand "impoundment" at long last.

You have impounded billions of dollars of funds. We know that those amounts of funds—I personally do not know how much—have been spent and substituted by your judgment—or by the President's judgment, I suppose it is—in Cambodia.

I want to know how much it is and if that money had not been spent—after all, it was not authorized by this committee or anyone in the Congress—how much of that money would have been available to meet the programs which were mandated but which were impounded by you because of the fact that you did not have sufficient funds to spend or you did not want to go over overall spending limitations?

Mr. ASH. First, the funds, I am sure, were authorized—

Mr. GIAIMO. I am sure they were not. We are not going to get into the question of the Executive right to go into Cambodia. The fact is, they were not authorized.

I would like to know how much the funds are, how much we spent in Cambodia last year, and from where you found the funds.

Mr. ASH. Second, \$2.5 billion of the reserves are reserves out of Defense programs. So, what is done is not a substitution of one branch's judgment for the other, as much as it is the charge imposed upon the President to use prudence, to use good judgment in the process of spending funds. That was the basis on which the reserves were made.

Mr. GIAIMO. Now that you have answered your interpretation of my question, would you supply for the record how much you spent during the last fiscal year in Cambodia, in the entire Cambodian operation? If you can tell me where you found those funds, if there were transfers from certain other programs, or what they were, for the record, give it to us.

Mr. ASH. Let us get from Defense whatever is the best source of such information which can go to your question.

[The information follows:]

The Department of Defense utilized budget authority provided in Public Law 92-570, dated October 26, 1972, to expend funds in support of our air operations in Cambodia. Although funds have been transferred among programs and appropriations provided under Public Law 92-570, no funds have been transferred from source outside that authority.

Department of Defense accounting records are not designed to provide information on an area or mission basis; therefore, any data on the cost of air operations in Cambodia must necessarily be developed on a statistical basis using appropriate factors. For fiscal year 1973, the estimated costs of U.S. air operations in Cambodia total approximately \$380 million. These costs do not cover manpower costs nor the costs of overseas base support, pipeline, and Conus support, which would change little if at all whether or not operations had been conducted in Cambodia. Any attempt to break the figure down more precisely would require a great deal of time and effort and would entail many arbitrary assumptions.

Mr. GIALMO. How much money is in this budget for Cambodia?

Mr. ASH. The Defense Department again typically testifies on the breakdown within the total defense budget for individual operations, and I think probably that would be the source that you would get the information that you would need. We don't have it with us.

Mr. GIALMO. Can you supply it to us now? If you cannot, supply it for the record.

Mr. ASH. We will supply what we have. We will supply what is available on the subject. We don't maintain in the budget documents a set of scenarios of what next year's future military operations or civilian operations or any other kinds of operations might be.

[The information follows:]

MILITARY AND ECONOMIC ASSISTANCE TO SOUTH VIETNAM, LAOS, AND THAILAND

[In millions of dollars]

	1974 current estimate obligations	1975 Budget obligations
South Vietnam:		
Military assistance—service funded.....	1,522	1,600
Indochina postwar reconstruction.....	300	600
Functional development program.....	111	3
Public Law 480.....	305	180
Subtotal.....	2,237	2,383
Cambodia:		
Military assistance program.....	342	390
Indochina postwar reconstruction.....	95	110
Public Law 480.....	196	85
Subtotal.....	633	585
Laos:		
Military assistance—service funded.....	78	90
Military assistance program.....	40	55
Indochina postwar reconstruction.....	1	1
Functional development program.....	4	3
Public Law 480.....	4	3
Subtotal.....	122	149
Thailand:		
Military assistance program.....	38	60
Foreign military sales credits.....	10	—
Security supporting assistance.....	7	—
Functional development program.....	2	5
Public Law 480.....	28	—
Subtotal.....	86	65
Portion of East Asia regional program funded by Indochina postwar reconstruction.....	2	9
Total.....	3,080	3,191

Note: Estimated 1975 country allocations are preliminary and may be slightly revised in subsequent agency presentations to the Appropriations Committees. Details may not add due to rounding.

Mr. GIAIMO. We do have funds in this budget for next year's activities in certain places, including, I am certain, money in here for Vietnam?

Mr. ASH. We have for levels of operations as well as some specific types of programs that run to certain countries. Cambodia is one, and some of the aid given them—

Mr. GIAIMO. Don't we have funds in here for Vietnam?

Mr. ASH. We do have.

Mr. GIAIMO. How much and where?

Mr. ASH. I think it is indicated here at some point. Let me see if we can find where that is.

I want to make one statement. We will develop data that can be of the most use to you. One problem I know that we have had in past years has been the difficulty of finding a definition of what is spent where, because a lot of the operations of the U.S. military forces will go on in any event as a part of maintaining readiness, training, conducting those operations, and then whether or not they are in one country or another may really add nothing of increment to what they otherwise would be spending anyway.

Mr. GIAIMO. I think it does. If I recall correctly, last year when we had the great struggle in the Congress over Cambodia, there was an administration request for more money, you needed transfer authority in the Defense Department. Was that correct, \$750 million? And they wanted \$1.2 billion?

Mr. ASH. Yes, sir.

Mr. GIAIMO. You recall that, and certainly that was because of the Cambodian expedition, you had to transfer funds and replace what you had used for Cambodian operations from other sources. That is what we want to know about and in the future hope to obtain before the fact and not after.

Mr. ASH. Of course, it is very hard to know ahead of time what developments will take place.

Mr. GIAIMO. Especially when there is no congressional authority.

I have no further questions.

Mr. MAHON. I would like to say, Mr. Ash, information available to me indicates that the authorized level in Southeast Asia for 1974 is \$1.1 billion and increases in this budget to \$1.6 billion in order to fulfill our agreement with South Vietnam. At any rate, make sure that this figure is correct in the record at this point.

Mr. ASH. We will make sure it is.

Mr. YATES. On that point you are making, Mr. Chairman, I have been trying for years to find out how much money is spent and has been spent in South Vietnam. I have asked you for it in committee, as you recall, from time to time. It has never been supplied. You just indicated a figure of \$1.6 billion for Southeast Asia. Is there any way of getting a breakdown how much is to be spent in each of the countries that make up Southeast Asia?

Mr. MAHON. I don't think there should be any doubt about having an estimate for that. Our expenditures in South Vietnam relate to propping up their economy. They also relate to providing them with military equipment, weapons, and so forth, in accordance with our

agreement when we had the so-called ceasefire at the conclusion of hostilities. All of that should be available.

I think, Mr. Director, you ought to put that in the record at this point. Of course, we will go into that more thoroughly in the defense hearings with the Secretary of Defense and others.

[The information follows:]

It is necessary to emphasize, whenever Southeast Asia war costs are discussed, that these figures are estimates—not based on accounting records, nor could they be. SEA costs represent costs over and above ongoing requirements of the worldwide baseline force. Some of the units in Southeast Asia have been baseline units—SEA costs for them were costs over and above normal operations. To break down estimates by country requires further estimates based on estimates. Subject to these qualifications, the best breakdown we can develop is as follows:

[In thousands of dollars]

	Fiscal year—	
	1974	1975
Support of truce teams and other U.S. MAAG and mission support in Vietnam.....	51,078	56,880
Support costs in CONUS and other WESTPAC (largely for units above).....	57,577	6,208
Units based in Thailand (including support costs).....	582,649	401,271
Total.....	691,304	464,359

Mr. YATES. Mr. Chairman, one other point on that.

Are the funds going into Southeast Asia only appropriated funds? What other places do they come from? For example, Food for Peace program provides some of the money that goes into Southeast Asia. Can the Director supply us with the source of all of the money that goes into Southeast Asia, not only the appropriated funds but funds flowing from other sources?

Mr. MAHON. I think so. It is very important that you respond to the question by the gentleman from Illinois.

Mr. ASH. I think we can. On the matter of funds going to Southeast Asia, that is a bit different than the earlier line of questioning, the talked-about costs which included operational costs. Those are two different issues and one we can deal with more readily than the other.

Mr. ASH. Let's see what we can do.

Mr. YATES. We are paying for troops in Thailand, are we not? How much money goes into this expenditure? We are paying a certain amount for internal security in South Vietnam; where does that money come from? In other words, should we have a complete breakdown of the moneys flowing into each of the countries of Southeast Asia, where the money comes from, for what purposes it is being used?

[The information follows:]

MILITARY AND ECONOMIC ASSISTANCE TO SOUTH VIETNAM, LAOS, CAMBODIA, AND THAILAND

[In millions of dollars]

	1974 current estimate obligations	1975 budget obligations
South Vietnam:		
Military assistance—service funded.....	1,522	1,600
Indochina postwar reconstruction.....	300	600
Functional development program.....	111	3
Public Law 480.....	305	180
Subtotal.....	2,237	2,383
Cambodia:		
Military assistance program.....	342	390
Indochina postwar reconstruction.....	95	110
Public Law 480.....	196	85
Subtotal.....	633	585
Laos:		
Military assistance—service funded.....	78	90
Military assistance program.....		55
Indochina postwar reconstruction.....	40	1
Functional development program.....	1	3
Public Law 480.....	4	
Subtotal.....	122	149
Thailand:		
Military assistance program.....	38	60
Foreign military sales credits.....	10	
Security supporting assistance.....	7	
Functional development program.....	2	5
Public Law 480.....	28	
Subtotal.....	86	65
Portion of East Asia regional program funded by Indochina postwar reconstruction.....	2	9
Total.....	3,080	3,191

Note: Estimated 1975 country allocations are preliminary and may be slightly revised in subsequent agency presentations to the Appropriations Committees. Details may not add due to rounding.

POSTAL SERVICE INCREASE

Mr. ROBISON. Mr. Chairman, I have two brief questions, one specific and one general.

Mr. Ash, several weeks ago the Postal Service Corporation started a procedure for an additional increase in postage rates. Last December, the Cost of Living Council directed a 15-percent reduction in those rates, for reasons relating to inflation. In any event, the reduction amounted to \$236 million. The Postal Service Corporation has replied by delaying the effective date of the rate increases from January until early next month, March. However, the Service will recover, as I understand it, the same \$236 million if Congress approves that item in the supplemental request that accompanied this budget. In submitting that item in the supplemental along with the budget, did the Office of Management and Budget take a look at the Postal Service Corporation's internal budget and need for this amount of money?

Mr. ASH. Mr. Scott, Associate Director, both catalyst and mediator, I guess, go-between, between the Cost of Living Council and the Postal Service, can testify directly to the insight that we got into the issues that you inquired about.

Mr. ROBISON. I would appreciate knowing what the status of all this is, relative to the pending rate increase.

Mr. SCOTT. The budget of the Postal Service was scrutinized, as well as the supplemental, with regard to the continuing Postal Service operations and the continuing need for subsidies that do exist. As you know, there are a number of types of subsidies to the Postal Service that exist. One is to cover the costs from delaying, or phasing in full rates for carrying certain classes of mail. The rate increase is going into effect, as I recall, March 2. At that time the Postal Service will then be receiving the increased revenues that it would have received starting on January 5. The shortfall between January 5 and March 2 is the \$236 million which you mentioned.

Mr. ROBISON. The net effect is the mail users will not provide the \$236 million, but the general taxpayers will, if Congress goes along?

Mr. SCOTT. That is correct. The burden has been shifted from the Postal Service users to the general taxpayers.

MANAGEMENT BY OBJECTIVE

Mr. ROBISON. Mr. Ash, we heard quite a bit from you, last year when you were before the Steed committee, about management by objective, a useful concept if it can be applied and one that may be effective in putting together Federal budgets. Can you tell me to what extent, if any, that concept of "management" has been applied to the putting together of this particular budget, and what relationship, if any, that attempt has had with the Office of Management and Budget in having its own budget increased from \$19.5 million last year, to \$23.4 million in the presentation now before us?

Mr. ASH. Let me refer that to Fred Malek, Deputy Director, who has been working especially in this area of management by objective.

Mr. MALEK. As you know, Mr. Robison, by way of background, each agency was requested by the President to submit a set of their highest priority objectives for attainment during the current year. The President has asked each agency head to insure that these objectives are carried out and achieved. He wants to break the pattern of "business as usual" across the board and focus more attention on those key breakthrough opportunities that will produce meaningful benefits for the American people.

In submitting the 1975 budget, the President requested that each agency head consider how the budget submission would relate to and support the particular objectives of the agency. In many cases, in fact, we asked them to submit with the budget a tentative set of their 1975 objectives so as to get the closest possible tie-in. Each objective is not necessarily budget related. There are some objectives such as improving agency operations, or developing a particular piece of legislation, which are not necessarily related to the budget. In those cases where they are related we asked that the budget submission reflect the priorities as stated in the objectives.

Mr. ROBISON. Do you wish to address yourself to the latter part of the question, whether the OMB increased budget request relates to your internal capacity to do better in this regard?

Mr. MALEK. The large part of the Office of Management and Budget increase is tied to the general salary increases that were across the Government, plus the fact that OMB will now be paying rent, as any other agency pays rent to GSA for the space it occupies.

In addition to that, we have requested a small number of additional personnel who we believe will be helpful to us in working with the agencies on of the various objectives that they are working toward. Also, I think it will be helpful to us in doing a more thorough job on the review of the budget submissions from the agencies.

Mr. ROBISON. Finally, helpful to Congress as well in its own efforts to improve budgetary procedures?

Mr. MALEK. Very much so. The Legislative Reorganization Act imposed additional requirements on the Office of Management and Budget. We can be more responsive to these requirements with the added strength we have asked for. It will also help us in our efforts to work more closely with the Congress on development of the budget. In general, I think the added personnel will help us to be more responsive in reacting to the various suggestions raised by the Congress.

Mr. ROBISON. Thank you, Mr. Chairman.

Mr. MAHON. With respect to these 200 program objectives, I wish you would give us the list of the 200 objectives. In addition, when will you be able to provide us with an inventory of these objectives along with the expected time frame for their accomplishment, and the projected tangible benefits associated with these?

This is a question I wanted to ask you before. I wanted to ask that question and this question: We are interested in knowing how these objectives relate to the objectives established by Congress in creating these programs. Have you made such an analysis? When will you be able to provide this analysis to the committee?

[The following information was supplied by the Office of Management and Budget:]

In the February 19, 1974, hearings on the fiscal year 1975 budget, you requested additional information regarding the objectives that were set in response to the management initiative the President launched in the Spring of 1973.

Before I go into some of the more specific aspects of the program, I think it is important to recognize the purpose it is intended to serve. Basically, the President is determined to make all Federal agencies conscious of the fact that they are expected to produce specific results from all of their activities—results that: (1) are consistent with the general mission assigned to the agency in the legislation that created it; (2) are in keeping with the requirements of individual programs that may be assigned to the agency from time to time through the enactment of specific legislation; and (3) reflect the best possible return on the investment of our tax dollars. In essence, the President hopes to effect a fundamental and enduring reform in the way government executives approach their jobs. His intent is to shift the emphasis away from the current preoccupation of what is being done, to the much more important concern of what is being accomplished.

This emphasis on producing results is one of the main tenets of a management concept that has been successfully introduced into a wide variety of public and private institutions. Commonly referred to as "management by objectives," it is nothing more than a highly flexible management discipline that can be adapted to a wide variety of organizational missions. Equally important is the fact that it forces the manager to segregate high priority tasks from those that are less critical so that they will receive the special attention that they deserve. Finally, it is highly dependent upon personal contact. This serves two important purposes. It improves communications at all levels, and it helps to eliminate one of our most severe problems in the Federal Government—excessive paperwork. These are the reasons that led to our decision to use the MBO concept as an overall framework for the President's management initiative.

In operation, management by objectives is based on the rather simple premise that a person will do a better job if he: (1) Writes down his objectives for a specified period of time, (2) periodically assesses his progress against those objectives, and (3) adjusts his day-to-day activities based upon the progress

being made. As part of his initiative, the President asked the heads of the 21 major Federal agencies to advise him of those objectives that they felt were especially important for fiscal year 1974. The agencies involved are as follows:

Action	EPA	NASA
AEC	GSA	NSF
Agriculture	HEW	SBA
CIA	HUD	State
CSC	Interior	Transportation
Commerce	Justice	Treasury
DOD	Labor	VA

This request led to the identification of the 200-plus objectives mentioned by the President in his budget message.

As you can see from my preceding comments, the objectives are very much the province of the agency heads. They decided what each objective should focus on and whether it should be selected as one of the few that should be highlighted for special attention this fiscal year. For these reasons, we have agreed with them that they should be responsible for providing any information that the Congress may require regarding their objectives. I might note several other factors that led to this decision.

First of all, it is somewhat misleading to look at a simplified list of objective summary statements without having access to a good deal of background information. Second, it is important to examine these few objectives in the context of the many other high priority objectives that exist within the agency if one is to gain an accurate perspective of the organization's relative effectiveness in executing its responsibilities. Finally, many of the objectives are sensitive. Some involve national security and are therefore classified. The improper disclosure of others could conceivably disrupt free markets or jeopardize critical international negotiations. It is my belief that the agency head and his staff are in the best position to handle such matters. In view of this, I would like to recommend that each subcommittee work directly with the appropriate agency if it feels that information on all or any of the fiscal year 1974 objectives might be helpful in reviewing that agency's fiscal year 1975 budget request. I am confident that the agencies will be cooperative and responsive in this matter.

In closing, I might note that we are most encouraged with the degree of acceptance that this important management initiative has received to date. In our judgment, it is a key link in the President's plan to decentralize and delegate responsibility to those levels of Government that are in the best position to make operational decisions. We are hopeful that those people in responsible positions at all levels will realize that this is a useful concept, and that managing for results will eventually become a way of life throughout the Federal Government.

Mr. Director, you and your staff have been most helpful. We appreciate your presence and look forward to resuming this hearing tomorrow at 10. We will have with us at that time the Secretary of the Treasury.

Mr. TIERNAN. Mr. Chairman?

Mr. ASH. We will be here.

Mr. TIERNAN. Mr. Ash will not be a witness tomorrow?

Mr. ASH. I will be available as needed.

Mr. TIERNAN. Mr. Shultz, as I understand it, is scheduled to testify.

Mr. MAHON. They will both be here tomorrow.

Mr. ASH. I will be available as needed tomorrow.

Mr. TIERNAN. It seems to me it could be inconclusive.

I would like to ask the Director a question now, if he is not in too much of a rush.

Mr. MAHON. Mr. Tiernan is recognized.

ENERGY ASSUMPTIONS IN THE BUDGET

Mr. TIERNAN. Mr. Ash, earlier in response to some questions about the energy crisis you indicated that the budget was predicated on the basis that we would have the energy crisis with us during the fiscal year 1975. Is that correct?

Mr. ASH. That the embargo would continue during the whole of the period; yes. The embargo would continue.

Mr. TIERNAN. The calculations that you made were on the basis that it would be with us for the full fiscal year. What percentage in this budget do you relate to be reflective of that?

Mr. ASH. In real growth, which is one of the numbers that I guess you have in mind—in real growth, which, for calendar year 1974, is expected to be about, say, 1 percent—in real growth, probably it would have been more than twice that, had there not been the embargo and all the effects that derived out of it. We are talking about a significant effect.

Mr. TIERNAN. I would assume you also added in some other effects; I think you mentioned the unemployment figure increasing as a result of the energy crisis?

Mr. ASH. Yes, sir.

Mr. TIERNAN. What other factor?

Mr. ASH. Inflation is larger than it would otherwise be because of that, too.

Mr. TIERNAN. What will happen if, in fact, some of the reports that we hear from the Middle East come true; might there be some good news? I understand from one of your other associates that the embargo did not take effect until 3 weeks ago, and that the total effect was a 7-percent energy shortage. Is that the situation today; a shortage of approximately 7 percent of our total energy needs because of the cutoff of the crude oil?

Mr. ASH. And twice that of our oil needs and 7 percent of our total energy needs. That is the position we are in today.

Mr. TIERNAN. The embargo only took effect within the last 3 weeks. Do you think it has taken full effect?

Mr. ZARB. What I said was the full impact of the embargo, a drop at the outset, and began to show itself slowly and abruptly 3 weeks ago.

Mr. TIERNAN. If the embargo were lifted today, how long would it take for the pipeline to start up? How long a period do you predict before we would not have that effect?

Mr. ZARB. Probably several months before we were able to have full restitution of the embargo.

Mr. TIERNAN. How many months; 2, 3, or what?

Mr. ZARB. I would say 2. I am using some estimate there.

Mr. TIERNAN. On the outside it would be 3 months?

Mr. ZARB. OK.

Mr. TIERNAN. Three months from the lifting of the embargo. Is that a fair estimate?

Mr. ZARB. I think 3 months would be a fair figure.

Mr. TIERNAN. This budget starts on July 1 of this year?

Mr. ASH. That is right.

Mr. TIERNAN. If in fact the embargo were lifted, do you think the budget then would have to be changed to reflect that?

Mr. ASH. Certainly we would want to reforecast the economy and if to the extent it was lifted the effect would be the favorable for the economy and thus one that we could probably put away some of the contingency plans that we would otherwise have in mind.

Mr. TIERNAN. Thank you, Mr. Chairman.

Mr. MAHON. Thank you very much, gentlemen.

Mr. ASH. Thank you, Mr. Chairman.

WEDNESDAY, FEBRUARY 20, 1974.

SECRETARY OF THE TREASURY

WITNESSES

DEPARTMENT OF THE TREASURY

HON. GEORGE P. SHULTZ, SECRETARY OF THE TREASURY
 EDGAR R. FIEDLER, ASSISTANT SECRETARY FOR ECONOMIC POLICY,
 DEPARTMENT OF THE TREASURY

OFFICE OF MANAGEMENT AND BUDGET

ROY L. ASH, DIRECTOR
 FREDERIC V. MALEK, DEPUTY DIRECTOR
 HAROLD F. EBERLE, ASSISTANT TO THE DIRECTOR FOR CONGRES-
 SIONAL RELATIONS
 DALE R. McOMBER, ASSISTANT DIRECTOR FOR BUDGET REVIEW

COUNCIL OF ECONOMIC ADVISERS

GARY L. SEEVERS, ACTING CHAIRMAN, COUNCIL OF ECONOMIC
 ADVISERS

Mr. MAHON. The committee will come to order.

I thought we had a good hearing yesterday and we expect to have a good hearing today. We are glad to have you back today, Mr. Ash. You did an excellent job with your presentation yesterday.

Secretary Shultz, we are pleased to have you before us again this year. You have always been most cooperative with the committee and you are always welcome before us. You have served this country with great ability and dedication.

Mr. Gary Seevers of the Council of Economic Advisers is here with us today. He will have a statement and will participate in the discussions.

EFFECT OF THE ECONOMY ON THE BUDGET

We talked yesterday principally about the budget and of course we will be talking about it today. Today the hearing will take a little different turn. We would like particularly to discuss the economic assumptions behind the budget, the projected increase in the gross national product, the increase in corporate profits, the increase in the unemployment rate, and other matters of key concern to all members of the Appropriations Committee.

We need to have a greater understanding of the unique economic phenomena that are impacting on the budget, that is, the experiences we are having with rampaging rates of inflation, increasing unemployment and economic slowdowns, and a growing scarcity of basic commodities and materials. The country is confronted by a rather unique economic situation. I don't know that we have ever faced a set of circumstances like this before.

Mr. Secretary, we also need to know what additional measures are being contemplated if economic conditions turn out to be worse than

expected and we want to discuss how these proposals might work given the unusual economic forces now in existence.

There are all manner of questions that we properly should explore here today. Of course there are time limitations. We have 55 Members on the committee and we obviously can't have everyone participate fully, but Members have expressed their interest in various subjects and we are trying to see that necessary questions are explored.

Some of the other important areas which concern us include the effect of the energy crisis, the international economic situation, and of course the revenue estimates and new tax proposals contained in the budget.

At this time Secretary Shultz, you may make whatever brief comments you think appropriate and then, Mr. Seever, we would be pleased to have you make a statement on behalf of the Council of Economic Advisers.

We would like to get into the interrogation period as rapidly as we reasonably can. Mr. Secretary, will you proceed with your statement?

GENERAL STATEMENT OF THE SECRETARY OF THE TREASURY

Secretary SHULTZ. Thank you, Mr. Chairman.

I think, since by statement is very brief and since it covers ground that I know Mr. Ash talked about and which Mr. Seever will talk about, and which has been covered in the various reports, that I might just file it for the record and stand ready for your questions, because you have quite an array there.

Mr. MAHON. That is fine.
[The statement follows:]

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ

Mr. Chairman and members of this committee, I am pleased to be with you this morning to discuss the budgetary outlook for the coming fiscal year.

The revenue estimates included in the budget are for total receipts of \$270 billion in fiscal year 1974 and \$295 billion in fiscal year 1975. Because of the difficulties of estimating revenues—difficulties that are compounded this year by the uncertainties of the energy situation—our receipts estimates are presented in round numbers. Indeed, these figures should be thought of as indicative of a range of estimates extending a minimum of 1 percent on either side.

Outlays, over which we have greater control, are projected at \$274.7 billion in fiscal year 1974 and \$304.4 billion in fiscal year 1975. The result is moderate budget deficits in both years—\$4.7 billion in 1974 and \$9.4 billion in 1975.

Tables attached to this statement provide details of the receipts estimates in the budget. Receipts are expected to rise by about \$38 billion, or 16 percent, in fiscal year 1974 and \$25 billion, or 9 percent, in 1975. Economic expansion lies behind most of the rise in receipts, although recently legislated changes in social security taxes are important and account for about \$8½ billion of receipts in 1974 and an additional \$51½ billion in 1975. The proposed windfall profits tax on crude oil would raise an estimated \$1 billion net in fiscal 1974 and an additional \$2 billion net (for a total of \$3 billion) in fiscal 1975. Following the usual practice, these receipts from proposed legislation are included in the budget.

This budget, from the standpoint of fiscal policy, continues about the same posture as in the past 2 years. In present circumstances, with the economy experiencing some shortages and an unacceptable rate of inflation, on the one hand, and some slowing of economic growth on the other hand, this appears to be the prudent course for policy to take.

The economic forecast for this calendar year calls for a slowdown in the first half of the year followed by a fairly strong recovery in the second half. Given the present uncertainties, however, economic policy must be especially flexible and ready to adapt promptly to changing circumstances. We stand ready to cooperate

with your committee and with the Congress generally to achieve the fiscal flexibility that our economic situation may prove to require.

Our first line of defense, should the economy slow down more than expected, is our system of automatic economic stabilizers such as unemployment insurance. I want to stress the need for prompt congressional action on our proposal in this area, both the underlying reform first sent to Congress by the President last spring and the new measures designed to deal with the special needs of some labor market areas. Beyond this, however, I believe we should be cautious in applying stimulative policy. Since it is generally easier to expand than to contract the budget, a shift to budget ease—should it turn out to be premature—would be very unfortunate at a time like the present, when inflationary pressures are so strong. Unless and until the economic outlook departs significantly from current expectations, I believe we should maintain the present budget stance.

It is encouraging that the Congress is moving to develop its own mechanisms to coordinate individual spending decisions within the total budget framework. Your committee has played an important role through the years in the search for better control over the Federal budget. The administration supports the efforts of your committee and others in the Congress to improve the budget process and to make it a more effective instrument of economic policy.

Attachments:

BUDGET RECEIPTS UNDER LEGISLATION PROPOSED IN FISCAL 1975 BUDGET DOCUMENT

[In billions of dollars]

	1973 actual	1974 estimate	1975 estimate
Individual income taxes.....	103.2	118.0	129.0
Corporation income taxes.....	36.2	43.0	48.0
Social insurance taxes and contributions:			
Employment taxes and contributions.....	54.9	67.7	75.3
Unemployment insurance.....	6.1	6.2	6.0
Contributions for other insurance and retirement.....	3.6	4.0	4.3
Excise taxes.....	16.3	17.1	17.4
Estate and gift taxes.....	4.9	5.4	6.0
Custom duties.....	3.2	3.5	3.8
Miscellaneous receipts.....	3.9	5.0	5.2
Unified budget receipts.....	232.0	270.0	295.0
Deduct:			
Trust fund receipts.....	92.2	105.5	115.8
Interfund transactions.....	-21.3	-21.1	-23.6
Federal funds receipts.....	161.4	185.6	202.8

UNDERLYING ECONOMIC ASSUMPTIONS

	Calendar years		
	1972 actual	1973 estimate	1974 estimate
Gross national product.....	1,155	1,288	1,390
Personal income.....	939	1,035	1,135
Corporate profits before tax.....	98	126	124

PROJECTED CHANGES IN BUDGET RECEIPTS: FISCAL YEARS 1974 AND 1975

[In billions of dollars]

	Fiscal 1974 from fiscal 1973	Fiscal 1975 from fiscal 1974
Revenue changes traceable to:		
Economic growth.....	+28.4	+19.8
Windfall profits tax.....	+1.0	+2.0
Tax reform and simplification.....		-1.9
Social security changes.....	+8.4	+5.5
Other changes.....		-0.4
Total.....	+37.8	+25.0

GENERAL STATEMENT OF THE ACTING CHAIRMAN OF THE COUNCIL
OF ECONOMIC ADVISERS

Mr. MAHON. Mr. Seevers, will you please proceed with your statement?

But, first, will you please account for the absence of the Chairman of the Council? We understand it was necessary for him to be in Europe.

Mr. SEEVERS. The Chairman has been attending meetings in Paris of the Economic Policy Committee of the Organization for Economic Cooperation and Development, OECD, where representatives of the developed countries assemble and discuss the same kind of questions you are raising with respect to U.S. economic policy.

He did ask me to thank you very much for inviting the Council to appear again this year as you begin these hearings. We appreciate the opportunity to express our views on the relationship between the budget and the economy and to discuss the economic outlook.

The U.S. economy experienced a vigorous economic expansion beginning in the middle of 1971. Real production of goods and services increased 6.1 percent in 1972 and rose 5.9 percent last year, reaching a high level of employment and utilization of productive capacity. The employment increases were also particularly large during the past 2 years.

Toward the end of 1973, however, economic expansion slowed. Real output rose at an annual rate of only 1.6 percent in the fourth quarter. Important factors contributing to the slowdown were declines in the housing sector and in energy-related industries, particularly automobile production. Inflation was a serious problem throughout 1973, with rates considerably higher than the previous year.

As we begin 1974, economic policy must contend concurrently with a further slowdown in economic activity and with inflation still much higher than anyone wants.

For the first half of 1974, the Council foresees a period when real production will be approximately flat, perhaps declining temporarily, and the unemployment rate will be rising. We expect inflation to continue at a high rate in the early part of the year. This is mainly because of rising prices of energy and food, although upward pressures also exist on prices in other areas. To a major extent the forces that will determine the behavior of the economy in the first half of 1974 are the result of events that have already occurred.

The reductions in energy supplies have been having a major influence on the economy. The statistics available so far for 1974 show that the increases in unemployment and reductions in production have been concentrated in areas of the economy where we would expect the energy problem to be the greatest.

The economy certainly will be heavily influenced by the energy crisis in the first half of the year as we adjust to reduced supplies and higher prices of energy. However, these adjustments should not be such a dominant factor in the economy after mid-year. The Council expects the present period in which the economy is rising little, or possibly declining temporarily, to give way to a reasonably strong expansion in the second half and into 1975. There are several reasons for this belief.

1. Automobile sales should increase as producers raise their capacity to manufacture small cars.

2. Housing starts should reach bottom soon, if they have not already done so, and begin to rise. We expect mortgage money to be more readily available at lower rates, partly as a result of the Government's decision in January to purchase mortgages on up to 200,000 housing units at below the market interest rate.

3. Business spending on plant and equipment is expected to show a strong, steady rise during 1974.

4. We expect the rate of monetary expansion to be conducive to accelerating the growth of real output in the second half of 1974, but not so fast as to prevent a decline in the inflation rate.

5. We believe that while the rest of the world is also going through an economic slowdown in 1974, the individual and cooperative actions of the developed countries in supporting their own economies will be effective in preventing a worldwide recession in which countries drag each other down.

Finally, the Federal budget will cushion the slowdown in the first half of calendar 1974, and the President's proposed budget for fiscal 1975 will contribute to the recovery in the second half. This budget represents moderate restraint in that there is little change from fiscal 1974 when measured on a full-employment basis. At the same time the budget contains built-in stabilizers in the event that the economic slowdown would turn out to be more serious than we anticipate. Prompt action by the Congress to improve the unemployment compensation system, as proposed by the President, is particularly urgent in this regard.

The Council's outlook is surrounded by more than the customary number of uncertainties this year. There is always the risk that the slowdown will be of different dimensions than we now anticipate. That is why economic policy is prepared to adapt and, if necessary, give support if it becomes clear that the economy is falling below the desired growth path.

As the economy expands in the second half of this year, the Council anticipates improvement in the inflation rate. Food and energy prices have accounted for well over one-half of the rise in consumer prices in recent months. While this may continue for several months, the rate of inflation in these two important sectors of the economy should subside as better balance between supply and demand is restored.

Our expectation that inflation will slow down rests on the assumption that we will not enter a period of more general inflationary forces after energy and food price increases subside. We must avoid an overheated economy. Much of the recent economic slowdown has stemmed from capacity problems and the inability to produce the goods and services that consumers and businesses desire, not from insufficient demand. That is why the Council feels we must be cautious about stimulating the economy now, because the effect would occur mainly after mid-year when a reasonably strong expansion is already in prospect. Based on information available today, we think the President's budget proposals, combined with suitable policies in other areas of economic policy, will keep the economy on a course that will avoid contributing to excessive inflation in the future and will avoid a severe slowdown this year.

Thank you, Mr. Chairman.

REVENUE ESTIMATES

Mr. MAHON. Thank you very much.

Let us talk about revenue estimates, Secretary Shultz. In 10 of the last 19 years the revenue estimates were overstated in the budget. That perhaps, is not necessarily a bad record. But this year it is felt by many that your receipt forecast may be somewhat on the high side.

Using the same economic assumptions, the Joint Committee on Internal Revenue Taxation came up with a total of \$287 billion for unified budget receipts for fiscal year 1975 as opposed to your estimate of \$295 billion.

They used your estimate for GNP of \$1.3 trillion and a rate of 5.5 percent for unemployment. Would you comment as to the differences between these calculations?

Secretary SHULTZ. We did make a study of that and I don't have it right at hand here but I remember that one of the differences was, I believe, that we included in our revenue estimates the assumption that the windfall profits tax proposed by the President would be enacted and that it would bring in around \$3 billion.

We can give you for the record, Mr. Chairman, a reconciliation. We did make one and I think that there are some fairly readily ascertainable facts.

Mr. MAHON. You were mentioning the estimated \$3 billion of revenue from the expected enactment of the windfall profits tax. Where would the rest of the money be?

Secretary SHULTZ. I don't remember the complete reconciliation, Mr. Chairman.

[The information supplied follows:]

RECONCILIATION OF REVENUE ESTIMATES JOINT COMMITTEE ON INTERNAL REVENUE TAXATION VERSUS THE BUDGET

The \$287 billion estimate of total revenues for fiscal year 1975 made by the Joint Committee on Internal Revenue Taxation and published by the Joint Economic Committee is \$8 billion less than the estimate contained in the budget. This difference is accounted for by two factors. First, although the Joint Economic Committee uses the same forecast of Gross National Product as the budget, the forecasts of the key income factors appear to be considerably different. Both the personal income and corporate profits figures, as used by the committee, appear to be substantially below the figures used in the budget: Personal income, something like \$8 billion less, and corporate profits, as much as \$10 billion less. These differences account for approximately \$6 billion of the difference in receipts between the two estimates.

The second factor is the difference in assumptions about tax legislation. Most importantly, the budget assumes that the administration's proposed windfall profit tax will be enacted so as to become effective on April 1, 1974. This adds, net of the effect on corporate income taxes, \$3 billion to receipts. Other changes, per the administration's tax reform proposal, are estimated to reduce overall receipts by about \$2 billion. The committee's estimates appear to exclude both of these proposals. Thus, the different tax assumptions account for \$1 billion of the difference between the two estimates.

The other \$1 billion of the overall \$8 billion difference is accounted for, evidently, by different estimates of how much the present tax structure yields from a given level of income.

VALIDITY OF REVENUE ESTIMATES

Mr. MAHON. Your estimate of \$124 billion for corporate profits before taxes is higher than most of the other economic forecasts. The administration estimate is \$124 billion, Wharton \$118 billion, Univer-

sity of Michigan \$115 billion, and Data Resources \$120 billion. Are all of your estimates too optimistic? I am afraid that they are.

I hope they are not. Have you had any second thoughts in light of more recent developments?

Secretary SHULTZ. They are consistent with the general economic forecast that we have made and that forecast is not all that different from the forecasts of others.

When it comes to the problem of estimating the rate of inflation, nobody is in very good shape. We have a tabulation here of the forecasts that were made in 1973 by a whole list of eminent people, and while people generally were fairly good, as we were, in estimating the rate of real growth and the unemployment rate, everybody missed the inflation rate completely—just totally missed it. There isn't a single forecaster who came anywhere near.

So one reason, Mr. Chairman, why we have put our revenue estimates in round numbers, such as \$270 billion and \$295 billion—instead of the way it has often been done in the past of saying \$269.3 billion, and \$293.4 billion, and so on—is to suggest to you that this is a general estimate. Experience shows that it can be wrong one way or another and there is no point in acting as though you can estimate it to the nearest billion dollars. You can't. Nobody can.

CORPORATE PROFITS REVENUES

Mr. MAHON. On page 6 of the Budget in Brief you estimate that 1974 corporate profits before taxes will decline from \$126 billion to \$124 billion. Yet you predict corporate taxes will increase \$5 billion. How do you explain that?

Secretary SHULTZ. It works by virtue of two things.

First of all, enactment of the windfall profits tax which, in effect, adds an increment of tax to corporate profits and, second, by virtue of the interplay between fiscal years and calendar years.

IMPACT OF INFLATION ON RECEIPTS

Mr. MAHON. In fiscal 1973 receipts exceeded original estimates by \$11 billion, which was a happy situation.

Secretary SHULTZ. Well, it was only happy in part, Mr. Chairman, because—

Mr. MAHON. Most of it was attributable to inflation.

Secretary SHULTZ. From inflation, and so we can't be too happy about it.

Mr. MAHON. That is right. Your estimate for 1974 is that revenues will exceed original estimates by \$14 billion. Are you still clinging to that \$14 billion figure.

Secretary SHULTZ. Well, we are still using the \$270 billion estimate that we have carrying and, as I have said in the past, it is probably on the high side of the range of probabilities, but we think it is going to be reasonably close.

Mr. MAHON. The budget message, while anticipating a \$25 billion increase in revenues in fiscal 1975, properly points out that in the short run inflation increases receipts more than it increases outlays.

Of course that is correct. Has the Treasury already reaped a windfall of revenues from the recent sharp inflation?

Secretary SHULTZ. Well, no. The rate at which the money GNP goes up will generate the personal and corporate income tax payments that are estimated, and these income levels tend to continue. So it isn't as though there is a one-time factor operating here.

You have a rate of change that continues.

Mr. MAHON. How much of the \$25 billion increase in revenues is attributable to inflation? Supply that for the record. We understand much of it is.

Secretary SHULTZ. Yes.

[The information supplied follows:]

About \$18 billion of the \$25 billion increase in receipts from fiscal year 1974 to fiscal year 1975 could be attributed to price changes. Of the remaining \$7 billion increase in receipts, approximately \$5 billion will result from differences in the law, enacted or proposed, and about \$2 billion could be attributed to real growth.

OMB USE OF TREASURY REVENUE ESTIMATES

Mr. MAHON. Does OMB ever change the revenue total or the components of the revenue estimates which are supplied by Treasury, Mr. Ash?

Mr. ASH. No. Those become the basis of OMB's budget figures.

IMPACT OF UNEMPLOYMENT LEVELS ON 1976 REVENUES AND OUTLAYS

Mr. MAHON. Your estimate of revenues in the budget for 1976 is \$339 billion. This assumes a full employment figure of 4 percent unemployment. What would revenues be with an unemployment rate of 5, 5½, or 6 percent?

Secretary SHULTZ. That calculation we can make for the record, Mr. Chairman.

Mr. MAHON. All right.

[The information follows:]

Assuming an unemployment rate of approximately 5.5 percent for calendar year 1975, receipts in fiscal year 1976 would be in a range of \$320 billion to \$325 billion, depending on assumptions regarding shares of GNP allocated to personal income and corporate profits.

Mr. MAHON. What would outlays be at the same unemployment rates? Supply that for the record, please.

Secretary SHULTZ. Yes, sir.

[The information follows:]

At an average level of unemployment in 1975 of roughly 5½ percent, fiscal year 1976 outlays would be roughly \$2 to \$2½ billion higher than the \$329 billion estimate shown in the budget.

TRUST FUND SURPLUSES

Mr. MAHON. For 1975, trust fund borrowing is estimated to be \$8.4 billion.

Last year in connection with the overview hearings, the committee requested estimates of trust fund balances for the next 5 years based on existing legislation. The response was simply that the budget for 1974 showed a trust fund surplus of \$15 billion and that the outlook was for continued trust fund surpluses of this size over the next 4 or 5 years.

However, in just 1 year from fiscal 1974 to 1975, total trust fund surpluses are projected to decline from \$13.5 billion (already revised downward from \$15 billion) to \$8.4 billion or by a rate of 38 percent.

Could you develop and supply the committee with similar estimates based on existing legislation concerning trust fund surpluses for the next 5 years? Since the various social insurance tax and contributory rates are known and since the number of contributors and potential beneficiaries can be projected, wouldn't it be possible to project trust fund surpluses or deficits over the next 4 or 5 years?

What interest rates are applied when these trust funds are borrowed?

Mr. SHULTZ. I will supply that for the record.

[The information follows:]

The trust fund surpluses consistent with the 1975 budget estimates are as follows:

Fiscal years:	<i>Billions</i>
1975 -----	\$8.4
1976 -----	9.5
1977 -----	8.0
1978 -----	12.8
1979 -----	12.9

These estimates assume renewal of expiring legislation (such as general revenue sharing and the highway fund) and enactment of proposals in the 1975 budget. These estimates will change over time as our economic assumptions change and as legislation is passed affecting trust fund receipts and outlays.

The interest rates on these investments vary under terms of law. For example, social security investments in special issues are based on the average interest rates on all interest-bearing marketable securities with a maturity of over 4 years; the highway fund is based on the average of all interest-bearing marketable securities regardless of maturity, and the unemployment fund is based on the average rate on all interest-bearing public debt securities. The projection is based on a continuation of the rates of interest which prevailed in December 1973 when the estimates were made.

INTEREST ON THE DEBT

Mr. MAHON. The interest on the national debt gives us concern. In the 1975 budget the amount of the national debt is compared to the gross national product. This comparison indicates that the debt has decreased from about 72 percent of the GNP in 1955 to about 35 percent in 1975.

However, when interest costs are compared to Federal fund outlays it shows that in 1955 interest costs represented about 10 percent of the Federal fund outlays and in 1975 they will represent about 14 percent.

Which comparison is more meaningful in measuring the impact of Federal indebtedness on the economic health of the Nation?

Secretary SHULTZ. I think the comparison with the gross national product tells you something about the impact of the debt and its relationship to gross economic activity.

I have a suggestion for you, Mr. Chairman, if you want to reduce the burden of the debt, something that the House of Representatives could do quickly with a vote—it wouldn't take more than that—and that is to pass the Senate bill—it has been hanging around the House for quite a while—that restores to the Treasury our direct borrowing authority from the Federal Reserve.

We have been without that for some time and being without ready access to cash, we have to carry a higher cash balance than we would

otherwise. The higher cash balance, of course, means that we have to borrow that much more money and if we go through the full year without this borrowing authority we estimate it will cost the Government on the order of \$50 to \$100 million, so you could reduce the burden of the debt very simply.

Mr. MAHON. Has a strong recommendation and appeal been made to Congress for that purpose?

Secretary SHULTZ. We have been working at it. As you know, it is tied up with the effort to put the GAO onto the Fed.

Mr. MAHON. I understand.

Secretary SHULTZ. So we are suffering an inability to keep costs down because of this additional fight that is going on, and once again I think it is a sort of thing that ought to be fought out on its merits.

Mr. MAHON. Are you in accord with Mr. Burns on that issue?

Secretary SHULTZ. Yes, sir.

UNDERESTIMATING THE NATIONAL DEBT

Mr. MAHON. For the past several years the amounts estimated for interest on the public debt have been consistently below the actual costs. What are the reasons for this consistent underestimate of public debt interest cost? You are always too low.

Secretary SHULTZ. Well, the way in which the estimate is drawn up is simply to take the interest costs as they exist at the closest time we can to the point when the numbers go into the budget and we assume that that general interest rate structure will be the interest rate structure during the fiscal year.

In other words, we find it practically impossible to try to forecast interest rates and we don't try to do it. We don't try to telegraph that, among other things, because interest rates are subject to a certain amount of administrative impact, particularly from actions that the Federal Reserve may take. So that is the convention.

What that means is if you are in a period when interest rates are rising you are bound to underestimate. If you are in a period when they are falling you will tend to overestimate.

Mr. MAHON. It would seem that since you make projections on about everything else, you could make a projection which would be a more realistic figure for the interest rate in a given year.

Secretary SHULTZ. Well, you can argue it both ways, I guess, but we think that it is a questionable thing for the Treasury—given our association with the Fed and so on—to be telegraphing that particular punch.

INTEREST RATES ASSUMED IN CALCULATING INTEREST

Mr. MAHON. What rates were assumed for calculating interest on the debt for fiscal 1975? What rates were used for fiscal 1974?

Secretary SHULTZ. We can supply that for the record.

Mr. MAHON. All right.

Secretary SHULTZ. They would be the rates in existence in late December.

[The information follows:]

*Interest rate assumptions used for calculating interest on the public debt for
fiscal years 1974 and 1975*

	<i>Percent</i>
13-week bills.....	7.46
26-week bills.....	7.43
52-week bills.....	6.86
3-year notes.....	6.85
5-year notes.....	6.85
7-year notes.....	6.75
10-year bonds.....	6.90
20-year bonds.....	7.40

OWNERSHIP AND COMPOSITION OF THE NATIONAL DEBT

Mr. MAHON. How much of the national debt is held by private citizens, how much by corporations, and how much by Government trust funds? Could you supply that for the record?

Secretary SHULTZ. Yes, sir.

[The information follows:]

Estimated ownership of the public debt, December 1973

	<i>Par values in billions of dollars</i>
Total public debt.....	\$469.9
Government accounts.....	129.6
Federal reserve.....	78.5
Total privately held.....	261.7
Commercial banks.....	60.3
Total nonbank.....	201.4
Individuals.....	77.3
Savings bonds.....	60.3
Series E&H.....	59.8
Other securities.....	16.9
Insurance companies.....	5.7
Mutual savings banks.....	2.0
Corporations.....	10.9
State and local governments.....	29.2
Foreign.....	55.6
Other.....	20.8

Mr. MAHON. I have a number of additional questions with respect to this same matter which are somewhat technical which I would like you to respond to for the record.

[The material follows:]

Question. How much of the national debt is held by foreigners and what is the estimated interest payments to foreign holders in fiscal year 1975?

Answer. Foreign and international investors held \$52.8 billion of public debt issues on January 31, 1974. The estimated interest payment to foreign holders for fiscal year 1975 is \$3.8 billion.

Question. How much of the national debt is financed through long-term securities; how much through medium-and short-term securities?

Answer. On January 31, 1974, there was \$270.1 billion of marketable debt outstanding with the following maturity distribution:

	<i>In billions</i>
Under 1 year.....	\$141.5
1 to 10 years.....	106.9
Over 10 years.....	21.7

Nonmarketable debt outstanding on January 31, 1974, including special issues, amounted to \$198.1 billion and was distributed as follows:

	<i>In billions</i>
Under 1 year.....	\$52.1
1 to 10 years.....	115.8
Over 10 years.....	30.2

CHANGES MADE IN INTEREST ESTIMATES

Mr. MAHON. We are especially interested in OMB action on interest estimates developed by Treasury.

Question. Does the OMB change the estimates on interest on the debt that are submitted by Treasury? If so, why?

Answer. Estimates of the cost of interest on the public debt are made by Treasury and OMB working together. The estimates are changed only through the same joint efforts.

GENERAL REVENUE SHARING

Mr. SIKES. Mr. Chairman, isn't this a good point to bring in general revenue sharing?

Mr. MAHON. I yield.

Mr. SIKES. I would like to have the Secretary's comments on some aspects of revenue sharing. It is a program which was enacted in October 1972, and which provides for the sharing of \$30.2 billion in Federal revenues to the States and localities over a 5-year period.

Revenue sharing payments from December 1972 through January 1974 have totalled \$11.2 billion. Summary reports included in the budget indicate that State governments used 70 percent of these funds for education. Local governments reported using 35 percent for public safety, 25 percent for transportation, and 10 percent for environment and general government.

Now, these reports indicate, Mr. Secretary, that State and local tax relief could be a major result of revenue sharing. In addition, for the period ending June 1973 State and local governments accumulated a significant amount of financial assets. It appears that revenue sharing, at least initially, has replaced a significant amount of long-term State and local borrowing, perhaps up to \$2 billion, for construction and other capital improvements, that otherwise would have occurred in 1973.

What I am getting to is that over the past 3 years State and local governments have attained a strong fiscal position, comparatively speaking. On a national income accounts basis aggregate State and local government budgets show significant surpluses for the past 3 calendar years. \$4 billion for 1971, \$13.1 billion for 1972, and \$11 billion for 1973. That brings up several questions.

The primary argument advanced in support of enacting general revenue sharing legislation was the urgent financial needs of State and local governments for additional Federal assistance.

In view of the relatively good fiscal condition of the States and localities, particularly as compared with the continuing large Federal budget deficits, can there be justification for continued general revenue sharing?

Secretary SHULTZ. Well, first of all, Mr. Sikes, I think there is considerable dispersion in the financial health of the States and the localities. Some large cities have considerable financial difficulties, but, as a general proposition, the units of government below the Federal Government in size have had a turnaround in their fiscal situation. That is probably due as much as anything to the change in population patterns, and school age, and so on.

Now, I know that many justified general revenue sharing on the basis of the fiscal problems of at least some of the States and the cities,

and certainly the mayors and the Governors came in and pushed that point very hard here. I remember that.

The President did not justify general revenue sharing primarily on that basis. The President justified it, and in my mind as I have thought about it and been a supporter of it, more on a kind of a philosophic basis. We ought to do everything we can to place the decision-making authority at the State and local level over things that were essentially encompassable within the State or local boundaries. There ought to be a change in the flow of money and power from Washington back to the States and the localities. If we did that and it worked and the localities really took all this as seriously as we think they are, then we will in a sense tone up our whole society and our whole governmental process. More and more people will be able to take a really important part in it because they will not be in the position of saying, "If you want to be in the action go to Washington."

They will be in the position of saying, "Well there is a lot of the action in your State, in your locality, and there is money to do with what you want." This local government-level decisionmaking role certainly should extend to cutting taxes, particularly property taxes which have been especially onerous.

Mr. LONG. Would the gentleman from Florida yield on that point?

Mr. SIKES. In just a moment. I question if there has been any significant slowdown in the number of people coming to Washington seeking further help from the Federal Government. The theory that you have advanced is a good sounding theory. This program would be much more acceptable, in my opinion, if we could afford it. The very sad state of the national debt and the extremely high cost of carrying that debt certainly would indicate that wherever we can save money and apply it on the national debt or improve our own fiscal status, even achieve a balanced budget, it would be very dangerous.

Now, you stated the theory. It is a good theory, but I don't think it is practical in view of the large Federal deficits which are projected for fiscal 1974 and fiscal 1975.

The State and local governments show an improving budget surplus picture. So would you not agree that general revenue sharing should now be suspended or reduced until there is an improvement in the Federal fiscal position?

Secretary SHULTZ. No, sir; I am afraid I wouldn't agree with that, and from the standpoint of the fiscal policy we believe that the general fiscal policy represented by the unified budget before you is about right, given what we know about the economy and given the uncertainties that there are in the economy.

In other words, if we could automatically balance the budget we don't think that would be a great idea.

EFFECT OF IMPOUNDMENTS

Mr. WHITTEN. Your comments on giving power to the people do not square with some of your actions.

On the one hand, you have revenue sharing where you say the Government is sending out these billions and giving back power to the people. On the other hand, you have the Federal Government freezing funds, reserving funds as Mr. Ash referred to it, impoundment as others say. The effect of these impoundments is to concentrate the

decision-making power in Washington. You have taken power away from the Congress and put it in Mr. Ash's hands. And he testified I believe that the sum total was about \$11 billion appropriated by Congress for these various projects in the cities for waste treatment plants and for various other badly needed projects.

So the point I make is that your own testimony shows that you have not put the decisionmaking process at the local level. You have just sent them \$30 billion over a 6-year period and you have frozen more than that at the Washington level where the decision is not only in Washington but it is against the action of the people's branch, that is, the Congress.

Mr. LONG. Would the gentleman from Florida yield?

Mr. SIKES. I wonder if the Secretary wishes to comment on Mr. Whitten's statement.

Secretary SHULTZ. It was more of a declaration than a question. I don't know quite where to cut into it.

Mr. WHITTEN. It was a repetition of testimony that was developed yesterday. I made the statement that the testimony of the Director of the Office of Management and Budget yesterday was that these funds had been frozen, held in Washington.

I believe he used the word "reserved." Others said "impoundment." So isn't it a fact in your knowledge that these funds have been frozen by Washington's decision, whereas you just testified that the whole purpose was to get the decision at the local level?

Secretary SHULTZ. Would you like me to make a comment on it?

Mr. SIKES. Yes, we would welcome a comment on it.

Secretary SHULTZ. Well, on the first point, the level of reserves computed as a percentage of the total budget is low compared with past periods.

Second, there are, in addition to the financial aspects of the reserves, some worthwhile arguments about whether money should be spent in some cases having to do with programs which the Administration and the Congress have argued about, and in other cases having to do with particular types of expenditures that again seem like ones that we could argue whether they should be done in the locality or at the Federal Government level.

In the meantime it seems to us that this money should be withheld while that argument is going on.

Mr. SIKES. Mr. Chairman, Mr. McFall's State I think is a particularly good example of this situation. I am going to yield briefly to him.

REVENUE SHARING USED TO REDUCE STATE TAXES

Mr. McFALL. Mr. Secretary, with reference to as my State of California and some of the other States that have surpluses. We have a surplus close to \$800 million. It is almost directly attributable to the amount that the State of California received in revenue sharing. We enacted a forgiveness of State income tax and consequently I am the recipient of a 20 percent reduction in my State income tax this year, for which I am very grateful. I am glad to get it and everyone else in California is, too.

But I did not know at the time that we provided Federal revenue sharing that it would be used for the purpose of State distribution as

income tax reductions for their residents. I thought it was for some other purpose.

Do you think that this is the kind of revenue sharing that ought to continue? Is this what revenue sharing is for? To reduce State income taxes?

Secretary SHULTZ. I believe that in the specification of possible uses of revenue sharing funds, reduction of taxes—and I think people had in mind the reduction of property taxes, and particularly reduction of property taxes for the elderly was not ruled out, so that that was foreseen as a possibility.

Now, I would agree with you that in general, however, the thought was that there were these expenditures that were likely to be made by Government at one level or another and it would be better to have them made at the local or State level. By providing flexible funds, they could be made at that level and that was the general conception of revenue sharing.

Personally, I find the idea that if some governmental constituency finds that it has more money than it can appropriately spend, I think it is kind of nice to have somebody willing to cut the taxes.

Mr. McFALL. It is nice, Mr. Secretary, for those of us in California. But looking at it from the Federal point of view, was that really the objective of Federal revenue sharing?

Secretary SHULTZ. Well, the objective was to give some greater degree of flexibility and control in State and local areas over the whole construction of their financial picture, which included the fund raising as well as expenditure patterns.

Mr. SIKES. Mr. Secretary, this would indicate that there are grounds for the belief that more and more of this money is going to be used by the State and local governments in lieu of taxes.

It seems to me to be untenable to subvert these funds from the original purpose to provide financial assistance for the general Government purposes of the States and localities. It seems untenable that we now find it is being used for tax relief at the local level.

Secretary SHULTZ. I don't think that it was ever ruled out in the general revenue sharing material.

Mr. SIKES. Well, I understand from data made available concerning revenue sharing payments made to date that State and local governments have accumulated financial assets which enabled these governments to avoid a significant amount of long-term borrowing, perhaps up to \$2 billion, for construction and other capital improvement projects.

Why should the Federal Government borrow money at high interest rates and send it to a State or local government so that they can avoid the cost of long-term debt financing? What is the justification for the Federal Government borrowing money at a high rate of interest and sending to a State or locality which places it in the bank to draw interest, and we know that is happening, until they need it to finance a capital improvement project?

We don't have that kind of money.

Secretary SHULTZ. We have in the general revenue sharing legislation made a compact with the State and local governments about the flows of money and the time periods within which they should expend it. It is explicitly stated how long it should take a local government or a State to make up its mind and expend the money. That is foreseen in

the legislation. And certainly you don't expect an instantaneous expenditure of money by people, particularly at the start of a program, when they have not been able to make a plan for it or count on it until the bill is actually passed by the Congress and signed.

So I think these things have been foreseen.

Mr. SIKES. Do you not have any concern, now that there is continuing inflation and the threat of recession, that we should husband these resources to be spent for essential Federal programs rather than putting them into general revenue sharing programs? The States and local governments obviously are in much better fiscal condition than the Federal Government.

Secretary SHULTZ. Well, I think that you are always in the position of trying to accomplish many purposes, and one prime purpose, it seems to me, should be the continued effort to decentralize the location of power both in the governmental sense and in the sense of government versus private. Personally, I am in favor of decentralizing to lower units of government where it is at all sensible and by having things done by private enterprise rather than public where it seems reasonable to do so.

Mr. SIKES. Would you advocate increasing general revenue sharing?

Secretary SHULTZ. What I advocate is that we have a program. It was debated hotly all around the country and in the Congress, and it was passed, and it has a time period on it. What we should do is let that program run, we should study it, keep track of how the expenditures go, and raise questions such as you are raising. As we come toward the end of this 5-year period, evaluate it and see what has happened and whether we think it is of value or not.

At this point it is just barely getting started.

POSSIBLE USE OF LETTERS OF CREDIT IN REVENUE SHARING PROGRAM

Mr. ROUSH. The point my colleague raised concerning the investment of these funds locally has been a matter of concern to me. In effect what we are doing is giving to the local and State communities quite a bit more money than was contemplated.

Now, you mentioned that there is a time limit during which that money must be spent. What is that time limit?

Secretary SHULTZ. Two years.

Mr. ROUSH. In other words, they can hold this money for 2 years? The District of Columbia computed its interest, at something between \$1 and \$2 million, interest that would be received on money invested but unspent.

Has any thought been given to issuing, say, something like a letter of credit to local communities and States so that the Federal Government could hold that money until the local community is prepared to spend it? Then you would be relieved of borrowing for at least that period of time.

Secretary SHULTZ. That subject, of course, was debated at the time the bill was passed, and the fact that the bill states there is a 2-year period suggests that the whole problem was contemplated. People must have had in their minds the fact that money received would not be instantaneously spent—it wouldn't even be desirable to have that take place—and, in the meantime, presumably you put it out at interest and that would tend to generate more funds.

So that was contemplated in the legislation.

Mr. ROUSH. But you missed my point. My point is that we don't require them to spend the money instantly but give them the money before they are ready to spend it.

Secretary SHULTZ. You could have a different type of system in which you said you will not disburse the Federal money until you get a voucher of some kind showing that the money was expended, and what for, and it has been certified, and so forth. You could have that kind of a system.

It was thought during the debate on general revenue sharing that if we are going to really put discretion in the hands of State and local authorities to spend this money flexibly, we should literally do that. We should put the money in their hands and they spend it their way when they want to and they don't have to come back to the Federal Government to get the money. That was the idea of it.

Now, you can question the idea, and obviously around the committee you do, but in terms of what the idea was, what you people voted on and put through, these questions that you are raising were contemplated in the legislation. They were handled in a certain way.

Mr. ROUSH. I don't see how doing this—giving them the money when they are ready to spend it—would in any way interfere with their discretion as to how they spent the money.

Mr. SIKES. Let me yield to Mr. Long.

Mr. LONG. Mr. Secretary, on the matter of revenue sharing raised by my distinguished colleague from Florida, the purpose of revenue sharing as you presented it is to let the communities help themselves. Isn't that so?

Secretary SHULTZ. Exactly.

RELATION OF REVENUE SHARING TO LOCAL TAXES

Mr. LONG. Why don't communities have the power to help themselves without revenue sharing? Any time they want to raise the taxes themselves for their own needs they can do it without coming to Washington.

It seems to me that, far from reducing dependence on Washington, the revenue sharing program increases it.

Of course you will argue that communities have greater difficulties in raising revenue than the Federal Government. I might point out what we all know—that every tax dollar that we pay locally in income or property is deducted from our Federal income tax. Thus when States and localities do raise their own taxes, we give them a subsidy.

Furthermore, in Maryland, both a high income district such as Baltimore County and a low-income area such as Baltimore City, have to respond to revenue sharing by lowering the tax rate because there is an election coming up.

We have had a need for sewer and water projects in Baltimore County for years. This revenue sharing money could have been spent for those projects. It wasn't. It was used for tax cuts. Then citizens are told by councilmen and others to put pressure on Congressman to get them more money for sewer and water projects, projects that Congress intended to be financed by revenue sharing. But State and local governments didn't work that way.

Mr. SIKES. Let us have your comment and then I have one final question.

Do you have a comment on Mr. Long's question?

Secretary SHULTZ. Yes, sir.

I think the Congressmen should tell them to get it out of the revenue sharing funds.

METHOD OF APPROPRIATING FOR REVENUE SHARING

Mr. SIKES. Mr. Secretary, do you believe that revenue sharing should bypass the Appropriations Committee?

Secretary SHULTZ. I am in favor of the Appropriations Committee getting a look at everything. It is hard to see just how that can be always done with programs that are designed to have a flow to them and that go out into future years. This is a general problem that we see in many types of expenditure and I think we need a better solution to it than the one we have now. I believe that the Appropriations Committee ought somehow have its hooks into the social security payments, into the revenue sharing payments, and into everything. But you don't.

FUTURE OF REVENUE SHARING

Mr. MAHON. Mr. Secretary, it is true that the Appropriations Committee has handled about 60 percent of the spending of the Federal Government. The remaining 40 percent is mandated by other legislation and other procedures.

As a student of government and history, do you believe that revenue sharing, now that it has been initiated, will ever be discontinued? What is your philosophical view of this subject?

Secretary SHULTZ. Well, my observation is that anything that starts is practically impossible to stop, and if it is good it is really impossible. Even if it is terrible, it is practically impossible to stop, and that is what most of this shouting about impoundment is really all about.

As you know, about once every 8 years you have the possibility of a President just reelected to a second term. If he is courageous and bold he can just put his foot down on all these crummy programs that we all talk about and can all point to and we all say should be cleaned out of the budget and just do it, and the way he has to do it is by impounding funds.

What this means is that if a President does that, you find on your hands somebody who is really trying to cut down the size of Government, and when that fact becomes clear around this city you have problems. In my opinion an awful lot of shouting that has been going on is exactly about that problem.

Mr. MAHON. Mr. Secretary, the issue that runs counter to our philosophy of government is that, as a general rule, the people who spend the money ought to raise the revenue.

But we can't discuss all the issues of revenue sharing at this point. I agree with you that we might stop the tides at Passamaquoddy, but we will never stop revenue sharing. My hope is that we can improve it, and that we can then put the responsibility for use of these funds in the Appropriations Committee where it belongs. As you know, another procedure was used to channel it through the Ways and Means Com-

mittee and the Rules of the House of Representatives were set aside. You would agree with me, I think, that this so-called revenue sharing trust fund is about 99.9 percent phony. I hope something can be done to improve the revenue sharing program.

Secretary SHULTZ. Mr. Chairman, in response let me just raise my right hand and say, "I pledge allegiance to the Committee on Appropriations."

Mr. MAHON. Thank you very much, Mr. Secretary.

Couldn't you have achieved a reservation of funds by reserving some of the funds that States like California didn't need. Wouldn't this have reduced the national debt and the spending of Federal funds? Would the law prohibit you doing that? Is that your point?

Secretary SHULTZ. The idea, I think, was to be sure that we implemented in good faith with the Governors and the mayors a philosophic concept that over a period of time we hope will change the general structure of governmental power in the country in a constructive and helpful way.

Mr. SIKES. Mr. Secretary, the Appropriations Committee now has a look at this program after the fact, so we have no real authority over it. Would you advocate that the Appropriations Committee have a look at the program before the money is made available.

Secretary SHULTZ. Well, I don't know how to solve this problem, particularly for the out-years. We see it in many fields. We see it in the education field and, with Mr. Passman sitting next to you, we see it in the area of the multilateral lending institutions, a good tame topic, but you see the same subject again and again. I don't feel that we have in our governmental processes a good way of handling it, and I don't know what I would bite on particularly. I think we ought to figure out a better way than we now have.

Mr. SIKES. Would it not be helpful if the Appropriations Committee were to approve these programs in advance of the money being made available?

Secretary SHULTZ. Well, again I don't want to jump at something. In general, I think that it is constructive to have an overall look at the flow of money somewhere in the Congress so that genuine choices can be made among different kinds of things you want to do, and the Appropriations Committee is certainly a logical place to do that. You have had a budget reform procedure going on with different structure and far be it from me to interfere with the Congress structuring of its own institutions, but I think the general thrust is constructive.

Mr. PASSMAN. Mr. Chairman.

Mr. MAHON. Yes. The gentleman from Louisiana, the chairman of the Subcommittee on Foreign Operations is recognized.

SUPPLEMENTAL BUDGET REQUEST FOR SOUTHEAST ASIA

Mr. PASSMAN. Only with your permission shall I depart from the regular discussion of the budget and discuss a possible supplemental request that may be pending. I think it is quite appropriate to do so at this time because we have Mr. Ash and Secretary Shultz here today.

Recently I had a meeting with the Director of the Agency for International Development, Mr. Dan Parker. Let me say he is a very able successor to Dr. John Hannah. He is a dedicated man. He is doing his homework and I feel it is going to be a pleasure to work with Dan Parker as chairman of the Foreign Operations Subcommittee.

Mr. Parker stated that an emergency had arisen in Southeast Asia and it was going to be necessary to request about \$100 million in supplemental funds. Are you familiar with that, Mr. Ash?

Mr. ASH. We have it in front of us only in an informal way so far and do not have any formal request from the agency for that but will be considering it when we do have that.

Mr. PASSMAN. I feel somewhat sympathetic toward the request because we do have a tremendous investment in Vietnam and Mr. Parker says it is bordering upon an emergency. He said they are going to have to have the funds and I would assume that it has been discussed with either you or staff members in your office.

Have you gotten far enough along to know whether or not it is a valid request?

Mr. ASH. We have had those informal discussions that you suggest and would be very pleased to take into account seriously and strongly the suggestion that you are making.

Mr. PASSMAN. Mr. Ash and Mr. Secretary, of course we know that most AID funds are made available on an illustrative basis. They submit estimates to the Congress but they have the right to transfer from one account to another, within certain limits, and I have not objected too strenuously to that procedure because they have to have some flexibility.

But if a workable alternate could be submitted would you look at it? Rather than ask for a supplemental request for new funds you could look at some alternate that would serve the same purpose?

Mr. ASH. We certainly shall.

Mr. PASSMAN. I make that statement, Mr. Chairman, for this reason. This committee just returned from Indonesia and of course you know they are very friendly to our country. They have been a very poor country but they have tremendous natural resources.

After going through the budget requests for fiscal 1974 and listing the estimates for the many different programs for Indonesia, we found that there was around \$250 million in budget requests for Indonesia under the different programs.

Upon investigation we found that Indonesia had over \$1 billion surplus in their foreign exchange account. I wish all the recipients of our AID program had similar surpluses in their foreign exchange account.

But we did find that they are getting ready to put in production one of the most modern, profitable copper mines in the world. Some of the American companies are there and they are going to have a tremendous inflow into the foreign exchange account from the sale of copper.

We also found that their petroleum production is now about 1.4 million barrels a day, and if you figure the new increased cost per barrel, that is a tremendous input into their foreign exchange account.

I am just wondering if you could do a bit of checking on this. I single out Indonesia because that is one country where we kept a pretty close check on their foreign exchange account, and we just visited that country.

Possibly we could postpone some of the programs we have scheduled for Indonesia or any other countries where we find the condition is warranted.

So maybe by reducing amounts scheduled to be received by countries where their economies have improved so much, adjustments could be made in the overall program and we could get away from having to make a request for supplemental foreign aid funds.

Does what I say make sense?

Mr. ASH. It certainly seems to, and we will give full consideration to your observation.

Mr. PASSMAN. I am just trying to find an alternative rather than fund this emergency request through a supplemental. As long as you said you will look at it that is all I want to know.

Mr. ASH. We will, yes sir.

Mr. PASSMAN. Thank you very much, Mr. Director.

Mr. MAHON. Mr. DAVIS has been seeking recognition.

BALANCED BUDGET POLICY

Mr. DAVIS. Mr. Secretary, I have a couple of general questions and then a couple of questions of Mr. Ash. I may be the devil's advocate a little bit.

I am not holding you responsible for what I want to talk about, but it does appear that based upon the recommendations of this new statement from the Economic Council we seem to be wedded now to the principle that if we have a balanced budget—and I don't mean a full employment balanced budget but a balanced budget, this is necessarily going to cause unemployment, and therefore as a policy position we now seem to be afraid of a balanced budget. Is that an unfair impression?

Secretary SHULTZ. I don't know whether it is unfair or not. It is not accurate as far as the President is concerned or as far as I am concerned. We strove to get a balanced budget for fiscal 1974. As it turned out, it doesn't look as though we will be getting there. We thought that was the appropriate fiscal policy, and I believe it was.

The change in the energy situation has created a somewhat different condition in the economy and it leads us to think that, under the conditions we expect to see in calendar year 1974, the fiscal 1974 budget and the projected fiscal 1975 budget—both of which have deficits which are small percentagewise compared with others, although the numbers are large—are appropriate. But I think, when we have a surging economy as we did, it was appropriate to have a balanced budget, and to the extent that we can calculate the balance in the budget in shorter time periods than the artificial fiscal year we did have a balanced budget for some period of time in there. So I hope there will be many situations when we will want to have a balanced budget.

Mr. DAVIS. But our budget has a planned deficit as we look at it now. We don't know what Congress may do with that. Yet what we have before us here is a \$9 billion deficit on the unified basis and \$17.9 billion on the Federal funds basis, and it seems to be justified on the theory if we balance the budget that is going to be too much of a restraint, and therefore we are going to have unemployment.

Is that a factor here?

Secretary SHULTZ. That is certainly a factor in thinking about fiscal 1975.

FULL EMPLOYMENT BUDGET

Mr. DAVIS. Then we look at full employment budget concept where full employment is defined as 96-percent employment or 4-percent unemployment. Have we had in this country as far as you know a time in what might be described as a peacetime economy 4-percent unemployment in any year?

Secretary SHULTZ. We had a pretty good period in the middle 1950's that I think was in that general area. It seemed we were moving toward it in the middle 1960's, and then, with the expenditures of the Vietnam war and the Great Society programs without tax changes that matched them, we sort of blew that really great opportunity. But we have approached this millennium.

I think there is an appropriate, real effort going on to refine this notion of a full employment budget and what it means. In the economic report of the Council, there are a few pages that get into some of the difficulties, including the problem of changes in the composition of the labor force, which change the meaning of 4-percent unemployment. There are various calculations in there about this and also about the inflation factor and what it does. As we have come to try to use this concept more, we, of course, have worked on it and, I think, gradually are making a better and more useful concept out of it.

Mr. DAVIS. But the 4 percent was kind of an arbitrary figure decided upon 25 years ago or so, wasn't it?

Secretary SHULTZ. It came about in the late 1950's, and in the early 1960's, it took hold. I think in a conceptual sense you can refer back to the period in the middle fifties when we did get down to roughly that kind of unemployment with reasonable price stability.

What that invites you to do, of course, is to ask what was the composition of the labor force at that time and what has happened to it now, and ask whether the proportion in the labor force of people who always have high unemployment rates, like young people and women, has increased. And the answer is yes, they have. So that to the extent you are trying to match the present period and that period back in the middle 1950's when things seemed to be pretty good, you probably ought to make some adjustments in this concept. So we have been working at that just as a concept, and the Council's report has a very good discussion of it on page 31. It is a good discussion of this general problem.

STIMULATING THE ECONOMY THROUGH THE BUDGET

Mr. DAVIS. Now, maybe the best way I can describe it is a sort of traditional economics. When we talked about the Government using the budget as an instrument for economic pump priming, we need to talk about public works in the sense of highways and the projects that we deal with in the Public Works Subcommittee. Nowadays, I suppose, the sewer and water, antipollution program. Yet here where we seem to be concerned about the budget as—I think the term used in here is “built-in stabilizers” but the old-fashioned term would be “pump priming?”—we find here a situation where funds for these traditional pump primers are being held up and we are turning to something else. Is that because we feel that public works programs as such don't work rapidly enough, or that there is another approach that we have to use here for what we call built-in stabilizers in this budget?

Secretary SHULTZ. I think public works programs of various kinds can be useful in this sense, and particularly those categories of public works where a project has been approved and has been contracted out and is underway in some sense but is not underway in as rapid a manner as it could go. That is the kind of thing you can speed up quickly, because you don't need to draw up plans and get them approved and find a contractor and so on. All you need to do is say, “Try to do it faster.”

So that is the kind of thing that can be speeded up, and there is a certain amount of that in the budget. We have in mind the possibility of doing that when necessary. It also gives you the ability to do it in some places and not others, depending upon variations in economic circumstances.

Now, that is something that can be done; it is not going to solve all the world problems.

I think the single most important thing that the Congress could do would be to act on the recommendations of the President having to do with unemployment insurance, because this would raise the benefit levels, it would increase the coverage, and it would so design the system to be able to trigger on extended durations of unemployment for particular metropolitan areas rather than States as a whole. And this is a kind of stabilizer that turns on and off very quickly and in response to conditions. It doesn't take governmental decisions on anyone's part. It happens fast and it is quite effective and turns off.

Mr. WHITTEN. Will the gentleman yield?

Mr. DAVIS. Yes.

NEED FOR ADVANCE PLANNING OF PUBLIC WORKS PROJECTS

Mr. WHITTEN. Haven't you just made a very good case, Mr. Schultz, in view of the very rather blue economic outlook for the Appropriations Subcommittee, which Mr. Davis and I serve on, to fund advance planning of public works projects so that in the future there will be a backlog of programs which can be started quickly if a recession is threatening?

Yesterday and again today unemployment insurance and various other things that the Government does for people who can't work are offered as a substitute for what I think is much better, and that is give them work to do.

As I understood your answer was that projects that have been planned and are ready to go would be worthwhile. If that be true, aren't we facing a period where you should turn us loose and let us set up these projects so they will be ready to go in case they are needed, instead of waking up primarily 2 years late?

I thank my colleague for letting me ask the question.

BUILT-IN STABILIZERS

Mr. DAVIS. Dr. Seevers, inasmuch as your statement is what I referred to by the term "built-in stabilizers," for the record would you identify what you consider to be built-in stabilizers that are in this budget here? I don't want to take the time to do it now. Will you do it for the record?

Mr. SEEVERS. I will be happy to.

[The information follows:]

STATEMENT ON BUILT-IN STABILIZERS

Built-in stabilizers of economic activity are derived from the tendency of actual Federal revenues and expenditures to change automatically and thereby counteract any deviations of GNP from the path that is anticipated in the Federal budget. If GNP rises less than expected, assuming no changes in the tax system, Federal revenues will fall below the levels estimated in the budget.

Simultaneously, expenditures will rise, mainly as a result of higher unemployment insurance payments, even if no new expenditure bills are passed. As a result, the actual deficit grows and an automatic fiscal stimulus is generated which serves to offset some of the contraction of aggregate demand in the rest of the economy.

If GNP rises more than anticipated in the budget because of increased growth of real GNP or higher-than-expected rates of inflation, Federal revenues will rise more and expenditures may rise less. The actual surplus will increase (or the deficit will decline) and brake the overheating of the economy and the rise in the rate of inflation. An increase in the surplus withdraws purchasing power from consumers and businesses as more is taxed away is returned to them through Government expenditures.

The budget's two main built-in stabilizers have been the tax system, which increases revenues as GNP increases, and unemployment compensation which increases expenditures when there is a slowdown in economic activity that raises unemployment.

The total effect of built-in stabilizers in the budget has been reduced by automatic cost-of-living adjustments mandated by law in major transfer programs. Such adjustments tend to raise expenditures in step with the rate of inflation. On the other hand, shortfalls of real GNP tend to be counteracted more vigorously, if they trigger expanded Federal expenditures—for instance, through public service employment or extensions of entitlements for unemployment benefits—according to preset formulas established by law. While the previous law authorizing emergency employment assistance through transitional public service jobs has expired, State and local governments can continue to provide such employment in areas with more than 6.5 percent unemployment under title II of the Comprehensive Employment and Training Act. In addition, the extension of unemployment insurance coverage and the expanded benefits proposed by the President will improve the built-in stabilization features of the budget.

INCREASE IN DEFENSE BUDGET

Mr. DAVIS. I have one more question, Mr. Chairman, relating to the defense situation which the chairman and I happen to be concerned about.

The general impression around the country when you hear them criticize the size of these proposed expenditures seems to be the way to bring that thing into line is to take a whack at the \$6.3 billion outlay increase for the Department of Defense. Am I correct, Mr. Ash, in my interpretation here of what I have been looking at with respect to the defense situation, that even though we have a proposed increase of about \$6.3 billion, if you relate that to base forces now and set aside the Vietnam expenditures of Southeast Asia, that this in terms of 5 years ago, 1969, really represents purchasing power of something like \$4 billion less than the budget was in 1969? Do I interpret that correctly?

Mr. ASH. It is even a greater amount than that, but certainly that is the idea, yes.

Mr. DAVIS. Looking ahead another 5 years as has been projected here to a 1979 spending for national security and international affairs of something like \$111 billion, which looks like a substantial dollar increase, as I interpret that that simply would permit us to continue the present baseline capabilities of our defense forces from what it now is in 1975?

Mr. ASH. That is basically what it does, yes.

Mr. DAVIS. Thank you, Mr. Chairman. At this point I would like to insert some tables and charts in the record.

[The material follows:]

DOD OUTLAYS

(Fiscal Years, Millions of Dollars)

	---- Current Dollars ----		---- 1975 Dollars ----	
	69	74	69	75
<u>Full Cost (Inclu. SEA)</u>				
Personnel	21,374	24,165	37,907	25,922
O & M	22,227	23,306	33,999	25,096
Procurement	23,988	15,144	32,639	15,861
R D T & E	7,457	8,414	10,230	8,934
Other ^{1/}	3,616	8,471	5,928	9,135
Total, DOD	78,661	79,500	120,703	84,948
<u>Baseline (Exclu. SEA)</u>				
Personnel	15,708	23,779	28,196	25,510
O & M	15,739	22,314	23,991	24,013
Procurement	15,231	13,615	20,778	14,261
R D T & E	7,319	8,414	10,043	8,934
Other	3,121	8,471	5,143	9,135
Total ^{1/}	57,116	76,592	88,151	81,852
				84,005

^{1/} Retired Pay, Military Construction, Family Housing, Civil Defense, Special Foreign Currency Program, Revolving and Management Funds, Trust Funds, Offsetting Receipts.

Source: Table prepared by the Minority Staff, House Committee on Appropriations, from data compiled by the Office of the Assistant Secretary of Defense (Controller)

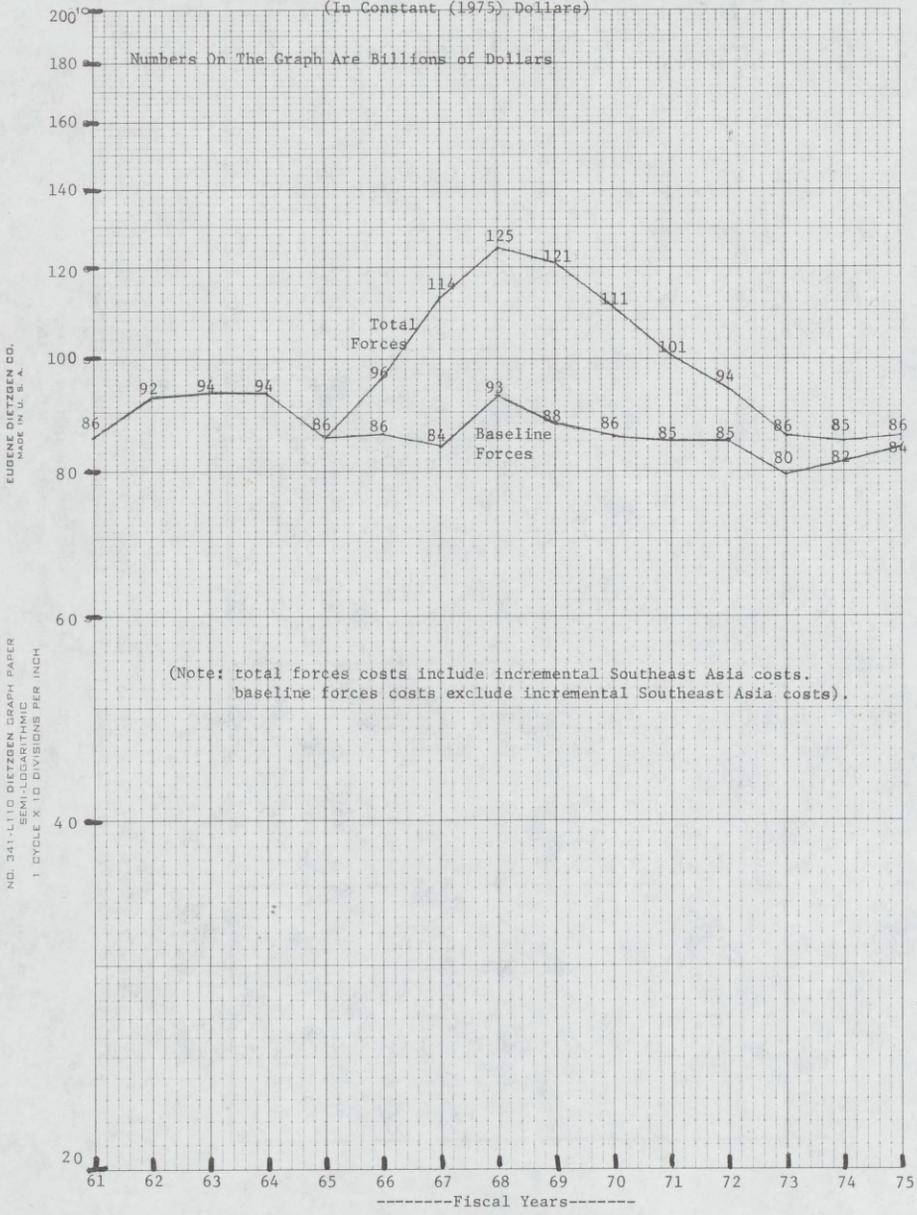
Increases and Reductions in DOD Outlays
(Fiscal Years, Dollars in Millions)

	Increase or Decrease, 1969-1975		Increase or Decrease, 1974-1975	
	Current Dollars	1975 Dollars	Current Dollars	1975 Dollars
<u>Full Costs, Including</u>				
<u>Incremental Southeast Asia Costs</u>				
Personnel	+ 4,311	- 12,222 (- 32.2%)	+ 1,520 (+ 6.3%)	- 237 (- 0.9%)
O & M	+ 3,225	- 8,547 (- 25.1%)	+ 2,146 (+ 9.2%)	+ 356 (+ 1.4%)
Procurement	- 7,629	- 16,280 (- 49.9%)	+ 1,215 (+ 8.0%)	+ 498 (+ 3.1%)
R D T & E	+ 1,497	- 1,276 (- 12.5%)	+ 540 (+ 6.4%)	+ 20 (+ 0.2%)
Other ^{1/}	+ 5,733	+ 3,421 (+ 57.7%)	+ 878 (+ 10.4%)	+ 214 (+ 2.3%)
Total, DOD	+ 7,139	- 34,903 (- 28.9%)	+ 6,300 (+ 7.9%)	+ 852 (+ 1.0%)
<u>Baseline Forces, Excluding</u>				
<u>Incremental Southeast Asia Costs</u>				
Personnel	+ 9,740	- 2,748 (- 9.7%)	+ 1,669 (+ 7.0%)	- 62 (- 0.2%)
O & M	+ 8,882	+ 630 (+ 2.6%)	+ 2,307 (+ 10.3%)	+ 608 (+ 2.5%)
Procurement	+ 402	- 5,145 (- 24.8%)	+ 2,018 (+ 14.8%)	+ 1,372 (+ 9.6%)
R D T & E	+ 1,635	- 1,089 (- 10.8%)	+ 540 (+ 6.4%)	+ 20 (+ 0.2%)
Other ^{1/}	+ 6,228	+ 4,206 (+ 81.8%)	+ 878 (+ 10.4%)	+ 214 (+ 2.3%)
Total, DOD	+26,889	- 4,146 (- 4.7%)	+ 7,413 (+ 9.7%)	+ 2,153 (+ 2.6%)

^{1/} Retired Pay, Military Construction, Family Housing, Civil Defense, Special Foreign Currency Program, Revolving and Management Funds, Trust Funds, Offsetting Receipts.

Source: Table prepared by the Minority Staff, Committee on Appropriations, from data compiled by the Office of the Assistant Secretary of Defense (Controller)

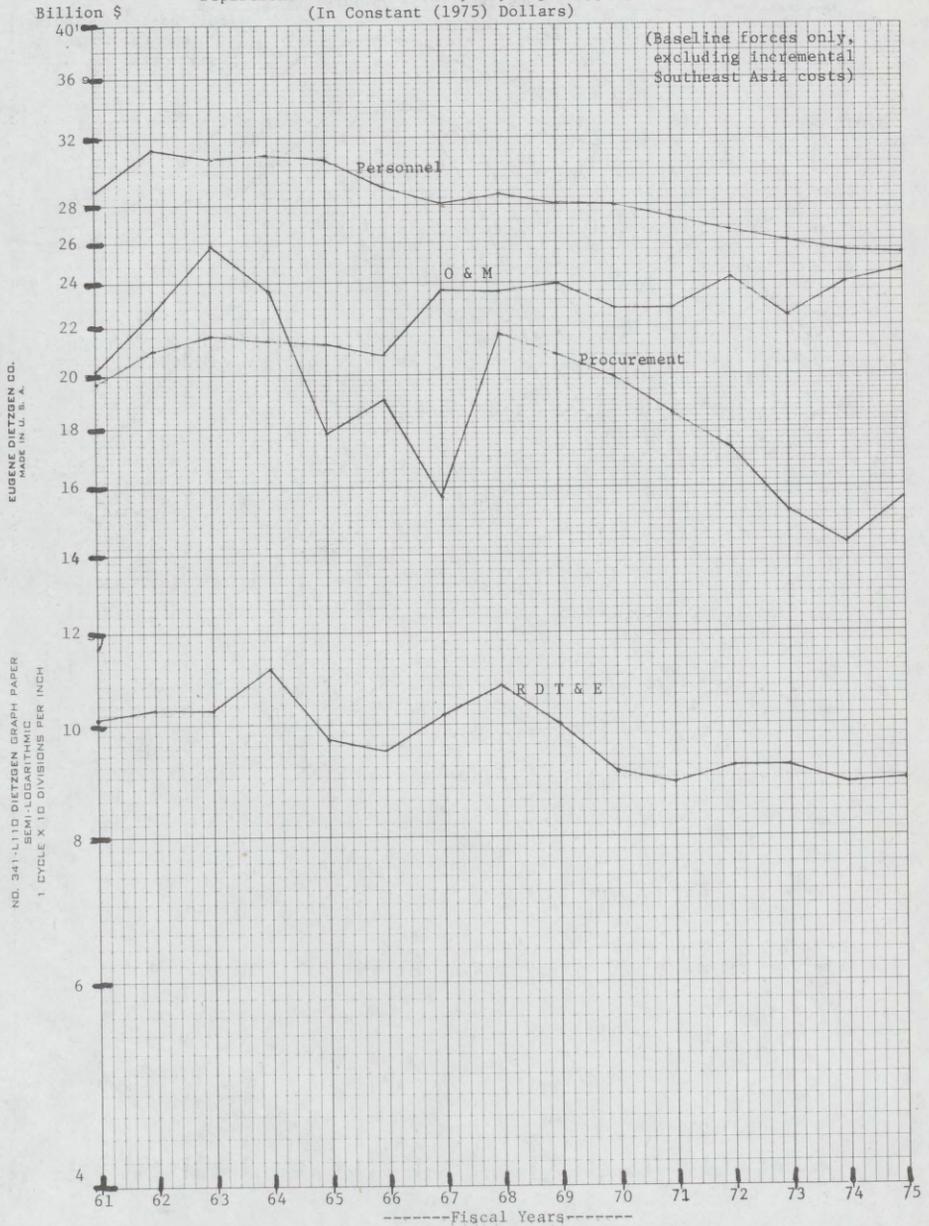
Federal Unified Budget Outlays - Military Functions, Department of Defense
(In Constant (1975) Dollars)

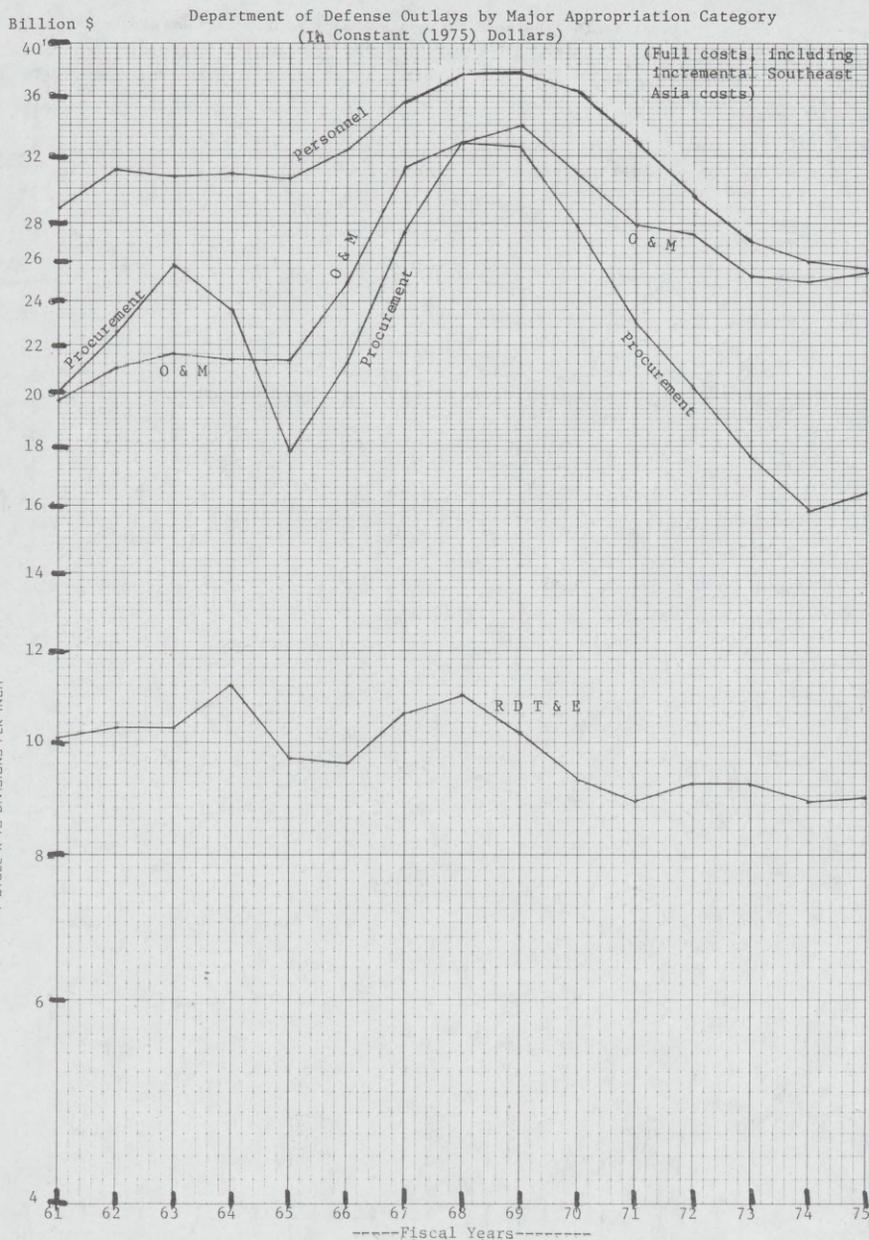


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Department of Defense Outlays By Major Appropriation Category
(In Constant (1975) Dollars)





Federal Unified Budget, Constant FY 1975 Prices
(Outlays, \$ in Millions, Fiscal Years)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
MIL. Functions & Mil. Asst.	84,779	85,649	92,439	93,665	93,597	85,583	96,224	113,539	124,627	120,703	110,997	100,747	94,203	85,858	84,948	85,800
Other National Defense	4,773	4,598	4,839	4,547	4,574	3,945	2,627	3,557	3,495	3,109	3,109	2,568	2,771	2,416	1,117	1,929
Total National Defense	89,552	90,247	97,278	98,212	98,171	89,528	98,715	116,166	128,184	124,198	114,106	103,315	96,974	88,274	86,065	87,729
Education & Manpower	2,205	2,350	2,764	3,125	3,375	4,233	7,497	10,316	11,487	10,616	10,783	11,071	12,439	11,996	11,722	11,537
Health	1,547	1,742	2,261	2,750	3,282	3,142	4,497	11,686	16,359	18,868	19,080	19,451	21,810	21,693	25,209	26,282
Income Security	37,420	42,662	45,315	47,592	48,163	47,525	51,843	54,681	58,158	61,379	64,695	75,542	82,792	86,069	92,086	100,071
Veterans Benefits & Services	11,121	11,376	11,273	10,931	10,883	10,577	10,630	12,104	11,724	12,423	12,836	13,157	13,688	14,150	14,393	13,612
Total, Human Resources	52,293	58,130	61,613	64,398	65,703	65,477	74,727	88,787	97,728	103,286	107,394	119,221	130,729	133,908	143,410	151,502
Agriculture & Rural Development	6,807	6,680	8,261	10,174	9,931	8,882	6,600	7,672	10,119	10,111	9,173	6,859	9,009	7,292	4,376	2,729
Natural Resources & Environment	2,049	3,120	3,357	2,966	3,766	3,800	3,655	3,295	2,934	3,527	3,799	3,655	4,797	6,994	660	3,128
Commerce & Transportation	9,861	10,138	10,940	11,479	12,511	13,752	13,110	13,416	13,843	12,914	13,987	15,381	14,393	15,395	14,649	13,400
Community Development & Housing	1,980	382	1,180	-1,743	-354	532	4,747	4,589	6,944	3,189	4,386	4,518	5,462	4,867	5,905	5,667
Total, Physical Resources	20,697	20,320	23,738	22,876	25,854	26,966	28,112	28,972	33,840	29,741	31,345	30,413	33,661	28,248	25,590	24,924
Interest	17,004	16,216	16,675	18,248	18,793	19,146	20,260	22,084	23,417	25,676	27,089	26,392	26,253	26,870	30,069	29,122
International Affairs & Finance	6,258	6,714	9,002	8,149	7,887	8,022	8,061	7,977	7,869	6,154	5,281	4,166	4,753	3,483	4,210	4,103
Space Research & Technology	822	1,468	2,519	5,053	7,989	9,440	10,652	9,514	8,543	6,906	5,562	4,580	4,385	4,950	7,582	3,474
General Government	2,359	2,858	3,146	3,450	3,791	3,993	4,022	4,261	4,259	4,553	4,815	5,215	6,106	7,185	7,987	7,774
Total other	9,619	11,060	14,667	16,652	19,667	21,425	22,735	21,752	20,171	17,613	15,662	13,931	15,224	21,654	22,006	21,855
Undistributed Intragovernmental	-4,705	-4,898	-5,036	-5,236	-5,511	-5,747	-6,039	-6,905	-7,664	-8,320	-9,438	-9,927	-10,022	-9,850	-10,794	-10,717
Net Total	184,460	191,075	208,935	215,150	222,677	216,795	238,510	270,856	295,676	292,194	286,138	283,345	292,819	289,104	296,344	304,445
National Defense	89,552	90,247	97,278	98,212	98,171	89,528	98,715	116,166	128,184	124,198	114,106	103,315	96,974	88,274	86,065	87,729
Veterans, Space, Int'l	18,201	19,578	22,794	24,133	26,759	28,009	29,343	29,595	27,635	25,483	23,663	21,873	22,806	21,533	22,045	20,987
Interest	17,004	16,216	16,675	18,248	18,793	19,146	20,260	22,084	23,417	25,676	27,089	26,392	26,253	26,870	30,069	29,122
Social & Economic	64,408	69,932	77,224	79,793	84,165	85,859	96,231	109,916	134,104	130,517	130,718	141,696	156,808	162,277	168,939	177,324
Agency Total	189,165	195,973	213,971	220,386	228,168	222,542	244,544	277,761	302,841	300,574	295,576	302,841	289,954	302,841	307,138	315,162
Undistributed Intragovernmental	-4,705	-4,898	-5,036	-5,236	-5,511	-5,747	-6,039	-6,905	-7,664	-8,320	-9,438	-9,927	-10,022	-9,850	-10,794	-10,717
Net Total	184,460	191,075	208,935	215,150	222,677	216,795	238,510	270,856	295,676	292,194	286,138	283,345	292,819	289,104	296,344	304,445

Source: Office of the Assistant Secretary of Defense (Controller)

Mr. YATES. Mr. Chairman, may I be recognized?

Mr. SLACK. Mr. Chairman?

Mr. MAHON. I promised Mr. Flynt a moment ago that I would recognize him.

Mr. YATES. I will defer to the gentleman.

Mr. MAHON. Mr. Flynt.

Mr. FLYNT. Mr. Secretary, during this hearing last year, you may recall that I indicated my support for a good many of your recommendations to the committee at that time. Also, you are aware that two of your strongest supporters have been my senior colleague from Georgia Mr. Landrum and myself. As a matter of fact you have a very good reputation in the State of Georgia because of what he and I said about you.

Secretary SHULTZ. Well, your reputation is on the line then. You better be careful with me.

Mr. FLYNT. I am coming to that. I have described you as a man of tremendous natural intellect sharpened to a razor's edge as a cum laude baccalaureate graduate of Princeton and I think a magna cum laude graduate degree in economics and a Ph. D from Massachusetts Institute of Technology.

We watched you rise to a position of preeminence in government to the position of the Secretary of the Treasury now, and I think it would be correct to say that you hold the position of the principal adviser to the President of the United States on economic policy. And yet some of the things that you have told this committee today almost make me want to go down home and apologize to my people for what I said about you.

BUDGET DEFICIT

First of all, let me ask this question: What is our real deficit going to be this year even if we raise as much money as you predict? \$17.9 billion?

Secretary SHULTZ. We have made our projections in the budget.

Mr. FLYNT. Am I correct it is \$17.9 billion?

Mr. ASH. Fiscal 1975, \$9.4 billion.

Mr. FLYNT. Plus \$8 billion we are going to borrow from the trust funds for operating expenses of the general government.

Mr. ASH. You are moving off the unified budget.

Mr. FLYNT. That is correct. I am talking about the Federal funds budget.

Mr. ASH. The unified is the \$9 billion.

Mr. FLYNT. The unified is the \$9 billion.

Mr. ASH. Yes.

Mr. FLYNT. I read from the record of yesterday where the chairman said, "I should note that this is the largest budget in history. It calls for new budget authority—the leading edge of spending—in the amount of \$322 billion. It projects spending at \$304 billion and receipts at \$295 billion. But that hides the real deficit of \$17.9 billion because we borrow from trust funds in the amount of over \$8 billion, and this must be repaid with interest."

I think that you concurred in that statement made by the chairman of the committee yesterday.

Do you agree, Mr. Secretary, that we are confronted with a minimum deficit this year, fiscal 1975, of roughly \$18 billion if we raise as much money as you project?

Secretary SHULTZ. On a Federal funds basis.

REVENUE SHARING IN VIEW OF LARGE DEFICIT

Mr. FLYNT. You told Mr. Sikes a few minutes ago that you thought that a continuation of a \$6 billion a year general revenue sharing—and I interpolate here—at a time when we have a projected minimum deficit of \$18 billion was sound fiscal policy. Did I understand you correctly.

Secretary SHULTZ. I tried to make a distinction.

Mr. FLYNT. First of all, did I understand you correctly when you described it as a sound fiscal policy?

Secretary SHULTZ. What I describe as a sound fiscal policy is the structure of the budget as it is presented.

Mr. FLYNT. But in response to Mr. Sikes question if that was a sound fiscal policy you said yes.

Secretary SHULTZ. I think that the President's budget, as he has put it forward, is a good fiscal posture for us right now.

Mr. FLYNT. Last year I think you estimated a deficit of about \$12 billion for fiscal 1974 on the unified basis and \$27 billion on the Federal funds basis. Is that right?

Secretary SHULTZ. I think our estimate of the deficit has declined from the beginning of the year, if I am not mistaken. Whichever way it is, it has still declined.

Mr. FLYNT. Mr. Secretary, it just seems to me instead of being sound fiscal policy to come before this committee, not in a prepared statement but in response to a question from a member of this committee, that you recommend the continuation of a \$6 billion a year revenue sharing at a time when we have a \$18 billion operating deficit, instead of being a sound fiscal policy it borders on an act of fiscal insanity. At this rate this is going to pyramid year by year until we are very likely to see a national debt of \$1 trillion within the next 5 years if we increase it at the rate we have during the last 5 years since January 20, 1969. What do you predict our national debt will be at the end of the next 5 years if we continue at the rate we are going now?

Secretary SHULTZ. I hope it won't go up too fast. It will be going up inevitably, even if we have a balanced, unified budget because there is a tendency for the trust funds in this stage of the game to run a surplus, so the debt rises. I don't have a projection, maybe there is one for 5 years out. But I would say in response to your general observation that it seems to me there are two different questions. One is what do you think is the right level of expenditure for fiscal 1975, and apparently you believe that the \$304 billion or so is too high and should be cut down substantially. I judge that from your remarks. That can be an argument basically about fiscal policy, so we have some difference of view there.

It seems to me that the question of how you reduce it, if you decide it ought to be reduced, is a separate question, and apparently in this

committee you would argue the least important expenditure in the whole \$304 billion is general revenue sharing. But, anyway, that is a different question—where should you reduce it.

I think, in response to the question, I was as much trying to disentangle these two things—

IMPOUNDMENT

Mr. FLYNT. I don't know how I can remain silent but I have never raised my voice yet against your policy of trying to achieve fiscal stability in the budget, both as the Director of OMB and now as Secretary of the Treasury.

In view of the fact that you have emasculated several programs which I feel are imperative, not "nice to have" but "imperative" to our country, I have seen a multipurpose river development project in my district, naturally close to me, held up under this same policy of impoundment, reservation, and reallocation, and I haven't even complained about that. I have seen a Federal building for which the money was appropriated in 1965 in my hometown of Griffin delayed by your policy of impoundments, yours and your predecessors' policy impoundment and reservation. I got more criticism about that Federal building land still being vacant after 6 years than most everything else when I go to my hometown but I have never complained about it. I am willing to sacrifice in the interest of fiscal responsibility.

I talk the same language down there I talk up here. I believe our people down there are willing to forego river development projects, Federal buildings, and anything else unless they believe when you impound those you go spend it somewhere else on other things which they feel are of lower priorities.

I have never quarreled with you on that yet, and I have made myself somewhat unpopular with my colleagues on this very committee by not speaking out as strongly against impoundment as some of my colleagues who sit with me on the committee wish I would.

But at the same time I wonder if you and the other principal economic advisers to the President ever try to make a differentiation between those things which are essential to the operation of this Government and those which would be nice to have if we could afford them.

Secretary SHULTZ. Certainly we all do, and the President does, and this whole budget process is that kind of a process. And certainly your own appropriations hearings, as I have experienced them as both Secretary of Labor and Director of OMB and now as Secretary of the Treasury, is exactly that kind of a process. And I think it is a good one.

Mr. FLYNT. I will ask you a question for comparative answer if you care to make one.

Do you as the principal economic advisor to the President think it essential to a fiscal economic policy to withhold funds that the Congress has appropriated to clean up our water and our rivers and to provide the necessary water and sewer treatment plants throughout this country which are badly needed? And also at the same time to withhold funds for the development of perhaps the greatest natural resource we have—the land itself? And at the same time continue to permit without remission or mitigation ever increasing expenditures for programs like OSHA, EEOC, contributions to international organizations, international development funds and programs, subsidized foreign sales of agricultural commodities of which we have a shortage like wheat to countries all over the world, including one which has sworn to bury us, and also to permit an acceleration of title I education funds when school administrators in my district tell me they have title I funds coming out of their ears and they can't spend them.

Are those the kind of priorities you are telling us this committee ought to adopt in order to coincide with the decision of the administration?

Secretary SHULTZ. I think, in terms of the budget priorities, Mr. Ash is better able than I to answer those questions.

In terms of the economics of it, we felt last year at this time it was very important to hold down spending in every way we conceivably could. So there was a tremendous effort made, and that carried on through the year and was preceded during 1972, and it succeeded, and I think it helped us.

In terms of the present budget, we have a little easier stance on spending than we did a year ago.

Mr. FLYNT. I say to you, Mr. Secretary, with great respect, I think one place where we all could economize would be in the slowdown of new hiring in direct Federal employment, but I have seen no evidence on the part of the administration to reduce an ever-increasing number of people on the Federal payroll.

Secretary SHULTZ. I think that is an important point, however, as the following table indicates, the number of people on the Federal payroll has decreased from 1969 through 1973. The projected level for 1975, while up slightly from 1973 is still well below the 1969 level.

[The following information was supplied by the Office of Management and Budget:]

TABLE G 4.—GOVERNMENT EMPLOYMENT AND POPULATION, 1945-75

Fiscal year	Government employment				Population	
	Federal executive branch ¹ (thousands)	State and local governments (thousands)	All governmental units (thousands)	Federal as percent of all governmental units	Total United States (thousands)	Federal employment over 1,000 population
1945.....	3,787	3,104	6,891	55.0	140,468	27.0
1946.....	2,666	3,305	5,971	44.6	141,936	18.8
1947.....	2,082	3,568	5,650	36.8	144,698	14.4
1948.....	2,044	3,776	5,820	35.1	147,208	13.9
1949.....	2,075	3,906	5,981	34.7	149,767	13.9
1950.....	1,934	4,078	6,012	32.2	152,271	12.6
1951.....	2,456	4,031	6,487	37.9	154,878	15.7
1952.....	2,574	4,134	6,708	38.4	157,533	16.9
1953.....	2,532	4,282	6,814	37.2	160,184	13.5
1954.....	2,382	4,552	6,934	34.4	163,026	14.0
1955.....	2,371	4,728	7,099	33.4	165,931	13.4
1956.....	2,372	5,064	7,436	31.9	168,903	18.9
1957.....	2,391	5,380	7,771	30.9	171,984	13.4
1958.....	2,355	5,630	7,985	29.5	174,882	13.5
1959.....	2,355	5,806	8,161	28.9	177,830	13.2
1960 ²	2,371	6,073	8,444	28.1	180,671	13.1
1961.....	2,407	6,295	8,702	27.7	183,691	13.1
1962.....	2,485	6,533	9,018	27.6	186,538	13.3
1963 ³	2,490	6,834	9,324	26.7	189,242	13.2
1964 ³	2,469	7,236	9,705	25.4	191,889	12.9
1965.....	2,496	7,683	10,179	24.5	194,303	12.8
1966.....	2,664	8,259	10,923	24.4	196,560	13.6
1967.....	2,877	8,730	11,607	24.8	198,712	14.5
1968.....	2,951	9,141	12,092	24.4	200,706	14.7
1969 ⁴	2,980	9,496	12,476	23.9	202,677	14.7
1970 ²	2,884	9,869	12,753	22.6	204,819	14.1
1971 ³	2,823	10,257	13,080	21.6	207,049	13.6
1972.....	2,770	10,640	13,410	20.7	208,837	13.3
1973.....	2,722	11,065	13,787	19.7	210,404	12.9
1974 (estimate).....	2,775	(*)	(*)	19.5	212,776	13.0
1975 (estimate).....	2,795	(*)	(*)	19.0	215,513	13.0

¹ Covers total end-of-year employment in full time permanent, temporary, part time, and intermittent positions except for summer workers under the President's Youth Opportunity Campaign; and beginning in 1970, excludes public service careers program and disadvantaged worker-trainees employed part time.

² Includes temporary employees for the decennial census.

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

⁴ On Jan. 1, 1969, 42,000 civilian technicians of the Army and Air Force National Guard converted by law from State to Federal employment status. They are included in the Federal employment figures in this table after and including 1969.

⁵ An official projection of State and local government employment is not available. The percentages shown for these years are consistent with a range of reasonable estimates based on recent trends in population and State and local government activity.

I think we have the numbers of what has happened to employment.

Mr. MALEK. Since January 1969 total Federal employment has been reduced by 226,000.

EXECUTIVE BRANCH REACTION TO CONGRESSIONAL CHANGES IN THE BUDGET

Mr. WHITTEN. Last year I asked you, Mr. Shultz, if the Congress were to agree and hold Federal expenditures below the budget recommended by the President but were to rearrange the priorities as to how to spend those funds if you would, as a member of the executive branch, follow the priorities on spending fixed by the Congress, which is the people's branch. The important point in my question is that in the hypothetical case I have stated you could no longer accuse the Congress of contributing to inflation, because the total amount would be below that recommended in the budget, it would just be spent for different purposes.

Last year you said you could not. What is your answer this year?

Secretary SHULTZ. I am sorry you reminded me of what I answered last year. I was going to agree with you, but I will have to think that over.

It seems to me that if you are below the level that you are thinking of and you have a flow of appropriations that have been agreed upon mutually by the Congress and the President, in the sense you have passed it and he has signed it, then you don't have the kind of problem that we have typically had and which we have had in fiscal 1974 of spending way above the President's budget.

Mr. WHITTEN. Mr. Shultz, may I compliment you. I am very fond of you and you do a wonderful job but here again you haven't answered. I asked you if you would abide by the congressional directive as to what the funds are to be spent for. Would you or not?

Secretary SHULTZ. We will have to look and see what the situation is and what the President wants.

Mr. WHITTEN. Which means you reserve to yourself the determination to veto by impoundment, reserving, or what have you.

May I thank my colleague.

Mr. CEDERBERG. If the gentleman will yield, we didn't live within the budget last year. We went 3.5 billion over in outlays.

Mr. FLYNT. Mr. Secretary, I saw some eyebrows raised when I said I thought—I should have said full-time permanent civilian employment in the executive branch figures show an increase. I am quoting scripture because I am quoting from Mr. Ash's own document, the budget itself, page 295 of the summary table. "The 1973 actual full-time permanent civilian employment in the executive branch of Government was 1,874,117. The estimate in the 1974 budget was 1,918,500." But you also show a current figure of 1,940,700 which is 22,000 more than your budget estimate was, and you show a further increase to 1,963,100 in the 1975 estimate. If that doesn't mean that these full-time civilian employees of the executive branch are going up, I don't understand the English language and figures.

Secretary SHULTZ. I thought you were talking about the last 5 years. I don't know what the 1969 figure is. We ought to get that for comparison. But certainly it is important to try to hold these numbers down. I agree with you completely on that.

Mr. FLYNT. I am old fashioned. I reckon I was born too soon but I believe that excessive Federal spending is the primary cause of run away inflation.

I want to conclude with this: I am concerned about what inflation is doing to our economy, I am concerned about what it is doing to the purchasing power of our citizens, and yet I believed when I first came here, and I believe it even more strongly today, that the primary cause of the inflation which is saddled on the backs of the American people today is excessive Federal spending. And I think that it is time both your branch of government and ours undertook to work together to correct it instead of priming pumps just because sometimes Mr. A might not like Mr. B.

I thank you and thank you for your contribution to this hearing.

Mr. MAHON. I would like to say this: We have Mr. Shultz here only for today. Many Members have said they wanted certain things to be developed, and I think most things have been developed so everybody's voice has been heard directly or indirectly. People who have already been recognized I hope will permit those who haven't been recognized to question the witnesses on areas that we have not already discussed.

You were recognized yesterday, I believe, Mr. Conte. We had better have the 5-minute rule from here on out.

Mr. CONTE. I won't take the 5 minutes, Mr. Chairman, I certainly don't have to come to the defense of the Secretary who has handled himself very well.

But a great deal has been said about the \$6 billion general revenue sharing, which I think is a very good program. The gentleman from Georgia calls it fiscal insanity, and then he has a litany of bills like OSHA, title I, of the education law that has been kept in there because of the antiquated formula favoring the South. Any time we try to get a change here it is impossible to get a change. Our Subcommittee on Health, Education, and Welfare has repeatedly run into this in the education appropriation bill.

All I have to say, Mr. Secretary, is that Mr. Flynt is a very honorable man and a leader in his party, his party has control of the Congress by over 50 votes, and certainly if he wants to exert his leadership and thinks these programs are bad or revolutionary and are fiscally insane, they have the power and they have the votes to repeal them, but they haven't. Their economic leader on his side of the aisle, Henry Reuss, a great economist, good friend of mine, says this budget is too restrictive, doesn't go far enough and maybe should be much larger.

I merely point those things out.

SUBSIDY PAYMENTS FOR PEANUTS, COTTON, AND TOBACCO

I want to ask you one question. Could you tell me how much we give in peanut subsidies.

Secretary SHULTZ. I don't have that right here.

Mr. MAHON. Insert that in the record, Mr. Secretary.

Mr. CONTE. And also cotton subsidy, Mr. Secretary.

Mr. MAHON. Insert it in the record.

Mr. CONTE. And tobacco. I only ask these questions to show what a great deal depends on who's ox is being gored.

[The following was supplied by the Office of Management and Budget:]

CCC estimates of realized losses underlying figures shown in the 1975 budget are as follows:

TOTAL REALIZED LOSSES FOR PRICE SUPPORT AND RELATED ACTIVITIES, BY FISCAL YEARS

[In millions of dollars]

Commodity	1972 actual	1973 actual	1974 estimate	1975 estimate
Peanuts.....	97.3	58.5	39.6	0.2
Cotton.....	811.4	819.1	712.1	3.0
Tobacco.....	26.9	27.6	17.5	9.9

AID TO ISRAEL

Mr. CONTE. The fiscal 1975 budget makes the following statements in connection with foreign military credit sales and security foreign assistance with regard to Israel. "The 1975 request does not contain funds for Israel because of uncertainties in the Middle East. A budget amendment will be transmitted as required."

Have there been any discussions on this and if so, what discussion? Where do we stand?

Mr. ASH. As you know there was in 1974 an emergency supplemental for aid to Israel. That is considered sufficient for the time being. If and when the administration considers additional aid to be needed, it

would come back again before the Congress. But at this stage there is no further proposal contemplated until the situation clarifies.

Mr. CONTE. At this point I will submit some additional questions which I would like Mr. Ash to answer for the record. Thank you, Mr. Chairman.

[The following questions were submitted by Mr. Conte. The responses to them were provided by the Office of Management and Budget:]

AIR TRANSPORTATION

Question. Outlays for air transportation proposed in fiscal year 1975 are about 21 percent of total transportation outlays, a relatively consistent percentage in recent years. Domestic air travel accounts for about 10 percent of total domestic intercity passenger travel each year.

What policy analyses support these continuing divergences in proportion of Federal assistance to, and actual public use of, air transport? Highway-oriented travel, for instance, accounts for about 90 percent of intercity passenger traffic, not to mention freight, yet receives 50 percent of Federal transport outlays.

Answer. The nature of the Federal involvement in aviation is substantially different from that in ground transportation. The Federal Government directly operates and maintains the national airway system because of the necessity of providing an unified national control system for aircraft. The bulk of Federal aviation outlays are spent in operating this system and regulating its users. Federal outlays, associated with grant and operation assistance programs analogous to the highway or urban mass transit programs, are less than 4 percent of total Federal transportation outlays.

The administration has supported the principle that aviation users should pay for services provided them. Legislation to permit funding of Federal operating expenses from user fees and to institute new fees for Federal aviation services is being proposed.

FEDERAL EMPLOYMENT

Question. Mr. Ash, in table 9 of the budget, you estimate that Federal employment other than "Defense-Military Functions" will increase by about 23,000, or 1.5 percent.

What has been the trend of nonmilitary employment since 1969?

Answer. There has been a modest increase in full-time permanent civilian employment in the executive branch (excluding Department of Defense, military function) of about 57,000 or 4 percent from 1969 through 1973. A further increase of about 42,000 is projected by the end of 1975. (Source: Table 7, "Budget in Brief.")

Question. How does this trend compare to employment in State and local governments?

Answer. from 1969 through 1973, State and local government employment increased by 1,569,000 or 16.5 percent. State and local government employment increased more than four times as much as did nonmilitary Federal employment in the executive branch over the same time span.

Question. How does Federal nonmilitary employment compare to the total population?

Answer. In 1969 there were 8.1 nonmilitary employees in the executive branch per thousand of population. At the end of 1973, this ratio was 8.0 per thousand—a slight decline.

THE NEW FEDERALISM

Question. Mr. Ash, the so-called "new federalism" is talked about a great deal in this budget.

What are the specific legislative proposals and dollar requests in this budget that are directly related to the new federalism?

What has been the measurable impact of this policy on the relationship between Federal, State, and local governments, in such terms as taxation, spending, and government employment?

Answer. It is too soon to measure specific impacts of the enacted programs in terms you have stated. We do, however, have some information on General

Revenue Sharing. Through January 7, 1974, \$11.2 billion has been distributed. These funds have enabled State and local governments to provide needed services, to reduce debt burdens, and in many cases to reduce taxes.

The following table shows how funds for the first three entitlement periods—January 1, 1972 through June 30, 1973—have been reported as spent in the "actual use reports" required by law. As the table indicates, recipient governments reported spending \$2.7 billion, or 41 percent of the \$6.7 billion they had received by the end of this period. State and local governments have 2 years from receipt of funds in which to use them.

GENERAL REVENUE SHARING—ACTUAL USE REPORTS¹

[In millions of dollars]

Category ²	State governments		Local governments	
	Operating and maintenance	Capital	Operating and maintenance	Capital
Education.....	643.0	21.3		22.9
Environment.....	1.3	6.1	91.2	89.3
General government.....	18.5	5.9	0.0	177.8
Health.....	30.0	2.7	71.4	63.9
Public safety.....	15.1	5.0	481.4	153.9
Recreation.....	1.4	2.3	34.4	78.9
Social services.....	57.5	3.7	30.6	9.2
Transportation.....	45.5	10.1	138.4	222.9
Other.....	78.6	6.4	69.9	58.9
Total.....	890.9	63.5	917.3	877.7

¹ As provided by recipient governments. For a further evaluation of actual use expenditures, see the publication of the Office of Revenue Sharing, "General Revenue Sharing—The First Actual Use Reports."

² These categories are not precisely additive. "Local" operating and maintenance categories are specified by law while "State" categories are not.

The following table provides a summary of broad based and consolidated grant programs. These programs increase the flexibility of State and local governments to respond to their own needs and priorities, thereby implementing the new federalism principle of moving spending decisions and responsibilities closer to the people. Specific legislation proposals in this list are the Better Communities Act, Responsive Governments Act, Economic Adjustment Assistance Act, and consolidated education grants.

Care should be taken in using any totals based on budget authority, because the phasing in of several programs results in amounts of budget authority during the first year in excess of annual program levels. For example, general revenue-sharing authority in 1973 contains \$2.7 billion of retroactive entitlements for 1972. The other major problem area in this regard is consolidated education grants, which for the first time in 1974 provides advanced funding for the oncoming school year. This results in a doubling of budget authority for 1974.

The unified transportation assistance program is not included in this table because its impact is indeterminate at this point. The proposed obligational level for this program in 1975 is \$2.3 billion; this is indicated in the President's budget message. The other place this program is mentioned in the budget is table 15 (projection of costs for legislative proposals), where 1975 net increase in outlays are estimated at \$200 million. There is no impact in 1973 or 1974.

The total and subtotals include both the broad based grants and the programs they are supplanting. With the exception of the special case of general revenue sharing (as footnoted in the table), all outlay subtotals increase from 1973 to 1975. This demonstrates that grant consolidation does not mean expenditure reductions for the affected program areas.

BROAD-BASED AND CONSOLIDATED GRANTS

[In millions of dollars]

	Outlays			Budget authority		
	1973	1974	1975	1973	1974	1975
Better Communities Act.....			560			2,300
Programs being supplanted:						
Model Cities.....				500	150	
Urban renewal.....	590	1,125	1,100	1,450	600	
Open space grants.....	61	70	70	100	25	
Basic water and sewer facilities.....	157	160	160			
Neighborhood facilities grants.....	27	35	35	40		
Rehabilitation loans.....	26	52	-6	70		
Public facility loans.....	12	20	25	3	2	4
Total.....	1,865	2,052	2,164	2,163	777	2,304
Responsive Governments Act.....			(1)			110
Program being supplanted: Comprehensive planning assistance grants.....	76	110	118	100	75	
Total.....	76	110	118	100	75	110
Law enforcement assistance ²		708	747		732	733
Programs supplanted.....	526			719		
Total.....	526	708	747	719	732	733
Economic adjustment assistance.....			10			100
Programs being supplanted:						
Economic development assistance.....	194	192	218	220	182	134
Regional Action Planning Commissions.....	38	38	36	40	38	32
Total.....	232	231	264	259	220	266
Consolidated education grants.....			1,910		³ 2,852	2,875
Programs being supplanted:						
Disadvantaged education grants.....	1,505	1,772	477	1,810	1,720	
Handicapped education grants.....	35	37		37	60	
Support services.....	148	182	86	203	158	
Innovation grants.....	145	190	101	188	157	
Vocational education grants.....	551	522	324	576	532	
Adult education grants.....	56	60		75	63	
Total.....	2,440	2,763	2,898	2,889	5,542	2,875
Comprehensive Employment and Training Act ²		⁴ 1,484	2,000		⁴ 1,809	2,050
Program supplanted: Manpower training services.....	1,477			1,549		
Total.....	1,477	1,484	2,000	1,549	1,809	2,050
General revenue sharing ²	⁵ 6,636	6,147	6,174	⁵ 8,295	6,055	6,205
Total, broad-based grants and supplanted programs.....	13,252	13,494	14,365	15,974	15,210	14,543

¹ An appropriation of \$110,000,000 has been requested in 1975 for the comprehensive planning assistance program, pending enactment of the Responsive Governments Act. Outlays for 1975 grants under the new program would first occur in 1976.

² Already enacted.

³ Proposed 1974 supplemental providing advanced funding for the 1974-75 school year.

⁴ The Comprehensive Employment and Training Act of 1973 authorizes the continuation of previous programs in 1974 as necessary to provide an orderly transition. An indeterminate part of the 1974 activity will therefore involve previous programs.

⁵ Higher than in 1974 because of retroactive entitlements for 1972.

EFFECT OF TAX REDUCTIONS

Question. Mr. Ash, in the past few years Congress has enacted numerous pieces of legislation which have had the effect of reducing tax liabilities, and Federal receipts.

Such legislation must be a contributing factor to the substantial Federal funds deficits which we deplore.

Can you estimate the revenue loss caused by this legislation?

Answer. The following chart shows this:

ESTIMATED EFFECT ON CALENDAR YEAR TAX LIABILITIES OF TAX ACTIONS SINCE 1962, EXCLUDING TRUST FUND TAXES

[In billions of dollars]

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Revenue Act of 1962.....	-1.0	-0.6	-0.8	-1.3	-1.6	-1.7	-2.0	-2.2	-2.4	-2.4	-2.7	-3.2	-3.6
Revenue Act of 1964.....			-8.3	-15.2	-16.6	-17.5	-18.9	-19.9	-20.4	-22.0	-24.8	-27.9	-30.2
Excise Tax Reduction Act of 1965 (excluding reductions later rescinded).....				-9	-2.8	-2.8	-3.0	-3.1	-3.2	-3.4	-3.5	-3.6	-3.7
Revenue and Expenditure Control Act of 1968 (including extensions).....							+8.6	+11.2					
Tax Reform Act of 1969.....								+1.9	+5.0	-1.0	-3.7	-5.8	-5.7
Revenue Act of 1971.....										-3.5	-9.2	-7.2	-7.6
Proposed legislation in fiscal year 1975 budget.....													+2.3
Other actions.....	-1.2	-1.0	-9	-8	-8	-7	-7	-7	-8	-8	-1.9	-2.5	-3.0
Grand total.....	-2.2	-1.6	-10.0	-18.2	-21.8	-22.7	-16.0	-13.8	-21.8	-33.1	-45.8	-50.2	-51.5

Source: Department of the Treasury statistics.

BURDEN OF GOVERNMENT SPENDING

Question. Mr. Ash, Federal spending is often compared with the gross national product (GNP). As a percentage of GNP, Federal outlays have increased in 5 of the 6 fiscal years since 1969.

However, this kind of abstract comparison does not provide us with a picture of the burden of government spending which is meaningful to the average working man.

What has been the impact of Federal taxes on disposable personal income? What has been the impact of taxation at all levels of government on disposable personal income? To what extent has Government spending contributed to inflation, which is perhaps the most vicious tax we have?

Answer. In the period from fiscal year 1969 to 1974 it is estimated that personal income and personal taxes will each increase by about 50 percent. Disposable personal income, which is defined as personal income less personal taxes, will therefore also rise about 50 percent over this same period. As the table below shows, Federal personal taxes will rise less (37 percent) and State and local taxes considerably more (103 percent) than the 49-percent increase for total personal taxes.

PERSONAL INCOME AND PERSONAL TAXES

[Fiscal years; dollar amounts in billions]

	1969	1974 (estimate)	Percent increase (estimate)
Personal income.....	\$720.0	\$1,085.0	51
Federal personal tax and nontax receipts.....	90.0	123.7	37
State and local personal tax and nontax receipts.....	19.8	40.2	103
Total personal tax and nontax receipts.....	109.8	163.9	49
Disposable personal income.....	610.2	921.1	51

We do not know enough about the economy to quantify with any precision the relationship of Government spending to inflation. This relationship is complicated by various factors. For example, if the economy is near full employment, an increase in Government spending cannot generate as much additional real output as if labor and capital are not being fully used. In such circumstances, an increase in Government spending will put direct pressure on the prices of goods and services. Furthermore, the nature of Government spending affects the degree of the inflation that is induced. It will raise inflation to a greater extent if it is directed toward sectors with bottlenecks or if it consists of the purchase of goods and services instead of transfer payments. Also, Government spending will be more inflationary if the deficit is financed by the creation of new money instead of borrowing from private nonbank individuals and institutions.

Despite these difficulties, we can observe periods when Government spending clearly contributed to inflation. The most recent large effect was during the middle and late 1960's. At that time the very sizable increases in Government spending—both defense spending, for the Vietnam war, and nondefense spending—put great pressure on capacity and thereby moved the economy way from the relative price level stability that had existed for quite a few previous years.

HIGHWAY SAFETY

Question. Nearly 10 percent of GNP goes for user-operated passenger transport each year (private automobiles and aircraft). Over 53,000 highway fatalities occur each year, yet half of Federal transportation outlays in fiscal year 1975 are going to highway improvement; less than 2 percent will go for highway and traffic safety programs.

What is the support for these proportions in view of stated Administration safety objectives?

Answer. The explanation for the seemingly low level of highway safety funding in the President's budget is due to 2 factors:

(1) As in the case in other transportation programs (for example, railroads), the outlay figures given for highway safety are not the most accurate indicators of the level or comparative direction of funding. While the outlay level for 1975 remains nearly constant, the level of obligations being requested increases dramatically. Highway safety obligations for "spot" safety construction projects and total National Highway Traffic Safety Administration programs increases from \$260 million in 1974 to \$470 million in 1975, an increase of over 80 percent. Outlays do not increase proportionately due to the considerable lag between commitment and disbursement of funds typical of construction projects, among other factors.

(2) Viewed in the context of total governmental expenditures, the Federal role played in highway safety is minimal. This is in large part due to the intrinsically local nature of many highway safety programs which account for very sizable State and local expenses—for example, driver education training, local police patrols, et cetera.

An indirect but very substantial effect of Federal involvement is evident in the amount spent each year by purchasers of new automobiles on Federal safety standard requirements, which must be included in any analysis of the amount of funds being devoted to highway safety.

Mr. MAHON. Mr. Yates.

RECENT BUDGET DEFICITS

Mr. YATES. I read to you from the U.S. News & World Report for February 11, page 76. "The deficit is officially expected to come to \$9.4 billion." It says: "It is to be Mr. Nixon's 6th consecutive year of red ink financing. If all goes according to his plans, the total gap between Government income-outgo in the period"—I assume they are referring to the 6-year period—"will amount to \$77.5 billion."

Isn't the total of the deficit closer to \$120 or \$125 billion?

Secretary SHULTZ. We can add that up. I am not familiar with the U.S. News article. I will have to check that.

Mr. YATES. I am asking you a question as to whether or not in that 6-year period since Mr. Nixon has been in office, if you please, the sum total of the deficit during this period has been over \$120 billion rather than \$77.5?

Secretary SHULTZ. We can add this up. It may be the difference between the unified and the Federal funds budget we are talking about here.

I think the U.S. News is probably the unified budget and the figure you were citing is the Federal funds budget. I think the U.S. News figure is the unified one which you cited at a quick glance at these figures.

Mr. YATES. The clerk refers me to the Congressional Record of February 4, 1974, which shows what the deficits have been for each of those years. We will put it in the record without objection.

Mr. MAHON. All right.

[The information follows:]

Debt subject to statutory limitation at end of fiscal years 1933-75

[In billions of dollars]

1933	22.5	1956	272.4
1938	36.9	1957	270.2
1939	40.3	1958	276.0
1940	43.2	1959	284.4
1941	49.5	1960	286.1
1942	74.2	1961	288.9
1943	140.5	1962	298.2
1944	208.1	1963	306.1
1945	268.7	1964	312.2
1946	268.9	1965	317.6
1947	257.5	1966	320.1
1948	251.5	1967	326.5
1949	252.0	1968	350.7
1950	256.7	1969	356.9
1951	254.6	1970	373.4
1952	258.5	1971	399.5
1953	265.5	1972	428.6
1954	270.8	1973	459.1
1955	273.9	1974 (estimate)	475.4
		1975 (estimate)	495.2

Sources: Annual Report of the Secretary of the Treasury on the State of Finances (table 21) and Budget Documents. House Committee on Appropriations.

INCREASE IN PETROLEUM PRODUCT PRICES

Mr. YATES. The chairman was kind enough to furnish each member of the committee with an indexed overview of the budget, and on page i-3 of that overview is the following:

The price of gasoline rose by 18.6 percent in calendar 1973 and the prices of fuel oil and coal rose by 44.7 percent. It has been estimated that these price increases will increase domestic oil company profits by approximately \$18 billion per year and total oil profits—worldwide—by several times that amount. These price increases are comparable to a tax increase, regardless of who gets them—U.S. Government, oil producing countries, or the oil companies. It is comparable to a tax increase because it reduces overall consumer demand not just the demand for petroleum products. In other words, American consumers will have \$18 billion less to spend on goods and services, other than petroleum products.

Would you comment on that? Is that a good thing to happen at this time when we are in what has been called a recession, not by the President, for people not to have that spending power?

Secretary SHULTZ. Would you mind identifying the document you are reading from? It is a rather lengthy quotation. I would like to get it and look at it if I could.

Mr. MAHON. The gentleman is speaking from a document that was prepared by the Congressional Research Service. The Committee on

Appropriations doesn't necessarily endorse what has been stated. It is the CRS estimation of the facts of the situation.

Mr. YATES. I didn't say the committee endorsed it. I said the chairman was kind enough to make it available to us. I have a letter of transmittal from the chairman.

The point I am trying to make is there will be \$18 billion in financial profits for the oil companies.

Secretary SHULTZ. I am not sure I have control of all of the facts here in my mind, because it comes at me without a chance to get prepared. But we do have some extensive testimony on the Windfall Profits Act that was given to the Ways and Means Committee on February 4. It has a tabulation of net income after tax, rate of return on equity of selected oil companies (the so-called majors), and an extensive discussion of the source of the corporate profits, which in 1973 was primarily earnings on foreign operations. Then we have an extensive discussion of the whole tax situation with respect to earnings on foreign operations.

I think the point about the world rise in oil prices being like a tax is essentially right, in that if we are importing a certain amount from somewhere and suddenly that price goes way up and we still import the same quantities, it in effect takes that much money out of our real income. So it has some of the same characteristics as a tax, and that is true for Japan and true for Western Europe and everybody. So we have counseled, and we talked about this in the meeting last week that was held at the State Department, and people around the world should have that in their minds as they design fiscal policy. And it is one of the things we had in our mind in coming to the conclusion that we should be ready to take a \$9 billion or so deficit in the Federal unified budget and that that was the sensible thing to do, recognizing at some future year somebody is going to ask us to add up the deficits and how much were they. That is life.

Nevertheless, if it is sensible from the standpoint of employment and everything, we should do it. We should do it anyway and that is what we decided.

OIL TAX POLICY

Mr. YATES. Part of the reason I asked the question was because I wondered what the administration's point of view was with respect to taxing profits of the oil companies.

Secretary SHULTZ. The administration's policy on that with respect to domestic crude, is to enact, as we have proposed to the Congress, a windfall profits tax.

Mr. YATES. Is this in the nature of an excise tax going to be passed on to the customer?

Secretary SHULTZ. It is quite different from an excise tax.

Mr. YATES. It is proposed to be passed on to the consumer is it not?

Secretary SHULTZ. This is designed so that it falls on the producer, not on the consumer. It has been a very carefully worked out proposal. I hope it will get very serious consideration. The Ways and Means Committee is meeting on it today as a matter of fact.

We have also proposed changes in the minimum tax and a new limitation on the use of an artificial accounting method that does affect somewhat the incentive from depletion (it reduces it) and from

intangibles drilling costs. And we have tried to offset that with a proposal for applying essentially the investment tax credit concept to new exploration—trying to concentrate the incentive on new exploration.

With respect to foreign tax treatment, we have a series of proposals dealing with a variety of situations.

Mr. MAHON. I am going to recognize Mr. Boland for questions.

OUTLOOK FOR THE U.S. ECONOMY

Mr. BOLAND. Mr. Secretary, I want to ask a question that bothers us all. What in the world is happening to this country and why? We are running out of everything, we have shortages and deficiencies in about everything. We have rising prices—an incredible increase in the wholesale price index in January, something like 3 percent, the second highest since 1946-47. Inflation is constantly on the increase, and it appears that in the months to come some of the basic food stuffs are going to be priced almost out of reach of the average person. Industry is taking advantage of some of the problems that America has and they are taking advantage of the higher costs of products they get from foreign nations.

To all of this you indicate that you do have some economic stabilizers. You mentioned one in your statement today—"unemployment compensation." Is that really the answer?

Back in our districts—when you are in the supermarket or the gasoline—we really get it. I don't think you get it quite as often in Washington as you do back home. I think all of us when we go back home and talk to our constituency get the feeling that this country is in one heck of a shape. Can this system survive with the pressures that are now being imposed upon it?

Secretary SHULTZ. I hate to hear a question posed that way, one that is asked in terms of can the country survive. We have our problems in the economy, but you are talking about a country where in a year employment increased by 3 million. You are talking about a country where new investment on plant and equipment has been increasing at rates like 10, 12, 14 percent year over year. That is a bet on the future of our country.

You are talking about a period of time when people's real incomes have risen. Now many say, "gee whiz, the farmers got too much of it." Well, the farmers have done darn well in the last couple of years, and I suppose, if you were representing a farm constituency, they would tell you it is about time.

But in any case we have certainly the problem of inflation, and it is difficult. We know where it comes from. It comes from a tremendous rise in the prices of internationally traded raw materials, some of which we produce, some of which are produced abroad, and which come and work their way through our economy.

So we have had brought home to us in the last year—dramatically and more than ever before—the close interconnection which we inevitably have to the rest of the world. We are not independent of the rest of the world, we are connected. So we see that reason. It is not easy to deal with. We are trying to deal with it.

As far as unemployment compensation is concerned, it is not the answer. It is an answer. It helps some people. And it works, on the

whole, in a beneficial way as far as providing stimulation to the economy when it is needed and not stimulating when it is not needed.

So I would say to you that certainly we have problems in this country, but to say that somehow our survival is threatened with the kind of experience we can look at, I think, is startling.

Mr. BOLAND. I appreciate the response, and I posed the question in that manner because these are the very questions that our constituents ask us. I appreciate the eloquence of your response.

METHODS OF STIMULATING THE ECONOMY

You mentioned that you have some stabilizers and you mentioned unemployment compensation. Nobody objects to that, and I am sure the Congress will respond at the right time if inflation does continue as you suggest.

Secretary SHULTZ. The unemployment compensation will help with the unemployment problems, but it will not help with the inflation problem. That is different.

Mr. BOLAND. That is true. What, besides that, do you consider as stabilizers to the economy in the months to come?

Secretary SHULTZ. There are a number of things that can be done to provide stimulus, if more stimulus on the present fiscal stance is called for. I think there is still a question about doing that. I think, as I believe you do—judging from your question—that fighting inflation is still our primary problem. But we have mentioned unemployment compensation. I think that prompt action on the budget by the Congress is particularly important this year. There are some funds that can be shifted in time by decisions. There are projects which are either in place or can be quickly put in place that can be speeded up, which will give a lift to particular localities.

There is the possibility of a change, and this takes a statute, in the withholding tables, which would tend to change the time pattern of the flows of money and that might be constructive. So there are a variety of things of this kind.

I know you are going to have Dr. Burns here, and while he may certainly say monetary policy isn't the answer to everything, it helps and it can be used. So these are the sort of things that will help us in providing stimulus if needed, but at the same time I believe we should keep our cool on this. Particularly in the light of the great inflation problem that we face, we should keep a reasonable posture on the budget, and keep a reasonable posture on monetary policy. And at the same time, I think as we gradually decontrol this economy, we will be much better off. We will get rid of some of the shortages, and we will avoid causing some others. And this I say even in the petroleum area where, I think, it is coming to be generally realized that the mandatory allocation program that we have is causing us some loss of crude oil and, therefore, is partially responsible for the problems that we have.

I say this not to put my cotton picking hands on Mr. Simon's business, because he foresaw this problem and he has predicted that it would happen if we were forced to do this. Congress passed that law anyway and it has come to pass, and we have a piece of legislation up here asking that that particular element in the allocation program be changed.

So this is kind of a miscellaneous answer, I know, to your question, but it is the sort of thing I think needs to be thought about and worked on.

Mr. BOLAND. I appreciate your answer.

PRESSURES FOR MORE SPENDING

Mr. MAHON. Will you permit me to ask a question?

Mr. Secretary, since 1932 the principal answer to any national question which arises has been more and more Federal spending. That seems to be the principal solution that every administration and Congress accepts.

Your are asking for money, and we will approve it, for unemployment compensation, and for other like purposes. There are those who say that while we will survive as a country our present system can't survive under continual pressure for more spending, like Mr. Boland has spoken of.

With revenue sharing the cities and States are going to have more money, the schools and hospitals are going to have more money, everybody is going to have more money. They all look to the Federal Government.

Do you foresee that we can prevent an economic and fiscal collapse as a result of the policies which we are now following?

I don't have the answer but I would like to have your philosophical response to this question which is in another sense the question Mr. Boland has proposed.

Secretary SHULTZ. Mr. Chairman, I think it is vitally important to maintain the fight against increasing the size of the Federal Government, and it is a tough fight, it is a hard fight. The President has been in the forefront of it. It is not a fight for which you get thanks here in Washington, you get beaten on it right and left, although it is my impression out around the country that if you say, "Spending is spelled t-a-x-e-s," you get a lot of support. So I have hoped this line of thinking can be brought up forward again and can prevail and I think it is very important that it prevail.

Mr. MAHON. You and I know that spending is spelled t-a-x-e-s. However, once Congress proposes new legislation, nobody says we are going to spend additional billions of dollars on health programs and therefore we are going to have to raise more taxes. When the administration submits the budget we don't emphasize the fact that you must raise the revenue to support the proposals. We don't seem to associate spending with taxes. This is a basic problem in this country, and with which nobody in this country has grappled with successfully. What is your comment on that?

Secretary SHULTZ. I think in my 5 years—and you have been here a lot longer than I have—I have been on this wavelength, and I have fought like a tiger. At times it gets pretty frustrating, although we have moments we do feel pretty good. We struck out to hold spending to the \$250 billion level and we succeeded. And the budget finally came in at \$246.5 billion. So we felt pretty good about that. And I think that was partly achieved by an atmosphere that was created by the statements that the President made and that you made and others made. The attitude was created, particularly in the Federal departments, that

if you could avoid spending, that was a good thing, instead of the other way around.

Now, of course, all of that attitude is what causes problems. You go home to your constituents, as has been said here this morning, and particular projects haven't gone the way somebody might have expected they would go. The President has taken an awful whipping all year long, because of his effort to curtail spending. But I think it is a good fight and we should keep on and take the beating. And we are going to win.

Mr. MAHON. I think we have to agree that the administration is a pretty big spender, especially in more recent months, and the Congress also is a very big spender. An adequate job is not being done. Nobody is predicting with very much confidence that we will even be able to live within the budget submitted or that we will be able to cut it substantially. We weren't able to stay within the 1974 budget.

Secretary SHULTZ. Mr. Chairman, Director Ash has a table that can be put in the record on this: just taking the actions that the Congress took last year over and beyond the President's recommendations, and then calculating the implications of those actions for fiscal year 1975, you get a total of \$8.2 billion which is close to the amount of the deficit.

Mr. MAHON. These actions were taken, and the Executive acquiesces in them in most instances by approving the legislation. These actions were taken by the Congress in order to provide more social security, more aid to veterans, more health programs, more educational programs, and generally speaking, more sewer and water programs. There doesn't seem to be any way to withstand the pressures to provide this kind of spending. That is the justification offered and also the problem.

SOCIAL SECURITY INCREASES

Secretary SHULTZ. One of the biggest you mentioned is social security, and certainly everyone wants to be conscious of the special problems that senior citizens have. But it does seem as though the Congress now wants to vote an increase in social security payments about every 4 months, and it just seems wild.

I will tell you what is going to bring that under control. What is going to bring it under control is that, of course, these payments come out of the hides of the working population. They represent a decision by the Congress that those who are working should be able to retain less of what they earn, and those who aren't working—in this case because of age—should have more. You can go to a certain point with that, and I think those who are working are going to start objecting. That is when you are going to start hearing from them, and you will start hearing from them about social security taxes and other kinds of taxes.

Mr. MICHEL. Isn't it true, Mr. Secretary, we have more people paying higher social security taxes today in this country than they will pay in income taxes in this coming fiscal year?

Secretary SHULTZ. That is probably right. The dollar amounts are getting very high from that particular tax.

Mr. MAHON. We have passed the adjournment time. Without objection, the committee will stand adjourned until 2.

AFTERNOON SESSION

Mr. MAHON. The committee will come to order.

BUDGETARY AND FISCAL INFORMATION SYSTEM

Mr. Ash, under sections 201 and 202 of the Legislative Reorganization Act of 1970, OMB and Treasury are required to make significant improvements in Federal budgetary and fiscal information systems. The Appropriation Committee staff has been working very closely with the General Accounting Office, acting as an agent, on this important work. I understand that you have had a task group also working with GAO since last June.

Can you give us some indication of when we might expect to see some tangible results from the executive branch side?

Mr. ASH. Yes, sir. We should quite soon, in just a few weeks. The basic staff work has all been done between our organization and others involved. We have in front of the GAO the result of that and are expecting their comments more or less now, and with those in hand we should then be able to get that up in a very few weeks.

Mr. MAHON. How many people at OMB, Treasury, and the agencies are working on the implementation of this 1970 act? You can supply that for the record, but give us an approximation.

Mr. ASH. Mr. McOmber will make an estimate of what this might be. Then we will make sure to confirm that in the record.

Mr. McOMBER. I believe, Mr. Chairman, if my memory is correct, that we have identified about 10 people who are working a substantial amount of their time on that matter, but we will verify the information.

[The following information was supplied by the Office of Management and Budget:]

The following table indicates the individuals working on the Legislative Reorganization Act of 1970 (LRA) since June 1, 1973, and the level of effort each has provided.

This table does not show the 43 agency liaison people working with the team or others in the departments and agencies. In addition, the resources the agencies and OMB used in fulfilling sections other than 201, 202, and 203 of the act are not accounted for here.

PEOPLE WORKING ON THE LEGISLATIVE REORGANIZATION ACT OF 1970

Name	Grade	Percent
Office of Management and Budget:		
	Level V.....	1
	18.....	15
	17.....	13
	16.....	4
	16 ¹	(2)
	15.....	5
	15.....	1
	14 ¹	(2)
	14.....	2
	14.....	2
	13 ¹	(2)
	6 ¹	(2)
	13.....	23
Treasury:		
	16.....	10
	15.....	20
	14.....	15
	13.....	75
	13.....	75
	9.....	75
	15 ¹	(2)
	14 ¹	(2)
Agencies:		
	15 ¹	(2)

¹ A member of the Legislative Reorganization Act task team.

² Full-time.

Mr. MAHON. Is the primary emphasis of this work on budgetary information? On what kind of information do you intend to focus your resources?

Mr. McOMBER. Certainly most of it is on budgetary information.

Mr. MAHON. You can amplify that for the record.

[The following information was supplied by the Office of Management and Budget.]

The Legislative Reorganization Act Implementation Planning Task Team has been working toward gaining a better understanding of the congressional information needs. To date, they have identified 60 discrete congressional information needs. The most frequently expressed concerns of Congress were in regard to information on—

- Current budget and fiscal status ;
- Programs crossing agency lines ;
- Geographic and geopolitical subdivisions ; and
- Target groups.

Of the 60 needs expressed, all but 7 deal with budget and fiscal-related data.

Mr. MAHON. In your third annual report to Congress dated September 1, 1973, on the progress of your studies and work on the budgetary and fiscal information system, you state :

A preliminary assessment of the congressional information needs indicates that significant modifications to existing systems would be required to meet the needs as currently defined. . . .

My question is, do you have an estimate of the time, cost, and other resources necessary to meet these needs?

Mr. McOMBER. No, sir, we do not and one reason for that is our further examination of the needs and further conversations with the Congress which would indicate that there are many ways by which we can use existing information systems, modified to some extent, to assist the Congress in its information requirements.

Mr. MAHON. With further respect to the Legislative Reorganization Act of 1970, a portion of the September report on the OMB/Treasury efforts under the LRA of 1970 was devoted to descriptions of information systems in both the OMB and the Treasury.

Will you please state for the record how these systems benefit the Congress in your judgment? Also, are they intended to serve congressional needs at all? What steps have been taken to facilitate congressional access to these systems?

You might respond briefly and then expand upon these questions for the record.

Mr. McOMBER. We would be glad to put it in the record. We can certainly say, Mr. Chairman, that we think we have cooperated with specific requests of the Congress for information, and when the Congress wishes more information we would be glad to try to supply it.

[The following information was supplied by the Office of Management and Budget:]

As we have gained a clearer understanding of the congressional information needs over the past few months, it has become increasingly apparent that many of these OMB and Treasury systems will be the source of much of the needed information. In some cases these systems contain specific features, designed exclusively to meet the needs of the Congress. Special programs have been developed to provide interested committees reports that they have designed and requested. For example, one such report which provides all current budget authority by appropriation bill (the Mahon report) is supplied the staff of the Joint Committee on Reduction of Federal Expenditures within a few days after the budget is submitted.

OMB has provided the House Appropriations Committee staff, the House information staff, GAO, GPO, and other legislative branch representatives the basic data files, operating programs, system documentation, user documentation as well as numerous special reports on the budget preparation system, budget status system, catalog of Federal domestic assistance system, legislative tracking system, and OMB's computer tape library system. This year OMB expedited the availability of the fiscal year 1975 computer version of the budget to facilitate the analysis being done by the House information staff for the House Appropriations Committee. The form and content of the material provided follows:

Data files

Budget master data files: Fiscal year 1973 magnetic tape; fiscal year 1974 magnetic tape; and fiscal year 1975 magnetic tape.

Catalog of Federal domestic assistance: 1972 magnetic tape, 1973 magnetic tape.

Title files

Receipts account title files: Fiscal year 1974 magnetic tape; and fiscal year 1975 magnetic tape.

Master account title files: Fiscal year 1973 magnetic tape; fiscal year 1974 magnetic tape; and fiscal year 1975 magnetic tape.

Computer listings

Fiscal year 1973 master account title file, fiscal year 1974 master account title file, and fiscal year 1974 BPS master file in budget sequence.

Computer programs (on punched cards)

BO 1571—Load fiscal year 1973 ISAM MAT file.

BPS 1571—Load fiscal year 1974 ISAM MAT file.

BPS 0343—Generalized print program.

BPS 0344—Generalized print program.

BPS 0362—Selects/extracts BPS master file records.

BO 0547—Budget authority and outlays.

BO 0562—BPS extract.

BO 1541—Lists master account title file.

BO 1573 (B7E ENTER)—Random access to fiscal years 1972 and 1973 MAT file.

B 74 (ENTER)—Random access to fiscal year 1974 MAT file.

Computer operating system

Tape inventory system: Computer programs, and documentation.

System documentation

Complete documentation of OMB's budget preparation system.

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Several briefings and demonstrations of the OMB systems have been provided the GAO, House Information Staff, the House Appropriations Committee Staff, GAO, CRS, and GPO.

Mr. MAHON. Are there any unresolved issues between the Executive and the Congress, and in particular among OMB, Treasury, and GAO concerning the scope and nature of sections 201, 202, and 203 of the Legislative Reorganization Act? Are there any major differences in perception and approach toward satisfying these requirements? If so, what are these issues and differences? What is being done to resolve them?

You can supply that for the record.

Mr. McOMBER. All right, sir. We will elaborate on that answer for the record.

[The following information was supplied by the Office of Management and Budget:]

A coordination group with representatives from OMB, Treasury, and the GAO was established as a means for coordinating executive and legislative branch activities in implementing the provisions of the act. This group has

been very effective in resolving differences in perceptions, identifying issues and seeking resolution of issues. A couple of examples of results from this cooperative arrangement are:

It is now understood that the information needs identified by GAO included both met and unmet needs of the Congress, whereas we previously had the impression that they included only unsatisfied or inadequately satisfied needs. The team has identified systems or reporting procedures which are adequate to meet 19 of the 60 needs with little or no changes to existing systems.

The GAO has agreed that no single standardized computer system with terminals in all three branches of government can be designed to meet the full spectrum of identified needs. Systems flexibility must be maintained to meet the unique management needs of agencies while providing appropriate summary data for higher level executive and legislative needs. The extent to which individual congressional needs are to be met through standard automated systems must be determined by weighing the merits of each case.

The only remaining issue deals with the inclusion of general social-economic data within the provisions of the Legislative Reorganization Act of 1970, section 201 "Budgetary and Fiscal Processing Systems" and section 202, "Budget Standard Classifications." We feel that the coordination arrangement described above will be able to adequately resolve this open issue.

Mr. McOMBER. I might mention two kinds of things.

First in direct response to your question, there is some difference of opinion as to whether the Legislative Reorganization Act covers simply economic and budgetary matters, or also covers social indicators. That is a matter for resolution at the present time.

Mr. MAHON. I have further questions in regard to this matter which I will supply to you and you can respond for the record.

Mr. McOMBER. All right, sir.

[The information follows:]

Question. Do you believe the executive branch and the GAO under the Legislative Reorganization Act of 1970 can constructively review these functional classifications and jointly determine a set which can be understood and can be retained for a period of time?

Answer: There is no lack of willingness by the Office of Management and Budget to consult the Congress and the General Accounting Office on the functional classification. In fact, in conjunction with a major review of the classification that is under way now, OMB has invited the GAO to make comments on behalf of the legislative branch. We would welcome such suggestions and would give them thorough consideration. We firmly believe, however, that primary responsibility for the functional classification must remain with the President.

As Director Ash stated in recent testimony before the Senate Committee on Rules and Administration, retaining the authority to present the budget—and to specify the terminology, definitions, classifications, and codes used in preparing the budget—carries with it the responsibility to provide information needed by the Congress. The executive branch's record over the years in supplying information to the Appropriations Committees is clear evidence that this commitment is taken seriously.

The problems associated with developing a functional classification structure and assigning each of the more than 1,100 budget accounts to one category within that structure are very complex at best. Any arrangement that would result in overlapping responsibilities and duplication of activities would only complicate the budget process further.

Question: Do you believe that there is merit to establishing a functional category for energy?

Answer: As you know, energy was given separate consideration under the functional portion of the fiscal year 1975 budget. The merits of creating a separate subfunction for energy will be considered this spring.

THE SPENDING PIPELINE—UNOBLIGATED AND UNEXPENDED BALANCES

Mr. MAHON. I would like to have some response from you, Mr. Director, with respect to the spending pipeline. There are a number of questions involved here.

For example, is the pipeline relatively uncontrollable? To what extent is it uncontrollable?

What discretion does the Executive have with respect to the \$67 billion of unobligated balances of Federal funds estimated to be available on June 30, 1974?

To what extent could the Government be operated in fiscal 1975 using only the moneys presently available in the pipeline?

This is a subject that is important from the standpoint of budget control and I would like to have your best thinking for the record, Mr. Ash. If the Secretary wishes to add anything to those questions he may.

There are a lot of people who would like information as to how to interpret these unobligated and unexpended funds. I think it would be good if you would put in this area the responses to those questions.

[The information follows:]

[The following information was supplied by the Office of Management and Budget:]

In its broadest sense, the "spending pipeline" is the unused budget authority -- or unexpended balances of budget authority -- at any given time. These consist of unexpended balances of Federal and trust funds and are comprised of both obligated or unobligated balances.

The following table presents estimates of unexpended balances of budget authority, as of the start of fiscal year 1975, based on the 1975 budget Appendix. It provides a breakdown of balances under Federal funds and trust funds, and shows the unobligated and obligated amounts in each of the fund groups.

	Estimates of balances, start of 1975	
	Amount (in billions)	Percent total
<hr/>		
Federal funds:		
Unobligated balances.....	67	20
Obligated balances.....	<u>101</u>	<u>32</u>
Total Federal fund unexpended balances	<u>168</u>	<u>52</u>
Trust funds:		
Unobligated balances.....	127	40
Obligated balances.....	<u>25</u>	<u>8</u>
Total trust fund unexpended balances....	<u>152</u>	<u>48</u>
Total Federal and trust funds:		
Unobligated balances.....	194	61
Obligated balances.....	<u>126</u>	<u>39</u>
Total unexpended balances.....	<u>320</u>	<u>100</u>

Most of these balances are relatively uncontrollable. The trust fund unexpended balances which comprise \$152 billion, or 48 percent of the total, are, in most cases, needed to meet statutory requirements in subsequent years and can be used only for purposes specified by law, such as social security programs.

Federal fund obligated balances account for \$101 billion, or 32 percent of the total. Such balances are comprised of the unpaid portion of obligations incurred by the Government in the form of orders placed, contracts awarded, and services received. The major cause of obligated balances is the long leadtime required in major procurement, construction, and research and development activities of Federal agencies. The sum of Federal fund obligated balances and trust fund unexpended balances is \$253 billion, or 80 percent of the total unexpended balances.

At the start of fiscal year 1975 the remaining \$67 billion, or 20 percent of the total, consists of Federal fund unobligated balances. The various types of unobligated balances of Federal funds are reflected in the categories used in the following table:

ANALYSIS OF FEDERAL FUND
UNOBLIGATED BALANCES (in millions of dollars)

Category and agency	Unobligated balances end of year		
	1973 actual	1974 estimate	1975 estimate
<u>Guarantee and insurance programs:</u>			
<u>Standby and backup authority:</u>			
International financial institutions.....	8,329	9,519	9,554
Federal Home Loan Bank Board:			
Investment in Federal home loan banks..	4,000	4,000	4,000
Federal Savings and Loan Insurance Corporation.....	750	750	750
Department of Housing and Urban Development:			
Loans to Federal National Mortgage Association.....	2,250	2,250	2,250
Low-rent public housing.....	957	888	941
Flood and civil disorder insurance....	553	788	750
Urban renewal loans and planning advances.....	391	455	572
Federal Deposit Insurance Corporation....	3,000	3,000	3,000
Securities and Exchange Commission:			
Securities Investor Protection Corporation fund.....	1,000	1,000	1,000
Veterans Administration: Loan guaranty fund.....	535	609	624
Farm Credit Administration: Banks for cooperatives investment fund and short term credit investment fund.....	260	260	260
National Credit Union Administration: Credit union share insurance fund.....	126	138	152
Total standby and backup authority.	22,151	23,657	23,853
<u>Reserves for losses and debt redemption:</u>			
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation.	3,085	3,410	3,752
Department of Housing and Urban Development:			
Federal Housing Administration fund....	1,518	1,324	1,417
Participation sales fund.....	723	932	1,165
Guarantees of mortgage-backed securities.....	9	16	24
Veterans Administration: Veterans insurance funds.....	596	660	727
Department of Agriculture: Rural housing, Federal crop, and agricultural credit insurance funds.....	139	55	694
International development assistance:			
Overseas Private Investment Corp.....	162	186	215
Housing guaranty fund.....	50	48	47

Category and agency	Unobligated balances end of year		
	1973 actual	1974 estimate	1975 estimate
<u>Guarantee and insurance programs (cont'd)</u>			
<u>Reserves for losses and debt redemption</u>			
(cont'd)			
Other agencies.....	230	64	69
Total reserves for losses and debt redemption.....	<u>6,512</u>	<u>6,695</u>	<u>8,110</u>
Total guarantee and insurance programs.....	<u>28,663</u>	<u>30,352</u>	<u>31,963</u>
<u>Loan programs:</u>			
Department of Housing and Urban Development:			
Government National Mortgage Assoc.:			
Special assistance functions.....	3,725	3,248	5,569
College housing loans.....	967	1,037	1,105
Public facilities loans.....	175	172	179
Housing for the elderly or handicapped	32	46	62
Rehabilitation loans.....	27	37	56
Veterans Administration: Direct loan revolving fund.....	954	1,054	1,080
Department of Agriculture: Farmers home and rural electrification loans.	496	499	502
Department of Labor: Advances to the unemployment trust fund.....	347	347	347
Department of Health, Education, and Welfare: Higher education facilities loan and insurance fund.....	123	107	100
Medical facilities guarantee and loan fund.....	102	85	92
Small Business Administration.....	985	259	173
Department of Commerce.....	137	145	162
Other agencies.....	<u>368</u>	<u>72</u>	<u>30</u>
Total loan programs.....	<u>8,440</u>	<u>7,109</u>	<u>9,457</u>
<u>Procurement programs:</u>			
Department of Defense-Military.....	8,616	6,495	6,512
Department of Agriculture: Removal of surplus agricultural commodities....	263	133	150
Other agencies.....	<u>115</u>	<u>86</u>	<u>84</u>
Total procurement programs.....	<u>8,994</u>	<u>6,714</u>	<u>6,746</u>
<u>Construction and land programs:^{1/}</u>			
Postal Service.....	9,019	---	---
Department of Transportation:			
Urban mass transportation program....	1,420	3,402	2,054

Category and agency	Unobligated balances end of year		
	1973 actual	1974 estimate	1975 estimate
<u>Construction and land programs (cont'd)</u>			
Department of Transportation (cont'd)			
National scenic and recreational highway program.....	---	20	30
Department of Defense-Military.....	1,858	1,572	1,640
Environmental Protection Agency:			
Construction grants.....	5,398	5,453	953
Tennessee Valley Authority.....	2,041	1,198	800
Department of Housing and Urban Development: Grants for open space land programs, urban renewal, water and sewer, neighborhood facilities, and new community assistance.....			
	1,318	840	740
Department of Agriculture: Forest roads and trails, rural environmental assistance, watershed and flood prevention operations, and construction and land acquisition....			
	612	558	500
Department of Interior: Land and water conservation fund, road construction, public lands development roads and trails, and construction and rehabilitation fund.....			
	477	369	446
Funds Appropriated to the President:			
Appalachian regional development program.....	252	225	250
Department of Health, Education, and Welfare: Health resources.....			
	569	401	96
General Services Administration.....	332	26	80
Department of State: Construction and acquisition, operation, and maintenance of buildings abroad....			
	35	50	79
Veterans Administration: Construction, major and minor projects.....			
	71	77	73
Other agencies.....	527	262	134
Total construction and land programs.....	<u>23,929</u>	<u>14,453</u>	<u>7,876</u>
<u>Research and development programs:</u>			
Department of Defense-Military.....	315	304	317
Other agencies.....	<u>1,135</u>	<u>51</u>	<u>4</u>
Total research and development..	<u>1,451</u>	<u>355</u>	<u>321</u>
<u>Other balances:</u>			
Department of Agriculture:			
Price support programs.....	1,317	5,542	9,350
Rural water and waste disposal grants	120	120	100

Category and agency	Unobligated balances end of year		
	1973 actual	1974 estimate	1975 estimate
<u>Other balances (cont'd)</u>			
Department of Agriculture (cont'd)			
Other agricultural programs.....	71	29	19
Department of Defense-Military.....	1,719	1,566	1,318
Department of Housing and Urban Development.....	129	217	246
Postal Service.....	480	---	---
Other agencies.....	925	381	326
Total other balances.....	<u>4,761</u>	<u>7,855</u>	<u>11,359</u>
Balances of less than \$20 million.....	<u>786</u>	<u>288</u>	<u>367</u>
Total Federal fund unobligated balances.....	<u>77,022</u>	<u>67,125</u>	<u>68,089</u>

1/ Excludes loans for construction.

NOTE: For purposes of this table the categories are mutually exclusive; therefore, each item is placed only in the one category which best serves to illustrate the predominant characteristic of the balances involved. The categories used cover only those accounts with balances of \$20 million or more. Accounts with unobligated balances of less than \$20 million are shown in the aggregate at the end of the table.

Of the \$67 billion Federal fund unobligated balances estimated to be available as of June 30, 1974, \$30 billion (48 percent) are for guarantee and insurance programs. The major portion (\$24 billion) is basically standby and backup authority that, it is hoped, will not be used in the foreseeable future.

Another category of Federal unobligated balances results from the financing of loan programs. Approximately 10 percent (\$7 billion) of the Federal fund unobligated balances estimated to be carried into 1975 is in loan programs. These programs generally are financed through revolving or business-type funds, which are established to carry on a cycle of operations, mainly with the public. Most of these funds are expected to be self-sustaining over a period of years.

Major procurement, construction, and land acquisition and improvement programs account for \$21 billion (31 percent) of the Federal fund balances estimated to be unobligated at the end of 1974. These balances are primarily due to the relatively long leadtime required and full-funding policy applied to such programs.

The remaining balances are attributable principally to the research and development programs, the industrial fund operations of the Department of Defense, and the price support programs of the Department of Agriculture.

PROPOSED EXCESS OIL PROFITS TAX

Mr. MAHON. Before the noon recess, the gentleman from West Virginia, Mr. Slack, asked to be recognized to develop some matters involving oil. I realize that certain segments of the media and certain individuals seem to be having fun lambasting the petroleum industry, which on the whole has done an amazing job over a period of decades in supplying people with fuel at relatively low cost for their automobiles, homes, and otherwise.

Like other businesses, they are not perfect. My interest is not lambasting people. My objective is helping to find ways and means to get more fuel. That is what we need. If punitive action would get us more fuel, we should consider such action, but I am just afraid that some of the actions being proposed in Congress now with respect to legislation will not move us toward more production, but rather toward instability and a general slowdown in production efforts which are vitally necessary to provide more fuel to the American public.

I yield to the gentleman from West Virginia.

Mr. SLACK. Thank you, Mr. Chairman.

Mr. Secretary, the budget proposes an excess oil profits tax that is estimated to net \$1 billion in 1974 and \$3 billion in 1975.

The oil tax proposed by the administration would be levied initially on that part of the per barrel price of crude petroleum exceeding \$4.75 per barrel. The tax then escalates in relation to the price per barrel.

The revenue from such a tax is estimated to net \$3 billion in 1975 and to gross \$5 billion. This implies an average price of between \$7 and \$7.65 per barrel of crude oil. At the \$5.25 per barrel price recently approved by the Cost of Living Council, only 7½ cents per barrel would be collected. This controlled price applies to roughly 75 to 80 percent of domestic production.

If a 7½-cent tax were collected on 75 to 80 percent of the approximately 3.5 billion barrels of crude oil produced annually in the United States, and say, a 50-cent tax collected on the other 20 to 25 percent, which sells at a higher uncontrolled price, receipts from the tax would be \$500 to \$600 million.

However, Secretary Shultz has estimated that the tax would produce \$3 to \$5 billion during the first full year it was in effect. Over a 3-year period, the tax schedules proposed by the administration would be gradually adjusted upward to a point at which no tax would be collected except on that part of the price of crude oil in excess of \$7 per barrel. The \$7 a barrel is what energy experts reportedly believe necessary to make development of alternate sources of oil—particularly oil from shale—feasible.

My first question, Mr. Secretary, is this: Would this tax be applied to imported oil?

Secretary SHULTZ. No, sir.

Mr. SLACK. If it is not to be applied to imported oil, then what prices would have to prevail on domestic oil to raise the gross amount of \$5 billion that is projected in the budget?

Secretary SHULTZ. That is a projection for fiscal 1975. It would be a full-year projection, and that estimate was on the basis of prices approximating the present prices, which includes the controlled price of \$5.25 for so-called old oil, and while it is rather difficult to estimate, something in the vicinity of—

Mr. SLACK. But it is based on present prices, is it not?

Secretary SHULTZ. Basically, yes.

Mr. SLACK. Since this proposed tax is on the price per barrel of oil, can it have any real effect on the profits of an oil company? If so, how?

Secretary SHULTZ. Well, it is our analysis that the real profit, the windfall profit—let me make that point—that may occur as a result of rising prices in the next 3 to 5 years, will occur on the price of crude. On the whole, the balance of the industry on through the distribution chain is, on the one hand, relatively competitive and, on the other hand, has been controlled, and there is a provision in the Mandatory Allocation Act for controls remaining in effect.

So that is what we have instead of margin controls right on top of the price of crude, and, I think, if you look in terms of what has been going on in oil company profits, you will see the point rather clearly for the past year.

Therefore, the windfall profits tax was designed to fall on the windfalls that may occur as a result of extraordinarily high prices of crude, and is timed in such a way as to go out of existence, certainly after 5 years, and after 3 years in the sense that the price at which any tax falls thereafter is above \$7.

Mr. SLACK. Then, in your judgment, Mr. Secretary, it would have an effect on the profits of the oil company?

Secretary SHULTZ. Oh, yes.

EFFECT OF OIL TAX ON PRODUCTION

Mr. SLACK. Do you think the proposed so-called excess profits tax will have a discouraging effect on the exploration of new petroleum in this country?

Secretary SHULTZ. No, I don't. We worried about that possibility a lot, and we designed this windfall profits tax so that it would not discourage investment on the part of somebody who, let us say, thought that \$7 oil was a long-term supply price and would make an investment now and the oil would not probably be coming forth for 3 or 4 years. The tax would not discourage that person, and for that matter, for those who think the long-term supply price is more like \$8 or \$9, it still wouldn't discourage them.

We had this problem very much in mind in the design of this particular tax.

Mr. SLACK. Along the same lines, Mr. Secretary, do you think that the proposal in the conference report on the Emergency Energy Act calling for a rollback in newly discovered domestic oil prices and stripper well prices, will have the effect of discouraging exploration and production of this oil?

Secretary SHULTZ. Yes, I do. I think that that action, if that were taken, would be a mistake from all standpoints, that is, I think it would be discouraging. It would also take us away from the use of the price system as a rationing device, and I think after a very short period of time would not actually reduce prices because of the fact that a very large fraction of our total oil is imported. If we are going to import that oil, we are going to pay the price whatever it may be on the world market.

Mr. ADDABBO. Will the gentleman yield?

Mr. SLACK. I will be glad to yield.

Mr. ADDABBO. Mr. Secretary, relative to the windfall tax and excess profits, we all know that profits and losses can be actually accentuated or minimized by bookkeeping.

Now, with the various tier structures of the oil companies, in other words, through their various corporations—they own the oil, the crude, what have you, from the actual wellhead through the delivery system, through the refinery, and the retail outlet—how can you possibly set a windfall profit tax?

Couldn't they just take whatever their costs are and just increase their costs right down along the line to wipe out on paper at least any question of a windfall tax?

Secretary SHULTZ. No; I don't think so and that is one of the beauties of this tax. It is simple, it is easy to collect, and it comes on a piece of the product that is easily identifiable and for which a known price can be established, and it is collected every month in our proposal.

It could be done very simply.

Mr. ADDABBO. Well, we have read of cases where a broker would buy oil in Texas, sell it to a broker in Europe, and the broker would then sell back here to the United States, and the oil would then come up from Texas. Where would the windfall tax be there? They could sell less to the man in Europe and more here or vice versa and it would all be the same corporation.

Secretary SHULTZ. This tax is proposed, in effect, at the wellhead; that is, the price of what comes out of that well.

Mr. ADDABBO. If at the wellhead he sells it at a minimum and he sells it abroad and abroad gets the profit, where do you get the windfall tax?

Secretary SHULTZ. He can't manipulate it very well, because there is a known price for this crude in the marketplace. It is a commodity that is comparable. It isn't different from one place to another. The various grades and so forth don't differ. There is a regular classification system and so on for them, so that you can calibrate these prices fairly well.

Mr. ADDABBO. I have further questions on this but I yield back to the gentleman.

Mr. SLACK. Thank you, Mr. Secretary.

NEGATIVE EFFECT OF PRICE ROLLBACK ON PRODUCTION

Mr. MAHON. Mr. Secretary, you said that you feared that a rollback enforced by law would be counterproductive and would tend to discourage exploration and additional production.

Is that right?

Secretary SHULTZ. Yes, sir.

Mr. MAHON. I had a message from a man yesterday. He said, "I have plans to drill 22 wells, but if this rollback takes effect I would not feel safe to go beyond about 4 or 5 of these wells."

I find that the independent operators who have been responsible for discovering about 75 percent of the oil reserves are very much disturbed about the so-called rollback because it introduces great uncertainty into the picture. They don't know whether they can afford the gamble of increased production because it is very expensive and they must be able to get financing. I agree with you that the rollback

would be very harmful to the people who want to solve the energy crisis as soon as reasonably possible.

Now, I would like to understand why you said that a rollback would be counterproductive to the people who want to get more fuel and that an excess profits tax would not be damaging to those who want to get more and more exploration and production. Would you please explain your position on this matter?

Secretary SHULTZ. I think the reason is that the windfall profits tax does not attempt to regulate the prices as such and so a person charges whatever price there is in the marketplace. There is no regulation of that. And from the standpoint of your friend who is going to drill those 22 wells, we hope, he is not going to be producing oil from those wells for quite a little time, is he?

Mr. MAHON. No.

Secretary SHULTZ. I don't know how long it would take him but probably a couple of years before there would actually be crude oil coming out of there, maybe more.

Well, this windfall profits tax gradually moves out of existence. Every month there is a new step taken and the steps are calculated so as to encourage people to produce oil now, because of the relationship of the discounted cash flow from keeping the oil in the ground until later and then selling at the prices they would get then, against the returns they would realize by producing and selling the oil now.

So we think that the windfall profits tax as it is designed would say to the person who is going to invest and drill that by the time the well starts to produce, the windfall profits tax will have largely played itself out. In the meantime, he should not have to worry about rollbacks and so forth, because all you are saying to the American economy and the American enterprise system when you have a congressionally imposed rollback is that apparently our energy industry is not going to be allowed to operate on its economics. It is going to be operated on politics. And whatever the costs are, somebody is going to get up and wave his hat in the legislative halls and say, "Wouldn't it be nice to reduce the prices? Let us vote to reduce the prices." And that is a very unnerving thing to somebody who is going to have to invest a lot of money.

We saw this last year—we should learn this lesson—with the drowning of the baby chicks, and it is a fundamental precept in economics that if you fix it up so that prices are lower than costs, you are not going to get very much production. That is what you have to watch out for in trying to legislate everything.

Mr. MAHON. When the meat price decision was made last year, it proved to be a counterproductive decision which aggravated the problem from the standpoint of the consumer and producer alike.

Secretary SHULTZ. No question, no question.

Mr. MICHEL. Would my Chairman yield for a clarifying question.

Mr. MAHON. Yes.

IMPACT OF EXCESS OIL PROFITS TAX ON PRODUCTION

Mr. MICHEL. On the issue of excess profits as you have described them, Mr. Secretary, what incentive is there for Mr. Mahon's independent driller to get the oil up as quickly as possible if he looks down

the road and sees there is a declining excess profits tax at some future date, 2 or 3 years. Doesn't that in a sense encourage him to withhold actual production until he can be free of the excess profits tax and thereby realize more, or is the formula so calculated as to penalize him in some way for deferring getting it up immediately or as quickly as possible?

Secretary SHULTZ. He sees the fact that there is less and less tax as time goes on, so that suggests to him he should leave it in the ground, as you pointed out. However, he has to take into account two other things: First, that oil in the ground brings him no rate of return. If he gets it out of the ground and gets money, then the money can be put to work and it earns an interest rate of whatever it is, say 8 percent, so he has to discount the price that he might get 2 or 3 years from now by the rate of return he is foregoing in the meantime. Second, he has to remember this: That these high prices that we are seeing around the world right now are causing an extraordinary surge of investment and of creativity in the production of energy. I believe that there is just no question that these world prices, say 5 years from now, are going to be lower than they are right now. So he has to think about that, too. Maybe these present prices are pretty good.

OIL PRICE REGULATION

MR. YATES. Mr. Chairman, would you yield on that question?

Mr. Shultz, is my memory correct? Do I remember having read that you favored letting the price of oil go up and seek whatever level it could obtain in the market?

Secretary SHULTZ. Well, we have a controlled price for the old oil of \$5.25, and I don't object to that. If I could have everything just the way I want it, I wouldn't have price controls and wage controls at all, but we have got them and there is a certain institutional momentum there. I wouldn't change that. But at the same time, I would leave the new oil and stripper oil prices the way they are, and they are seeking their own level.

MR. YATES. Well, but the new oil and the stripper oil prices are over \$10 a barrel, aren't they? They are \$10 and \$12 a barrel and you would let the people pay that price?

Secretary SHULTZ. Certainly. I would also let people pay for imported oil. Thirty percent of our oil comes from imports, and I think if an American wants to pay for imported oil, he shouldn't be deprived of that right by an act of Government.

So we ought to allow him to pay for that if he wants to.

MR. YATES. What can the American do who has to use his car? Does he have any alternative except to pay the price? How do you differ from situations in the past where those who sold electricity or transportation were designated as public utilities and were required to have their rates regulated because there was no substitute for the product that they sold? What is the substitute for gasoline for the individual's transportation today?

Secretary SHULTZ. Well, I think there are several things to be borne in mind.

First of all, we have probably more regulation than is desirable in the energy area right now. The whole structure from the crude

price on is regulated. Competition might do better for us in those areas, so one has to keep that in mind.

But, more important, I think everyone has to keep this in mind: Isn't it better to have the gasoline and the oil you want at even a little higher price than you would like than to have a nice, low price and nothing available there?

I think, in other words, it is the availability of supply that we have to think about.

Mr. YATES. Would you remove the regulation for electric companies and telephone companies?

Secretary SHULTZ. No, I wouldn't, but I don't think that they are particularly holding down the rates.

Mr. YATES. Well, the utility companies are supposed to be holding down the rates to what is supposed to be a reasonable rate because presumably there is no substitute for that service, and I suggest to you that there is no substitute in this automotive economy in which we live for gasoline and oil at the present time.

Therefore, there ought to be some kind of regulation.

Secretary SHULTZ. Well, no; there are many substitutes.

Mr. YATES. All right, name some of them.

Secretary SHULTZ. A carpool.

Mr. YATES. Well, that is no substitute.

Secretary SHULTZ. Certainly it is a substitute. It is a way of cutting. If you are driving back and forth by yourself and you think the prices are too high that way, if you can get your friend here to drive back and forth with you you cut your gas price in half. That is a great substitute. We ought to encourage people to use it. This is what prices do.

Mr. MAHON. Mr. Secretary, are you hearing an argument somewhat for nationalization?

Mr. YATES. No, that isn't true, Mr. Chairman. It wasn't an argument for nationalization. It was an argument for appropriate regulation.

METHOD TO INCREASE STRIPPER WELL PRODUCTION

Mr. MAHON. I have been told by an oil producer that a meaningful increase could be achieved in oil production from so-called stripper wells if the regulations were changed.

This is my understanding of the situation. A well that produces 10 barrels or less per day is considered a stripper well and the price of the oil is not regulated by the Government. I believe this oil is bringing about \$8 per barrel as contrasted with about \$5.50 per barrel for oil produced from larger old wells.

The output of many of the wells by the employment of certain procedures could be increased beyond 10 barrels per day, I am told. But this would deny the producer of the higher price per barrel. It has been suggested that the stripper well people should be encouraged to increase production beyond 10 barrels per day and that this could not be done unless the higher price should also be applied to the production in excess of 10 barrels per day.

I realize that this is not the time to explore this matter fully but would you make a brief comment as to the proposal?

Secretary SHULTZ. But I think to the extent that there is really a great deal of oil that would be produced if this regulation were removed, and my impression is there isn't, but if there were a great deal,

what it would argue for would be deregulating the price all across the board so we wouldn't have these notches in the system.

Mr. MAHON. I promised Mr. Ruth just before noon that I would yield to him.

CONTROL OF FEDERAL SPENDING

Mr. RUTH. Thank you, Mr. Chairman.

Mr. Secretary, I would like your reaction to the following statement: "The majority of budget expenditures are noncontrollable because of the bills passed by Congress. Revenue is controlled by Congress through its tax laws. Congressmen who voted for more and more expenditures"—I don't exempt myself from this—"even in excess of the budget, are critical of the deficit spending in the budget."

And as you explained, you are criticized for impoundment without which we would have even a greater deficit. I have been sitting here listening to this criticism for 2 days now and I don't understand this. I wish you would comment on it.

Secretary SHULTZ. I appreciate the statement since I don't appreciate all the criticism about impoundment combined with criticism about the deficit. So I appreciate your statement very much.

Mr. RUTH. You must have some personal reaction to this conflict, where people criticize you if we don't have a balanced budget. You know these are the same people voting for more and more funds every day, which puts the budget out of balance. Then when they start talking about impoundment you say it is just and the deficit would be even greater without unimpoundment.

You are human, and when you get to the White House you don't sit without emotion completely. I would just like to know your reaction to the arguments.

Secretary SHULTZ. Well, I would say that it is not the first time before a congressional committee that I have been faced with inconsistency and it is a problem. I think it is a very real problem. It is one that the chairman has lectured me about over the years and others have.

I agree and I think that somehow or other over the years we do have to come to grips and get control of the Federal spending and just face up to it and let the side arguments go.

Mr. CEDERBERG. Will the gentleman yield?

Mr. RUTH. Mr. Secretary, I speculate that Mr. Cederberg is willing to tread where you aren't, so I yield to Mr. Cederberg.

Mr. CEDERBERG. No; but I was just going to say that I know the Secretary is sophisticated enough to understand the political complexities that we have to live with on this side of the table.

Mr. MAHON. Mr. Wyatt asked me to recognize him.

UNIFIED AND FEDERAL FUNDS BUDGET CONCEPTS

Mr. WYATT. Mr. Secretary, and also Mr. Director, this probably is the last chance I am going to have on this side table to examine you and I would like to make a point that I have attempted to make before unsuccessfully and I would hope perhaps that I have a little better luck this time.

But as I understand it, we have all kinds of budgets. We have the administrative budget, we have the unified budget, which includes the

trust funds, and we have the full employment budget, which includes income as it would be if we had full employment. I have attempted to make this point before and I would like to make it as clear as possible right now, and that is to be sure that you and the administration realize the difficulty that you put in the way of Congress in attempting to keep the deficit low by adopting these concepts and using those as your public concepts of the budget process because both the unified and the full employment budget tend to minimize the deficit or to maximize the surplus.

My question really is: Do you fully realize that by using either of these two concepts you make it very tempting to Members when they are considering such things as tax reform to vote for what in effect becomes tax reduction?

Mr. MAHON. Off the record.

[Discussion off the record.]

Mr. WYATT. I won't pursue this matter further then, Mr. Chairman, except that I want to once more say that this whole concept makes it extremely difficult for Congress to behave responsibly in the fiscal area and I would like to see some interest on the part of the executive in changing this concept and getting back to a concept that any kind of business would normally be run upon.

I do have some other questions I will put to you very briefly.

Secretary SHULTZ. May I just make one comment on it and it is, I know, a comment that disappoints you because I think the unified budget is a good idea. I think you have to ask yourself where you would be if you had only the Federal funds budget, and there you are in a period when the economy is weaker than you would like it to be. You already have a gigantic deficit in the Federal funds budget, but in terms of how much cash the Government puts into the economy and how much cash it takes out, you know that the budget is in balance and you think sensible fiscal policy would be to let it go out of balance a little bit.

How would you measure yourself against this gigantic deficit? It seems to me what you would wind up doing is putting yourself in a position where it would be harder to do a sensible thing and you would have no gage to know how much of a deficit is reasonable and how much is unreasonable.

So I think there are some arguments, and I don't wish to prolong this. The chairman has given us the word. But I would like just to make those points.

Mr. WYATT. I understand that, Mr. Secretary, very fully and I think that the economists and those who have to deal with the figures can understand these concepts, but as far as the public relations are concerned in presenting a budget that the public understands I think you would be a lot better off to use the figure that shows the real deficit.

EFFECT OF DEVALUATION ON STRENGTH OF THE DOLLAR

I do have some questions about the devaluation. We have had two-dollar devaluations during the past 2 years. The dollar seems to be considerably stronger on international money markets now. To what extent is this strengthening of the dollar a lasting situation, Mr. Secretary?

Secretary SHULTZ. I think that what we had beginning in the middle of 1971 until early in 1973 was a readjustment in relative exchange rates reflecting changes that had occurred over a period of 15 or 20 years, in which the dollar got out of balance and other countries had devaluated against us.

The whole structure of trading relationship did not favor our goods, and I think with the second devaluation we basically did get a rearrangement of the competitive structure that put us in not an unfair but a good position where our products could compete on world markets and where our home industries could compete at home. The fact that that is so is borne out by what has happened to the balance of trade figures in recent months.

Now, I think that the exchange rate relationships we more or less have now seem to be fairly steady in the market. The impact of the tremendous increases in energy prices and the threatened shortages caused quite a shift in relative exchange rates. To a very large degree, they have come back to where they are now, because actually Europe and Japan are feeling less of the shortage than we are, mainly because they aren't trying to control things the way we are.

So I think on the whole the dollar is likely to be stronger, say, a year from now than it is now, but perhaps not materially so.

THE DOLLAR OVERHANG PROBLEM

Mr. WYATT. Mr. Secretary, testimony received by the committee last year seemed to indicate that the dollar overhang problem. U.S. dollars in foreign hands, was perhaps the most serious threat to the international stability of our currency.

Germany and Japan have had huge holdings of U.S. dollars, as you know. Has there been any improvement in the situation since the second dollar devaluation last fall?

Secretary SHULTZ. Well, yes. The Japanese reserves have declined, dollar holdings have declined, quite substantially. There hasn't been much decline in the German reserves. Those have been the two big holdings.

Mr. FLOOD. Would the gentleman yield? I asked that question last year.

Would you, for the record, give us the present Japanese holdings and the present German holdings as of now?

Secretary SHULTZ. Yes; I would be glad to do that.

[The information follows:]

FOREIGN EXCHANGE RESERVES OF GERMANY AND JAPAN

[In millions of dollars]

	Mar. 31, 1973	Dec. 31, 1973	Change
Germany.....	25,035	25,051	+6
Japan.....	16,059	10,203	-5,856

Note: The foreign exchange holdings of Germany and Japan are largely in the form of dollar holdings.

Source: International Financial Statistics, February 1974.

Secretary SHULTZ. The fact is we don't hear anything much about the dollar overhang problem in our international monetary meetings any more and it is kind of fun, because everybody wants to hang onto their dollars and we tell them, "Why don't you sell your dollars? You have been complaining about the overhang and all the dollars you hold that you don't want. Now is your chance to get rid of them."

And everybody wants to hang on, and why do they want to hang on? It must be because they think the dollar is likely to strengthen and they will get more for those dollars as time goes on.

Mr. WYATT. You say the Japanese holdings, for example, have gone down. Has that been to our own benefit or has that been with third countries, Mr. Secretary? Is the total overhang situation improved as far as our situation is concerned?

Secretary SHULTZ. One has to distinguish between official reserves, which is what I was referring to, and dollars held out of the country in private as well as public hands. Some of the dollars have come back here. Some have gone apparently into the Eurodollar market and into other places.

How the flows will develop is one of the great points of uncertainty following the increase in energy prices: that is, certain countries will accumulate large reserves, such as Saudi Arabia, Kuwait, and so on, and the question is what will they do with that money.

Obviously they are not just going to hold it because they want to put it out and have it earn something, but where will it go? Into what country? And since this has happened very suddenly, there is no pattern to look at. There is a lot of uncertainty about it, and it is that uncertainty that is troubling people and leading to discussion of measures that could be taken to deal with it—measures that to some extent we have been working at in the international financial world.

OUTLOOK FOR FUTURE DEVALUATIONS

Mr. WYATT. Do you foresee another devaluation, Mr. Secretary?

Secretary SHULTZ. No.

Mr. WYATT. What does the United States have to do to avoid another dollar devaluation? What can be done now that isn't being done? Is there anything that you can think of?

Secretary SHULTZ. The basic thing is to maintain a strong economy, to maintain a competitive cost position, and to improve our productivity. I understand that the House is finally going to get a chance to vote on the Productivity Commission and I certainly hope they vote affirmatively, because it is a helpful thing in improving our productivity.

But things that keep our costs competitive are the basic elements. We have done some things that I think will strengthen our ability to attract capital. In a kind of perverse way, I believe the ending of our controls on the outflow of capital will probably attract capital, because we have removed the fear that if the capital comes in, it won't be able to get out again. So I think in freeing up our capital markets we are also taking a step that is fundamentally strengthening the dollar.

DEVALUATION COSTS ASSOCIATED WITH INTERNATIONAL FINANCIAL
INSTITUTIONS

Mr. WYATT. In terms of the 1974 and 1975 budgets what has been the total cost of the two dollar devaluations to the U.S. Government? Perhaps you want to furnish that for the record, Mr. Secretary.

Secretary SHULTZ. You are speaking of the official cost in terms of maintenance of value, obligations, and things of that kind?

Mr. WYATT. Yes, sir.

Secretary SHULTZ. Yes; I can supply a figure for the record.

[The information follows:]

Maintenance of Value Obligations
and Budgetary Expenditures for the
International Financial Institutions

A maximum of \$3.8 billion has been appropriated to fulfill U.S. maintenance of value obligations in the international financial institutions resulting from the 1972 and 1973 devaluations of the dollar. A breakdown of maintenance of value by category follows:

Obligations for Maintenance of Value in
the International Financial Institutions
(\$ millions)

	<u>1972 Devaluation</u>	<u>1973 Devaluation</u>	<u>Total</u>
(1) Paid-in capital	328	477	805
(2) Callable capital and other con- tingent obligations	709	992	1,701
(3) IMF	<u>541</u>	<u>756</u>	<u>1,297</u>
Total	1,578	2,225	3,803

Items (2) and (3)--maintenance of value relating to the callable capital in the development lending institutions and to the IMF--are not expected to result in budgetary expenditures. Thus the total impact of the maintenance of value obligations on budgetary expenditures will be \$806 million spread over a fourteen year period. The budget impact in FY74 is estimated at \$35 million, and in FY75 at \$45 million.

Estimated Budgetary Outlays for Maintenance of Value
in the International Financial Institution
Fiscal Years
\$ Millions.

	1972 Devaluation												TOTAL			
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983		1984	1985	1986
IDA	-	-	4	8	8	9	9	16	16	16	17	17	-	-	-	120
IBRD	-	.12	-	-	-	-	-	-	-	-	8	12	12	9	8	50.06
IDB (ord. esp.)	-	-	2	2	2	2	2	2	2	2	5	5	5	5	5	41
IDB (FSO)	-	-	12	12	12	12	12	12	12	12	7	6	-	-	-	109
ADB	-	4.30	-	-	-	-	-	-	-	-	-	-	-	-	-	8.60
TOTAL (1972)	-	4.42	23.24	22	22	23	23	30	30	30	37	40	17	14	13	328.66
	1973 Devaluation												TOTAL			
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983		1984	1985	1986
IDA	-	-	-	4	14	14	14	14	20	20	20	20	21	-	-	161
IBRD	-	-	-	-	-	-	-	1	-	-	10	16	15	15	14	71.30
IDB (ord. esp.)	-	-	-	1.3	3	3	3	3	3	3	9	9	10	9	9	64
IDB (FSO)	-	-	-	18	18	18	18	18	18	18	10	11	11	11	-	169
ADB	-	-	12	-	-	-	-	-	-	-	-	-	-	-	-	12
TOTAL (1973)	-	-	12	23.3	35	35	35	35	41	41	49	56	57	35	23	477.30
TOTAL (1972 & 1973)	-	4.42	35.24	45.3	57	58	58	65	71	71	86	96	74	40	36	805.96

Explanatory Note

The above figures represent estimated budgetary outlays arising from payments to the international development lending institutions in fulfillment of United States maintenance of value obligations relating to the paid-in capital of these institutions. With minor exceptions, payment has been made or will be made by letters of credit. Budgetary expenditures only arise as these letters of credit are drawn down. Drawdowns are made by each institution as the need arises for cash funds to pay for goods and services furnished to borrowers of these institutions. It is anticipated that drawdowns relating to maintenance of value obligations on IBRD and IDB dollar loans outstanding at the time of change in par value of the dollar will be spread out over the period of repayment of these loans, i.e., through fiscal 1986. With regard to IDA, funds relating to maintenance of value obligations on First, Second and Third Replenishments, respectively, will only be drawn down after other funds from the particular Replenishment have been exhausted.

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TOTAL BUDGET COST OF DEVALUATION

Mr. MAHON. Mr. Wyatt, I think the Secretary is speaking of the cost by way of appropriations by Congress for the Government to maintain the constant dollar in these international funds.

Secretary SHULTZ. Right. I understood that.

Mr. MAHON. And other costs. If you would put that in the record I think that would be good. I think, Mr. Wyatt, you might put additional questions in the record.

Mr. WYATT. Mr. Secretary, I will give two further questions to you and ask you to answer for the record.

Thank you, Mr. Chairman.

[The following information was supplied by the Office of Management and Budget in response to Congressman Wyatt's questions:]

Question: What, if anything, does the 1975 budget do to promote the U.S. competitive position in international markets?

Answer: The overall budget policy for 1975 of maintaining a small full-employment surplus to restrain inflation will have a major positive impact on the U.S. competitive position in international markets.

In addition to that important macroeconomic effect, the 1975 budget provides for specific program expenditures aimed at promoting our international trade position: Two major efforts are underway for defining the underlying international competitive position of the United States. U.S. participation in negotiations on the reform of the international monetary system is funded primarily by the Office of the Secretary of the Treasury. The U.S. delegation to the multilateral GATT trade talks will be funded mainly by the Department of State under a 1975 budget authority request of \$2.5 million. Other agencies, particularly the Tariff Commission, the Office of the Special Representative for Trade Negotiations, and the Departments of Treasury, Commerce, and Labor will also support these negotiations.

In terms of export promotion for specific U.S. products, the 1975 budget supports the market development activities of the Departments of State and Commerce and the export financing programs of the Export-Import Bank, outlays of which are by law not included in the budget totals. The Department of Commerce has allocated \$24 million to export development activities in 1975 including \$4.5 million for promotion of East-West trade. Department of State activities are funded as part of its diplomatic and commercial activities abroad. The Export-Import Bank has requested a gross program activity level for 1975 of \$13.6 billion, \$5.6 billion for its direct and discount loan programs and \$8 billion for guarantees and insurance. The U.S. Information Agency also promotes U.S. exports through its trade fairs and exhibitions program, estimated at \$6.7 million in 1975.

Question: What effect does the U.S. fiscal policy have on our trade balance and payments balance?

Answer: Fiscal policy designed to control the rate of inflation will support the U.S. balance of payments. While some continued inflation is anticipated as the economy adjusts to petroleum price increases and other shortages, this is not due to excessive budget stimulus. In fact, as we move into fiscal year 1975 we expect the budget to restrain price increases. This should keep our rate of inflation well below that of our major trade competitors, thus helping to maintain a healthy balance of trade.

The floating exchange rate system that now exists allows for the automatic adjustment of each country's exchange rates to all others. This reduces the need for discretionary policies aimed solely at maintaining balance-of-payments objectives.

During the next 12 months we expect export and imports of goods and service to be in balance.

Mr. MAHON. What we have sought to do, after consulting with members of the committee, is to develop a series of questions which would essentially be a handbook of the fiscal and monetary situation confronting the Government. I have yielded to various members of the committee who have been of assistance in preparing the questions.

I yield now to Mr. Smith who has been seeking recognition.

ESTIMATED RATE OF INFLATION

Mr. SMITH. Mr. Secretary, first of all, in making a budget you must anticipate or estimate the rate of inflation for the fiscal year because the rate of inflation does have an impact on the budget, both as to estimated tax receipts and as to the outlay of dollars required in order to maintain services.

What rate of inflation did you use as an estimate for fiscal 1975?

Secretary SHULTZ. We used a little over 6 percent—higher at the beginning of the year, lower toward the end of the year.

Mr. SMITH. Did you use an average of about 6 percent?

Secretary SHULTZ. Yes.

Mr. SMITH. Now, if you prove to be 1 percent too high or 1 percent too low what impact will that have on the budget?

Secretary SHULTZ. Well, for a 1 percentage point increase in the GNP deflator, which amounts to a 1 percent increase in money GNP, we estimate that revenues would increase about \$3 billion and that outlays would increase about \$1.5 billion.

Mr. SMITH. So if inflation does prove to be 1 percent higher than you had indicated it would result in \$1.5 billion less deficit?

Secretary SHULTZ. Yes.

Mr. SMITH. Conversely, if it proves to be 5 percent instead of 6 percent, the deficit would go up \$1.5 billion?

Secretary SHULTZ. I am not sure that it works in a symmetrical fashion. The proposition is that when you have a rate of increase in inflation, it hits automatically as a set tax rate system impacts on incomes, whereas on the outlay side you have a lag because it just doesn't happen that fast.

Mr. SMITH. On the upside, we gain 1½ but if there is a lag, that would cause an offset in the next fiscal year.

Secretary SHULTZ. Right. You wind up paying it, but in the short term I think you have this lag.

OIL TAX STRUCTURE

Mr. SMITH. I am interested in your economic theories concerning the windfall profits. It seems to me that we need two things until we secure different energy sources. One thing is greater production of petroleum products or fossil fuels and another is faster marketing, less hoarding, and so forth.

If I were to follow your theories on that tax, it seems to me that we should apply the same thing to the depletion allowance by reducing it over a period of time at the rate of a half a percent per month. That would do two things.

It would encourage greater production so we can secure the bigger exemption and also should encourage faster marketing of whatever has been produced.

Wouldn't that help that situation?

Secretary SHULTZ. Well, I think the question presupposes the desirability of reducing the depletion allowance.

Mr. SMITH. I understood you had endorsed that.

Secretary SHULTZ. No.

Mr. SMITH. I thought you did this morning

Secretary SHULTZ. No, sir. Our position is that the foreign depletion allowance—I hadn't a chance to complete this in my conversation with Congressman Yates—should be eliminated, because we don't see why we should give special encouragement to exploration abroad.

We want to encourage exploration at home, instead. Our feeling is that we should leave the depletion allowance alone, as it stands, as an incentive and as part of an accustomed structure in the industry, which, if you disturb it, you don't know what all you are going to stir up, so it is better to leave it alone.

We did recognize, and this I mentioned this morning, that our proposal for tax reform in the interest of equity, in the interest of eliminating the high income-low tax paying situation, of changing the minimum tax and putting a limitation on the use of artificial accounting losses does have some impact on the incentive value of the depletion allowance. We recognize that that is so, but in the interest of getting equity in the tax system, we figure it is worth it.

We have proposed a device which is an investment tax credit type proposal focused on exploration, so we think we have balanced that situation off.

Mr. SMITH. But a gradually reduced depletion allowance would economically encourage earlier production and earlier marketing of petroleum products, wouldn't it?

Secretary SHULTZ. Well, I don't know. I think you would have to be balancing off in your mind the impact of doing that on the exploration effort itself against what short term effects you might get by manipulating the tax structure.

On the whole, and this is a statement about Government policy generally but it is true of tax policy, I think you are better off to have some kind of a policy and then stay there for a while. Don't be changing it all the time. Give people a chance to adjust to some situation and work under that. If you are always changing the rules on people, they get totally confused. They don't know what the heck is going to happen. So this is one reason why in a period when we desperately need more oil, more exploration, our feeling is you should leave the depletion allowance alone.

EXPORT CONTROLS

Mr. SMITH. My only other question is very much related but has to do with export controls. Have you had enough of those?

Secretary SHULTZ. Well, we have export controls.

Mr. SMITH. I am talking about export controls. You tried them on soybeans and I don't need to enumerate the many different things that happened that were not anticipated, even including the substitution of urea in Europe for soybean meal and therefore helping cause a fertilizer shortage which in the end is going to result in less feed grain production this year.

Secretary SHULTZ. Yes. I believe that export controls are undesirable as a matter of policy. The President has stated that. I wouldn't say there are never circumstances under which we should use them, but it ought to be with the greatest reluctance and we should stay away from them.

We do, as you know, have export controls now on scrap steel and we have, mandated by the Congress, export controls on certain classes of petroleum products.

BASIC INDUSTRY CAPACITY LIMITATIONS

Mr. MAHON. Mr. Secretary, one of the basic issues confronting this country, and you touched upon it in response to some of the interrogation this afternoon, is the question of capacity limitations on production.

As much as we desire production, it is not possible for us to go beyond certain limits. Of course we want to expand those limits as far as we can. Much of your own philosophy is involved here in this matter of capacity.

What good does it do to undertake a great number of new or enlarged Federal spending programs designed to stimulate the economy if basic industries are already operating at or near capacity?

Would additional demand created by such spending programs add to inflation and not be productive otherwise? How do you rationalize this problem?

Secretary SHULTZ. I agree with you. While the budget is in deficit, in full employment terms—recognizing how you all resist that—it is in surplus, and it is slightly more stimulative than last year's budget but not dramatically so, because we recognize, as you do, that the pause and slowing of our economy is attributable in some significant degree not to a lessening of demand but just to the fact that we have bumped up against capacity. The energy shortages have aggravated that problem, and you can't cure that problem by pumping up demand.

I agree with you completely.

Mr. MAHON. It has been indicated that there are contingency plans to prevent unemployment and stimulate the economy.

Are those programs going to work?

Secretary SHULTZ. Well, some will work. Some are waiting in the wings to be used if necessary. The one that we have talked about, which I keep drumming on, unemployment compensation, will certainly work—work fast, work automatically. Our problem is when we have a slowing process as a result of bumping into capacity limitations, to avoid having that fan itself out into a further slowdown as a result of a cumulative process. That is what we don't want to have happen and we don't think it will happen, but it is important to avoid that.

Mr. MAHON. This is a very important issue and I think one of great interest to the Congress and the country. I wish you would respond for the record to this question:

How can Federal spending programs do anything significant to combat the problems associated with lack of capacity and shortages of basic materials? That is related to the problem which we have been discussing.

[The information follows:]

Federal spending programs for research and development help to expand the long-run supply of basic materials. This will be the result of Project Independence—a long-term program designed to reestablish our capacity to be self-sufficient in energy supplies. To implement this program the budget calls for nearly \$1 billion of outlays in fiscal year 1974, over \$1.5 billion of outlays in fiscal year 1975, and over \$2 billion in budget authority in fiscal year 1975. It should be

emphasized that this Federal R. & D. effort supplements the much more extensive private R. & D. efforts and investment programs that will be undertaken in response to our energy problem. The Federal role is appropriate in areas where the benefits of R. & D. activities will be widely diffused and are hence areas not attractive to private concerns.

In addition to energy there are other areas where Federal R. & D. activities will help to expand future supplies of basic materials. Research funded through the Department of Agriculture will support the new farm policy directed toward increasing the output of food and fiber. The Department of the Interior supports R. & D. programs designed to enhance the supply of basic minerals. Research within the Department of Transportation will lead to improvements in the transportation of basic commodities and economies in the use of energy to move both people and goods.

The Federal Government also contributes toward maintaining an adequate supply of basic materials in its role as asset manager of public lands and offshore resources. The budget provides for speeding up the process of leasing land and offshore sites for developing shale, oil, and gas resources. Similarly, the Federal Government contributes to the supply of meat and lumber through the leasing of grazing and timber rights. In its capacity as asset manager the Federal Government must of course balance the needs for basic materials now with the conservation of resources and protection of the environment in the future.

Mr. MAHON. Mr. Roush has been seeking recognition.

INCREASE IN FEDERAL EMPLOYMENT

Mr. ROUSH. Thank you, Mr. Chairman.

Mr. Secretary, I would like to pursue for just a moment some of the questions asked this morning by Mr. Flynt with regard to the proposed increase in number of Federal employees. The budget does contemplate an increase in the number of employees, does it not?

Secretary SHULTZ. Yes. I believe so.

Mr. ROUSH. Was this done in part to counteract the anticipated unemployment in the private sector?

Mr. ASH. No, sir. The projected modest increases are to take care of expanded social security coverage, Federal assumption of the additional workload that is associated with adult welfare programs, increased health care, additional activities made necessary by the energy crisis, and population growth. All of these factors combined make some increase in employment unavoidable.

Mr. ROUSH. Is it at all contemplated that it will be done for that purpose?

Secretary SHULTZ. No, sir.

Mr. ROUSH. Just one clarifying question, Mr. Chairman, of Mr. SeEVERS.

I want to make sure that when you refer to various dates and quarters in your own testimony that you are referring to the calendar year, or are you referring to the fiscal year?

Mr. SEEVERS. I would be referring to the calendar year or quarter unless my statement specifically states that it is fiscal year.

I think I do use fiscal year in one place in my statement.

Mr. ROUSH. In one place you did, but in the rest of your testimony you did not. The Secretary constantly referred to fiscal years. If you were referring to the fiscal years, then your testimonies were in conflict, but if you are referring to calendar year you are not.

Mr. MAHON. Mr. Yates.

UNEMPLOYMENT PROGRAMS

Mr. YATES. Mr. Chairman, both the Secretary and Mr. Ash have talked about unemployment insurance being stepped up in the event that it is needed.

I have a letter from the Employment Security Administrator of the Bureau of Employment Security of the State of Illinois who is very uneasy at the present situation because he says that funds for the administration of the unemployment compensation program have been drastically curtailed. He says that is not only true with respect to Illinois. He says it is true in the whole Federal region, which includes Indiana, Michigan, Ohio, Wisconsin, and Minnesota.

Should you not increase such funds? How can the agency act if you are cutting down the administrative costs?

Secretary SHULTZ. I believe those administrative costs were cut down in an earlier time when it was apparently not needed, but they have been restored and it may be that there will be a supplemental to be sure that we will not be shorted in any way on the administrative side of the unemployment compensation system.

The proposals of the President, however, deal with the substance of the program.

Mr. YATES. Right.

Secretary SHULTZ. And almost a year ago now he proposed Federal standards for benefit levels, which would raise those benefit levels, and he proposed enlarging the coverage of the system. More recently, he has proposed making it possible to narrow down to labor market areas the triggering-in process for extended duration unemployment.

Mr. YATES. Do I understand from your answers, and Mr. Ash, that you do recognize that the administration allowances for the program are too low at the present time?

Secretary SHULTZ. They were and they have been changed.

In other words, the problem that letter refers to we recognized and we have been in action to deal with it.

Mr. YATES. This is dated February 14.

Secretary SHULTZ. Well, we recognized it before February 14 by quite a long shot.

Mr. YATES. When you recognized it, does that mean that you provided additional funds for them?

Secretary SHULTZ. We have. Partly they have been provided in the sense of personnel shifts and then, in addition they will be provided in the form of a supplemental. Is that right?

Mr. ASH. Yes.

Mr. CEDERBERG. Will the gentleman yield right there?

I think we had the same problem in Michigan that you would have in Illinois and we have had assurances that this matter would be corrected. I can understand what happened in the past because when unemployment went down, naturally you took your overhead down with it, but then when we get this new kind of a situation it is going to be compensated for, and I am surprised that your director from Illinois didn't have that in his Valentine's Day letter to you.

Mr. YATES. Well, it is dated February 14 and I did not know the situation. I am very pleased to get the assurances from the Secretary and from Mr. Ash that it will be taken care of.

Thank you.

Mr. MAHON. The gentleman from Indiana, I believe, has questions.

EXPENDITURE OF PRIOR YEAR APPROPRIATIONS

Mr. MYERS. Thank you, Mr. Chairman.

Mr. Secretary, according to this schematic that you put out annually, which is always intriguing to the committee, which is found on page 44 of the budget in brief you have unspent authority this year of \$319.8 billion of which you plan to spend \$101.2 billion in 1975, leaving to be spent in future years \$217.3 billion.

There have been a recent number of cases mandating that the U.S. Government must spend all funds that are appropriated by the Congress or provided for through contract authority. I suppose theoretically a large amount of this \$217 billion could be mandated this year.

What impact would that have on the economy and where would the money come from?

Mr. ASH. It would be impossible to spend in 1975 a large portion of the unspent balances to which you refer. As you know, many kinds of programs operate from authority granted years before it is prudent or even possible to use those funds. This large carryover of obligated and unobligated balances has been prevalent for many years.

The very nature of Government operations and the kinds of programs authorized result in a lag of the scale shown in the table on page 44 of the budget in brief. It is not only highly theoretical but illegal in some cases to spend these moneys in this particular year.

Mr. MYERS. Then you are saying this \$217.3 billion really is not impounded funds but awaiting proper time to be spent? Is that correct?

Mr. ASH. Yes that is correct. Budgetary reserves represent but a fraction of unspent authority which will be spent in future years. The \$217.3 billion reflects the fact that obligations are made for in advance of expenditures in many programs, such as major procurement and construction programs. In other programs, authority is provided for standby emergency purposes such as backup for insurance of bank deposits. If such authority is not needed or used it is carried forward as an unobligated balance year after year. Another sizable category of unobligated balances results from the financing of loan programs and the full-funding policy applied to programs requiring long leadtimes. Most of the remaining unspent authority consists of unexpended balances of trust funds which are needed to meet statutory requirements in subsequent years and can only be used for purposes specified by law.

COURT DECISIONS ON IMPOUNDMENT

Mr. MYERS. Are those court decisions having an impact whatsoever on the spending and on the borrowing authority or on obligations this year?

Mr. ASH. During the course of this last year, as you know, there were some court decisions. There were some funds released. The net

incremental cost of those funds that were released that otherwise or heretofore had been reserved was something of the order of magnitude of \$1 billion. I am not sure whether it was above or just below that but that is the general order of magnitude. As you can see, it isn't anywhere near the numbers you have been reciting here.

Mr. CONTE. Will the gentleman yield?

Mr. MYERS. I will yield.

PEANUT SUBSIDIES

Mr. CONTE. This morning I asked you, Mr. Secretary, if you had the subsidy payments for the peanut crop. Have you been able to get that?

Secretary SHULTZ. No.

Mr. CONTE. I have it here. I would like to insert this in the record. The 1972 crop year was \$97.3 million, the 1973 crop year was \$58.5 million, and in your budget for this year you have \$188 million.

Thank you.

AGRICULTURAL EXPORT LIMITATIONS

Mr. MYERS. Mr. Secretary, I have one question also relative to your discussion with Mr. Roush and also with Mr. Wyatt about export policies. I suspect this year we are going to come under severe pressure to limit the amounts of exports, particularly food products.

How important are agricultural exports to our economy and as to those exports that we have, which I understand were about \$19 million-plus last year, how have they affected the cost of living with respect to food prices?

Secretary SHULTZ. When our markets are open to people throughout the world, then there is more demand that can be put on those markets and that demand can result in higher prices. At the same time we must remember that the farmer on the average depends on exports for his market. I believe on the order of a third of our agricultural land production goes into export. Our wheat crop, for example, I think, is about two-thirds exported. So the farmer is one of the biggest exporters we have, and if we cut off his market in a short period of time we damage the feeling abroad about the reliability of that supply, and we may do long-run damage to that market.

So it is a real horn of dilemma-type problem.

Certainly we could reduce prices here by imposing export controls, but it would be for a short period and it would turn out to haunt us in its effect, among other things on the value of the dollar.

Mr. MYERS. Only 4 or 5 percent of the American people consider themselves farmers today, so they don't really have much of an impact on the polls. So I wonder about the other 96 percent, are they affected by these agricultural exports one way or the other?

Secretary SHULTZ. I don't claim to know anything much about politics, but I have noticed around Washington most of the politicians think about what the farmers have on their mind. That is just an observation.

Also it must be more than 4 percent of the vote there. Apparently they influence other people—their families and bankers, and storekeepers.

Mr. MYERS. How important to the average person living in the city of New York, or the Loop of Chicago are these farm exports? Do they have any economic impact whatsoever on the other 96 percent of the population living in the United States?

Secretary SHULTZ. They help to support a healthy farm economy, which in our case is the wonder of the world. It produces food that is cheaper here in terms of a proportion of the family budget than anywhere else. I don't want to sound like the Secretary of Agriculture here, but it also helps us pay for all the things these people want to import, and unless we export some stuff we can't import anything in the long run. This is one of our biggest sources of foreign exchange earnings.

Mr. ADDABBO. Will the gentleman yield?

Mr. MYERS. Yes.

Mr. ADDABBO. You say, Mr. Secretary, it is important, if we don't export, these countries can't buy from us. What is Russia buying from us? We are exporting to Russia. We sold them all the cheap wheat. They are going to export to us our own wheat back at twice or three times the cost. What help did that give the man back home in New York and Chicago and the big cities when he has to pay 40 and 50 and 60 cents for a loaf of bread? What help has he received from the export of agricultural products?

Secretary SHULTZ. He gets the same thing we have just been talking about.

Mr. ADDABBO. I haven't heard anything we received so far.

Mr. MYERS. Let me answer it then. This year we will probably save \$3.5 billion on farm subsidies that will not be paid to the farmer not to produce in diverted acreage. We are also saving the difference in the market price and what he can afford to produce it for. That is \$3.5 billion. That is a big item to all the taxpayers.

Mr. ADDABBO. Except he was paying \$3 billion and only paying 20 cents for a loaf of bread he is paying 40 cents for now. The tax bill is not down.

Mr. MYERS. When you see wheat on the farm at \$3 or \$4 a bushel you can justify that loaf of bread and not until. Of the 50 or 60 cents, 7 cents of that goes to the farmer. You can't blame the farmer. It is a lot of other people in between that handle the loaf of bread, not the farmer, not the sale to Russia.

Mr. ADDABBO. I agree the farmer is not making it, the exporter is. The farmer is getting a very small portion of the money being spent right now. The exporter is making the profit.

Mr. MYERS. The GAO just the other day proved nobody made an excess profit on that.

Mr. SMITH. Will the gentleman yield?

Mr. MYERS. Yes.

Mr. SMITH. In other words, without earning money from these exports there would be greater devaluation, and dollar devaluation costs all consumers. Is that correct?

Mr. ASH. That is correct. I think it is very well put.

Secretary SHULTZ. I must say when I was a student and being examined by the faculty, the great technique was to get the faculty arguing with each other and you could sit back.

Mr. MAHON. In the musical "Oklahoma" there is a tune that the farmer and the cowman must be friends. I think we must agree, whether we are from the city of New York or from the country, that the farmer and the consumer must be friends if we are going to solve our mutual problems.

Are there further questions on my right?

FOREIGN AID

Mr. MILLER. Mr. Secretary, what is the total cost in the fiscal 1975 budget for foreign assistance?

Secretary SHULTZ. I think Director Ash is better able to answer that than I.

Mr. MILLER. Would you furnish for the record the amount contributed by the United States to the multilaterals and also the amount we independently are offering to the other nations around the world for foreign assistance?

Secretary SHULTZ. We will have a table that will show it broken down in the way that will serve your purpose.

[The information follows:]

FOREIGN ASSISTANCE IN FISCAL YEAR 1975 BUDGET

The following amounts are shown in the fiscal year 1975 budget for international development assistance (figures in millions of dollars):

	Budget authority	Outlays
Multilateral:		
International banks.....	1,005	609
Other international organizations.....	179	163
Subtotal.....	1,184	772
Bilateral.....	1,004	964
Total international development assistance.....	2,188	1,736

In addition to the international development assistance category, fiscal year 1975 funds are shown for the following bilateral foreign assistance categories:

	Budget authority	Outlays
Food for peace.....	778	742
Indochina postwar reconstruction.....	790	648
Peace Corps.....	83	84
President's contingency fund.....	30	27
International security assistance:		
Military assistance (in Defense Department budget).....	1,079	1,350
Security supporting assistance.....	63	118
Total other bilateral.....	2,823	2,969

BARTER PROGRAM

Mr. MILLER. We have been speaking about the problem of energy, the fact that the Arab nations have cut down the amount of crude oil that they are sending to us at the present time. We have had people ask why the Government did not anticipate the energy problem.

Now it seems to me that there are other areas of anticipated shortages, in the area of strategic metals we will have a shortage of 12 of our prime 13 strategic metals by the year 2000. We are presently offering nations around the world, some 100 of them, foreign assistance in one form or another, either money, technology, food and fiber, and we should have an exchange program instead of a one way street.

I offered on the floor last July 26 an amendment that would allow the President to barter so that those nations would send us strategic metals.

They have lead and tin, bauxite, cadmium, chrome, asbestos, mica, all the metals and natural resources we should need. In another generation or two our people could be on their knees requesting strategic metals from other nations.

My question is, with the amount of money that we are offering now in foreign assistance do you think it is practicable that we could work out a barter system and start some of the metals and the natural resources coming toward us?

Secretary SHULTZ. I believe that our foreign assistance and the efforts of the multilateral lending organizations help to develop situations where more supply can be created of various raw materials that we want. From a selfish standpoint, I think this is one of the strong arguments to be offered in favor of those programs. I do believe that a multilateral trading system is much more efficient. It isn't a matter of belief. You can demonstrate it is a more efficient system than a barter or bilateral type of arrangement from one country to another. We have such arrangements with some countries. But on the whole we find that it is more efficient and better to indulge in a multilateral process of world trade.

I think that your general point is well taken. We should be thinking about our aid of various kinds in terms of, among other things, its contribution to our ability to find the supplies we need of various scarce materials.

It also seems to me—and this is a point we are working on and will present when we testify on behalf of the trade bill in the Senate—that we need to expand our conception of what trade negotiations are about. Traditionally they have always been about the relative arrangements for access to each other's markets, and it seems to me we need to try to think through and develop rules for access to supplies of a comparable sort. It is just the other side of the coin.

I am not able to just trigger off exactly what this would be, because it is a problem we are working on. I think it is very important and I agree with the sense of your question in identifying the importance of this subject.

Mr. MILLER. When you mentioned it would be better under the multilateral system are you talking about the World Bank, AID program, the Asian Development Bank and Inter-American Bank?

Secretary SHULTZ. No. I am just speaking of a system in which trade and other financial flows take place, without respect to the exact bilateral offsets from one country to another, but get averaged in our general balance of trade and general balance-of-payments statistics. So it is a multilateral trading and financial situation as distinct from a bilateral one.

Mr. MILLER. I think perhaps that I have in mind a rifling action, to have something flowing back toward our shores for the foreign assistance that we provide other countries. Today almost 100 countries are receiving our foreign assistance—and I would like to see us in a position so that we could barter with those nations for those strategic metals that they have.

I don't believe that our foreign assistance program should pull us down, we are consuming about 36 percent of the world's natural resources and many of those being mined in our Nation, and then the finished product sent around the world to help others.

Mr. CONTE. Will the gentleman yield?

Mr. MILLER. Yes.

Mr. CONTE. I have also been on this subject matter for about 16 years. I notice on page 92 of the appendix of the 1975 budget you propose a \$2.2 billion giveaway grant in soft currency to India and that Ambassador Moynihan was in town recently promoting this deal.

Why can't we work out a barter here with Indian for \$2.2 billion and get something in return rather than give all of this money away?

Secretary SHULTZ. This is a different kind of proposition, I believe.

Overhanging the situation for quite some time has been a large holding by the United States of rupees, which are really virtually worthless and at the same time were full of ambiguity about what they might be used for. And what Ambassador Moynihan has done is negotiate a reasonable flow of rupees to support—of course, on a relatively lesser scale than that total you mentioned—U.S. activities there, and to wipe out the rest.

I think on the whole it is a constructive move. There is nothing to be gotten. India is broke.

Thank you.

Mr. MAHON. Have you concluded, Mr. Miller?

Mr. MILLER. Yes. Thank you, Mr. Secretary.

Mr. MAHON. Mr. Edwards had a question.

VARIOUS ECONOMIC FORECASTS FOR 1974

Mr. EDWARDS. Thank you, Mr. Chairman.

Your economic forecast for calendar year 1974 gross national product was \$1.390 trillion, personal income \$1.35 trillion, corporate profits before tax \$124 billion. The Congressional Research Service of the Library of Congress has compared that forecast for 1974 with five forecasts made by rather well respected forecasters. Wharton School and so forth, all of which strike me as being rather in line with your own forecasts.

The economic assumptions in your budget have been criticized to some extent, which is a little distressing, in view of this comparison.

Mr. Chairman, I would like to place this table in the record at this point comparing the administration's assumptions with the various forecasts.

Mr. MAHON. It shall be done.

[The table follows:]

COMPARISON OF ECONOMIC FORECASTS FOR CALENDAR 1974

[In billions of dollars]

	GNP	Personal income	Corporate profits before tax
Administration's estimate.....	1,390.0	1,135.0	124.0
Wharton (Dec. 21, 1973).....	1,390.2	1,134.8	118.3
Michigan.....	1,391.3	1,134.9	115.8
Data resources (Eckstein).....	1,387.2	1,125.9	120.4
Fair model (Princeton).....	1,399.0	(C)	(C)
Perry (Brookings) ² (Dec. 26, 1973).....	1,391.7	(C)	132.0
Full-employment.....	1,461.7	1,155.0	140.2

¹ Not available.² Assumes very high oil company profits.

CORPORATE PROFITS ESTIMATE

Mr. EDWARDS. The one place that seems a little off is that your estimate of corporate profits is higher than the average of these private forecasts. Do you have any particular answers to why that is?

Secretary SHULTZ. No, I don't. I would have to look at the forecasts and let us prepare an answer for the record. We will have your table and know which forecasts they are and so on.

[The information follows:]

ESTIMATE OF CORPORATE PROFITS

The administration's forecast for corporate profits during 1974 is clearly higher than the average shown in the tabulation of four other forecasts. By a wide margin, however, it is not at the extreme high end. There is no ready explanation for the differences among all of these forecasts. Corporate profits are always a particularly difficult variable to forecast and in the present situation, with greater-than-usual uncertainty about prices and costs and about oil company profits (both domestic and foreign), differences of this magnitude are not surprising.

A further aspect of the uncertainty relates to inventory profits. Over the past year a large part of the increase in total corporate profits has come in the form of inventory profits (as opposed to operating profits). It is unclear, given the uncertainties about prospective price and inventory developments, whether this situation will continue in 1974.

ALLOWANCE IN ESTIMATES FOR ENERGY CRISIS

Mr. EDWARDS. Does your forecast take into consideration any allowance for the energy crisis?

Secretary SHULTZ. Our forecast of economic activity from which these various revenue figures and so on derive was finally made in early January. So we had the information that was available then, and basically at that time one could see the structure of this energy crisis all right. So, yes, we have tried to take that into account.

Mr. EDWARDS. As you look at the table for the record and as you compare your forecast with the others, would you make whatever comments you can as to the extent they might have included or not included the energy crisis within their forecasts?

Secretary SHULTZ. All right.

Mr. EDWARDS. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Evans is seeking recognition.

WORLDWIDE SHORTAGES OF RAW MATERIALS

Mr. EVANS. My colleague from Ohio, Mr. Miller, raised an interesting question, particularly in view of your testimony this morning in answer to a question about the cause of inflation. I believe you stated that it is a worldwide inflation basically and you cited as one of the major factors causing inflation the shortages of internationally traded raw materials.

Secretary SHULTZ. Right.

Mr. EVANS. I would like to direct your attention to this country and its production of raw materials that are in short supply worldwide. Are you now working on any policy or on legislation the intent of which would be to encourage the reuse or the reclamation of these materials which are in short supply?

I notice from a staff study of my own that considerable quantities of these materials are recycled and reused, but it would seem to me it would be most appropriate for the Congress with the executive branch to reexamine these materials to see what could be done to encourage even a greater reclamation and reuse of that which has already been mined and already been processed and already been consumed and quite often thrown away. Have you looked at this and do you have any policy to recommend on this?

Secretary SHULTZ. That question has been reexamined, including absent the shortages, by the environmental people in an effort to clean up the environment.

I think a very basic thing that helps the situation is the very high prices themselves; that is, the material is so valuable that it pays to gather it in and reprocess it to a much greater extent than it has been before. So I expect we will see a great deal more of that than we have, just as we have seen steel scrap cleaned up from all over the place in this country as a result of the skyrocketing prices for scrap.

There have been a variety of proposals, some dealing with taxes, to stimulate recycling in one way or another. I can't say, at least from the Treasury standpoint, we have found any of them particularly appealing.

Director Ash may want to add something on this.

Mr. ASH. No.

Secretary SHULTZ. I think you are right. It is a great problem, and we should work on it and keep thinking about it, and we would like to have the benefit of any suggestions that you have.

Mr. MCKAY. Will the gentleman yield?

Mr. EVANS. Yes.

Mr. MCKAY. Aren't there existing under present laws certain commodities which can only be used in an equal equation with new ores; for example, steel? They can use recycled steel only to a factor of a quarter, a third of what new metals are used. How many commodities do we have in that same position?

Secretary SHULTZ. I am not familiar with any legal regulation on the percentage of scrap. One reason, of course, why scrap has gone up so much in price is that it, itself, contains a lot of energy, and if you charge with scrap, you use less energy in the process. And so people want to get that in, and the proportion goes up. But I am not familiar with

any regulation. Perhaps there are some. Maybe you can tell me what they are, and we can look at them.

Mr. MCKAY. There is one in steel, where by law, you are restricted to the amount of ore that can be used in making new steel products.

Secretary SHULTZ. We can look that up. I am not familiar.

Mr. MCKAY. There may be other areas. That is the reason I asked the question.

Mr. EVANS. Last year before we recessed, Congress released from the strategic reserve, mass quantities of metals that had been stored. The reason obviously was because there was a shortage in this country, but at the same time there is a worldwide shortage of these products. It would seem to me instead of consuming our strategic stockpiles of critically short materials, it would pay for us to have a policy directed toward the reuse of existing processed metals.

As I understand your statement, you are not aware of any policy or any approach on the part of the administration giving attention to this problem.

Secretary SHULTZ. There is a study being made of basic materials and their accessibility and all aspects of the subject. So that is going forward. But I don't know of any specific proposals that we have right now to put before you. But we would be most interested in any observation you have or suggestions you have.

Mr. TIERNAN. Will the gentleman yield?

Mr. EVANS. Yes.

EXPORT OF COPPER SCRAP

Mr. TIERNAN. Mr. Secretary, hasn't the Government's export policy for scrap copper, for example, created a situation where most of our scrap copper is being shipped to Europe, and to London in particular, to be sold? In Europe the selling price was 94 cents a pound, whereas the Cost of Living Council restricted the price here to 60 cents a pound. When the Cost of Living Council gave it an increase to 67 cents, the world market went to \$1.04. So actually, the policy we were pursuing, because of the limitations on the price of scrap copper, resulted in American producers shipping it overseas, and then industries in our country that needed copper were being forced to buy it from the world market. So whatever moneys we gained in the exportation of it, we lost in buying it back into the country. Isn't that what was happening?

Secretary SHULTZ. There have been a number of situations where our price controls held the domestic price below the world price. That created great tension and tended to lead toward export of these commodities and occasionally this kind of circular process you described. That has been one of the factors leading to the decontrol of prices in certain areas, and the copper price area that you mentioned is one. That price was decontrolled, so we don't have this kind of runaround.

Mr. TIERNAN. But I, and many others, have spent a great deal of time asking the administration, the Department of Commerce in particular, to put a ban on the exportation of scrap copper. It seemed to me that the administration's policy was shortsighted in that it put a limitation on how much scrap copper could be sold for, 60 cents initially, and later 67 cents, when the world market was at 94 cents, but it did not restrict exports. Naturally, if I am a scrap copper dealer, I am going to ship it to London and get the higher price. The manu-

facturers in the State of Rhode Island and New York and throughout the country can't buy it from the scrap dealer because he's busy making a profit selling it on the world market. So they have to go to London and buy it back to produce the copper needed for the wire industry.

It seems to me that the administration was very slow in relieving that situation.

Secretary SHULTZ. As I say, we have had a number of situations of that type, and you are always faced with a choice: Are you going to let the domestic price rise so it is the same as the world price? Then you don't have that problem. Or, on the other hand, you can keep the domestic price down and limit or prohibit exports. Of course, the more you prohibit the exports, the more you cut off your ability to import, and the more you create an island here in the United States and isolate us.

Mr. TIERNAN. Mr. Secretary, I don't want to belabor the point, but it seems to me that we are adding in the cost of transportation to and from Europe, and are coming back into this country with imported copper scrap.

Secretary SHULTZ. I agree with you completely. The idea of having a low price here, which leads to exports, and then reimport at higher price is ridiculous, and that is why we took the steps we took.

Mr. TIERNAN. But it took us too long; the damage was already done.

Secretary SHULTZ. Controls are inefficient. Start from the proposition.

It is not possible to create a bureaucracy that is always right and is lightening fast; in other words, that is as good as the market. The free market does that for you.

Mr. MILLER. I understood the gentleman's question a few minutes ago to Secretary Shultz to be, Is legislation under consideration that would allow recycling because this would allow us the additional strategic metals? I wanted to mention I have legislation now that I will be circulating to your office concerning the bartering system with the countries we are now offering foreign assistance. So there will be legislation. I hope we can receive cosponsors from both sides of the field.

Mr. EVANS. Thank you.

Mr. MAHON. Mr. Addabbo.

Mr. ADDABBO. Mr. Secretary, I don't have a prepared script as my dear friend from Pennsylvania so I am an added attraction here.

BUDGET PRIORITIES

Yesterday, Director Ash, I raised the question of wrong priorities, and I pointed out there had been, and we are increasing our defense spending, we were decreasing funds for education, such as vocational education and veterans training. Someone from your office said that was not a fact.

In looking at the U.S. Budget in Brief on page 50 we do see a reduction and on page 52 further we see a reduction in vocational education. On page 51 under "Education and Manpower" vocational education was 0.6 in 1974 and 0.3 which is almost half in 1975. Under the veterans' training education, training and rehabilitation for 1974,

3.2, in 1975, 2.9. Would you not call that a reduction and change of priorities?

Mr. ASH. The amounts, of course, within which those are included, that is education and manpower in total, go up from \$10.8 billion to \$11.5 billion. There are some rearrangements within the total, but the total is going up. I should emphasize here the significance of how veterans' education benefits work. These benefits are an entitlement; and we have requested an increase in the level of benefits to which each veteran is entitled. The budget shows an estimate of how much these benefits will cost in 1975. The 1975 budget total is shown as somewhat below the 1974 level, because we anticipate a decreased number of veterans to participate, given that separations from the Armed Forces are decreasing. But the level of assistance paid to each individual participating veteran is requested to be greater than it was last year.

In addition, as was mentioned before, the amount provided for vocational education is being increased by nearly \$12 million. The apparent reduction is a transfer of these amounts under the consolidated education grants beginning in 1975.

Mr. ADDABBO. But as far as these line items they have actually been cut; is that correct?

Mr. ASH. The next line, consolidated educational grants, which was nothing is up to the \$1.9 billion, and that I think includes in it some of the kind of things that were in the other items in the past year. So you have to look at those two together and when you do look at them together and look at the grand total in which they are included, or even without the grand totals, you notice a substantial increase.

Mr. ADDABBO. If there is any type of impounding, without a line item there probably could not be any funding of vocational education which is very important in the period of high unemployment right now. Is that not right?

Mr. ASH. Mr. McOmber will answer.

Mr. McOMBER. I think we need to make the point that we are not only increasing the total amount of money including those programs, but we also propose advanced funding for education grants.

Mr. ADDABBO. For vocational training?

Mr. McOMBER. For the total consolidated education grants.

Mr. ADDABBO. I am not talking overall program, I am talking about vocational education as a line item, that it doesn't get lost in the grand big pot. That is what I am discussing.

Mr. McOMBER. Yes, sir, we understand. The pot is intended to include money for vocational education also.

Mr. ADDABBO. Without any specifics?

Mr. ASH. Part of the whole purpose of the consolidated educational grants is to take a number of these narrow categorical programs, put them into a broad program allowing greater local discretion as to how those moneys should be spent, but in the meantime providing an additional total money to be spent for other purposes. However, it should be emphasized that there will be a specific vocational education category solely for this program.

Mr. ADDABBO. Would that also apply to the veterans training?

Mr. ASH. I don't see that one particularly listed in here.

Mr. ADDABBO. The budget in brief shows a reduction, almost the halving of the veterans training, I believe.

Mr. ASH. Let me see if I can find the number to which you are referring. Here it is. Veteran education training and rehabilitation was \$2.8 billion in 1973, \$3.2 in 1974, \$2.9 billion in 1975. Veterans programs in total again are up. That particular one is down a limited amount, and there is a special reason that it is. Mr. McOmber will tell how that has moved into another category as well.

Mr. McOMBER. Mr. Addabbo, you are correct; we are not asking for any additional money for the veterans cost of instruction in HEW. The reason is that we propose an increase in GI bill funds under the Veterans' Administration, consistent with our policy of providing money to veterans so that they may attend school—as under the GI bill—rather than paying schools for enrolling veterans—as under veterans cost of instruction.

Mr. YATES. Will the gentleman yield?

Mr. ADDABBO. Yes.

SUBSIDIZED HOUSING BUDGET

Mr. YATES. Following up on Mr. Addabbo's question I would like to ask you about subsidized housing programs. How much money do you have in this budget for subsidized housing?

Mr. ASH. Here we have the number. Total community development and housing, \$5.5 billion in 1974, up to \$5.7 billion in 1975, the major increase is in low- and moderate-income housing aids from \$1.8 to \$2.3 billion.

Mr. YATES. Do those programs include other senior citizen housing? Or do you have no money in the budget for senior citizen housing?

Mr. ASH. I think they do but let's see if we have an amount for that.

Mr. YATES. I couldn't find it in the reports. That is why I am asking the question.

Mr. ASH. We will complete the answer to that in the record. They may be in the budget. Elderly housing will be provided for within the amounts stated under the revised leasing program.

Mr. YATES. What about leased housing?

Mr. BOLAND. Will the gentleman yield?

Mr. YATES. Yes.

Mr. BOLAND. The figure that Mr. Ash used is for housing payments which has nothing to do with the construction of any new housing. The \$2.3 billion he mentioned is what the U.S. Government is committed to pay local housing authorities and others for previous contracts entered into. It has nothing to do with housing.

The only housing program I see in this budget—and you may correct me if I am wrong—is the one the administration now proposes—a revised section 23 housing program, which is a leasing program. You have no funds in the 1975 budget and you are operating at a low level in the subsidized housing programs in fiscal 1974. There is no money in the 1975 budget for the section 235 homeownership program, section 236 rental housing assistance program, rent supplement program, or even public housing. Mr. Yates, as you know, public housing must be built under the revised section 23 program, as the budget proposes. Am I correct?

Mr. ASH. That is correct. The section 23 housing is for 200,000 units that were in the budget with the President making a proposal just

about the time he submitted the budget to add an additional 100,000 units under section 23, for a total of 300,000—225,000 of those would be new construction, 75,000 would be existing construction.

Mr. BOLAND. So in effect the only new construction in subsidized housing for fiscal year 1975 will be under this program and all of the other subsidized programs will be dropped.

Mr. ASH. Except that under the section 23 some of that would be leased housing of new construction; 225,000 out of the 300,000 units would be new construction.

Mr. BOLAND. Under that program what you are actually doing is you are seeking a mix of middle-income families and low-income families. I can appreciate the fact you wouldn't have the information available off the top of your head, but how many families are going to be assisted with housing payments in the fiscal 1975 budget? I am talking about low-income families.

Mr. MAHON. Just a moment, Mr. Ash. If there are no further questions of Secretary Shultz.

Mr. ADDABBO. I have further questions.

Mr. YATES. May Mr. Ash answer that question? I think we ought to complete the record.

Mr. MAHON. I just want to excuse Mr. Shultz if there is no objection.

WINDFALL OIL PROFITS

Mr. ADDABBO. I have a question of Secretary Shultz.

Mr. Secretary, in speaking before of windfall profits, and you say you can determine the basic crude price, where would a windfall profit be if Exxon Venezuela raises its price to Exxon, USA. Now Exxon USA has paid a straight price but it has made a profit on other subsidiaries. Where would the windfall profit be in such a case?

Secretary SHULTZ. The windfall profits tax doesn't apply to foreign crude. That is, we see no reason why we want the American consumer pay an even higher price for the imports than he already has to pay. It applies to domestically produced crude.

Mr. ADDABBO. In other words, you are saying when you charge a domestic corporation a windfall tax, the consumer will be paying it in actuality?

Secretary SHULTZ. No; if we put any kind of an additional tax on an import, then that is going to flow through in the price. Since we don't need to do anything like that to attract more imports at these prices, there is no point in doing it. What we are trying to do is to get at the windfalls as a result of the high crude prices on domestic production.

CONSTRUCTION OF REFINERIES

Mr. ADDABBO. Under the question of domestic production, the Export-Import Bank will loan an American company up to 85 percent to build a refinery in a foreign country. Is there any way of us being able to subsidize an independent if he wished to build a refinery right here in the United States?

Secretary SHULTZ. Not through the Export-Import Bank.

Mr. ADDABBO. I know that. Is it possible to set up some other type of funding for domestic building of refineries?

Secretary SHULTZ. If the refinery is judged to be able to yield a reasonable rate of return, it won't have any trouble getting financed. That is, the financing will be available in the private market and there is no need for any special Government program to finance it.

Our refining capacity is a problem. There haven't been any appreciable increases in refining capacity since the midsixties, and the reasons are twofold: One, that we were not able to provide people with any assured supply. And second, that it has become increasingly hard to find a site for them as a result of environmental concerns, and we have to get over this problem because we need these refineries.

Mr. ADDABBO. If an independent does not have the credit as one of the majors, can he possibly go to any Government agency to obtain financing for the building of a refinery within the United States?

Secretary SHULTZ. Not that I know of.

Mr. ADDABBO. Have there been any studies since the energy crisis of the actions by the majors of trying to force out of business the independents?

Secretary SHULTZ. I see that alleged all the time. I don't know of any evidence to that effect myself. There is a certain way in which the process works. When you have some people dependent upon imports and others not, and then the imports are cut off, those who are dependent on them suffer. The independents on the whole have been more dependent on the imports, and so they have suffered. That is apparently what led the Congress to put in this mandatory allocation program, which, at least as it is carried on in the form of forced allocations of crude, is harming us in our ability to import the oil we need and to make it available to the people in the United States.

Mr. ADDABBO. In view of the present crisis, would you support a U.S. policy which would assume the responsibility for the storage of imported oil brought in by independents who cannot get it refined or stored by the majors?

Secretary SHULTZ. I am very reluctant to see the Government inject itself in ways of that kind, because I have such a high confidence in the ability of the market to sort these things out. Independents have built refineries, they have thrived in a free market environment. I think to the extent they are efficient economic institutions, they can do so again.

Mr. ADDABBO. When was the last time an independent built a refinery within the United States?

Secretary SHULTZ. Nobody has built, as I say, refineries for the reasons that I outlined, some of which were due, I believe, to our mandatory oil import program, which restricted the amount of imports, and as those imports were allowed to rise it was done in such an uncertain way nobody could really plan on it. So I think it was harmful to our refinery capacity, but that cut across the board and affected everybody.

OIL INDUSTRY STRUCTURE

Mr. ADDABBO. Mr. Secretary, you have been a proponent of free floating costs without limitation, et cetera, and competition would be the best source of setting a price limit. If there is no competition among the majors right now, wouldn't it be more healthy for our economy if we were able to give some subsidiary some help to the independents so they

could get a foothold within this massive cartel of oil companies which we can see right across the board now and we see a continual move by the majors to do away with independents whether they be in distribution, or whether they be the local gas stations. Wouldn't it behoove the Government now in this crisis to set up possibly something similar to TVA so that the independents could have a central place where they can deal without being at the mercy of all the oil majors?

Secretary SHULTZ. I think it all depends on what you want. If what you want is efficient production and distribution at a low cost to consumers, then I think you had better let the market alone. If what you want is Government policy to support independents and you are willing to have a higher price as a result of it, well, then Government can do that but the economy will pay a penalty.

Mr. ADDABBO. Would you not have more competition with more independents in the field and it would regulate the price down?

Secretary SHULTZ. My observation is that there is quite a lot of competition among the so-called majors. But the independents have played a good role in competition, and we should sustain them, and I think various things have been done to try to do that.

Mr. ADDABBO. Has there been or is there an ongoing study of what the role of the independents has been in this crisis and if there has been any reduction or closing out of the independents due to the present energy crisis?

Secretary SHULTZ. I am sure there has been. I am really not the right person to be talking on this in detail. You ought to get Mr. Simon or somebody.

Mr. ADDABBO. Mr. Seevers, of the Council of Economic Advisers, wouldn't you know what has been happening as far as the independents are concerned as far as the overall picture is concerned?

Secretary SHULTZ. Perhaps we could prepare an answer for the record and I could get Mr. Simon to do it and give you a rundown on what has been happening and what people have been trying to do about it to help out.

Mr. ADDABBO. As far as the independents are concerned?

Secretary SHULTZ. As far as the independent refiners and marketers. I take it you are speaking of both?

Mr. ADDABBO. Yes, sir.

[The information follows:]

QUESTION ON COMPETITION IN THE PETROLEUM INDUSTRY AND THE ROLE OF THE INDEPENDENTS

There is a high degree of competition in the marketplace for most petroleum products. Prior to 1973, price competition was very active. Gasoline price wars were common, prices were low, major companies were losing their share of the market, and new independents entered the market regularly. The independent refiners and marketers played a role in this competition.

Starting in 1973 there has been a shortage of refinery capacity and crude oil that has completely changed the character of competition in the industry. Presently, price isn't a factor. More independent marketers or refiners at this time would not increase competition or reduce prices.

To restore price competition in the marketplace we must create conditions that lead to an ample supply of both crude oil and refinery capacity. Only when supply again exceeds demand can we expect competition on prices to develop.

Without assurances of an adequate crude oil supply new refineries won't be constructed. Without new refinery capacity independent marketers won't be able to buy products competitively from refiners. Consequently, the first step to a return to competition is to obtain an adequate crude oil supply.

The lifting of the Arab embargo may not solve our problem, unless they also increase production. Further, even if sufficient foreign crude does become available, investors may be reluctant to invest in new refineries since they face the threat of future embargoes. Even if our crude oil supply problem is solved soon, it will be at least 3 years before our refinery shortage can be eased, and more if the uncertainty of foreign supply deters refinery investment. Therefore, we cannot expect full price competition to return soon, regardless of Arab actions.

Entry into petroleum marketing is relatively inexpensive. Large investments are required for entry into petroleum refining. However, there are a large number of independents with proper financing that are eager to build refineries if they can obtain a supply. Adequate crude oil supplies will attract new refinery investments which will attract new independent marketers. Given a proper crude oil supply and refinery capacity, independents will flourish, and competition will again hold prices down.

Mr. MAHON. Mr. Shultz, you are excused for the day. You have been very helpful. Thank you very much.

Secretary SHULTZ. I appreciate the opportunity to be here.

SUBSIDIZED HOUSING BUDGET

Mr. YATES. May there now be an answer to Mr. Boland's question from Mr. Ash on subsidized housing?

Mr. MAHON. Yes.

Mr. ASH. Getting back to housing, I have already indicated that the budget plus the additional units made available by the President at the time the budget was submitted provided for 300,000 units under section 23. Under sections 235 and 236 as you know we suspended new programs last year having concluded from considerable analysis in the aggregate that those were very poor programs in terms of their cost-benefit relationships. In fact at the time they were suspended we had incurred obligations that we will have to meet over the next 30 or 40 years ranging from approximately \$66 to \$90 billion. And some of those funds that are in the budgets, of course, are meeting this year's portion of that bill. Housing payments made during fiscal year 1975 for these and other subsidized programs will support approximately 2.4 million units for low- and moderate-income families.

In a few years we found in our subsidized housing programs we had built high-cost housing rather than low-cost housing. The beneficiaries were often not those intended—persons of low and moderate incomes—but instead those in the process of either selling the land or building the buildings, and we now have up to a \$90 billion obligation to pay over the next few years and have thus suspended the 235 and 236 programs.

In addition to the section 23 programs this year, there was provision made for the so-called tandem plan to assist in the financing of 200,000 additional units of new construction, about \$6 billion worth, and the combination of that financing and the section 23, we believe, goes the longest possible distance in a truly cost beneficial way to deal with the housing needs of the country. Those are the main programs we are resting upon.

We have a firm belief that as an alternative, a more satisfactory alternative to a restoration of programs such as sections 235 and 236, would be a look at welfare and welfare reform. The real issue here is not whether the Government can best provide housing, but rather that the Government might instead best provide augmented resources to those in need so they can provide their own housing. We believe that

this approach is a much more cost-effective way of dealing with the housing needs of those who can't afford that housing with their own resources.

Mr. YATES. In your colloquy with Mr. Boland, you did not address yourself to the question of leasing of existing properties. I wonder whether or not there is anything in the budget?

Mr. ASH. In section 23, it provides for leasing of 225,000 new units and 75,000 existing units, for a total of 300,000 units this year.

Mr. YATES. Is that in the current budget or dependent upon the passage of the new housing bill?

Mr. ASH. That is in the current budget including the President's recommendation that the current budget itself be augmented by 100,000 additional units.

Mr. YATES. 100,000 additional units to come out of construction in the new housing bill, or is this separate and apart from the new housing bill?

Mr. ASH. This is separate and apart.

Mr. YATES. Is this an increase or a decrease over last year?

Mr. ASH. The rate of actual leasing for 1974 would be 118,000 units—fewer than the 300,000 planned for 1975. So this is additional in total to what it was last year.

Mr. YATES. Will there be more money made available for the program this year over last year?

Mr. ASH. Let me look at the particular amounts. I am not sure. Again, as was brought up by Mr. Boland in the other discussion, there is a lag as he observed in the figures of outlays from the figures of commitments and authorizations. Let me look at the outlays and see what the money flow is. We may not have that in the budget or in the appendix. We will put that in the record.

Mr. YATES. All right.

[The information follows:]

Outlays for leased housing are as follows:

	<i>In millions of dollars</i>	
Fiscal year:		
1973	-----	141
1974 (estimated)	-----	191
1975 (estimated)	-----	252

ALL-VOLUNTEER ARMY

Mr. YATES. What is your feeling about the Volunteer Army, Mr. Ash? Isn't the cost of a Volunteer Army almost prohibitive?

Mr. ASH. As you know, Mr. Yates, before we really went to a Volunteer Army, we determined we would have pay comparability of the military services to their outside comparable pay in civilian life, believing that whether we had a Volunteer Army or not, that would be equitable compensation. And that, of course, has raised considerably the costs of paying for those in the military.

I am sure it was in mind as the Volunteer Army itself was put in place. I would guess there is a reasonable probability that for reasons of equity alone, we could have been paying approximately those numbers now even if we had a draftee army because of the concept of equity that we had in mind when we began to put in this pay comparability program.

Mr. YATES. Is the pay scale for the armies of any other nation comparable to that of the United States?

Mr. ASH. I think we are probably the only one who does not tax the young by in effect commanding their services at less than market value, which is what a draft is. The draft is a form of taxation from the point of view of the economics of a draft. Excluding the other aspects of it, it taxes one part of our society, the young, at a very high rate. In some cases taxing them at what would have been 50 or more percent of the market value of their services by taking those services for less than market value.

We are the only country to my knowledge that has gone to the point of reflecting the true market value except for those countries that truly hire mercenaries, sometimes foreign ones. The French Foreign Legion probably had a market rate of pay but I don't know.

Mr. YATES. Could you put into the record comparable payments by other armies to men in other armies?

Mr. ASH. We will get data available to us. We certainly know the Soviet Union, the one we keep our eyes on, has a much lower rate of pay per person in the military.

Mr. YATES. I wondered about Britain and France.

Mr. ASH. We will get representative data to the extent we can.

[Information supplied by the Office of Management and Budget.]

MONTHLY RATES OF MINIMUM BASIC PAY AT ENTRY LEVEL FOR 1973

[In dollars]

	Conscripts	Volunteers
Australia.....	318	318
Canada.....	(1)	289
West Germany.....	42	(1)
France.....	32	61
Switzerland.....	22	22
United Kingdom.....	(1)	218
U.S.S.R.....	5	(1)
United States.....	(1)	326

Note: All monetary units are in U.S. dollars at exchange rates in existence in 1973.

¹ Not applicable except in the case of West Germany where information was not available

Mr. ROUSH. Will the gentleman yield?

Mr. YATES. Yes.

MIXTURE OF MILITARY AND CIVILIAN PROGRAMS

Mr. ROUSH. I had a question related to the military budget yesterday but deferred because of the lateness of the hour. During the course of the year in dealing with the budget I stumbled across several instances in which funds which seemed to be related to the military budget were included as a functional portion of a domestic budget.

For example, a device for an airport back home was being sought by the Federal Aviation Authority. It wasn't asked for by the airport authority nor by civilian pilots, but was requested by the Air National Guard. It was probably needed by the Guard, but it was in the military budget.

We found one military housing account in the HUD budget. We found the use of Public Law 480 funds for military security purposes

in Southeast Asia in the agriculture budget. We found that there were funds for the supersonic transport research being allocated to NASA when in fact NASA tells us those funds were being used for research for the military in this area and not with the intention of developing a domestic supersonic transport.

We find that AID funds were being used for South Vietnamese national police which seemed to me to relate to military.

I am asking you now, Mr. Ash, if to your knowledge this problem has been dealt with and if in this budget there are funds included under domestic categories which are in fact military items?

Mr. ASH. To pick up just one of those that you commented on, the NASA one, I do not believe that there is a full communication here when they say that research was done for the military. The military already has its supersonic airplanes and all of the research that is behind them. I am not exactly sure what might be the miscommunication.

Mr. ROUSH. I may have misspoken, but my information was such that we had several items of research, some of it being done by the military.

Mr. ASH. They have been contracting out for the military.

Mr. ROUSH. Some of it is being done by NASA for the military and paid for by the military, but others are items paid for in the NASA budget.

Mr. ASH. I don't know of that one in particular. Always there are matters of classification. You spoke of Public Law 480 or the AID one; such programs could properly be foreseen in more than one basic classification.

Let me make an observation that may be in general response to that in a useful way. There is included in the military budget \$6 billion a year that has nothing to do with carrying out today's military operations, yet is included in the military budget, and that is military retirement pay. This is pay for earlier years defense forces in effect.

Mr. MAHON. Mr. Director, I think it would be appropriate in response to these very important questions for you to examine the whole situation in detail and supply at this point in the record more extensive information in regard to the matter. Is that satisfactory?

Mr. ROUSH. Yes, Mr. Chairman.

Mr. ASH. All right.

[Information supplied by the Office of Management and Budget:]

There is one program that primarily supports Defense missions but is funded by a civilian agency. This is the military program of the Atomic Energy Commission. AEC conducts this program in accordance with the provisions of the Atomic Energy Act. Outlays for these programs are \$1.5 billion in fiscal year 1975.

There are several instances where civilian agencies perform services for the Department of Defense, on a reimbursable basis. Expenditures for these activities are included in the Defense budget. Examples are support of DOD's flight training program by the Federal Aviation Administration, and the conduct of several military related research programs by the National Bureau of Standards.

In addition, there are many Federal programs whose objectives are not primarily military related but whose output and resources are of use to DOD as well as to other Federal and non-Federal activities. Traffic control operations of the FAA, some resources of the Coast Guard, the research and technology programs of NASA and much of the basic research effort of the National Science Foundation are examples.

HUD no longer makes special provisions for providing houses for military personnel in shortage areas near bases. No funds for this purpose are included in the fiscal year 1975 budget. A special HUD mortgage insurance program

for servicemen, however, provides more favorable down payment terms than other mortgage insurance programs.

A listing of military and economic aid to Southeast Asian countries is provided in response to the questions on pages 281-287.

Mr. MAHON. Also, Mr. Director, the committee will want to submit some additional questions to you and Mr. Shultz for the purpose of perfecting the record.

Mr. ASH. We will answer them.

Mr. MAHON. I want to say to you, Mr. Ash, and to you, Mr. SeEVERS, that it has been very helpful to have you before us today. I hope that our printed hearings will be of assistance to Congress. You have made an able presentation in regard to many highly important matters.

Thank you very much, and your staff people.

Mr. EDWARDS. Mr. Chairman, to wrap it up I want to say on behalf of the minority we greatly appreciate Mr. Ash and his staff coming here today and being so well prepared. The representatives from the Economic Council and all of the other folks who came yesterday and today, I think, have been a big help to us, and I believe what they have said and told us will be of great assistance in getting us started on our work this year.

Mr. MAHON. Mrs. Hansen has some additional questions which I wish you would answer for the record.

Thank you very much.

Mr. ASH. Thank you, Mr. Chairman.

Mr. MAHON. The session for the day is concluded and we meet tomorrow with Dr. Arthur Burns at 10 a.m.

Thank you very much.

[Mrs. Hansen's questions and the responses from the Office of Management and Budget follow:]

OUTER CONTINENTAL SHELF RECEIPTS

Mrs. HANSEN. Mr. Ash, the revenues which the Federal Government receives from the use of land under its jurisdiction are quite substantial. In fact, the receipts from Outer Continental Shelf lands alone can make or break a budget balance. Last year, OCS receipts for fiscal year 1974 were estimated at \$2.1 billion. Now the receipts for fiscal year 1974 are estimated at \$6 billion, almost a threefold increase.

1. What accounts for this dramatic change in receipts?

2. Given the bad estimates of the past, how reliable is the fiscal year 1975 estimate of \$5 billion?

3. Aren't the fiscal year 1975 OCS receipts going to be substantially higher than the \$5 billion projection as a result of the President's direction on January 23, 1974 to increase the acreage leased on the OCS to 10 million acres beginning in 1975. If so, what impact will this have on the total budget, and the economy?

1. What accounts for this dramatic change in receipts?

[The following response was supplied by the Office of Management and Budget:]

Lease sales at the time that the fiscal year 1974 budget was originally printed last year were expected to continue at the fiscal year 1973 level of 1.3 million acres. Since that time, decisions were made to increase the leasing rate. Current projections for fiscal year 1974 are 2.4 million acres leased.

Receipts now estimated for fiscal year 1974 include \$1.3 billion from a sale which occurred in fiscal year 1973 (June 1973). Bidders are required to include a check for 20 percent of their bid with that bid. The remaining 80 percent of the bid must be paid within 30 days from the time that the bid is accepted. Because the June 1973 sale was originally scheduled for mid-May 1973 none of the receipts from it were included in the original fiscal year 1974 budget. However, because the sale actually took place in June, 80 percent of the receipts occurred in fiscal year 1974.

Another consideration is the drastic increase in oil prices which has occurred since the printing of the original fiscal year 1974 budget. The bonuses offered by bidders naturally reflect their expectations of future oil prices. For this reason actual bonuses in fiscal year 1974 have been much larger than the bonuses that were projected at the time that the fiscal year 1974 budget was originally printed based upon the then anticipated future oil prices.

Finally, one of the fiscal year 1974 sales, the Mississippi-Alabama-Florida sale was in a new area where no previous offshore production exists. The geology in this area is believed to be geologically different from the central Gulf of Mexico with possible problems of "sour" or sulfur-containing oil causing higher production costs. The fact that the area is entirely undeveloped would also increase costs. The industry apparently took a more optimistic view of these potential problems than the Government originally did.

2. Given the bad estimates of the past, how reliable is the fiscal year 1975 estimate of \$5 billion?

3. Aren't the fiscal year 1975 OCS receipts going to be substantially higher than the \$5 billion projection as a result of the President's direction on January 23, 1974, to increase the acreage leased on the OCS to 10 million acres beginning in 1975. If so, what impact will this have on the total budget, and the economy?

The 1975 figure printed in the budget has been outdated by the President's decision (announced in his energy message January 23, 1974) to direct the Secretary of the Interior to increase acres leased in calendar year 1975 to 10 million acres. The budget assumed 2.4 million acres leased in FY 1975. Current plans for FY 1975 are to offer 5.3 million acres. It is estimated this would result in about 3.9 million acres leased in fiscal year 1975. Cash bonuses in fiscal year 1975 will therefore be substantially larger than either the fiscal year 1975 or fiscal year 1974 figures printed in the budget.

At this time a reestimate of 1975 cash bonuses has not been completed. The amount depends upon estimates about:

Assumptions which bidding companies will make about future petroleum prices:

The ability of bidding companies to quickly obtain drilling rigs and other equipment and personnel to explore and develop the acreage leased in fiscal year 1975, and

The degree of competitiveness of OCS sales at offering rates which will result in 10 million acres leased in a year.

All of these considerations are subject to considerable uncertainty, particularly since the largest acreage actually leased in a completed fiscal year is the 1.4 million acres leased in fiscal year 1973. For these reasons no specific estimate is yet available.

As soon as the revised estimate is developed along with information about the degree of uncertainty inherent in it we will be able to assess the likely impact on both the total budget and the economy.

NATURAL RESOURCES INFORMATION

Mrs. HANSEN. One of the great deficiencies in our entire natural resources program is the scarcity of good information on what our resource and resource potentials are. We have been caught short in the energy crisis with a lack of information on our energy resources. There can be no doubt that we are faced with future shortages of nonenergy minerals and materials. What steps have been taken in the 1975 budget to assure that the Nation has adequate data so that Government action in future crisis can be based on solid, comprehensive information?

The following response was supplied by the Office of Management and Budget:

As indicated in the President's budget message, there is underway a comprehensive review of the need for and supplies of commodities, including nonrenewable commodities such as minerals and renewable resources such as grain. This review involves a broad range of U.S. Government agencies and a consideration of the future needs to import commodities. Completion of this effort will require several months.

ENERGY RESEARCH

Mrs. HANSEN. Mr. Ash, the President's budget proposes budget authority in 1975 of \$2,052 million for energy research and development. Of that total, by far the largest portion, \$1,045 million goes to the AEC for nuclear research. How do you justify this allocation of funds, given the Nation's enormous coal resources and given the large potential which nonnuclear energy sources have in solving our energy problems?

[The following response was supplied by the Office of Management and Budget:]

The major thrust of the President's fiscal year 1975 budget is to accelerate and improve the production and utilization of the Nation's domestic energy resources, including coal, oil, and gas, oil shale, uranium, and so forth. Whereas funding for nuclear research and development represents a significant share of total direct obligations in fiscal year 1975 for R. & D. (\$893 million or 49 percent), the single largest dollar increase in funding is in the area of coal R. & D. (See attached table summarizing the President's total energy R. & D. budget in estimated obligations.) The level of funding for coal has increased from \$164 million in 1974 to \$416 million in fiscal year 1975, an increase of \$252 million or 155 percent. The increase is intended to accelerate and improve the development of technologies for coal liquefaction, high Btu and low Btu gasification, direct combustion, mining systems, and support activities. The recommended increase in coal R. & D. represents what is considered to be the maximum amount that can effectively be spent by the Federal Government in fiscal year 1975. It is anticipated that private industry through cost sharing and other cooperative arrangements, will augment the Federal effort and contribute heavily to the early commercial availability of new coal technologies.

The significant share of the budget provided for nuclear R. & D. reflects major capital requirements in construction and operation of ongoing nuclear R. & D. programs, which by their nature require very long duration developmental programs and hence a heavy investment of Federal funding. It is anticipated that industry funding of advanced nuclear technology will increase in the future, but at this stage of development, Government funds are necessary to maintain the accelerated program level required for early and safe commercial availability of advanced nuclear technology.

The overall balance in the President's fiscal year 1975 budget between nuclear (49 percent) and nonnuclear (51 percent) energy R. & D. represents an important change in emphasis from previous years. For example, in fiscal year 1973, the nuclear programs accounted for fully 72 percent of the total Federal program in energy research and development. The President has pledged his commitment to developing our abundant coal resources and his 1975 budget reflects what he considers to be the maximum amount of funds that can effectively be spent in the next fiscal year.

FEDERAL ENERGY RESEARCH AND DEVELOPMENT PROGRAM

[In millions of dollars]

Program area	Program level (fiscal year)			Percent change from fiscal year 1974 to 1975	Estimated total fiscal year 1975-79
	1973	1974	1975		
1. Conservation.....	32.2	65.0	128.6	+98	700
(a) End use (residential and commercial).....		15.0	27.9	+86	
(b) Improved efficiency (transmission).....	2.9	5.0	18.8	+276	
(c) Improved efficiency (conversion).....	6.5	15.9	29.8	+100	
(d) Improved efficiency (storage).....	1.6	2.9	6.4	+121	
(e) Automotive.....	7.4	14.2	23.7	+67	
(f) Other transportation.....	13.8	13.0	22.0	+69	
2. Oil, gas, and shale.....	18.7	19.1	41.8	+119	400
(a) Production.....	.3	3.0	17.0	+467	
(b) Resource assessment.....	4.5	5.0	13.1	+162	
(c) Oil shale.....	3.2	2.3	3.0	+30	
(d) Related programs.....	10.7	8.8	8.7	-1	
3. Coal.....	85.1	164.4	415.5	+155	2,900
(a) Mining.....	1.7	7.5	55.0	+633	
(b) Mining health and safety.....	28.2	27.0	27.7		
(c) Direct combustion.....	1.5	15.9	36.2	+128	
(d) Liquefaction.....	11.0	45.5	108.5	+138	
(e) Gasification (high Btu).....	32.5	33.0	65.3	+98	
(f) Gasification (low Btu).....	4.6	21.3	50.7	+138	
(g) Synthetic fuels pioneer program.....			42.1		
(h) Resource assessment.....	1.0	1.2	1.9	+58	
(i) Other (including common technology).....	4.6	11.7	28.1	+140	
4. Environmental control.....	38.4	65.5	178.5	+173	800
(a) Near-term SOx.....	19.0	39.9	82.0	+174	
(b) Advanced SOx.....		4.0	12.0	+200	
(c) Other fossil fuel pollutants (including NOx, particulates).....	8.8	13.1	57.0	+335	
(d) Thermal pollution.....	.6	1.5	18.5	+1,133	
(e) Automotive emissions.....	10.0	7.0	9.0	+29	
5. Nuclear fission.....	406.5	530.5	724.7	+37	4,000
(a) LMFBR.....	253.7	357.3	473.4	+33	
(b) Other Breeders (G.C.F.B.R. & M.S.B.R.).....	5.6	4.0	11.0	+175	
(c) HTGR.....	7.3	13.8	41.0	+197	
(d) LWBR.....	29.5	29.0	21.4	-26	
(e) Reactor safety research.....	38.8	48.6	61.2	+26	
(f) Waste management.....	3.6	6.2	11.5	+85	
(g) Uranium enrichment.....	50.3	57.5	66.0	+15	
(h) Resource assessment.....	2.8	3.4	10.4	+206	
(i) Other (including advanced technical).....	14.9	10.7	28.8	+169	
6. Nuclear fusion.....	74.8	101.1	168.6	+67	1,600
(a) CTR.....	39.7	57.0	102.3	+79	
(b) Laser.....	35.1	44.1	66.3	+50	
7. Other.....	16.5	54.8	157.5	+187	900
(a) Solar.....	4.0	13.8	50.0	+262	
(b) Geothermal.....	4.4	10.9	44.7	+310	
(c) Systems studies.....	7.2	17.3	30.0	+73	
(d) Miscellaneous.....	.9	12.8	32.8	+156	
Total, direct energy R & D.....	672.2	999.1	1,815.5	+82	11,300

THURSDAY, FEBRUARY 21, 1974.

FEDERAL RESERVE SYSTEM

WITNESS

**ARTHUR F. BURNS, CHAIRMAN, BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**

Mr. MAHON. The committee will come to order.

Our committee this morning is continuing its annual overview hearing on the budget of the United States for fiscal year 1975.

Our purpose in these hearings has been to examine very generally the major aspects of proposed budget policies and economic assumptions, as well as contingencies which play such a large part in the fate of budget projections. Traditionally for these hearings we have had the benefit of the views of the Secretary of the Treasury, the Director of the OMB, and the Chairman of the Council of Economic Advisers.

Mr. Arthur Burns, today we are honored to have you before us, in your capacity as an outstanding American citizen, and as Chairman of the Board of Governors of the Federal Reserve System. We are indeed grateful, Mr. Burns, that you have found the time to be with us.

Your career here in Washington has been one of distinction and far-ranging service. In the 1950's, you served as Chairman of the Council of Economic Advisers. In the 1960's, you were counselor to the President. In the 1970's, you began service with the Federal Reserve Board. I believe that you are just this moment beginning your second 4-year term as Chairman of the Board of Governors of the Federal Reserve System, is that correct?

Mr. BURNS. Yes, sir.

Mr. MAHON. Of course, you have also worn the hats of teacher and author with distinction. You bring to us the scope of vision that encompasses both the world of theory and scholarship, with the world of practical service in public affairs.

I notice that the title of one of your books is "Prosperity Without Inflation." That is the most exciting title I can think of. I wish that it was on everybody's mind, and I hope that we will be able to achieve it. That subject is very relevant to the committee's deliberations and discussions of the last 2 days. I am eager to hear your views, as are other members of the committee.

If I might sort of stray a bit from formality, I would like to make reference to our associations of the past, Dr. Burns. I remember that in December of 1971, we had before the House a supplemental appropriations bill for several billion dollars, and one of our colleagues was lambasting the Committee on Appropriations because there were a few hundred million we hadn't included, for some very popular projects having to do with health and so forth. In self-defense, I said, "Well, we have to think in terms of both income and outgo. If we continue

spending like this, without regard to whether we have the money, the public debt may to to a googol. It might even go to a googolplex."

This was picked up in the press, and there was a man in Alabama, a textile manufacturer, who saw this somewhere. He sent me a number of clothes, with the inscription, "Don't let the debt go to a googol." A googol is the figure "1" followed by 100 zeros. And then he affixed my name to it, and I didn't object to him using my signature. I was pleased that you expressed an interest in the googol. I understand you probably have a googol sign that I gave you some time ago.

Mr. BURNS. I do.

Mr. MAHON. We are pleased to have a man before us who believes that we should do everything in our power to keep the public debt from going to a googol. A man who believes we should refrain from destroying our economy by overspending, and yet realizes we have to spend a lot.

Before you begin the main text of your statement, would you like to say a word in response?

Mr. BURNS. Indeed I would. First, let me thank you for your very gracious introduction, and second, let me say that no visitor can now enter my office without seeing your googol sign. He has to look at it and now—well, no, I must qualify that. He almost has to, but to make absolutely sure, now that I have a second googol sign, I will hang it up on the left of the door to my office, to go with the one on the right, so he can't possibly miss it.

Mr. MAHON. Thank you, Mr. Chairman. We are going to let you proceed without interruption with your statement. Some of us have read it, and we think it is excellent. Great effort went into its preparation.

GENERAL STATEMENT OF CHAIRMAN BURNS

Mr. BURNS. Thank you, Mr. Chairman.

I appreciate this opportunity to assist the committee in its over-all examination of the budget for fiscal 1975. My comments will be brief. They are directed, first, to the general outlook for the economy in the near-term future, second, to the implications of prospective developments for stabilization policy in the year ahead, third, to needed reforms in our fiscal policies and procedures.

OUTLOOK FOR THE ECONOMY

The Nation faces at the present time a severe shortage of petroleum products that is slowing business activity and aggravating our inflationary problem. Some firms have been unable to obtain the raw materials or other supplies needed to maintain production schedules; others have experienced a weakening in the demand for their products. The oil shortage has had particularly adverse effects on the purchase of new autos, of homes in outlying suburban areas, of recreational vehicles and other travel-related goods and services.

A downward adjustment of production and employment is therefore underway. Industrial output declined in December and again in January, and unemployment last month rose rather sharply, to 5.2 percent of the labor force. I would expect some further weakening of economic activity, with industrial production probably declining and unemployment rising in the months immediately ahead.

The current economic slowdown, however, does not appear to have the characteristics of a typical business recession. Declines in employment and production have been concentrated in specific industries and regions of the country, rather than spread broadly over the economy. In some major sectors, the demand for goods and services is still rising. Capital spending plans of business firms remain strong, and so do inventory demands for the many materials and components in short supply. In fact, new orders for business capital equipment continued to increase in the fourth quarter of last year, and the backlog of unfilled orders rose further, to a level 17 percent above a year earlier.

Expenditures by businesses for fixed capital will probably continue to strengthen in view of the urgent need for added capacity in a number of our basic industries. Residential construction may pick up later in the year, in response to the improvement that has been occurring in mortgage credit supplies. With Government expenditures at all levels also moving higher, as seems virtually certain, it seems unlikely at present that the current economic slowdown will become pervasive or be of extended duration.

The oil shortage is causing hardships for some of our people and inconveniences for many. In some other countries, the adjustments to the energy problem will be more severe than for us.

However, our Nation's business firms and consumers already have found ways to economize on their uses of oil and other forms of energy. For example, there have been significant declines during recent months in the use of fuel oil and electricity across the Nation. As 1974 moves on, I would expect these adjustments to continue. Domestic output of crude oil will increase gradually; electric utilities will shift to greater use of coal; auto manufacturers will expand their capacity to produce the smaller cars demanded by consumers; and myriad other adjustments will be made to the energy problem. We are living in a difficult time, but our principal asset—the resourcefulness of the American people—remains intact. In numerous ways we are, even now, laying the basis for recovery in business activity.

The durability of that recovery will depend heavily on our ability to gain control of the inflation that has been ravaging our economy for the past 8 or 9 years. Last year, fresh inflationary forces—reinforcing those already plaguing us—culminated in the sharpest upsurge of the price level since the Korean War. Even before the disruptive manipulation of oil shipments and prices by some oil-exporting countries got under way, the erosion of workers' real earnings and the soaring of interest rates—both of which were a consequence of the inflation—had begun to restrict consumer demand, particularly the purchase of new homes.

A major source of the inflationary problem last year was the coincidence of booming economic activity in the United States and other countries in the latter part of 1972 and much of 1973. Production of strategic commodities approached capacity limits throughout the industrial world, and inflation accelerated everywhere. In our country, the effects of worldwide inflation were magnified by the depreciation of the dollar relative to other currencies in foreign exchange markets. To make matters worse, disappointing harvests in 1972—both here and abroad—caused a sharp run-up in the prices of food products last year, and the spectacular advance in the prices of crude oil and

petroleum products since last fall has greatly worsened the inflationary problem.

In addressing this committee, I cannot stress strongly enough the urgency of making some headway this year in reducing the rate of increase in prices. Failure to do so will further injure tens of millions of our families and it may destroy confidence in the capacity of Government to deal with an inflationary problem that has been retarding economic progress and sapping the energies of our people.

Improvement in the price performance of our economy during 1974 is, I believe, within our means. The rise in consumer prices should moderate later this year as petroleum prices level off in response to the drastic adjustments now underway in oil markets around the world, and as our own food supplies expand in response to incentives for farmers to increase production. There are other favorable price developments on the horizon. A slower pace of economic activity, both here and abroad, may well cause a decline in the prices of industrial raw material and internationally traded commodities. Also, the appreciation of the dollar over recent months in foreign exchange markets should make imported goods less expensive and moderate the demand for our exports, thereby increasing the supply of goods available in domestic markets.

Realistically, however, we can hardly expect a return to general price stability in the near future. Substantial increases in the prices of numerous commodities and services are practically unavoidable this year. Relative prices of many items are now badly out of balance. Prices of materials, for example, have recently risen very swiftly, and many of these cost increases are still to be passed through to the prices of end products.

A more fundamental factor affecting the course of inflation in 1974, however, may well be the course of wages and unit labor costs. Increases in wage rates have been edging up since last spring. The collective-bargaining calendar for this year is heavy and includes several pattern-setting industries. It would not be surprising if workers sought appreciably larger wage increases to protect their living standards against the persistent rise in prices they have to pay for groceries and practically everything else they buy. But if economic activity proceeds sluggishly this year, as now seems likely, productivity gains will probably be even smaller than they were last year. A rise of wages that is faster than we have recently experienced would therefore put great upward pressure on costs of production and ultimately on prices.

STABILIZATION POLICIES IN THE YEAR AHEAD

Since strong inflationary forces are likely to continue in 1974, even in the face of declines in production and employment, public policy is now clearly confronted with a most difficult problem.

Inflation cannot be halted this year. But we can move resolutely to establish this year a dependable framework for a gradual return to reasonable price stability. Direct controls over prices and wages will not be of much further benefit in this effort. New machinery for reviewing wages and prices in pacesetting industries can, however, prove helpful; and so too many a concerted effort to enlarge our capacity to produce industrial materials. But, in the end, inflation will not be

brought under control unless we have effective management of aggregate demand through general monetary and fiscal policies.

In the current economic slowdown, the task of monetary policy will not be the same as in a classical business recession, when a considerable easing in the supply of money and credit can be expected to provide the financial basis for the subsequent recovery. This year, our Nation's capacity to produce may actually decline, or at best rise at an abnormally low rate. A great deal of caution will therefore be needed in framing monetary policy. An easier monetary policy can be only a marginally constructive influence when economic activity slows because of a shortage of oil.

Fiscal policy can be used to better advantage than monetary policy in promoting prompt recovery in this kind of economic environment. Selective measures such as an expanded public employment program, increased unemployment benefits, or some liberalization of welfare payments in hard-hit areas may be needed to cushion the adjustment to fuel shortages. Also, a selective tax policy of accelerated amortization could stimulate investment in the energy and other basic materials industries, thereby relieving the more critical shortages of capacity that have recently proved so troublesome.

Current economic conditions may therefore justify special fiscal measures of the kind I have mentioned. But I would strongly advise against adoption of a generally stimulative fiscal policy, such as a broad tax cut or substantially enlarged expenditures. It is not clear that a strong dose of fiscal stimulus is needed now, and we surely need to proceed cautiously at a time when the price level is still soaring. Let me remind you that last month alone the wholesale price level rose over 3 percent.

An overly expansive fiscal policy now would delay, perhaps delay for many years, the progress which the Congress has been seeking in the use of the Federal budget as a tool of economic stabilization. A moderate increase of expenditures in fiscal year 1975 seems unavoidable in view of the sharply higher social security benefits enacted last year, the higher governmental salaries and procurement prices, and the recently rising claims for unemployment compensation. All this is forcing up Federal outlays at the same time that a decline in business activity is slowing the growth of tax receipts. Taken by itself, a moderate deficit in fiscal 1975 should not be particularly disturbing. But we have had deficits far too often over the years, and this pattern has raised serious doubts about our Government's ability to exercise rational control over its tax and expenditure policies.

FISCAL POLICY IN THE YEARS AHEAD

Since 1950, we have had deficits in 4 years out of 5, and the size and frequency of those deficits has tended to increase over the years. Whether this record came about by choice or, as I prefer to believe, largely by accident, it has contributed significantly to the dangerous inflation we are now experiencing.

The economic consequences of inflation are perhaps more apparent to American families now than at any time in recent history. In the past year, the average worker's purchasing power diminished in spite of rather large nominal increases in his paycheck. Interest rates rose

sharply, reflecting anticipation of further declines in the value of future dollar obligations. As their real earnings fell and interest rates rose, consumers hesitated to take on large new commitments, and the sale of houses, mobile homes, and other durable consumer goods suffered accordingly. While the profits reported by corporations rose substantially in 1973, they were in part illusory because business accountants are still reckoning depreciation on the basis of historical costs rather than the ever-rising replacement costs. Reflecting a more somber view of earnings prospects, the prices of corporate stocks fell sharply. And, even ignoring common stocks, the real value of the financial assets held by individuals actually declined during 1973; in other words, the nominal increase of this basic financial aggregate was more than nullified by the rise in the consumer price level.

BUDGET REFORM

Numerous measures will be needed to restore general price stability. Among these, none is more important in my judgment than reform of the Federal budget. To those who believe that the Congress over the years has deliberately and consistently chosen to stimulate the economy by deficit spending, prospects for improving matters must appear to be bleak. But I draw encouragement from a conclusion that I conceive to be closer to the truth: namely, that many, perhaps half, of the deficits in recent decades have come about not by design, but because of a basic defect in the procedures by which Congress acts on the budget.

Fiscal policy has not been overly stimulative by choice, but rather because Members of Congress have been unable to vote on the kind of fiscal policy they desire. The decisions that determine the ultimate shape of the budget are made in Congress each year by acting on some 150 to 200 separate measures. This process denies Members a vote on much more important issues—what total expenditures should be, how they should be financed, and what priorities should be assigned among competing programs.

In this process, the earnest efforts of this committee to control expenditures have been frustrated. Year in and year out, the appropriations enacted have totaled less than the executive branch requested. At the same time, however, the legislation reported by other committees has inexorably pushed outlays to higher levels, and over the years these increases have more than offset the reductions effected in appropriation bills.

The House has now passed a budget reform bill, thanks to the vigorous efforts of members of this committee, along with other Members of the House of both political parties, liberals and conservatives alike. This historic step reflects a growing awareness that budget reform is essential not only for a return to stable prices, but for restoration of confidence in Government itself. The day is past—if indeed it ever existed—when only the well-to-do need concern themselves with economy in Government. Those who would use Government as an instrument of reform have perhaps a larger stake in eliminating wasteful or relatively unproductive programs.

We have passed the point when new programs can be safely added to old ones and paid for by heavier borrowing. In principle, taxes can always be raised to pay for more public services, but the resistance to

heavier taxation has become compelling. If we count outlays at all levels of government, State and local as well as Federal, an increasingly large fraction of the wealth our citizens produce is being devoted to the support of Government. In 1929, total Government spending came to about 10 percent of the dollar value of our national output. Since then the figure has risen to 20 percent in 1940, 30 percent in 1965, and 35 percent in 1973. My impression is that most citizens feel that one-third of our national output is quite enough for the tax collector.

Since its revenues are limited, Government must choose among many desirable objectives and concentrate its resources on those that matter most. That is the very purpose of budgets. Congress, however, cannot effectively determine priorities under its present budget procedures.

Once those procedures are modified to enable Congress to regain control over total outlays and to determine priorities among competing programs, there should be no occasion for broadscale impounding of funds by the President. Occasionally, impoundments will continue to be called for, as a matter of good management, but they should not be a source of friction between the administration and the Congress, since they will no longer be used to control total outlays.

In view of the broad consensus among Members of the House, there are good reasons to hope that the Senate will act soon on budget reform legislation. If my analysis is correct, the impoundment issue should diminish in importance once the new budget procedures are in place. Enactment of this legislation would be a victory for representative democracy—not for conservatives or liberals—because it would give Congress the management tools it needs for effective exercise of its power over the purse.

FIVE-YEAR BUDGET PROJECTIONS

Meanwhile, it is encouraging to note the progress being made toward better budgeting in ways that do not require legislation. Congress needs better information about the likely costs of existing and proposed programs, not only the current year, but up to 3 to 5 years ahead. The President's budget message last year broke new ground by presenting estimates in functional detail of the outlays for fiscal year 1975 as well as for fiscal 1973 and 1974, and this procedure is carried forward in this year's budget message. Another encouraging development is the beginning of a consultative process between congressional leaders and the Office of Management and Budget in connection with the formulation of the budget. It would be wise to expand and deepen such consultations in the future. Involving the Congress in budget preparation should help to eliminate the delays that have required increasing use of continuing resolutions and frustrated efforts to make the budget a really useful management tool.

Finally, I believe that better budget procedures must eventually include zero-base budgeting. If we are to get the most out of the Federal outlays, we cannot assume that last year's programs are more beneficial than this year's proposals. All competitors should have equal opportunity in the contest for Federal budget support; there should be no grandfather rights. Both the Executive and the Congress should,

therefore, require justification of the entire appropriation for existing programs, not just for increases over last year's level. I realize this will be difficult to achieve, and it will probably have to take effect gradually and by stages, but it is so clearly necessary that we will eventually come to it.

I have offered these comments as a concerned citizen. I am deeply troubled about inflation, as I know you are, and for that reason alone you will want to make sure that the administration's budget requests for fiscal 1975 are fully justified. But I am also greatly disturbed by what I sense to be a dangerous loss of confidence in our Government's capacity to make good on its promises. The key to rebuilding this confidence is improved performance by Government, and budgetary reform can move us powerfully toward this goal. Congress must find a way to determine an overall limit on Federal outlays that will be rationally related to expected revenues and economic conditions, and establish spending priorities within that limit. I see that as essential not only to restoring general price stability, but to regaining the confidence of our citizenry in the integrity of their Government.

Thank you very much, Mr. Chairman.

Mr. MAHON. I would like to say to the members of the committee that with your indulgence I shall not yield more than 5 minutes to anyone who seeks recognition, this for the purpose of expediting the hearing.

Also with your indulgence I would like to ask, in behalf of the committee, as the chairman of the committee, a few questions of the Chairman.

PAY AS YOU GO POLICY

Mr. Chairman, many of us at home, on the farm, in small towns, grew up with the theory that a family should pay its way. It shouldn't spend money that it doesn't have. There are some of us in Congress who feel that we should try, during relatively good times, to pay our way, and not go into debt as a government.

At the end of the fiscal year for which this budget is submitted, the debt will have increased one-third over a 5-year period. I wonder if you think we should be disturbed about that. Does it make any sense anymore to try to cling to the old-fashioned theory, that the Government, during good times, should pay its way and not go beyond that? In other words, if we want a program and we are not willing to pay for it, should we suspend a program, or withhold enacting the program, until we are willing to pay for it? This kind of philosophy is rather simple, too simplistic I assume. However, when you get away from that, and go to macroeconomics, you find yourself completely lost at times. What is your rationalization of this problem?

Mr. BURNS. Mr. Chairman, I probably am more old fashioned than anyone here, probably older too, but I believe that in good times we not only should pay our way, but we should run the governmental operations with a surplus to make up for the years, and there will inevitably be some such years I am afraid, when we run governmental operations at a deficit. I would not strive literally for a balanced budget year by year, but I would definitely strive for a balanced budget in a small bundle of years—2, 3, 4, or 5 at the most. That means that surpluses would have to offset deficits.

BUDGET REFORM

Mr. MAHON. We have had a rather high level of economic activity for more than a decade. Of course, we have had a war, but we keep on going in debt every year under all administrations, and thereby creating more inflation, and so forth. This year, also, we have a projected heavy deficit. Each President, when he takes office, seems to feel if he is going to save the country, that he should be reelected for a second term. This thinking, it seems to me, brings on additional programs designed to please the public. Whether it is good for the public or not, is often a matter of question. Is there any practical way for us to stop this trend?

Mr. BURNS. Well, I think Congress is now in process of working out an excellent answer to this question, namely the kind of budgetary reform that you have worked for, Mr. Chairman, you and your committee, and which the House has enacted I understand the Senate is ready to vote on a similar bill. I think that budgetary reform, along the lines of that legislation, will go a very long distance in answering this problem.

Mr. MAHON. I think the members of the committee will agree that in your prepared statement you did an excellent job presenting a philosophy that should be forcefully called to the attention of the Congress and the American people. I think your statement is one of the most provocative and profound that we have heard here on Capitol Hill in many a day. We are grateful to you for it, and I hope that by budget reform we can make some progress toward a more balanced budget and a more stable economy.

EXPECTED UNEMPLOYMENT LEVEL

I would like to refer to page 1 of your statement, in which you indicate that an upward trend in unemployment is underway. Unemployment as you indicate has risen to 5.2. It was 4.8 at the end of 1973. How far do you expect unemployment to go? You no doubt have confronted this question in the Federal Reserve.

Mr. BURNS. Over the years I have learned that my own capacity to predict in terms of numbers is very limited, and I very much hope that younger men will learn that lesson faster than I did. All that I can indicate to you honestly is all that I know. The forces at work in the economy now are moving us in a downward direction, but there are reasonable grounds for expecting a recovery later in the year.

My staff is projecting an unemployment rate in the neighborhood of 6 percent by the end of the year. I listen to my staff but put a question mark next to all numbers which they present me with. I hope that we will do better than 6 percent, but I cannot rule out the possibility that we will do worse. As a student of the business cycle all my adult life, I have learned that when the economy slows down, it sometimes gathers momentum. I don't think it will this time, but I do not have, nor does anyone in the world have, a firm basis for such a conclusion.

PROGRAMS FOR STIMULATING THE ECONOMY

Mr. MAHON. Mr. Chairman, the budget is based on an unemployment rate of about 5.5 percent. We have been told that if it goes beyond 5.5 percent, certain measures will have to be taken, yet we haven't been able to elicit from those who testified before us a good understanding of what those measures might be.

Of course, if unemployment goes to 6 percent, the spending on unemployment insurance and otherwise will increase and the national debt will skyrocket. Already it is predicted that the Federal funds deficit will be \$17.9 billion. On the other side of the ledger, if unemployment rises, revenues will fall. Would you have any suggested remedy for us to try in wrestling with this problem?

Mr. BURNS. I think that unemployment compensation, perhaps larger benefits, perhaps extending these benefits over a longer duration, is the best single way of dealing with the problem, because while such expenditures may soar for a time, they are inherently self-limiting and self-correcting. That is to say, once the economy improves and unemployment declines, unemployment compensation will also shrink, in contrast to other types of governmental programs, such as a public works program, or increased military outlays, for example, that will go on after temporary unemployment problem has passed. That we must avoid. Improving, enlarging unemployment insurance benefits, I think, is an excellent way.

Now, another program that Congress has experimented with, which I think also has some merit for dealing with this problem, is public service employment. You can zero in on the specific areas where unemployment exists, and provide temporary jobs for people in that way, and that can be helpful. That too is a self-limiting program. That would be the direction in which I would look, in the event that unemployment rises to a dangerous level. I would make contingency plans now, but I would not move in that direction just yet. I would try to be ready to do so without excessive delay.

TRIGGERING ECONOMIC STIMULATION PROGRAMS

Mr. MAHON. What things will have to happen for it to become apparent that further stimulus of the economy is needed? When would you begin to move?

Mr. BURNS. I think that I would hold prefatory hearings rather early. I would try to draft legislation, and in the event that unemployment exceeds 5½ percent, I would think very seriously of passing such legislation.

INFLATION RATES

Mr. MAHON. Mr. Chairman, what is your prediction about the rate of inflation which is likely to occur in calendar year 1974 and 1975? You spoke of the wholesale price index having gone up more than 3 percent in January.

Mr. BURNS. Right.

Mr. MAHON. This is a very shocking and disturbing statistic. Could you give us some guidance as to what may develop with respect to inflation this year?

Mr. BURNS. I think that depends on how we conduct our affairs. There is a danger that if we put prudence to one side—and we have not been prudent enough in recent years, and at a time when unemployment is increasing we may throw prudence entirely to the winds—there is a danger that we will have an inflation rate in this country in two digit figures. In other words, we will move toward a Latin American standard. When that happens in this country, there will be only one way, in my judgment, of bringing inflation to a halt. Inflation does so much damage to people that sooner or later we will gather the courage to deal with the problem, but once inflation reaches such a height, about the only way that I can see of bringing inflation to a halt is through a stabilization crisis, and that means mass unemployment. That is a terrible thing to contemplate.

Mr. MAHON. We haven't had that since the thirties.

Mr. BURNS. That is correct.

BASIC INDUSTRY CAPACITY LIMITATIONS

Mr. MAHON. I must say that your statement is a bit shocking, but I think these are times when we must learn to take the shocks and then try to act. I would like to ask you this: What good does it do to undertake many new or enlarged Federal spending programs designed to stimulate the economy, if basic industries are already operating at or near capacity? Would additional demand created by such spending programs add to inflation and yet not solve the problem?

Mr. BURNS. I think we have to become much more selective in our fiscal policies. I can see some point in accelerated amortization of the kind that we had during the Korean war, when certificates of necessity were issued, and we had 5-year amortization, and thereby stimulated a growth of capacity in certain industries.

I would do that to relieve shortages that have occurred in a fairly large number of our basic raw material producing industries. Many have inadequate capacity at the present time.

Mr. OBEY. Which ones?

Mr. BURNS. Well, the list is quite long. The steel industry is one. The cement industry is another. The paper industry is another. The list is quite long.

DEFENSE SPENDING

Mr. MAHON. I would like to go back to a statement which you made. You seem to state categorically, that we shouldn't use the military budget for the purpose of stimulating the economy. There are those who say that the dramatic increase in the defense budget, from the standpoint of dollars, and of course the dollars are not worth what they used to be, is being used for the purpose of creating jobs, preventing unemployment, and keeping the economy humming. Would you comment on that?

Mr. BURNS. I know nothing about that. My own feeling is—that is an area where I lack expert knowledge—my own feeling is that we have been neglecting, our national defense, and that a larger budget for national defense, if we are to have a safe future, has probably become necessary.

I don't know the details, but I do know this. Military pay has risen very sharply, and procurement costs have gone up very sharply. We have drawn down our inventory of military supplies. The amount that is now available for research and development, and for procurement of military equipment, has shrunk severely in real terms. We are not living in a peaceful world really. I think we are living in a dangerous world. I am very pleased with the efforts that the President has made towards détente, and the partial success that he has achieved, but I am not convinced that this country is safe or will be safe, unless our defenses are so strong that no adventurer in any land would risk a military struggle with us.

Mr. MAHON. I am very grateful that you shared these views with us, Dr. Burns. It is true that self-survival is the first law of nations, and we must maintain an adequate defense. I couldn't agree with you more.

Mr. CEDERBERG. Will the chairman yield?

Mr. MAHON. I yield to the ranking minority member of the committee.

NATURE OF CURRENT ECONOMIC SLOWDOWN

Mr. CEDERBERG. Dr. Burns, I want to commend you along with the chairman on a very excellent, provocative statement. I think it is one of the best we have had in a long time. I only have a couple of very brief questions, and some of them you have probably fairly well answered, but on page 2 of your statement you indicate that the current recession isn't typical of a normal business recession, and you indicate that the unemployment that has occurred, mainly because of the energy situation, is concentrated in certain areas. I happen to come from the State of Michigan, where this concentration is quite heavy, as you understand, because of the automobile industry, and certain adjustments are being taken there by the companies to try to do something about that.

You state further that it is concentrated, rather than spread broadly over the economy. I think the thing that concerns us is that over the months it might become rather widespread throughout the economy. Can you give us concrete things that we can do to help prevent that? I realize that you have touched on such things as public service employment and so forth, but are there any other things that you think we can do to prevent unemployment from spreading, because I think this is the concern of most all of us here, that unemployment could spread much more throughout the economy. What we need now is some indication of confidence from the Congress and from the Government that we aren't going to let this spread throughout the economy. Can you give us any further things that we can do?

Mr. BURNS. Let me, if I may, take a minute or two first to comment on the peculiarities of the current slowdown in the economy. In a typical business recession, economic activity, production and employment, decline because of a slackening in spending by various sectors of the economy. In the present case what we have is an impediment, not so much on the demand side, but on the supply side. Our capacity to produce has been curtailed. This is reflected in large part—not entirely but in large part—in the declines in production and employment that have taken place.

A second difference between the current slowdown of the economy and a typical business recession is that in a typical recession declines

in activity spread out across the economy. At present, trends diverge very sharply among industries and regions of the country.

A third and very important difference between the present slowdown of the economy and a typical business recession is that inflation is now raging whereas in a typical business recession the price level either moves down or remains unchanged, or at most rises slightly.

We now have therefore a new problem, a very unusual problem. We don't have experience for dealing with this new and unusual problem, and all that we can do is to diagnose the present difficulty as we best can, rely on our judgment. Some short-term remedial measures are needed, such as strengthening unemployment insurance and providing some additional public service employment. I believe that under existing legislation public service employment this calendar year will decline relative to 1973. I believe that is true.

RESTORATION OF CONFIDENCE

If I am right on that, that is something that deserves the attention of the Congress, but far more important than any of these remedial measures would be a demonstration by the Congress to citizens across our land, that the Congress takes inflation seriously, that it is determined to bring inflation to a halt, and is ready to embark on a program for accomplishing that objective. Quick passage of the budget reform legislation, and helpful explanation of that to citizens across the country, would be very helpful.

I hope that once this legislation passes, which I trust will be very soon, that every member of this committee, indeed every Member of the Congress, would address his constituents and make one speech after another, explaining the new budget legislation. I hope too that members of my profession, the economists of the country, would join you in explaining that we have turned over a new leaf, that we have now embarked for the first time in our Nation's history on a legislative budget, and that we will henceforth run our finances in such fashion that inflation will no longer be the evil that it has proved to be to our people. Restoration of confidence I think is the most important single thing. People are worried about their pocketbooks. Those who have jobs are fearful that because of inflation they may lose their jobs, or if they retain their jobs they still wonder whether they will be able to meet their bills.

I have been disturbed looking at the increase in delinquency rates that has occurred, even before the slowdown in the economy became visible.

Mr. CEDERBERG. I appreciate the comments you have made, Dr. Burns, and I have to agree with you. What we will have to try to do is to restore confidence in the individual citizen in the country that the future is going to be more hopeful. I think the gentleman from Massachusetts, Mr. Boland, yesterday alluded to the problems that he finds in his district. I find them in mine whereby you go back, talk to the average citizen, and he has those concerns, and he is reluctant to make certain commitments that he would normally make which can have an impact on the economy.

RETURN TO PRICE STABILITY

You refer to inflation. Obviously inflation is one of the most difficult problems we have to deal with. You state that we should return to a gradual reasonable price stability. Has anyone ever made any determination as to what reasonable price stability would be?

Mr. BURNS. Well, I will give you my favorite answer. To me price stability means zero rate of inflation. If it reaches 1 or 2 percent, I would be a little unhappy, but still consider it a good year relative to what we have had. For the purpose of getting along, I would call that reasonable.

Mr. CEDERBERG. Is that practical in light of what has happened, say, in this country since World War II?

Mr. BURNS. Yes, I think it is; sure. We have had periods of reasonable price stability in this country.

Mr. CEDERBERG. We have never had any 1 or 2 percent.

Mr. BURNS. Yes. Take the period from the close of 1951 to early 1955. Another period was from toward the end of 1957 through 1964.

Mr. CEDERBERG. At the same time, though, we had a relatively high unemployment rate, didn't we?

Mr. BURNS. In the first period, no.

Mr. CEDERBERG. We had the Korean war.

Mr. BURNS. Yes; and you did have some increase in unemployment during the recession of 1953-54, but it was very mild.

Mr. CEDERBERG. Would it be better for the country as a whole if we could have unemployment drop down substantially and sacrifice a little of that for 3 or 4 percent inflation. Is that a better tradeoff?

Mr. BURNS. I have very little faith in these tradeoffs. I think that we ought to strive for, and that we can succeed, in bringing the inflation rate down to 1 or 2 percent, perhaps to zero, and still have a very satisfactory rate of employment.

INDUSTRIAL CAPACITY

Mr. CEDERBERG. Now, you talked about the overcapacity and undercapacity in certain industries and you indicate you are concerned about the expenditure of massive funds for public works as a method of handling an inflationary situation.

What would be the present capacity utilization from or in the construction industry? Do you have any feel for that?

Mr. BURNS. At the industrial and commercial end, construction is proceeding at a terrific pace and there are shortages of some types of skilled labor in that type of construction business.

On the other hand, the residential building industry is depressed and unemployment of these construction workers is rather high.

INTEREST RATES AND HOUSING

Mr. CEDERBERG. The housing industry, of course, as you say, is very depressed. Can't we take some action, say, by your Federal Reserve, to do something about the interest situation that would make it more attractive to invest some funds in the housing industry?

Mr. BURNS. I think interest rates are a factor in the housing problem, but I believe that the main depressant of home building at the

present time is not to be found in these financial factors of interest rates and availability of credit.

I will comment more specifically on that in a moment.

Let me try to elucidate that a little. Take the industry that is very closely related to homebuilding; namely, production of mobile homes.

Mr. CEDERBERG. I have substantial amounts of that in my district, I might add.

Mr. BURNS. Now, what has happened? You had a very sharp drop in the production of mobile homes since the spring of 1973. Now, ask yourself a question. Was that due to high interest rates, rising interest rates? Clearly no. We have very good statistics on that, compiled by the Federal Reserve Board, which show that the level of interest rate charges on mobile home financing was virtually steady throughout 1973. Was it largely due to availability of credit? On the contrary, Credit was freely available for this activity at the banks and at the sales finance companies.

Why then did you have this decline? I think you had a decline because inflation eroded the purchasing power of working people. Prices were rising faster than wages. Therefore expenditures on expensive, durable goods such as mobile homes, and also some new conventional homes, and later on automobiles, declined.

Mr. CEDERBERG. So you are saying really there isn't much hope for the mobile home industry or the housing industry unless we get inflation under control?

Mr. BURNS. I think that is a major factor.

Now, I don't mean to say for a moment that in the case of the conventional homebuilding industry, the level of interest rates has not been a factor. I think it has been a factor. Interest rates rose sharply this year. Not only did interest rates rise very sharply, but money tended for a while to flow out of our thrift institutions, particularly the savings and loan associations, and many of the savings banks.

That condition is being corrected very quickly. Mortgage interest rates have been coming down. I just saw a report yesterday to the effect that only in one of the districts where our Federal home loan banks operate is there any shortage of mortgage credit.

A few months ago there was a shortage everywhere. That condition is correcting and I think that is one reason why we can reasonably anticipate some improvement in homebuilding later in the year. But I think the main obstacle to good recovery is inflation.

There is another significant factor that impinges on the homebuilding industry at the present time. Let me just mention it. If you are uncertain about getting gasoline to drive your automobile, you will think twice before you will make a commitment to buy a new home 30 miles away from your job. Construction in suburban areas has diminished, and diminished very rapidly, because of the uncertainties connected with the gasoline supply and what the price may be.

Of course, another factor is the increase in unemployment. When you don't feel secure in your position you are not likely to go out and buy a new home.

Mr. CEDERBERG. Thank you, Dr. Burns.

The following information is submitted by Mr. Burns for the record of the February 21, 1974, hearing (questions by Congressman Cederberg):

Question No. 1. Could you tell us what the Federal Reserve is projecting in the way of changes in interest rates and the availability of money over the next year or so, and would you comment on the effects of the President's fiscal policy on your monetary policy?

Answer. Probable changes in interest rates and in the availability of money and credit are subject to exceptional uncertainty in the current unsettled economic environment. The Federal Reserve is monitoring closely developments in the industrial economy and in financial markets, and will make such adjustments in monetary policy as are consistent with cushioning the effects of the oil shortage and at the same time offer hope of reducing inflationary pressures.

In the fall of 1973, the Federal Reserve responded to the tapering off in the rate of economic expansion by increasing somewhat the availability of bank reserves and by reducing marginal reserve requirements on large CD's and related instruments. Since that time, short-term rates have declined significantly. It is impossible, however, to say how much further rates will decline—or even whether over the next year rates will move higher or lower. Much will depend on how successful we are in slowing inflation.

Fiscal policy has a significant influence on economic activity and prices, and in this context fiscal policy inevitably affects monetary policy. The financing of a Federal budget deficit like that in prospect for this year will tend to put some upward pressure on interest rates. If the Federal Reserve sought to finance the deficit through money creation—in an effort to avoid the effects of deficit spending on interest rates—the rate of inflation might well increase, thereby releasing forces that would soon drive interest rates even higher.

Question No. 2. What effects will this debt financing have on capital markets?

Answer. Federal deficits financed by borrowing tend to raise interest rates, and these higher rates partially offset the fiscal stimulus arising from the deficit. However, when the economy is operating considerably below potential, private demands in capital and money markets are tempered. At such times, Treasury borrowing places less pressure on interest rates than when economic activity is rising briskly.

This year may be an exception to the general rule, since corporations are likely to borrow heavily in long-term markets to finance investment spending—despite the economic slowdown. The interest rate pressures that may stem from corporate borrowing are likely to be felt mainly in the long-term market, while the expected Treasury borrowing should have its major impact on short-term rates.

Question No. 3. The economic report of the President suggests that money stock should grow at 8 percent in 1974. What is your thinking on this recommendation?

Answer. The economic report of the President suggests that, on the basis of observed long-run relationships, an 8 percent growth in M_2 during 1974 would be consistent with the council's forecast of GNP growth. Such an historical relation is of some interest. However, the short-run relationship between money and GNP growth is extremely variable—a fact that is noted by the council in its statement. By way of example, it might be noted that M_2 grew 7.7 percent in 1970 when GNP rose only 4.5 percent, but it grew 8.8 percent in 1973 when GNP increased 11.5 percent. Changes in the public's preferences for various types of assets and other factors must therefore be taken into account in determining the rate of monetary growth consistent with any given rate of growth of GNP.

JOINT COMMITTEE ON THE BUDGET

Mr. WHITTEN. Doctor, I wish to thank you for a very fine statement and to thank you for your contributions to the Joint Committee on the Budget. I happened to be the cochairman of that committee.

I don't know of any other time since I've been in Congress where a proposal was unanimously adopted by such a diverse group of Members, a bill was unanimously introduced and unanimously reported out by the Rules Committee with about 85 percent of the original suggestions of the joint committee intact.

PUBLIC WORKS AS A METHOD TO COMBAT UNEMPLOYMENT

We need stability as far as finances are concerned for the good of the country but I think the question goes deeper than that. The question is what you spend it for. I have been disappointed in your statement that one of the solutions is unemployment insurance as against public works, if I understood you correctly.

Unemployment insurance means you are issuing more money to somebody because he is unemployed, so there is no long-term contribution to society. On the other hand, if that same amount of money was given to the same people to improve the country and protect it and make it rich, not only would you be directing your efforts toward employment instead of spending more money for unemployment, but you end up a richer country, with long-term benefits long after the crisis was over.

This won't take but a minute, but this is a statement I have made that was carried all over the country: This copy is from the Fauquier Democrat:

We could leave to our children all the money in the world, and a worn-out land, and in effect we would leave them nothing. On the other hand, if we leave them rich land with soil erosion stopped, with rivers and harbors free of pollution, and our hillsides once again in trees, they'll make it fine whatever our financial plight, for with a rich country behind them, they could establish their own financial system.

I am an amateur economist and I would question where we should spend our defense money. You started off by saying you didn't know anything about defense, but then you went on into how much defense spending is needed. I happen to be on the committee and there is a whale of a lot of difference between spending for defense and spending in the name of defense.

As of today we have 300,000 soldiers in Europe but we have 248,000 dependents. Which way would they go if you had a war?

We don't have an all Volunteer Army; we have an all employed Army; \$175 a month to get a private. If you put up with 15 weeks in training, we give you \$2,000.

Then if you reenlist, we pay up to \$10,000. Now, if war broke out, how many would reenlist for a new tour?

How many planes do we have for the generals?

You see, when you get into these areas where you don't deal with it, you can see what it leads us into here.

I have been on this committee when the Secretary of the Army testified that he had let a contract in Detroit for \$100 million worth of trucks to pump prime the economy years ago when we had trucks all over the world running out of our ears.

I agree that is the poorest place to spend money for the purposes of employment.

I agree with you on defense. The question is, how much is in defense and how much is in the name of defense?

I think I have identified myself in agreeing with you on the need for stability of our monetary affairs, but think about this: Over half

the national debt was incurred in foreign aid. Did you know that? Over half was incurred in foreign aid.

Not only that, but take foreign aid and the waste that I can point out in the \$11 billion that the military has in carryover funds. That more than offsets \$11 billion that we are impounding which Congress appropriated for sewage treatment plants to keep raw sewage from flowing into our streams.

Is it fair on one hand to hold back this money that would be spent creating public works, improving public health, creating jobs—freeze that, but carry on foreign aid, carry on defense expenditures where you have no goods to offset it?

I say, sir, we are in a bad shape.

I think you should reconsider when you say the answer is unemployment insurance where we print money and give it to people so they can afford to be unemployed, as against spending the same money to stop the floods, the deepen the harbors so the big tankers can come in so we can get gasoline.

As great as you are in the field of economics, and I take my hat off to you, I think you make a wonderful contribution to the country, but when we get into these practical matters where to put the money, that is not exactly the forte that the economist devotes most of his attention to. I think you prefaced your statement when you spoke of the military when you said this was out of your field. Am I correct?

Mr. BURNS. Your memory is perfect and your comments are wise. I don't think there is a real quarrel between us.

I was not addressing myself to the question of whether more spending on public works is or is not desirable in principle.

I was addressing myself to the question of whether public works programs are effective solutions to very short-run unemployment problems and I stand on my ground.

Public works are the poorest kind of remedy for that kind of problem. The reason is most public works require long periods of planning and they take a long period to build. Therefore the money will be spent after the unemployment problem has passed and you are in an altogether different economic phase.

Mr. WHITTEN. May I say I value your opinion, but I think you just point out what I tried to get Mr. Shultz to say yesterday and tried to get Mr. Ash to say yesterday.

Since you have pointed out that you have to look ahead, plan ahead and have these public works ready so that we won't have this delay, you can see the value now of having a backlog of public works ready so that Newark, N.J., or New York City will have something that they can do with these unemployed to improve the city and be ready to move.

Doctor, you said that the wholesale price index had gone up 3 percent. That means that in terms of a constantly increasing amount of money, that the same goods figured into cheaper money comes out 3 percent higher. That is what you mean.

The same goods figured into an increasing supply of money comes out 3 percent higher. Is that right?

Mr. BURNS. [Indicates "Yes."]

Mr. WHITTEN. The increase in the price index means the commodity figured in terms of present day money is 3 percent higher in terms of that money. Is that right?

Mr. BURNS. [Indicates "yes".]

Mr. MAHON. You may supply for the record a reply to that question.

Mr. BURNS. I will be very glad to do that because I have had some practical experience with that problem and I will take advantage of the opportunity.

[The information follows:]

The following information is submitted by Mr. Burns for the record:

In the present economic slowdown, with rates of inflation remaining high, and the incidence of the fuel shortage affecting various sectors and regions of the economy unevenly, broad-based or prolonged fiscal stimulus would seem inappropriate. An expanded public works program would be particularly ill-advised at this time. Public works projects ordinarily take a good deal of time to get underway—plans need to be drawn or brought up to date, sites may need to be explored, specifications have to be worked out, contracts have to be arranged, and so forth. Once started, they often go on for years, long after the need for economic stimulus has vanished. Thus, they are hardly suited to the peculiar characteristics of the economic environment in which we find ourselves.

Selective fiscal measures are better able to deal with the specific pockets of unemployment that are beginning to arise because of the energy shortage. For example, enlarged public sector employment and extended unemployment benefits can deal with specific regional or industrial unemployment without permanently increasing Federal spending, and thereby worsening our chances of regaining lasting prosperity.

The administration recently sent to the Congress a proposal for increasing the period over which unemployment benefits might be received, and for extending coverage to individuals not previously included in the program. I would urge the Congress to enact this proposal.

STABILIZING THE ECONOMY

Mr. EVINS. The President has submitted the largest budget in the history of the Nation, an expansionary budget, an inflationary budget; inflation continues.

Last year we had a restricted budget of slowdowns, cutbacks, terminations. This year you propose an expansionary budget and you state inflation cannot be halted. You say that at page seven of your statement.

I agree it cannot be halted with the inflationary budget which is proposed this year.

You have been in the position of advising the President for the past several years and inflation hasn't been halted and you are still proposing a big budget deficit.

You have referred to several things that should be done, increase unemployment compensation, and you say the Congress should pass budgetary reform. I wish you would either now or for the record spell out exactly what should be done to halt inflation.

Your book is entitled "Prosperity Without Inflation."

Will you give us a brief on that book so we can see how we can have prosperity without inflation?

Now turning to the unemployment picture I am in agreement with Mr. Whitten that public works would provide greater employment for this country in this time of high unemployment. It would at the same time provide capital assets for the country and investments in long-term returns.

If we on this committee hadn't been pushing for public works, we could be in a much worse situation in the energy crunch today.

What can be done about the oil crisis? What can be done about inflation and unemployment? We need answers to some of these questions.

Mr. MAHON. Will you comment on that?

Mr. BURNS. I will be very glad to.

I have indicated my views on fiscal policy in my statement.

Now, so far as monetary policy is concerned, I have also indicated that we on the Federal Reserve Board will have to be very cautious this year and not yield to the temptation of adding liberally to reserves of commercial banks. We don't intend to do that.

Now, what else can be done? I think that the Economic Stabilization Act, which is due to expire as of April 30, is under review and there are some changes I would make. I would drop the present controls for the most part. I would, however, retain them in the case of the petroleum industry, the construction industry, and the health industry.

Second, I would establish new machinery under which hearings would be held on wage or price increases in pacesetting industries. I would rely very heavily on the force of public opinion. Recommendations would be handed down by an ad hoc board dealing with a specific price problem or a specific wage problem. The degree of compliance by individual firms would be watched. A record would be kept. That record would be disclosed to the general public. I think that can be quite helpful.

In addition I think that we have to eliminate, or at least make progress in reducing the featherbedding that exists in a good many of our industries.

Next, I would look favorably on accelerated amortization of new facilities for some of our key raw material producing industries, with a view to removing the bottlenecks on supply that exist at the present time. I think also that would be helpful in the fight against inflation.

I would watch very carefully what happens to the value of the dollar in international markets. If the dollar depreciates in international markets, that will send up the prices of goods that we import and price increases arising from that source—

DEVALUATION OF THE DOLLAR

Mr. EVINS. They have been devalued twice in the last 2 years. We had the Smithsonian devaluation, hailed as the greatest monetary reform in history, and it collapsed and we had to go through it again.

We are concerned about the devaluation of the dollar and the money policy situation.

We know what the problems are. We want the answers. I wish you would touch on what could be done about all of the current problems.

Mr. BURNS. I am touching on a lot of things and if you have the time I would be glad to visit with you at great length on this.

Let me point this out to you: You are quite right in saying we have had two devaluations of the dollar. This is not the happiest chapter in our financial history. But, since the middle of last year, the dollar has appreciated dramatically. The dollar is now the strongest currency in the world once again and this is a success story that I think should be borne in mind.

Also, we have had a dramatic turn-around in our balance of payments. We now have a surplus, not only on merchandise accounts, but in our overall balance of payments. We have turned things around beautifully in that area. All that I meant to say in touching on that was, let's try and keep it that way.

Mr. CONTE. Mr. Chairman, you mention the devaluation of the dollar has improved our international performance and the balance of payments.

In 1973 we had a surplus of \$1.7 billion for the first time since the 1950's, but, Mr. Chairman, don't you think that the devaluation measure has also failed to control domestic inflation and spiraling basic price rises as they affect the average American's income and spending power?

Mr. BURNS. The devaluation of the dollar was a consequence of our inflation, there is no question about that.

FOREIGN AID PROGRAM

Mr. CONTE. In a time of decreased national production and employment with scarcity in both food and petroleum products, the family budget is severely affected. It has taken away people's morale. What justification have you for appropriating further large sums for foreign assistance and U.S. international monetary institution aid programs?

Mr. BURNS. Our foreign aid program, I think, has been diminishing. I, for one, would be reluctant to see it eliminated because there is a great deal of poverty around the world. Ours has been a compassionate country throughout our history. Beyond that, if we are to have a peaceful world, I think we cannot stand by and ignore the poverty in so many areas of the world. The amount we are spending is not very large, but we still might reduce that expenditure some.

Mr. CONTE. Mr. Chairman, you say it has been decreasing. The estimates in 1973 were 2.9. At 1974 they were 3.8 and 1975, fiscal year, they are 4.1.

They are on the increase and I don't think anybody would argue with humanitarian purposes but there is much more. We have a big military assistance program going to countries all around the world. Besides giving food and other humanitarian items.

Mr. BURNS. I think our foreign aid expenditure has fallen relative to total government expenditure. I also think that our foreign aid programs now are at a lower level relative to our national income than is the case with most major industrial countries.

EFFECT OF OIL EMBARGO ON INFLATION

Mr. CONTE. Do you think, Mr. Chairman, then, with the inflation now raging in Japan, France and Germany and the West European countries along with the going U.S. inflation, the Mideast oil embargo will also increase and affect our inflationary problems even more in 1974?

Mr. BURNS. There is a danger of that happening. But I think that if we manage our financial policies prudently, we are likely to find that the rate of inflation will be appreciably lower by the end of the

year than it is at present. That depends on us and how we conduct our Nation's finances.

Mr. CONTE. You don't think the oil embargo will have any effect on it then?

Mr. BURNS. I personally think the oil embargo will disappear. I also think that oil prices will come down. Actually, oil prices are coming down now on the spot market. In recent weeks the price of oil in the auction market has come down rather sharply. Those who are bidding for oil are very cautious in the marketplaces.

OUTLOOK FOR THE DOLLAR

Mr. CONTE. Will we upvalue the American dollar in 1974?

Mr. BURNS. If you mean by that, will Congress pass another Par-Value Modification Act whereby the dollar will be upvalued, my best guess is that the answer to that question is no.

If, on the other hand, you are inquiring whether the dollar appreciates, as it has in the exchange markets since the middle of last year, that is very difficult to say. The oil problem has released financial forces of such magnitude that it is extremely difficult to tell how currencies will move relative to one another. But I don't expect the dollar to depreciate this year.

Mr. CONTE. Thank you, Mr. Chairman.

PUBLIC WORKS PROGRAMS

Mr. BOLAND. Mr. Chairman, I would like to pursue Mr. Whitten's argument with respect to an accelerated public works program. You indicated that this is probably the poorest kind of remedy for dealing with short-run unemployment. Why wouldn't it be possible to have a planned public works program now?

You have indicated in your statements here that perhaps Congress ought to start considering some preparatory plans to meet some of the problems that we might face this year.

What would be wrong with a planned public works program that doesn't take a long period of time in which to get specific projects underway?

Mr. BURNS. In the abstract, there is nothing wrong with that. The difficulty is that the slowdown that we have in the economy, will, in my judgment, be over long before these plans are developed. Secondly, when these plans are developed—now, I am expressing a practical judgment—you will probably find that the number of projects that are ready to go and which will require only a short construction period, a period of less than a year, is not really very large.

I have tried it. I ran a public works planning program. Congressman Long will remember that. When I was Chairman of the Council of Economic Advisers, I established, I believe, for the first time in this country, a continuous inventory of public works projects, so that you had them all on file, showing the different stages where they were. Then when we took a count of the number of those projects that were ready to go and which also were small projects in the sense they could be started and completed in less than a year, we found the sum was pitifully small. My guess is we would run into the same problem now.

I could be wrong on that. Besides, I am a planner, and I think such a

continuous inventory of public works is a fine thing to have. Then we will know exactly what we are talking about.

DEFENSE BUDGET

Mr. BOLAND. I was interested in your comments on the military budget this year. The amount for national defense in fiscal year 1974 is \$88.2 billion, and that's not counting a \$6 billion supplemental request. The estimate for fiscal year 1975 is \$101 billion. I don't think anyone on this committee, nor would anyone in the Congress, disagrees with the absolute necessity of having a defense budget that gives us security in a very dangerous world.

I think the problem is, as Mr. Whitten said, we have had an incidence of trucks running out of our ears. There are a lot of sacred cows in the military budget, and I don't think you mean we should continue these particular programs.

It is difficult to get out the sacred cows. Whether or not the National Guard and the Reserves, as they now perform, are essential to the security of the United States, is an area that should be looked into. The same applies to whether or not we ought to have troops spread all over the world. These are areas that ought to be looked at, but they ought to be looked at by Congress itself.

ZERO BASED BUDGETING

I was struck also by a statement here on an issue which I think is crystal clear—that we ought to look at the existing program. Congress ought to do this. There is nothing more difficult to get rid of in the world than some program that has been established by the Congress, sponsored by some Congressman and he wants it continued into perpetuity. I think it is essential, as you pointed out in your statement, that we ought to look at the existing programs because there are billions of dollars that do go into programs that perhaps have served their purpose and we ought to point in another direction.

I think every Member who serves on this committee recognizes that. Every single Member serves on some subcommittee in which there are programs that have been existing for years, that have outlived their usefulness.

For that statement alone you deserve the congratulations of this committee.

The following information is submitted by Mr. Burns for the record:

The adoption in the budgetary process of the concept of zero-base budgeting would be a reform of great significance. Customarily, officials in charge of an established program have to justify only the increase which they seek above last year's appropriation. In other words, what they are already spending is usually accepted as necessary, or at least desirable, without examination. Substantial savings could be realized if both the Office of Management and Budget and the appropriations committees of the Congress required every agency to make a case for its entire appropriation request each year, just as if its program or programs were entirely new. Such a budgeting procedure will be difficult to achieve, partly because it will add heavily to the burdens of budgetmaking, and partly also because it will be resisted by those who fear that their pet programs would be jeopardized by a system that subjects every Federal activity to annual scrutiny of its costs and results. However, this reform is so clearly necessary that I believe we must eventually come to it.

PUBLIC SERVICE EMPLOYMENT PROGRAM

Mr. NATCHER. Dr. Burns, beginning next week on one of the subcommittees I serve on we will begin holding hearings on the administration's supplemental request for public service employment. The amount, as you know, Dr. Burns requested in this supplemental is \$250 million. Many people are already saying at this time that this is not enough money. Even at the present rate of unemployment.

Now, judging from a statement you made to our committee this morning, if unemployment goes high as you predict, isn't it a certainty that this \$250 million is not adequate?

Mr. BURNS. That would be my judgment.

Mr. NATCHER. Thank you, Dr. Burns.

As you well know, Mr. Burns, not only in addition to the \$250 million that they request in the supplemental for unemployment insurance, in the regular budget for fiscal year 1975, which is before our committee, the administration is only requesting \$350 million for the Comprehensive Employment and Training Act.

Also, Dr. Burns, in 1972—you know these figures, I just want to put them in the record—we had a billion dollars. That was under the old Emergency Employment Act.

In 1973 we appropriated \$1,250 million.

Now, based on the past, based on the prediction that you make this morning—and I certainly agree with you and I want to commend you on the fine statement you have made to our committee—I concur in your statement that the \$250 million that is now before the committee certainly is not adequate, and the amount which is in the regular budget for fiscal year 1975 of \$350 million is certainly not adequate.

Would you agree with that, Dr. Burns?

Mr. BURNS. Yes, I would be inclined to agree.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. DAVIS. Dr. Burns, let me throw three questions at you at one time in the interest of time and then I would ask that you respond within the time limitations and then expand a little bit later beyond the time limitation.

No. 1, it seems rather discouraging to have the full employment budget concept which appears to be a sort of shield to explain away repeated deficits in light of the fact that it is based on 96 percent employment, and if I recall our experience in recent years, at least, we just have never reached that kind of a figure in a normal peacetime economy.

And then, No. 2, in connection with what some of my colleagues have referred to, traditionally we have sort of looked upon the public works program as being the pump-priming factor when we wanted to stimulate the economy and yet now we do have the highway program, the sewer and water program, the water resources program, which seems to be at least being held in check.

Does that reflect the feeling that some of these other direct programs like unemployment compensation and so on are causing quicker reaction and that is the reason we seem to be moving in that direction?

And then question No. 3, in light of your comments relating to delinquency in payments which have surfaced here, what would be your recommendation with respect to a possible restraint on retail

credit similar to some of the regulations that have been used in the past in times of inflation and overexpansion of the credit?

Mr. BURNS. Let me deal with these questions quickly if I may.

As to the full employment budget concept, I have very little use for it. I think it has confused more people than it has enlightened.

As for the second question on public works, the difficulty with public works is that it is not a highly flexible instrument.

Everything that Mr. Whitten has to say about the importance of certain types of public works is not in question.

The question is only is this a good stabilizer?

I doubt it.

Even so I would look at public works—I would go to the Budget Office and ask them which of the existing public works that are now under construction could be speeded up. That can be done. That is reasonable.

Now, to answer your question about the delinquency, this is not the time to restrain retail sales on credit.

Looking back toward the end of 1972, consumer spending on durable goods, which are bought so largely on credit, was then rising very rapidly. We might have restrained credit then. This is not the time to do that.

ACHIEVING FISCAL FLEXIBILITY

Mr. MAHON. Dr. Burns, I would like to follow with some of the questions which have been raised by my colleagues.

As you know, the flexibility of fiscal policy is very much a topic of discussion these days. It has become a part of the conventional wisdom here in Washington, that a great share of the spending budget for any given year is largely determined by legislation and decisions made in prior years. These commitments to future spending take away a lot of flexibility. The spending side of the budget becomes uncontrollable in the long run.

You, Dr. Burns, have been associated, by the press, with the investment tax credit on industry as a proper tool for fiscal policy.

Is it your view that the flexibility we seek in the short run is better found on the revenue side of the budget than on the spending side? It is possible to take action on the revenue side.

If you can get the Congress to pass a tax increase, and the President to approve it, you can handle it quickly. The processes for spending changes are more complex than the revenue side. You can't act quickly to change law, regulations and rules which mandate spending.

We talked here about public jobs. Public service employment. One day the President called me and said, "We would like to have that \$1 billion."

I replied, "Mr. President, all right, we will bring it up, but if you ever start this program you will never end it and \$1 billion will just be the start of it."

The fact is, we now have this program and we will have it until the end of time, and perhaps that is good.

Everything you get, whether it is a good program or a bad program, you have to continue it. You can't stop these things. You can't stop school lunch; you expand it. You can't stop food stamps. You can't stop education, health, or social security; you can't stop these spending

programs. Our democracy mandates that these programs must continue.

Perhaps budget control will help us. I hope so.

Living in a practical world, the revenue side is where we may find that flexibility.

I would like to have your comment on this issue.

Mr. BURNS. I have advocated and so has my entire board, a variable investment tax credit as a way to introduce greater flexibility into fiscal policy, and also to help this country in dealing with the instability that is so characteristic of our homebuilding industry. The variable investment tax credit would have a powerful influence in our judgment in stabilizing the residential construction industry and thereby helping stabilize the entire economy. I would look for flexibility primarily on the revenue side rather than on the expenditure side.

There are some things that could be done there, but the main direction should be on the revenue side.

FISCAL RESTRAINT

Mr. MAHON. Do you recognize the nearly complete impossibility of bringing down spending once a program is launched?

Mr. BURNS. That unfortunately is the fiscal history of this country and probably of other countries as well.

Mr. MAHON. Can democracies discipline themselves to have some control over spending in these apparently vital and important programs for health, education, welfare, food stamps, school lunch, all of these things—is there any way to stop short of disaster in supporting these things that seem to be desirable? We have not been willing to pay for them.

Mr. BURNS. Mr. Chairman, if you and your colleagues would preach the kind of sermon—and I, for one, take sermons very seriously—that you preached this morning and if you would preach it time and again to your constituents, we would be well on the way I think this country should go.

I also think members of my profession ought to help you more than they have been doing.

Mr. MAHON. Our constituents are interested in Federal spending more and more. Of course, they don't lie awake nights thinking about ways to curtail Federal expenditures.

Mr. BURNS. There is a problem I have never been able to solve, as far as our Federal Government is concerned, but in my town in Vermont we solve it beautifully. Every time we increase spending, we increase taxes to finance that spending. Then you find that my neighbors are rather reluctant to increase spending.

Each item of expenditure is looked at very, very carefully.

Now, I have never been able to work out a plan of this sort for the Federal Government. It is probably an insoluble problem, though I hope someone more ingenious than I may possibly find a clue to it.

Mr. MAHON. I hope we can find some way of injecting just a bit of this Vermont philosophy into the Federal Government. At 2 o'clock we will resume. Thank you very much.

AFTERNOON SESSION

Mr. MAHON. Mr. Chairman, we will resume the hearing. Mr. Yates was seeking recognition.

RESPONSIBILITY OF FEDERAL RESERVE IN SETTING ECONOMIC POLICY

Mr. YATES. Mr. Chairman, I want to join my colleagues in expressing my appreciation for Mr. Burns' very lucid, forthright and perceptive statement. But, Mr. Burns, I wonder how much influence you have in setting administration economic policy?

Mr. BURNS. Well, as I think you know, the Federal Reserve Board is responsible to the Congress, and we are not a part of the administration. However, we do talk to one another now and then, and I believe we are reasonably influential.

Mr. YATES. Do you follow or lead?

Mr. BURNS. I follow when I think the one I am following is right and sound. Otherwise, I don't follow him.

Mr. YATES. Do you believe the one you are following in this instance is right and sound?

Mr. BURNS. Well, if you would be good enough to specify just what it is that you are addressing yourself to, I will be in a position to answer you.

Mr. YATES. Mr. Burns, I am just using your words. You said the one you follow and I merely used the phrase you had used. Do you approve of the present economic policies of the administration? Perhaps I should put it that way.

Mr. BURNS. That is too broad a question. I think I approve of very many things in the administration, but there are so many things the administration is doing that I would hesitate certainly to endorse every part of it. Could you become more specific?

Mr. YATES. Yes; I would appreciate your becoming more specific.

Mr. BURNS. Then I will answer the question to the best of my ability.

Mr. YATES. Can you state the policies of the administration which you think we ought not to follow? Is that too broad a question, Mr. Burns?

Mr. MAHON. Of course it is.

Mr. YATES. Why is that too broad? Are there so many such policies with which he disagrees?

Mr. BURNS. I would certainly much prefer if you address a specific question to me.

BALANCED BUDGET POLICY

Mr. YATES. Let me go to your statement then, to the committee this morning. I gathered you were arguing for a balanced budget when you spoke about the movement in the Congress for budget reform. The reason I came to that conclusion, was because I thought you were arguing for bringing budgetary expenditures into balance with budgetary receipts. Do I draw the correct conclusion?

Mr. BURNS. In response to a question by the chairman, I indicated that I very definitely believe that the budget should be balanced over a group of years.

Mr. YATES. I am sorry, I lost that.

Mr. BURNS. The budget should be balanced over a group of years, but not necessarily in any individual year, and I am not arguing for a balanced budget this year, to be a little more specific.

Mr. YATES. We have had almost \$120 billion in deficits over the last what, 5 or 6 years. At what point do you think we ought to start balancing the budget?

Mr. BURNS. The sooner the better, of course. If we could achieve a balanced budget this year, I would be pleased, but I cannot ignore any more than you and the Congress can ignore the present condition of our economy, the fact that unemployment has recently risen, and is likely to rise further in the months immediately ahead.

Mr. YATES. The administration proposes approximately a \$9 billion deficit on the unified basis in the budget this year. As I read your statement, you indicated that if there is a recession, you expect that it would be quite short term.

Mr. BURNS. That is my best judgment at the present time. As new evidence comes in, I of course will follow it, and I may revise my judgment at any time.

Mr. YATES. Do you approve of the administration's proposal for the \$9 billion deficit this year?

Mr. BURNS. I would be a little happier if it were smaller, yes.

Mr. YATES. Does that mean that you would favor reduction in expenditures in the Federal budget, to seek a balanced budget or the opposite or the concomitant?

Mr. BURNS. At the moment I would seek somewhat lower expenditures than the President has proposed, but I would have contingency plans drawn. Depending on the course of events, I might well be willing to seek expenditures as large as the President has recommended, and possibly even a little larger.

Mr. YATES. Based upon what you consider to be the state of the present economy, you would not advocate a tax increase to offset the deficit?

Mr. BURNS. I would not.

PUBLIC WORKS PROJECTS

Mr. YATES. It was pointed out by some of my colleagues, as we walked away from the hearing this morning, after hearing your answers to Mr. Whitten and to Mr. Boland about public works, that there are a great many public works programs that have been on the books for many years. Mrs. Hansen pointed out to me the fact that there are forest highways and forest trails and things of that sort that might be useful and which are ready to go. Would you consider that public works projects of this kind would be in the category that you describe as being too long term in having an effective impact on the economy?

Mr. BURNS. I cannot answer your question with reference to forest trails, forest roads, and the like. I would suggest these criteria. If you can start a new project immediately, and if that new project, will be completed in 1 year or less, that type of project could be considered as a stabilizing tool under conditions such as we now face, or at least as

I see them. Most public works projects, however, do not fall in that category.

OIL TAXES AND PRICE ROLLBACK

Mr. YATES. I have one last question, Mr. Chairman, that concerns the proposed rollback in oil prices. Have you an opinion on that?

Mr. BURNS. I have a general opinion about oil prices, and that is that oil prices should rise rather than move down, in the interest of conserving energy supplies, and in the interest of stimulating more exploration, more research, more construction.

Now profits in that industry can serve a social purpose, and therefore I would have to see compelling evidence for a rollback in prices. My inclination would be to tolerate even higher prices than we have at the present time, because they can perform a function in the kind of economy that we now have.

Mr. YATES. Does that answer mean that you would not impose a windfall tax because that would be a deterrent to the oil industry?

Mr. BURNS. No, it does not mean that. In principle I would be in favor of a windfall tax, but I would be inclined to forgive that tax if the windfall profit is used for new investment, new exploration, new basic research in the industry.

Mr. MAHON. Mr. Patten?

Mr. PATTEN. Mr. Chairman, I would like to welcome Mr. Burns here. About the time he started to teach at Rutgers, I was a student there. We have watched his career with a great deal of interest. I know you have been well received by the Members of this committee, with your presentation, and I can just tell you as a former bank director and attorney for a couple of national banks over a long period, probably 37 years, I think we used to watch the Federal Reserve more than we watched Congress. I would like to feel that some of us have an appreciation of your work and the importance of the Federal Reserve System, and I wish you great luck in the important job you have.

Mr. BURNS. Thank you, sir.

Mr. PATTEN. It is a pleasure to have you here, Mr. Burns.

Mr. BURNS. Thank you so much, Mr. Patten.

Mr. MAHON. Mr. Evans.

DEALING WITH THE PROBLEM OF SHORTAGES

Mr. EVANS. Thank you, Mr. Chairman. I just have one question, Dr. Burns. It relates to testimony we had yesterday I believe from either Mr. Ash or Mr. Shultz. We were talking about worldwide inflation, and the fact that this country is caught up in this as well as the major industrialized nations throughout the world. I believe both Mr. Shultz and Mr. Ash refer to one of the reasons of this inflation being attributable largely to shortages in "internationally traded materials."

Do you agree, and if you agree, do you have any suggestions as to what this Congress should do?

Mr. BURNS. Yes, I would accept that statement. As for ways of dealing with the problem, let me say first of all that without any action at all, the slowdown that is now occurring in our own economy, and in other industrial countries, should work its cure. I would, however, as I

suggested in my testimony, consider rather seriously the possibility, of a program of accelerated amortization such as we used at the time of the Korean war, when we also had very considerable shortages in our basic materials industries. We have had insufficient investment in a good many of our key, basic industries. Five-year amortization is one way of dealing with that problem, and I think it would help in the fight against inflation in the years immediately ahead.

Mr. EVANS. Do you see any place, Dr. Burns, in addressing this particular problem of inflation, in providing additional incentives in our tax mechanism, by making it more attractive to increase investment in the reclaiming and reuse of these short materials? You mentioned steel, you mentioned wood, you mentioned paper earlier this morning, as typical materials that are in short supply. Do you see any adjustment in our tax laws that might be beneficial in that regard?

Mr. BURNS. Well, of course you could have a higher investment tax credit on a selective basis, and that would accomplish much the same purpose. It would work in much the same way as accelerated amortization for a selected group of industries.

Mr. EVANS. How about special incentives for the reclamation and reuse of some of these materials that can be reclaimed and reused?

Mr. BURNS. I would hesitate, Mr. Evans, to become very specific about individual industries. I don't know enough to speak with any confidence about that industry, but I would certainly approach it with an interested and very open mind.

Mr. EVANS. In regard to this kind of approach, do you have any preference in your own mind towards either accelerated depreciation or tax investment credit? Which tool seems to you to be the most capable of zeroing in on the problem and effectively stimulating that which you hope to stimulate?

Mr. BURNS. My preference would be for accelerated amortization.

Mr. EVANS. I thank the Chairman.

Mr. MAHON. Mr. Obey.

CONGRESSIONAL ACTION ON THE BUDGET

Mr. OBEY. Mr. Burns, just a couple of questions. You said in your statement this morning, "To those who believe that the Congress over the years has deliberately and consistently chosen to stimulate the economy by deficit spending, prospects for improving matters must appear to be bleak."

Then you made some references to the importance of the new budget control plan which we are passing. Well, I spent a great deal of time on that budget plan myself and I support it, but let me just ask you a question.

The most that Congress increased the budget any time since I have been here was \$6.1 billion in 1973 out of a budget of \$246 billion.

Mr. BURNS. I am sorry, would you be good enough to repeat that last statement? That \$6 billion refers to what?

Mr. OBEY. That is the most that Congress has increased the President's budget since I have been here. It occurred in 1973. As I read it, that is only a 2.4 percent adjustment in the Federal budget. In fact, it is only one-half of 1 percent adjustment if you look at it in terms of the entire gross national product at that time. Since inflation

was about 6.2 percent that year, aren't you really laying it on a little heavy, in terms of that being the major cause for inflation?

Mr. BURNS. Well, it is a matter of judgment. I have given you my best opinion that this, the deficits we have had, have contributed very materially to the inflation that we have experienced.

Mr. OBEY. But that is a different question.

Mr. BURNS. What is that?

Mr. OBEY. That is a different question. Your statement didn't say the deficits. Your statement said the actions of the Congress over the last years, in deliberately choosing to stimulate the economy, was most distressing to all, and I would just suggest that it has not really been the Congress that has planned deficits. We have largely taken the recommendations of the administrations of either party, give or take 1 or 2 percent.

Mr. BURNS. If you are going to quarrel with me on that, then I must say to you: Why did you take the recommendations of the administration?

Mr. OBEY. I am quarreling with your language, which implies that it was the Congress—

Mr. BURNS. No.

Mr. OBEY (continuing). Which was gigantically responsible for inflation.

Mr. BURNS. Then my language was very poorly chosen. I am addressing the Congress this morning, and therefore I focused on the direction of its behavior. The laws that are executed must first be passed by the Congress. You know we are dealing here with a problem where there are no saints. We are all sinners, Members of the Congress, members of the administration, trade unions, business enterprises and sad to say, my own board has sinned at times, too.

ACCELERATED AMORTIZATION IN AGRICULTURE

Mr. OBEY. Let me ask you another question. I am frankly somewhat sympathetic about your suggestion for accelerated amortization in some industries. I asked you earlier which specific industries you really had in mind. You mentioned cement, you mentioned steel. Let me just ask you this. Would you have in mind segments of the agricultural industry?

Mr. BURNS. Would I have in mind?

Mr. OBEY. Any segments of the agriculture industry?

Mr. BURNS. No, I do not have in mind any segment of the agriculture industry.

Mr. OBEY. Is there any special reason why not?

Mr. BURNS. Yes, I have a special reason which may or may not appeal to you. My reason is that one of the finest things we have done in a long time is to get rid of most of our agricultural subsidies last year. I look forward to the day, and I hope it will come soon, when we will remove the remaining subsidies.

Mr. OBEY. But I am not asking about subsidies. You mentioned that because we are in areas of short supply in areas like steel, in areas like cement and others we ought to stimulate increased capacity, and I am asking whether or not the same thing applies to agriculture, where in many areas we have situations of very great short supply.

Mr. BURNS. First on the technical point, the subsidy is analytically equivalent to a reduction in tax, but on your substantive point let me merely say that the prices of agricultural products have risen sharply. Our farmers are at long last, and I am very happy about it, prosperous. They have every incentive in the world, I would think, to expand their production, and I believe they are doing it.

Mr. OBEY. Let me just cite you one case, milk. Wisconsin is milking 20,000 fewer cows this year than last year. We are going to be in a much more serious shortage situation as far as milk is concerned a year from now than we are right now. I don't think that the statistics bear out your statement.

Mr. BURNS. That may well be. I know very little about the milk industry. I used to know more, having a farm, but I know very little about it now. I have heard it said that there was an effective combine in the milk industry restricting supply. Whether that is so or not, or to what degree it exists I cannot say. I simply am not qualified to deal with your question. I wish I were.

OIL PRICES AND TAXES

Mr. OBEY. Could I just ask you one other question. You indicated that you favored the rise in oil prices because in part it would lead to greater conservation.

You indicated that the increased oil prices could, in some cases, serve social purposes. Would you agree with the suggestion made by Mr. Heller a while ago who suggested that if there were a 5- or 10-cent increased tax, for instance, on the Federal level on gasoline, that that tax ought to be used to finance some kind of rebate program to low-income families, elderly, and other people on fixed incomes. Would you support that kind of a scheme to ameliorate some of the problems brought to bear on low-income people by higher prices?

Mr. BURNS. I would start with a basic sympathy for doing something to relieve the difficulty that individuals in a low-wage category find themselves in at the present time, when they have to drive 20, 30, 40 miles to get to their jobs and have to pay the kind of price that they now have to pay for gasoline, but what specific approach I would take to that problem I am unable to say at the moment.

Mr. OBEY. That is all, Mr. Chairman.

Mr. MAHON. The gentleman from California.

CONTINUED PRICE CONTROLS IN SOME INDUSTRIES

Mr. VEYSEY. Chairman Burns, this morning you made a distinction between three industries in which you indicated that you would continue controls for some period of time. I believe you mentioned petroleum, health, and construction.

Mr. BURNS. That is right.

Mr. VEYSEY. Why do you single those out? What are the differences?

Mr. BURNS. Well, let me take these one by one. In the case of the construction industry, we have had an economic stabilization committee which has had mandatory power over wages. The committee has not used that power, practically speaking. At the same time it has had very considerable success in bringing the rate of increase of wages in that industry down. Here is an arrangement that has worked well. I

just wouldn't disturb it. That is my reason for saying what I did about the construction industry.

In the case of petroleum products, there is a possibility that prices might rise in a free market to a point well beyond what the Congress or the country at large would consider tolerable. I think some price increase is desirable, as I indicated. I think it would serve an economic function, but a free market could produce an increase in prices well beyond any such point. For that reason, and also because you have a law on the statute books now which gives the Executive mandatory power over prices in this area, I would not disturb that legislation. I would continue it.

Finally, as far as health services are concerned, we seem to be on the threshold of new legislation. In view of the experience we had with medicare and medicaid, when the introduction of these programs had a highly inflationary effect on the costs of health care broadly, I would be inclined to retain mandatory controls.

Now, if the Congress did not move in that direction, you see, toward national health insurance and the like, I wouldn't press that recommendation at all. These are my reasons.

Mr. VEYSEY. In other words, there are three really distinctly different reasons for three distinctly different situations.

Mr. BURNS. That is exactly so.

Mr. VEYSEY. I assume that implies the length of time that you feel controls should be retained would differ, too, depending on the circumstances of the industries.

Mr. BURNS. That is right, in these three industries.

CONTROLLING INFLATION

Mr. VEYSEY. Do you see any way, by incentive, by coercion, by self-restraint, or anything else, that will really control inflation in any foreseeable time?

Mr. BURNS. I think the most important thing is what Congress and the Executive do in the realm of fiscal policy, and what the Federal Reserve System does in the realm of monetary policy. These are our basic tools. If we use them prudently, we should win control over the inflation, but there are other devices, supplementary devices, some of which I mentioned this morning, that I would also employ.

Mr. FLOOD. Will the gentleman yield?

Mr. Chairman, I did not hear your reason on construction. I missed that.

Mr. BURNS. Yes. My reason is simply that the construction industry stabilization committee, which now has mandatory powers, but which has not really had to use those powers, that committee has worked well. It has gotten useful results, and I wouldn't disturb an arrangement that is working well. That is my reason.

FISCAL RESTRAINT

Mr. VEYSEY. To pursue your response further, you said budgetary restraint would help and I agree that it would, but doesn't the use of that form of restraint also imply projection into further unemployment?

Mr. BURNS. I don't think that follows. I think that a resolve by this Congress and by the administration to practice fiscal prudence to a greater degree would help to build confidence in the country. People are terribly worried about inflation, and they blame you and me. They blame the Government, and if we show a resolve, and a firm resolve to deal with the inflation problem, I think we would help to rebuild confidence in the country.

Mr. VEYSEY. Thank you very much for that response. Thank you, Mr. Chairman.

DOLLAR OVERHANG PROBLEM

Mr. MAHON. Dr. Burns, a brief question. The committee has been concerned about the large sum of dollars in foreign banks, especially Germany and Japan. We have talked about the dollar overhang. Our hearings on the budget last year dealt rather extensively with that subject.

At the present time the dollar has more prestige than it had last year. How much of a threat is the dollar overhang problem to the long range stability of the dollar? Should we be apprehensive about it? What ability does the Federal Reserve have to impact on this problem? These other countries have our dollars. They want to hold onto them, we were told yesterday by the Secretary of the Treasury. For a time it appeared as though they wanted to get rid of them, but now they want to keep them. They might change their minds again, however. What does this mean? Give us a good perspective on this problem, will you?

Mr. BURNS. Let me talk a little about my profession, which now is central banking. Central bankers have their weaknesses as well as their strengths. One of their weaknesses is that no matter how large reserves are, they usually would like to see them a little larger. They are also conservative men. At a time when their dollar balances were rising very sharply, their life was disturbed, change being too rapid. And they were uncomfortable. They then talked a lot about a dollar overhang. But with the passage of time, they got used to the reserves they have, and now they love them.

The dollar overhang was a psychological problem. Now it has vanished, partly because of the propensity of central bankers to hold on to what they have.

Furthermore central bankers are a part of the government. Finance ministers and ministers of foreign affairs also like large reserves because these large reserves are a symbol of national power and political prestige. So there are other forces within the government working to hold on to large reserves.

Finally, in view of the dramatic changes that have occurred in the international oil situation, every country, practically speaking, in the industrial world faces a deficit on its international current account. Therefore, central bankers and other government officials feel they need large reserves, in order to be able to draw upon them, if necessary, to pay for the oil that their country will need to keep its industry going.

I would say that the dollar overhang, which was a very significant psychological and, therefore, also a financial problem a year ago, or 9 months ago, now has vanished. There isn't a central banker in the world who talks about the dollar overhang. They are talking now about

shortages of reserves rather than excess reserves, and they certainly love to hold on to the dollars they have.

Mr. MAHON. Dr. Burns, for the purpose of record, tell us the extent of the overhang, in dollars, in government hands and in private hands. You have been talking about dollars only in government hands.

Mr. BURNS. I will supply the figures on these balances for the record. [The information follows:]

U.S. LIABILITIES TO FOREIGN COUNTRIES¹ 1962-73

[In millions of dollars]

Yearend	Total	Liquid liabilities to private foreigners ¹			Liabilities to official institutions
		Total	To commercial banks abroad	To others	
1962.....	21,273	8,359	5,346	3,013	12,914
1963.....	23,629	9,204	5,817	3,387	14,425
1964.....	26,842	11,056	7,303	3,753	15,786
1965.....	27,304	11,478	7,419	4,059	15,826
1966.....	29,104	14,208	9,936	4,272	14,896
1967.....	33,957	15,763	11,085	4,678	18,194
1968.....	36,721	19,381	14,472	4,909	17,340
1969.....	44,232	28,234	23,645	4,589	15,998
1970.....	45,548	21,773	17,169	4,604	23,775
1971.....	65,741	15,090	10,949	4,141	50,651
1972.....	81,257	19,737	14,785	4,952	61,520
1973.....	90,588	23,798	17,645	6,153	66,790

¹ Excludes liabilities to international organizations.

Source: "Federal Reserve Bulletin," February 1974, table 6, p. A76.

Mr. FLOOD. Will the gentleman yield?

Could you supply all the dollars held by foreign governments all over the world? What percentage is held by the Japanese and the Germans?

Mr. BURNS. Yes. I will give not only the totals, but I will be sure to give at least this partial breakdown.

[The information follows:]

FOREIGN OFFICIAL HOLDINGS OF U.S. LIABILITIES, 1962-73

[In millions of dollars]

Yearend	U.S. liabilities to foreign official institutions					Foreign exchange ¹ in official assets of—	
	Total	Canada	Western Europe	Asia	Other	Germany	Japan
1962.....	12,914	(²)	(²)	(²)	(²)	2,761	1,553
1963.....	14,425	1,789	8,508	2,740	1,388	3,225	1,589
1964.....	15,786	1,812	9,325	3,028	1,621	2,721	1,495
1965.....	15,826	1,702	8,826	3,309	1,989	1,944	1,569
1966.....	14,896	1,333	7,772	3,995	1,836	2,480	1,469
1967.....	18,194	1,310	10,231	4,428	2,135	2,873	1,453
1968.....	17,340	1,866	8,062	4,997	2,415	3,894	2,261
1969.....	15,998	1,624	7,704	4,552	2,748	2,748	2,614
1970.....	23,775	2,951	13,615	4,708	2,501	8,445	3,188
1971.....	50,651	3,980	30,134	13,823	2,714	12,567	13,783
1972.....	61,520	4,279	34,197	17,573	5,471	17,195	16,483
1973.....	66,790	3,838	45,713	10,881	6,358	25,051	10,203

¹ Nearly all of the foreign exchange holdings are dollar denominated.

² Not available.

Source: U.S. liabilities to foreign official institutions Federal Reserve Bulletin, February 1974, table 7, p. A77. Foreign exchange assets of Germany and Japan: IMF, International Financial Statistics, February 1974.

Let me say this about the Japanese, if I may. They have been willing to let go of their dollars during the past year. They have reduced

their international reserves very substantially, and this is a contribution to the international financial order that I believe deserves recognition, and I am glad to be able to say a word about that.

FLOW OF MONEY TO OIL PRODUCING NATIONS

Mr. MAHON. Please expand on that for the record. I would like for you to help us rationalize the matter involved in the heavy outflow of money from all countries to the Middle East oil producing countries. It seems clear that we will be faced with this today, tomorrow, and in the long range future. What will the effect of this money flow be? Is all the money in the world more or less going to be concentrated in the hands of the oil producing nations of the Middle East? What does this mean to you, Dr. Burns?

Mr. BURNS. I would say that as things stand we have a financial problem that is literally unmanageable, and therefore the price of oil will have to come down. Fortunately forces are now at work that are already driving down the price of oil.

Even after it comes down significantly, we will still have a large financial problem to work out. As far as this country is concerned, we will be able to manage. For some countries, particularly the less developed nations—I am thinking now of India, the Philippines, Turkey—I don't know what the answer for these countries is going to be. Their condition is truly sad.

Mr. MAHON. Thank you for that remark. I yield to Mr. Sikes.

TREASURY BORROWING FROM FEDERAL RESERVE

Mr. SIKES. Mr. Burns, yesterday, Secretary Shultz discussed the need for the Treasury to be allowed to borrow money directly from the Federal Reserve. He said the inability to do this was costing the Government a considerable amount of money. I would like to know your feeling about this matter.

Mr. BURNS. Well, he is entirely right. The legislation under which the Treasury could borrow from the Federal Reserve up to \$5 billion, that legislation has lapsed.

Mr. SIKES. When did it lapse?

Mr. EVINS. Will the gentleman yield?

Mr. SIKES. Yes, I yield.

GAO AUDITING OF THE FEDERAL RESERVE

Mr. EVINS. I think in connection with that, Dr. Burns, is there a provision for auditing the Federal Reserve system and would you tell us why you are opposed to the audit of the Federal Reserve system. If you would agree to a GAO audit, you might get the legislation passed. I think that is the hang of it.

Mr. BURNS. The Federal Reserve system at the present time is audited first by our auditors, audited by examiners that we send out, and audited by highly reputable private CPA firms. The Congress reached the decision that we at the Federal Reserve would perform this auditing function for the Federal Reserve banks, just as the General Accounting Office does it for governmental agencies generally.

In my judgment, an additional audit by the General Accounting Office would add to governmental expense, and would simply duplicate

what is already being done, and already being done on a very meticulous, scale.

However, this is up to the judgment of the Congress. If the Congress wants to spend money for this purpose, I would have no objection to it. The real debate between the Federal Reserve and the House Banking Committee is on the issue whether Federal Reserve Systems policies should be audited by the General Accounting Office.

The General Accounting Office is not qualified to comment on, criticize or praise the policies of the Federal Reserve. To perform this function as the Comptroller—

Mr. EVINS. You mean only those in your own shop are qualified to examine?

Mr. BURNS. I will answer that question as I go along. Mr. Staats, in his testimony, indicated that to perform this function of evaluating the Federal Reserve policies, he would have to hire some economists. The Congress has entrusted a certain responsibility to the Federal Reserve. I testify before congressional committees fully, freely, and with complete candor. I answer congressional mail on matters of detail or of a general nature promptly. I make voluminous information available.

Mr. MAHON. Mr. Chairman, you are testifying about legislation that has been before the Congress and before an appropriate committee and been considered at great length. It would take all afternoon to explore this topic fully, so let me suggest that we get on to the matters for which this hearing was called. We are here to study the budget and the economic situation.

Mr. BURNS. May I just add one sentence.

Mr. MAHON. You add whatever you want to in the record.

Mr. BURNS. No; I would like to add one sentence now because I did not answer the question of the Congressman. The Federal Reserve is not the only agency to evaluate or criticize its policies. This is the high function of the Congress, and I want the Congress to do that, and I hope you will keep doing it, and if you need more help to appraise the Federal Reserve, get that help, but don't turn to an unnamed group of individuals and ask them to second-guess what men in the Federal Reserve System spent sleepless nights deliberating on.

STANDBY PRICE CONTROLS

Mr. SIKES. Dr. Burns, should there continue to be standby price controls?

Mr. BURNS. I think at the present time I would not do so. I would not do so because businessmen, fearing that price ceilings could be slapped on at any time might keep up their prices, whereas otherwise they might come down. We have had these controls. They are doing more harm than good, by and large, at the present time. I would get rid of them, except for a limited number of industries, I would also set up new machinery for conducting hearings on price or wage changes in pace setting industries.

Mr. SIKES. You have indicated that you feel that price controls should be eliminated for everything except health, oil products, and construction. Do you feel that there should be a rollback in any of these fields? Let's talk particularly about gas and oil. There is a very strong movement in the Congress to roll back prices on gas

and oil. Do you feel that that is feasible, or is it feasible on any of these three fields?

Mr. BURNS. It may or may not be feasible in a technical sense. I don't think it would serve a national purpose to do that. We simply have to economize on fuel and on energy supplies and higher prices perform the function. On the one hand, they serve to reduce consumption, and on the other hand they stimulate investments in new facilities, in research and exploration, and we need that

REVENUE SHARING

Mr. SIKES. Have you commented on your attitude toward general revenue sharing? Some of us have opposed general revenue sharing because we feel that the Federal Government doesn't have the money to give and that it is going for purposes which were not intended in the original program. Furthermore the States and communities generally are building a surplus while the Federal Government is going further into debt. We are borrowing the money. This disturbs some of us. Do you feel that revenue sharing is a good thing?

Mr. BURNS. I have a confession to make. In 1969, when I served as counselor to the President, I persuaded the President, I think I can fairly say that, honestly say that—I am not proud of the fact; I am making a confession now—I persuaded the President that general revenue sharing would be a good thing. What I had in mind at the time was that general revenue sharing would become, to an increasing degree, a substitute for categorical grant programs.

What has happened is that we have kept those programs—in fact, we have enlarged them—and we have put general revenue sharing on top of it. If I had foreseen such a development, I would not have recommended general revenue sharing at the time. If I had the kind of influence that I think I had at the time, I do regret it. I am making my sad confession to you, and at appropriate times I shall do penance.

Mr. SIKES. Doctor, thank you very much for joining us on our side of the fence.

DEFENSE BUDGET

Dr. Burns, I am one who has been very concerned about defense budgets. I know they are increasing, but the increase is very largely for paying people and not for weapons. The Russians are getting about twice as many weapons per defense dollar as we are getting, and that in itself carries a very ominous portent. Can this country, or should this country, increase its defense budget, in order to obtain additional weapons, in order to help to insure the security of this country?

Mr. BURNS. My bias is entirely in your direction, Mr. Sikes. I would say, however, that we must be very careful, and not confuse our military or defense needs with our economic needs. To the extent that we have an economic problem that can be aided with stabilization or greater spending, let's face up to the problem honestly and objectively, and not use national defense as an excuse.

Mr. SIKES. Thank you very much.

ECONOMIC CONDITIONS

Mr. BURLISON. I would like to commend the chairman.

You mentioned this morning the apparent paradox of the recession that we are now in or that we are entering, in which we find the slow-down or the recession accompanied by inflation at the same time.

I recall 2 or 3 years ago, 1969 or 1970, somewhere along there, when we had a mild recession, and I think for the first time in our history we had this situation to prevail.

Now, I'd like to hear your comments on why this is so, or why it is so now but has not been so in past economic history in this country. Is it because there is too much Government control of our economy, or is it too great a centralization of economic power in big business and big labor, or what other considerations are there to bring this about?

Mr. BURNS. If you examine the responsiveness of wage rates to business recessions, you will find that in earlier times when we had a slow-down in the economy or recession, wage rates typically remained stable or actually declined.

Then the response became smaller and smaller, and now we can have a recession and wage rates will still be rising and prices also rising. This happened, as you pointed out, in the recession of 1970 to 1971, and now the same experience is being repeated, but again on a larger scale. That has been the trend.

What are the causes? Well, briefly, I think that trade unions and business corporations have become more powerful, and that some are using their market power to a greater degree than before.

The fact that in the field of labor you have contracts extending over 2 or 3 years, reduces the responsiveness of wages to the state of the economy. The resort to cost-of-living escalators, too, works in this direction.

There was also a disturbing development during the 1960's in the field of public employment where trade unions were extensively organized, and these trade unions began using their muscle, so that we had strikes and disturbances of public service. This meant to working people around the country that if you have muscle and use it, you will be able to get that which you set out to achieve.

So our trade unions are using their power more effectively, just as our business corporations have been doing, at least in some of our industries. But, having said that, in all fairness I should add that during the past year—at a time when prices were rising very sharply—wages did go up rapidly, but they did not go up as rapidly as prices. Our trade unions showed restraint and moderation for which they deserve great credit.

NATURE OF THE 1975 BUDGET

Mr. EDWARDS. Dr. Burns, I hope I haven't missed this somewhere along the way, but I wonder if you would characterize the budget. It has been called expansionary, inflationary, too little by some and too much by others. How would you characterize it?

Mr. BURNS. I would like to see the budget a little lower.

Mr. EDWARDS. Would you say it is inflationary?

Mr. BURNS. I would not characterize it as—I am not trying to duck your question. I am trying to express my own thought as precisely as I can. I would say I would feel more comfortable about the inflation problem if expenditures for fiscal year 1975 were a little lower.

Mr. EDWARDS. Thank you, Dr. Burns.

DANGER OF INFLATION

Mr. LONG. It is a great pleasure to have you here today, Dr. Burns.

As you know, I have worked for you and I have been a great admirer of you for three decades at least and maybe longer.

I want to ask you whether you feel that inflation is the worst problem that we have before us today?

Mr. BURNS. I would say inflation is the greatest threat to our economy at the present time.

Mr. LONG. Looking into the future, would you feel that inflation is going to continue to be our greatest challenge to Government power?

Mr. BURNS. Here my optimism gets in the way. I would like to think that we will finally come to grips with this problem; that Congress, people around the country, and my own board, will consider its urgency and act on it. Therefore, I would like to think that inflation is not the main problem in the future.

But if we continue to travel as we have been traveling, it will be.

Mr. LONG. I have made up a list of some of the factors that cause inflation to continue over the long run. First we are in the midst of a world inflation because of the arms race, because of the insistence of people everywhere in the world of getting more from Government than they can pay in taxes, and because of food and petroleum price increases. Inflation does not affect just the United States; it is everywhere in the world.

Some of the greatest inflation rates are in countries that have far less democracy than we do: Japan and Germany.

We have these commodity shortages—in oil, food, and the metals. We live in a world of “one darned thing after another.” I think you would agree with that.

In fact, the U.S. economy is diminishing as a proportion of the world economy because of the growth of the rest of the world. Therefore whatever our policies are, we have less influence and, thus less ability to attain our goals in the rest of the world.

Then there is pressure in our country to get more from the Government than we are willing to pay for in taxes. I think it is fair to say that both Republican and Democratic administrations have become populist administrations in the sense of free spending to a considerable degree.

We have stockpiling, price supports, Davis-Bacon minimum wage, encouragement of strong unions, encouragement of monopoly and I am just wondering when you look at that list how can you be optimistic about solving those very stubborn problems for the long run?

Mr. BURNS. I have no good answer to your question, or perhaps I do. I have great faith in the Congress of this country and in the American people once they understand a problem and make up their minds.

Mr. LONG. Do you feel that we can produce a stable price level here in a world which is just exploding with inflation everywhere for the

various reasons that I have given, and with no diminution of inflation in sight for the rest of the world?

Can we do the things, either economically or politically, that would give us a stable price level in that world situation?

Mr. BURNS. We have a better chance of doing it than any other country in the world because foreign trade is a relatively small part of our national economy. Countries like Belgium, Holland, Denmark, or Sweden, which are so dependent on foreign trade, will be importing inflation from the rest of the world. We will be doing that to a very much smaller degree.

ROLE OF THE FEDERAL RESERVE

Mr. LONG. When the Federal Reserve Board was set up, I believe it was set up with the idea of providing some kind of an independent agency that would protect Government from its own follies and excesses.

Do we still have a Federal Reserve Board, in your view, that is able to give us the kind of independence; that operates as a check on inflationary excesses of the type that are more likely to come from legislative bodies and more political branches of government?

Mr. BURNS. I would very definitely answer that in the affirmative. There isn't an ounce of partisanship in the Federal Reserve Board. We may make mistakes—and I probably don't know all of the mistakes that we have made—but we are always ready to do what we think is right. We do not seek to be popular.

Mr. LONG. What is your main instrument for trying to achieve some sort of price stability? Is it the interest rate or open market operations? Which one do you feel is the principal instrument?

Mr. BURNS. The rate at which we add to or subtract from the reserves in commercial banks. That is our really powerful instrument. The discount rate, which is referred to so extensively in the public press, is less important.

Mr. LONG. From time to time there have been efforts to bring the Federal Reserve Board more completely under the control of the executive branch. Do you see any threats at this time that you feel should be warded off?

Mr. BURNS. The only threat that I see at the present time is coming from some members of the House Banking Committee who see the need for a GAO audit—an audit that would go beyond the expenditures of the system with a view to seeing that the law is faithfully observed and that economies are being practiced. That legislation also calls for an audit of policies.

Mr. Patman has been quite candid in saying that his purpose is to bring the Federal Reserve policies under better control with an eye to getting interest rates down.

Mr. LONG. Would it be possible to get a technical audit without getting an audit of policy or does one lead to the other?

Mr. BURNS. As Mr. Staats has testified, there are three types of audit conducted by the General Accounting Office.

First is the audit of expenditures typically made by a CPA. Next, there is a broader audit, examining also questions of economy and efficiency. There is, third, a still broader audit which evaluates policies.

Mr. MAHON. This issue is not really before this committee at this time; it is before the Congress, Dr. Burns.

The gentleman from Mississippi has an additional question.

EFFECTS OF FOREIGN INVESTMENTS IN THE UNITED STATES

Mr. WHITTEN. There are two questions I would like to direct your attention to, Doctor.

You made the statement this afternoon that Japan had contributed substantially by releasing the dollars which she had held, or so I understood you to say. Is that correct?

Mr. BURNS. That is correct.

Mr. WHITTEN. About a year ago I heard from a Boston firm saying that the Japanese had many surplus American dollars and would like to invest them in the United States. They wanted the names of some groups which might be interested in this type of investments.

Someone asked me what that meant. I said it means that they have our IOU's—of course, we don't back it up with anything except full faith and credit—and they want to foreclose and get some real estate for it. They are getting scared of our dollars.

Isn't that a factor rather than the fact that they are trying to contribute to the world trade situation? They have gotten afraid of our dollars. Wasn't that really the reason? As I understand it, if you travel from Japan they wouldn't let you take Japanese yen. They were valuable. You had to take American dollars. We went through that period.

Is that not an indication to you that it was a matter of the Japanese becoming afraid of the United States dollar, or having so many they wanted to get rid of them? Such as we might say about the Indian rupees, as far as the United States is concerned?

Mr. BURNS. I would not interpret Japanese financial policy that way.

Mr. WHITTEN. They have brought into industry right and left over here. Six or eight in my home county. It is that one policy that I am talking about.

Mr. BURNS. Our discussions have been continuous with the Japanese. We put emphasis on the desirability of Japan buying more from this country, perhaps exporting a little less to this country, and also investing in this country or elsewhere. We tried to encourage that.

I think the Japanese to a degree responded to our suggestion. I am not saying they acted against their own economic or political interests.

Mr. WHITTEN. Doctor, you know the high regard in which I hold you, but you have given us lots of discourses today. That is the qualification, and then sometimes you get around to the answer.

My question again: Don't you think when they bought up a little corner of the United States, didn't that indicate they had some misgivings about the American dollar?

Mr. BURNS. On the contrary. I would say anyone who invests in the United States, thinks this is a good place in which to invest. The country will grow. Their investment will pay off.

Mr. WHITTEN. I am glad to hear your answer because I asked the question to see what you thought.

Now, my next question is along the same line. You stated earlier that the American dollar in world affairs has greatly increased in its standing in recent months.

I was glad to hear you say that. Does that represent the fact to you that the countries of the world have suddenly awakened to the fact

that of all the developed countries in the world the United States comes nearest to being self-sufficient, able to exist on domestic trade and is not so dependent on world trade? Do I analyze that right?

Mr. BURNS. I think your analysis is valid for the period starting in October–November.

Earlier, just after midyear, it also appreciated considerably. I think that this earlier appreciation of the dollar reflected the fact that our rate of inflation, while high, was lower than that in most other industrial countries, and that the balance of trade was swinging from a deficit to a surplus.

Mr. WHITTEN. Which represented a stronger country behind it in the way of production and in the way of resources?

Mr. BURNS. That is right. The emphasis on resources came later when the oil problem loomed on the horizon and this began to dominate financial markets.

Mr. WHITTEN. Doctor, I want to thank you again for your contributions earlier before the Joint Committee on Budget Control. I think the members of this committee value your opinion very highly and I thank you.

CONGLOMERATES

Mr. EVANS. When we talk about the economic health of this Nation, I remember that over the last 15, even 20 years, we have heard more and more of the term “conglomerate.”

It used to be we were talking solely about monopolies and restraint of trade, but now we have seen a fantastic growth of what we call conglomerates.

My question is: How do you view this? Do you think this is a healthy development in this country? If not, why not?

Mr. BURNS. I wouldn't want to generalize. I don't know enough to generalize, but I do know that a fair number of the conglomerate formed in this country toward the end of the 1960s have turned out to be a financial disaster.

Mr. EVANS. Do you see any disadvantage to the economy of this country arising out of the growth of these conglomerates?

Mr. BURNS. I would want to watch it. I must say I am a little skeptical of conglomerates. I am inclined to think that ordinarily business managers can handle one or two lines of business effectively, but to handle a wide range is extremely difficult for the average businessman.

There are some highly gifted businessmen who can do that and we have some very successful conglomerates, but so many have proved to be disasters for investors.

U.S. DEBT. HELD BY FOREIGNERS

Mr. MILLER. Dr. Burns, last year we had a table for the record which would indicate what foreign countries had purchased a part of our national debt and the amount.

As I recall, Japan and West Germany led those nations who had purchased the highest amount of our national debt. Do you have that information?

Mr. BURNS. That information is available and I will supply it for the record.

Mr. MILLER. If you will supply it for the record, I will appreciate it very much. Thank you.

[The information follows:]

OWNERSHIP OF U.S. PUBLIC DEBT

Line		Dec. 31, 1970	Dec. 31, 1971	Dec. 31, 1972	1973	
					June 30	Dec. 31
1	U.S. total gross public debt (billions).....	\$389.2	\$424.1	\$449.3	\$458.1	\$469.9
	Held by:					
2	U.S. Government agencies, Federal Reserve banks, etc.....	159.2	176.2	186.8	198.4	208.1
3	Others:					
4	Foreign and international.....	20.6	46.9	55.3	60.2	(¹)
5	(Foreign countries).....	(17.9)	(44.5)	(53.1)	(58.3)	(53.4)
6	Other private investors.....	209.3	210.0	207.2	199.5	(¹)
7	Holdings of U.S. Treasury securities by official institu- tions, banks and others in foreign countries (line 5 above) (millions).....	17,934	44,476	53,056	58,268	53,355
8	Total Europe.....	12,130	26,957	30,538	40,872	38,584
9	Belgium-Luxembourg.....	269	535	680	791	709
10	Denmark.....	128	115	183	313	541
11	France.....	859	2,464	3,848	4,636	2,398
12	Germany.....	7,485	11,395	16,361	23,116	23,933
13	Italy.....	738	1,256	561	270	548
14	Netherlands.....	442	106	1,036	1,927	1,921
15	Norway.....	52	119	273	302	293
16	Sweden.....	327	661	1,073	1,818	1,793
17	Switzerland.....	1,013	3,284	2,808	2,964	2,802
18	United Kingdom.....	685	6,640	3,291	4,313	3,443
19	Other Europe.....	132	382	424	422	203
20	Canada.....	2,977	4,004	4,262	4,120	3,855
21	Total Latin America.....	208	119	228	255	266
22	Total Asia.....	2,290	12,536	14,984	10,042	7,987
23	Japan.....	1,732	12,266	14,480	9,596	7,600
24	Other Asia.....	558	270	503	445	386
25	Australia.....	173	524	2,472	2,322	2,074
26	Total Africa.....	158	333	572	656	590

¹ Not available.

Note: Details may not add to totals because of rounding.

Mr. MAHON. I will call these hearings to an end unless there is some objection.

There being none, I want to say to you, Dr. Burns, that I consider it a great compliment to the Committee on Appropriations, that you would spend all the time and effort to prepare for this hearing and to come here and share with us your views in regard to some of the vital problems facing this Nation.

I want you to know of our gratitude. It has been very helpful, and it will continue to be helpful.

We thank you for your candor and straightforwardness, cooperation and good humor.

Mr. CEDERBERG. I want to join in your comments, Mr. Chairman. This has been a very, very enlightening day for us. We appreciate your coming here and giving us the benefit of your very expert advice.

Mr. BURNS. Gentlemen, you are most kind and generous. Thank you very much.

Mr. MAHON. We will insert in the record, at this point, an appendix, including certain background materials on the 1975 budget. The hearing is adjourned.

[The appendix follows:]

APPENDIX

- I. Perspectives on the Federal Budget
 - A. Federal Finances in Perspective
 - B. Variations in Original Budget Projections
 - C. Tax Actions Since 1962
- II. Spending Priorities
 - A. Priorities in Federal Spending, Fiscal Years 1955-75
 - B. Budget Receipts, Outlays and Authority
 - C. Budget Outlays by Function -- Compared with Estimates Made in January, 1973.
 - D. Budget Authority by Function -- Compared with Estimates Made in January, 1973.
- III. Congressional Action on Spending
 - A. Impact of Congressional Action on Budget Requests, Fiscal Years 1969-1974
 - B. Comparison of Estimates Years and Amounts Enacted, Fiscal Years 1935-1973
 - C. FY 1974 Appropriations Bills
- IV. Controllability of Spending
 - A. Controllability of Budget Outlays, 1967-1975
 - B. Changes in Controllability of 1975 Budget Authority
 - C. Changes in Controllability of 1975 Budget Outlays
 - D. Controllability Civilian Programs, FY 1975
 - E. Backdoor Authority, 1975
 - F. Selected "Uncontrollable" Outlays, FY 1969-1974
- V. Federal Deficits and Trust Funds
 - A. Budget Surpluses and Deficits, FY 1960-1975
 - B. Federal Debt, FY 1933-1975
 - C. Trust Fund Surpluses
- VI. Selected Economic Statistics
 - A. Consumer Price Index
 - B. Unemployment
 - C. Gross National Product
- VII. Impoundments
 - A. Status of Impoundments

Table 1-A

FEDERAL FINANCES IN PERSPECTIVE, FISCAL YEARS 1962-1975
(In Billions, Except As Noted)

Fiscal Year	Gross Nat'l Product	Outlays			
		Total		Federal Funds	
		Amt.	% of GNP	Amt.	% of GNP
1962-----	\$542.1	\$106.8	19.7	\$86.6	16.0
1963-----	573.4	111.3	19.4	90.1	15.7
1964-----	612.2	118.6	19.4	95.8	15.6
1965-----	654.2	118.4	18.1	94.8	14.5
1966-----	721.2	134.7	18.7	106.5	14.8
1967-----	769.8	158.3	20.6	126.8	16.5
1968-----	826.0	178.8	21.6	143.1	17.3
1969-----	898.3	184.5	20.5	148.8	16.6
1970-----	954.6	196.6	20.6	156.3	16.4
1971-----	1012.5	211.4	20.9	163.7	16.2
1972-----	1100.0	231.9	21.1	178.0	16.2
1973-----	1220.0	246.5	20.2	186.4	15.3
1974 est.--	1340.0	274.7	20.5	203.7	15.2
1975 est.--	1455.0	304.4	20.9	220.6	15.2

Fiscal Year	Gross Debt			Interest Paid	
	Amount	% of GNP	Per capita ^{1/} (Actual \$s)	Amount	% of Federal Funds Outlays
1962-----	\$303.3	55.9	\$1,626	9.1	10.5
1963-----	310.8	54.2	1,643	9.9	11.0
1964-----	316.8	51.7	1,651	10.7	11.2
1965-----	323.2	49.4	1,663	11.3	11.9
1966-----	329.5	45.7	1,676	12.0	11.3
1967-----	341.3	44.3	1,718	13.4	10.6
1968-----	369.8	44.8	1,843	14.6	10.2
1969-----	367.1	40.9	1,811	16.6	11.2
1970-----	382.6	40.1	1,867	19.3	12.3
1971-----	409.5	40.4	1,978	21.0	12.3
1972-----	437.3	38.8	2,090	21.8	12.2
1973-----	468.4	38.4	2,213	24.2	13.0
1974 est.--	486.4	36.3	2,231	29.1	14.3
1975 est.--	508.0	34.9	--	30.5	13.8

^{1/} Amounts were derived using population figures at the end of each calendar year.

Table 1-B

Variations in Original Budget Projections
(In Billions of Dollars)

Fiscal Year	Budget receipts		Budget expenditures		Surplus or deficit	
	Estimate	Actual	Estimate	Actual	Estimate	Actual
Administrative Budget:						
1955-----	60.2	-2.3	65.4	64.4	-2.9	-4.2
1956-----	67.8	+8.1	62.5	66.2	-2.4	+1.6
1957-----	70.6	+5.6	64.6	69.0	+4.4	+1.6
1958-----	68.6	-4.5	71.2	71.4	+1.8	-4.6
1959-----	67.9	-6.1	73.6	80.3	+5	-12.4
1960-----	77.8	+1.4	76.3	76.5	+1.1	+1.1
1961-----	77.7	-5.6	79.1	81.5	+4.2	-3.9
1962-----	81.4	-0.9	80.9	87.8	+1.5	-7.0
1963-----	86.4	-6.6	92.5	92.6	+0.5	-6.3
1964-----	89.5	+2.6	98.8	97.7	-11.9	-8.2
1965-----	93.1	+0.1	97.9	96.5	-4.9	+1.5
1966-----	94.4	+10.3	99.7	107.0	-5.3	+3.0
1967-----	111.0	+4.8	112.8	125.7	-1.8	-9.9
1968-----	126.9	-12.2	135.0	143.1	-8.1	-20.3
Unified Budget:						
1969-----	178.1	+9.7	186.1	184.6	-8.0	+3.2
1970-----	198.7	-5.0	195.3	196.6	+3.4	-2.8
1971-----	202.1	-13.7	200.8	211.4	+1.3	-23.0
1972-----	217.6	-9.0	229.2	231.9	-11.6	-11.6
1973-----	220.8	+11.4	246.3	246.5	-25.5	-14.3
1974 est.---	256.0	+14.0	268.7	274.7	-12.7	-4.7
1975 est.---	295.0	--	304.4	--	-9.4	--

1/ Represents Federal Funds portion of unified budget concept totals.

2/ Estimate in 1975 budget.

Table 1-C

	ESTIMATED EFFECT ON TAX LIABILITIES OF TAX ACTIONS SINCE 1962, EXCLUDING TRUST FUND TAXES (In Billions)												
	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Revenue Act of 1962	-\$1.0	-\$0.6	-\$0.8	-\$1.3	-\$1.6	-\$1.7	-\$2.0	-\$2.2	-\$2.4	-\$2.4	-\$2.7	-\$3.2	-\$3.6
Revenue Act of 1964			-8.3	-15.2	-16.6	-17.5	-18.9	-19.9	-20.4	-22.0	-24.8	-27.9	-30.2
Excise Tax Reduction Act of 1965 (excluding reductions later rescinded)				-.9	-2.8	-2.8	-3.0	-3.1	-3.2	-3.4	-3.5	-3.6	-3.7
Revenue and Expenditure Control Act of 1968 (including extensions)							+8.6	+11.2					
Tax Reform Act of 1969								+.9	+5.0	-1.0	-3.7	-5.8	-5.7
Revenue Act of 1971										-3.5	-9.2	-7.2	-7.6
Proposed legislation in fiscal year 1975 budget													+2.3
Other Actions	-1.2	-1.0	-.9	-.8	-.8	-.7	-.7	-.7	-.8	-.8	-1.9	-2.5	-3.0
Grand Total	-2.2	-1.6	-10.0	-18.2	-21.8	-22.7	-16.0	-13.8	-21.8	-33.1	-45.8	-50.2	-51.5

Source: Department of the Treasury statistics.

Table 11-A

PRIORITIES IN FEDERAL SPENDING, FISCAL YEARS 1955-75

	PERCENT DISTRIBUTION OF BUDGET OUTLAYS BY FUNCTION							Source: U.S. Budget Documents		
	1955	1960	1965	1969	1970	1971	1972	1973	1974 est.	1975 est.
National defense-----	58.7	49.8	41.9	44.0	40.8	36.7	33.8	30.8	29.3	28.8
Human resources-----	(21.1)	(27.6)	(29.8)	(34.4)	(36.9)	(41.8)	(44.2)	(46.1)	(48.1)	(49.8)
Education and manpower-----	.8	1.1	1.2	3.5	3.7	3.9	4.2	4.1	3.9	3.8
Health-----	.4	.8	1.4	6.3	6.6	6.8	7.4	7.5	8.5	8.6
Income security-----	13.3	19.7	21.7	20.5	22.2	26.5	28.0	29.6	30.9	32.9
Veterans benefits and services-----	6.6	5.9	4.8	4.1	4.4	4.6	4.6	4.9	4.8	4.5
Physical resources-----	(8.3)	(10.9)	(12.3)	(10.0)	(10.8)	(10.7)	(11.3)	(9.7)	(8.6)	(8.2)
Agriculture and rural development-----	5.9	3.6	4.1	3.4	3.2	2.4	3.0	2.5	1.5	.9
Natural resources and environment-----	.7	1.1	1.7	1.2	1.3	1.3	1.6	.2	.2	1.0
Commerce and transportation-----	1.6	5.2	6.3	4.3	4.8	5.4	4.9	5.3	4.9	4.4
Community development and housing-----	(1/)	1.1	.2	1.1	1.5	1.6	1.8	1.7	2.0	1.9
General revenue sharing-----								2.7	2.2	2.0
Interest-----	8.8	9.0	8.7	8.6	9.3	9.3	8.9	9.3	10.1	9.6
Other-----	(4.9)	(5.1)	(9.8)	(5.5)	(5.4)	(4.9)	(5.2)	(4.7)	(5.2)	(5.1)
International affairs and finance-----	3.0	3.3	3.7	2.1	1.8	1.5	1.6	1.2	1.4	1.3
Space research and technology-----	.1	.4	4.3	2.3	1.9	1.6	1.5	1.3	1.2	1.1
General government-----	1.7	1.4	1.8	1.5	1.7	1.8	2.1	2.2	2.5	2.2
Allowances 2/-----										.1
Undistributed intragovernmental trans- actions-----	-1.8	-2.5	-2.6	-2.8	-3.2	-3.5	-3.4	-3.4	-3.6	-3.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Less than 0.05 percent.
2/ Includes allowances for accel-
eration of energy research and
development, civilian agency
pay raises and contingencies.

Table 11-B

Table 2. BUDGET RECEIPTS, OUTLAYS, AND BUDGET AUTHORITY
(in millions of dollars)

*Description	1973 actual	1974 estimate	1975 estimate
Receipts by source:			
Individual income taxes.....	103,246	118,000	129,000
Corporation income taxes.....	36,153	43,000	48,000
Social insurance taxes and contributions:			
Employment taxes and contributions.....	54,876	67,664	75,298
Unemployment insurance.....	6,051	6,198	5,975
Contributions for other insurance and retirement.....	3,614	4,046	4,330
Excise taxes.....	16,260	17,144	17,444
Estate and gift taxes.....	4,917	5,400	6,000
Customs duties.....	3,188	3,500	3,800
Miscellaneous receipts.....	3,921	5,049	5,153
Total receipts.....	232,225	270,000	295,000
Outlays by function:			
National defense ¹	76,021	80,573	87,729
International affairs and finance.....	2,957	3,886	4,103
Space research and technology.....	3,311	3,177	3,272
Agriculture and rural development.....	6,191	4,039	2,729
Natural resources and environment.....	589	609	3,128
Commerce and transportation.....	13,070	13,521	13,400
Community development and housing.....	4,132	5,450	5,667
Education and manpower.....	10,185	10,819	11,537
Health.....	18,417	23,268	26,282
Income security.....	73,073	84,995	100,071
Veterans benefits and services.....	12,013	13,285	13,612
Interest.....	22,813	27,754	29,122
General government.....	5,480	6,800	6,774
General revenue sharing.....	6,636	6,147	6,174
Allowances ²		300	1,561
Undistributed intragovernmental transactions:			
Employer share, employee retirement.....	-2,927	-3,543	-3,577
Interest received by trust funds.....	-5,436	-6,420	-7,140
Total outlays.....	246,526	274,660	304,445
Budget surplus or deficit (-).....	-14,301	-4,660	-9,445
Budget authority by function:			
National defense ¹	82,787	88,177	95,047
International affairs and finance.....	3,628	5,322	4,680
Space research and technology.....	3,406	3,038	3,245
Agriculture and rural development.....	7,148	6,652	7,411
Natural resources and environment.....	7,183	2,483	-306
Commerce and transportation.....	10,543	22,822	14,459
Community development and housing.....	6,093	4,960	6,389
Education and manpower.....	12,049	13,782	11,489
Health.....	22,226	26,153	28,022
Income security.....	79,818	93,015	104,012
Veterans benefits and services.....	12,783	13,787	14,080
Interest.....	22,813	27,754	29,122
General government.....	6,007	6,417	6,820
General revenue sharing.....	8,295	6,055	6,205
Allowances ²		400	2,184
Undistributed intragovernmental transactions.....	-8,363	-9,963	-10,717
Total budget authority.....	276,417	310,853	322,141

¹ Includes allowances for All-Volunteer Force, military retirement systems reform, and civilian and military pay raises for Department of Defense.

² Includes allowances for acceleration of energy research and development, civilian agency pay raises, and contingencies.

OUTLAYS BY FUNCTION -- COMPARED WITH ESTIMATES MADE IN JANUARY, 1973
(In Billions of Dollars)

Source: Budget Documents

	1973		1974		1975		Change
	As Est. in 1974 Budget	As Est. in 1975 Budget	As Est. in 1974 Budget	As Est. in 1975 Budget	As Est. in 1974 Budget	As Est. in 1975 Budget	
National Defense-----	76.0	81.1	80.6	85.5	87.7	87.7	2.2
International Affairs and Finance-----	3.0	3.8	3.9	3.8	4.1	4.1	.3
Space Research and Technology-----	3.3	3.1	3.2	3.2	3.3	3.3	.1
Agriculture and Rural Development-----	6.2	5.6	4.0	5.8	2.7	2.7	-3.1
Natural Resources and Environment-----	.6	3.7	.6	5.6	3.1	3.1	-2.5
Commerce and Transportation-----	13.1	11.6	13.5	12.4	13.4	13.4	1.0
Community Development and Housing-----	4.1	4.9	5.4	5.4	5.7	5.7	.3
Education and Manpower-----	10.2	10.1	10.8	10.2	11.5	11.5	1.3
Health-----	18.4	21.7	23.3	25.2	26.3	26.3	1.1
Income Security-----	73.1	82.0	85.0	87.6	100.1	100.1	12.5
Veterans Benefits and Services-----	12.0	11.7	13.3	11.9	13.6	13.6	1.7
Interest-----	22.8	24.7	27.8	25.4	29.1	29.1	3.7
General Government-----	5.5	6.0	6.8	6.4	6.8	6.8	.4
General Revenue Sharing-----	6.6	6.0	6.1	6.2	6.2	6.2	---
Allowances-----	---	1.8	.3	3.3	1.6	1.6	-1.7
Undistributed Intragovernmental Transactions-----	-8.4	-9.1	-10.0	-9.2	-10.7	-10.7	-.8
TOTAL BUDGET OUTLAYS-----	246.5	268.7	274.7	288.0	304.4	304.4	16.4

1/ Outlays for unemployment insurance and the Emergency Unemployment Act were calculated on the full employment basis.

Table 11-D

BUDGET AUTHORITY BY FUNCTION - COMPARED WITH ESTIMATES MADE IN JANUARY, 1973
(In Billions of Dollars)

	1973			1974			1975			Change
	As Est. in 1974 Budget	As Est. in 1975 Budget	As Est. in 1974 Budget	As Est. in 1975 Budget	As Est. in 1974 Budget	As Est. in 1975 Budget	As Est. in 1974 Budget	As Est. in 1975 Budget		
National Defense	87.3	88.2	82.8	91.9	95.0	3.1				
International Affairs and Finance	4.5	5.3	3.6	4.0	4.7	.7				
Space Research and Technology	3.0	3.0	3.4	3.2	3.2	---				
Agricultural and Rural Development	6.7	6.7	7.1	7.9	7.4	-.5				
Natural Resources and Environment	1.3	2.5	7.2	7.5	4.3	-7.8				
Commerce and Transportation	12.7	22.8	10.5	12.4	14.5	2.1				
Community Development and Housing	3.9	5.0	6.1	6.0	6.4	.4				
Education and Manpower	9.9	13.8	12.0	10.2	11.5	1.3				
Health	26.4	26.2	22.2	28.9	28.0	-.9				
Income Security	90.8	93.0	79.8	97.7	104.0	6.3				
Veterans Benefits and Services	12.3	13.8	12.8	12.2	14.1	1.9				
Interest	24.7	27.8	22.8	25.4	29.1	3.7				
General Government	5.8	6.4	6.0	6.4	6.8	.4				
General Revenue Sharing	6.1	6.1	8.3	6.2	6.2	---				
Allowances	2.0	.4	---	3.6	2.2	-1.4				
Undistributed Intragovernmental Transactions	-9.1	-10.0	-8.4	-9.9	-10.7	-.8				
TOTAL BUDGET AUTHORITY	288.0	310.9	276.4	313.5	322.1	8.6				

Source: Budget Documents

Table III-A

IMPACT OF CONGRESSIONAL ACTION ON BUDGET REQUESTS, FISCAL YEARS 1969-74

(In millions of dollars)

	Budget authority	Outlays
FISCAL YEAR 1969:		
Appropriation bills.....	-13,750	-4,550
Legislation other than appropriation bills:		
"Backdoor".....	+465	-51
Mandatory.....	+272	+252
Subtotal, legislative bills.....	+737	+201
Inaction on proposed legislation.....	+75	+75
Total, fiscal year 1969.....	-12,938	-4,274
FISCAL YEAR 1970:		
Appropriation bills.....	-5,436	-2,869
Legislation other than appropriation bills:		
"Backdoor".....	+5,340	+123
Mandatory.....	+364	+1,352
Subtotal, legislative bills.....	+5,704	+1,475
Inaction on proposed legislation.....	+1,470	+1,388
Total, fiscal year 1970.....	+1,738	-6
FISCAL YEAR 1971:		
Appropriation bills.....	-2,617	-657
Legislation other than appropriation bills:		
"Backdoor".....	+5,813	+50
Mandatory.....	+2,539	+4,114
Subtotal, legislative bills.....	+8,352	+4,164
Inaction on proposed legislation.....	-4,613	-221
Total, fiscal year 1971.....	+1,121	+3,287
FISCAL YEAR 1972:		
Appropriation bills.....	-2,993	-1,059
Legislation other than appropriation bills:		
"Backdoor".....	+200	
Mandatory.....	+473	+3,714
Subtotal, legislative bills.....	+673	+3,714
Inaction on proposed legislation ¹	-5,476	-3,333
Total, fiscal year 1972.....	-7,796	-678
FISCAL YEAR 1973:		
Appropriation bills ²	-4,886	-1,626
Legislation other than appropriation bills:		
"Backdoor".....	+14,765	+3,295
Mandatory.....	+864	+4,565
Subtotal, legislative bills.....	+15,629	+7,860
Inaction on proposed legislation.....	³ -4,735	-107
Total, fiscal year 1973.....	+6,007	+6,127
FISCAL YEAR 1974:		
Appropriation bills.....	-3,320	-534
Legislation other than appropriation bills:		
"Backdoor".....	⁴ +8,333	+15
Mandatory.....	+897	+3,317
Subtotal, legislative bills.....	+9,230	+3,332
Inaction on proposed legislation.....	-295	+728
Total, fiscal year 1974.....	+5,615	+3,526

¹ Effect of Congressional action on the President's budget estimates as shown by session and fiscal year in "Budget Scorekeeping" reports prepared by the staff of the Joint Committee on Reduction of Federal Expenditures.

² Excludes amounts requested for fiscal 1972 for revenue sharing (\$2.5 billion BA and \$2.25 billion outlays) to avoid duplication of inaction as between the 1st and 2d Sessions of the 92d Congress.

³ The amount included for the Labor-HEW appropriation bill is an estimate of amounts available under the continuing resolution.

⁴ Includes \$3,550 million shifted from 1973 to 1974 due to timing of congressional action on budget proposals.

Note: Figures rounded and may not add to totals.

Table III-B

REGULAR ANNUAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION BILLS,
COMPARISON OF ESTIMATES AND AMOUNTS ENACTED

<u>Calendar Year</u>	<u>Estimates</u>	<u>Amounts Enacted</u>	<u>+ or -</u>
1935	\$ 7,405,677,168	\$ 7,273,590,211	-132,086,957
1936	8,867,777,018	8,703,324,109	-164,452,909
1937	7,398,054,123	7,164,817,513	-233,236,610
1938	8,438,993,688	8,574,087,321	+135,093,633
1939	9,528,133,204	9,719,258,467	+189,825,173
1940	13,678,150,964	14,614,752,845	+736,601,881
1941	53,768,037,027	55,325,771,373	+1,557,734,346
1942	141,056,140,932	143,868,481,587	+2,812,340,595
1943	115,041,366,395	110,634,660,785	-4,406,705,610
1944	63,513,471,020	61,227,906,152	-2,285,564,868
1945	62,453,310,868	61,042,345,331	-1,410,965,537
1946	30,051,109,870	28,459,502,172	-1,591,607,698
1947	33,367,507,923	30,130,762,141	-3,236,745,782
1948	35,409,550,523	32,692,846,731	-2,709,703,792
1949	39,545,329,108	37,825,026,214	-1,720,502,894
1950	54,316,658,423	52,427,926,629	-1,888,731,794
1951	96,340,781,110	91,059,713,307	-5,281,067,803
1952	83,964,877,176	75,355,434,201	-8,609,442,975
1953	66,568,694,353	54,539,342,191	-12,029,351,862
1954	50,257,490,985	47,642,131,205	-2,615,359,780
1955	55,044,333,729	53,124,821,215	-1,919,512,514
1956	60,892,420,237	60,647,917,590	-244,502,647
1957	64,638,110,610	59,589,731,631	-5,048,378,979
1958	73,272,859,573	72,653,476,248	-619,383,325
1959	74,659,472,045	72,977,957,952	-1,681,514,093
1960	73,845,974,490	73,634,335,992	-211,638,498
1961	91,597,448,053	86,606,487,273	-4,990,960,780
1962	96,803,292,115	92,260,154,659	-4,543,137,456
1963	98,904,155,156	92,142,923,132	-6,761,232,024
1964	98,297,358,556	94,162,918,996	-4,134,439,560
1965	109,448,074,896	107,037,566,896	-2,410,508,000
1966	131,164,926,586	130,281,568,480	-883,358,106
1967	147,804,557,929	141,872,346,664	-5,932,211,265
1968	147,908,612,196	133,339,668,734	-14,568,744,262

Table III-B con't.

Page 2

<u>Calendar Year</u>	<u>Estimates</u>	<u>Amounts Enacted</u>	<u>+ or -</u>
1969-----	\$142,701,346,215	\$134,431,463,135	\$-8,269,883,080
1970-----	147,765,358,434	144,273,528,504	-3,491,829,930
1971-----	167,874,624,937	165,225,661,865	-2,648,963,072
1972-----	185,431,804,552	178,960,106,864	-6,471,697,688
1973-----	176,751,749,255	173,489,052,804	-3,262,696,451

House Committee on Appropriations

Source: Appropriations Estimates, etc.

Table III-C

ACTION TAKEN ON 1974 BUDGET AUTHORITY CONSIDERED IN APPROPRIATIONS BILLS

BILL	BUDGET REQUESTS CONSIDERED	FINAL ACTION	COMPARED WITH BUDGET REQUESTS
1. Legislative (H.R. 6691)-----	\$677, 150, 959	\$605, 189, 933	-\$71, 961, 026
2. Agriculture-Environmental and Consumer Protection (H.R. 8619)-----	9, 519, 550, 600	9, 927, 667, 000	+408, 116, 400
3. District of Columbia (Federal funds) (H.R. 8658)-----	432, 998, 000	417, 717, 000	-15, 281, 000
4. Transportation (H.R. 8760)-----	1/3, 010, 732, 006	2, 898, 446, 006	-112, 286, 000
5. HUD-Space-Science-Veterans (H.R. 8825)-----	18, 617, 453, 000	19, 056, 500, 000	+439, 047, 000
6. Labor-HEW (H.R. 8877)-----	31, 549, 953, 000	32, 926, 796, 000	+1, 376, 843, 000
7. Interior (H.R. 8917)-----	2, 370, 367, 300	2, 443, 137, 200	+72, 769, 900
8. State-Justice-Commerce-Judiciary (H.R. 8916)-----	4, 522, 901, 000	4, 466, 012, 000	-56, 889, 000
9. Public Works-AEC (H.R. 8947)-----	4, 757, 469, 000	4, 749, 403, 000	-8, 066, 000
10. Treasury-Postal Service-General Government (H.R. 9590)-----	5, 373, 845, 000	5, 233, 189, 000	-140, 656, 000
11. Defense (H.R. 11575)-----	77, 250, 723, 000	73, 714, 930, 000	-3, 535, 793, 000
12. Foreign Assistance (H.R. 11771)-----	6, 992, 917, 000	5, 780, 434, 000	-1, 212, 483, 000
13. Military Construction (H.R. 11459)-----	2, 944, 900, 000	2, 658, 861, 000	-286, 039, 000
14. Special Resolution, Gold Devaluation (H.J. Res. 748)---	2/ 2, 250, 000, 000	2/ 2, 203, 000, 000	-47, 000, 000
15. Supplemental (H.R. 11576)-----	1, 534, 183, 886	1, 703, 125, 386	+168, 941, 500
	171, 804, 643, 751	168, 784, 407, 525	-3, 020, 236, 226

^{1/} Total, bills for fiscal 1974, to date

^{1/} Includes \$90,360,000 in advance 1975 appropriations.

^{2/} "Not to exceed."

Table IV-A

CONTROLLABILITY OF BUDGET OUTLAYS, 1967-1975
(Fiscal Years, in Billions)

	1967 Actual	1968 Actual	1969 Actual	1970 Actual	1971 Actual	1972 Actual	1973 Actual	1974 Estimated	1975 Estimated
Relatively Uncontrollable Under Present Law									
Amount.....	\$93.8	\$107.2	\$116.4	\$125.7	\$140.4	\$153.5	\$172.9	\$197.1	\$223.6
Percent.....	59%	60%	63%	64%	66%	66%	70%	72%	73%
Relatively Controllable									
Amount.....	66.1	73.5	70.1	73.3	73.7	81.1	76.5	81.0	84.4
Percent.....	42%	41%	38%	37%	35%	35%	31%	29%	28%
Relatively Controllable Civilian Programs									
Amount.....	(19.5)	(20.2)	(17.0)	(20.9)	(21.5)	(27.1)	(23.2)	(26.5)	(25.9)
Percent.....	(12%)	(11%)	(9%)	(11%)	(10%)	(15%)	(9%)	(10%)	(9%)
Undistributed Employer Share, Employee Retirement									
Amount.....	-1.7	-1.8	-2.0	-2.4	-2.6	-2.8	-2.9	-3.5	-3.6
Percent.....	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
TOTAL OUTLAYS.....	158.3	178.8	184.5	196.6	211.4	231.9	246.5	274.7	304.4

House Committee on Appropriations

Source: Budget Documents

Table IV-B

1975 BUDGET

CONTROLLABILITY OF BUDGET AUTHORITY

(In millions of dollars)

Description	1973 Actual	1974 Estimate	1975 Estimate	Change 1974- 1975
Relatively uncontrollable under present law:				
Open-ended programs and fixed costs:				
Payments to individuals:				
Social security and railroad retirement.....	51,048	60,956	67,955	6,999
Federal retirement and insurance.....	12,166	14,466	15,858	1,392
(Military retired pay).....	(4,442)	(5,151)	(5,688)	(537)
(Civilian).....	(7,724)	(9,315)	(10,170)	(855)
Unemployment assistance..	7,165	7,003	7,056	53
Veterans benefits:				
Pensions, compensation, education, and in- surance.....	9,485	10,290	9,798	-492
Medicare and Medicaid....	17,015	20,749	23,306	2,557
Housing payments.....	1,800	2,020	2,425	405
Public assistance and related programs.....	10,404	11,708	14,236	2,528
Subtotal, Payments to individuals.....	109,083	127,192	140,634	13,442
Net interest.....	17,378	21,337	21,992	655
General revenue sharing....	8,295	6,055	6,205	150
Farm price supports (Commodity Credit Corporation).....	3,268	3,302	4,249	947
Postal service.....	1,410	1,714	1,553	-161
Legislative and Judiciary..	813	887	1,048	161
Other.....	8,325	8,709	7,117	-1,592
Subtotal, open-ended programs and fixed costs.....	148,572	169,196	182,798	13,602
Total, Relatively uncon- trollable budget authority..	148,572	169,196	182,798	13,602

Table IV-B con't.

Description	1973 Actual	1974 Estimate	1975 Estimate	Change 1974- 1975
Relatively controllable budget authority:				
National defense.....	76,881	81,967	88,446	6,479
Civilian programs.....	53,892	63,235	54,475	-8,760
Total, Relatively con- trollable budget authority.....	130,773	145,202	142,921	-2,281
Undistributed employer share, employee retirement.....	-2,927	-3,543	-3,577	-34
Total, budget authority.....	276,418	310,855	322,142	11,287

Table IV-C

CONTROLLABILITY OF BUDGET OUTLAYS

(In millions of dollars)

Description	1973 Actual	1974 Estimate	1975 Estimate	Change 1974- 1975
Relatively uncontrollable under present law:				
Open-ended programs and fixed costs:				
Payments to individuals:				
Social security and railroad retirement....	50,733	57,943	67,157	9,214
Federal retirement and insurance.....	8,887	11,009	12,822	1,813
(Military retired pay).....	(4,390)	(5,145)	(5,685)	(540)
(Civilian).....	(4,497)	(5,864)	(7,137)	(1,273)
Unemployment assistance.	5,744	5,965	7,466	1,501
Veterans benefits:				
Pensions, compensation, education, and in- surance.....	9,322	10,009	9,562	-447
Medicare and Medicaid...	14,079	18,007	20,754	2,747
Housing payments.....	1,608	1,888	2,263	375
Public assistance and related programs.....	9,122	11,528	14,126	2,598
Subtotal, Payments to individuals.....	99,495	116,349	134,150	17,801
Net interest.....	17,378	21,337	21,992	655
General revenue sharing...	6,636	6,147	6,174	27
Farm price supports (Commodity Credit Corporation).....	3,555	909	932	23
Postal service.....	1,567	1,714	1,553	-161
Legislative and Judiciary.	742	885	1,058	173
Other.....	3,953	5,387	5,494	107
Subtotal, open- ended programs and fixed costs.....	133,326	152,728	171,353	18,625
Outlays from prior-year contracts and obligations:				
National Defense.....	19,113	20,927	23,654	2,727
Civilian programs.....	20,493	23,450	28,620	5,170
Total, Relatively uncontrollable outlays.....	172,932	197,105	223,627	26,522

Table IV-C con't.

2

Description	1973 Actual	1974 Estimate	1975 Estimate	Change 1974- 1975
Relatively controllable outlays:				
National defense.....	53,368	54,620	58,524	3,904
Civilian programs.....	<u>23,151</u>	<u>26,479</u>	<u>25,871</u>	<u>-608</u>
Total, Relatively controllable outlays.	76,519	81,099	84,395	3,296
Undistributed employer share, employee retire- ment.....	<u>-2,927</u>	<u>-3,543</u>	<u>-3,577</u>	<u>-34</u>
Total budget outlays..	246,524	274,661	304,445	29,784

Table IV-D

1975 BUDGET
CONTROLLABILITY OF BUDGET OUTLAYS
-RELATIVELY CONTROLLABLE-
OTHER CIVILIAN PROGRAMS

(\$ in millions)

Major items only*

	<u>1973</u> <u>actual</u>	<u>1974</u> <u>estimate</u>	<u>1975</u> <u>estimate</u>	<u>Change</u> <u>1974-</u> <u>1975</u>
EXOP.....	45	72	97	25
FAP:				
Indochina post war reconstruction assistance.....	---	306	425	119
Other.....	583	642	413	-229
Agriculture:				
Expenses, P.L. 480, foreign assistance programs.....	895	554	778	224
Rural housing in- surance fund.....	-232	159	-230	-389
Agricultural credit insurance fund.....	194	137	-38	-175
Funds for strengthen- ing markets, income and supply.....	613	709	242	-467
Child nutrition pro- grams.....	555	790	1,200	410
Other.....	1,187	1,901	1,791	-110
Commerce:	592	656	718	62
Defense--Civil:				
Corps of Engineers - construction, general.....	701	502	447	-55
Other.....	667	644	446	-198
HEW:				
Elementary and Sec- ondary education.....	1,232	1,280	13	-1,267
School assistance in Federally-affected areas.....	457	381	238	-143
Higher education.....	666	655	567	-88

Table IV-D con't.

	1973 <u>actual</u>	1974 <u>estimate</u>	1975 <u>estimate</u>	Change 1974- 1975
HEW--Cont'd:				
Social Security (proposed legis- lation).....	---	---	-345	-345
Human development....	213	240	314	74
Public assistance (proposed legis- lation).....	---	---	-258	-258
Other.....	3,204	4,081	3,735	-346
HUD:				
Better Communi- ties Act (pro- posed legislation)..	---	---	560	560
Other.....	-633	-19	-23	-4
Interior:				
Rent on outer con- tinental shelf lands.....	-2,929	-5,484	-4,474	1,010
Operation of Indian programs (area and regional de- velopment).....	339	342	404	62
Other.....	-336	466	312	-154
Justice:				
Salaries and expenses.	149	200	250	50
Other.....	810	960	1,090	130
Labor:				
Comprehensive man- power assistance....	781	738	865	127
Other.....	870	398	347	-51
State:	337	415	435	20
Transportation:				
FAA-operations.....	1,101	1,187	1,271	84
Other.....	1,615	1,945	1,989	44
Treasury:				
Accounts, collection and taxpayer service.....	459	526	655	129
Compliance.....	543	611	744	133
Other.....	70	355	438	83
AEC:	*	---	---	---

Table IV-D con't.

	1973 actual	1974 estimate	1975 estimate	Change 1974- 1975
EPA:	276	1,188	482	-706
GSA:				
Federal buildings fund.....	---	---	-348	-348
Other.....	441	520	80	-440
NASA:	2,236	2,221	2,225	4
VA:				
Compensation and pensions (proposed legislation).....	---	---	165	165
Readjustment benefits (proposed legis- lation).....	---	---	200	200
Medical care.....	2,277	2,537	2,893	356
General operating expenses.....	290	318	372	54
Other.....	-93	124	108	-16
OIA:				
Railroad retirement account (proposed legislation).....	---	---	198	198
SBA business loan and investment fund..	153	149	206	57
Other.....	2,822	2,774	2,413	-361
Special Allowances.....	---	300	1,461	1,161
TOTAL RELATIVELY CON- TROLLABLE OUTLAYS, CIVILIAN PROGRAMS.....	23,151	26,479	25,871	-608

* Generally change of \$50 million or more in 1974-1975 and 1975 amount exceeds \$200 million.

Table IV-E

1975 BACKDOOR AUTHORITY

(In thousands of dollars)

(T-Trust fund)

	1973	1974	1975
CONTRACT AUTHORITY			
<u>Funds Appropriated to the President:</u>			
<u>Appalachian Regional Development Programs:</u>			
Appalachian regional development programs (permanent).....	180,000	185,000	185,000
<u>International Security Assistance:</u>			
Advances, foreign military sales (T).....	3,634,799	3,658,600	4,095,700
Military assistance (current).....	---	200,000	---
 Total, Funds Appropriated to the President.....	<u>3,814,799</u>	<u>4,043,600</u>	<u>4,280,700</u>
 <u>Department of Agriculture:</u>			
<u>Forest Service:</u>			
<u>Forest roads and trails:</u>			
Current.....	---	134,000	---
Permanent.....	---	140,000	140,000
 Total, Department of Agriculture.....	<u>---</u>	<u>274,000</u>	<u>140,000</u>
 <u>Department of Commerce:</u>			
<u>Maritime Administration:</u>			
Operating-differential subsidies (permanent)....	<u>224,100</u>	<u>218,711</u>	<u>220,000</u>
 <u>Department of the Interior:</u>			
<u>Bureau of Land Management:</u>			
<u>Public lands development roads and trails:</u>			
Current.....	---	20,000	---
Permanent.....	---	---	10,000
<u>Bureau of Reclamation:</u>			
Colorado River Basin project (permanent).....	17,900	4,000	---

Table IV-E con't.

2

	1973	1974	1975
<u>Department of the Interior</u>			
(cont.):			
<u>Bureau of Outdoor Recreation:</u>			
Land and water conserva- tion (special fund) (permanent).....	30,000	30,000	30,000
<u>National Park Service:</u>			
<u>Road construction:</u>			
Current.....	---	195,000	---
Permanent.....	---	---	105,000
<u>Bureau of Mines:</u>			
Helium Fund (permanent)...	11,177	---	---
<u>Bureau of Indian Affairs:</u>			
Operation of Indian pro- grams (permanent).....	1,500	1,500	---
<u>Road construction:</u>			
Current.....	---	150,000	---
Permanent.....	---	---	75,000
 Total, Department of the Interior.....	<u>60,577</u>	<u>400,500</u>	<u>220,000</u>
 <u>Department of Transportation:</u>			
<u>Federal Aviation Administration:</u>			
Grants-in-aid for airports (Airport and airway trust fund) (current) (T) ..	620,000	---	---
<u>Federal Highway Administra- tion:</u>			
<u>Territorial highways:</u>			
Current.....	---	11,060	---
Permanent.....	4,500	---	10,009
<u>National scenic and recrea- tion highway:</u>			
Current.....	---	20,000	---
Permanent.....	---	---	10,000
<u>Federal-aid highways (T):</u>			
Current.....	200,000	11,291,250	---
Permanent.....	150,000	100,000	6,357,500
<u>Trust Fund share of other highway programs (T):</u>			
Current.....	---	89,190	---
Permanent.....	---	---	59,491
<u>Other Federal highway administration trust funds (T).....</u>	10,850	---	---

Table IV-E con't.

3

	1973	1974	1975
<u>Department of Transportation</u> (cont.):			
<u>National Highway Traffic</u>			
<u>Safety Administration:</u>			
Trust Fund share of highway safety pro- grams (T):			
Current.....	---	262,500	---
Permanent.....	---	---	198,000
<u>Urban Mass Transportation</u>			
<u>Administration:</u>			
Urban mass transporta- tion fund (Current).....	-102,792	2,959,950	-88,300
Total, Department of Transportation.....	882,558	14,733,950	6,546,700
<u>Environmental Protection</u> <u>Agency:</u>			
<u>Abatement and control:</u>			
Current.....	50,000	---	---
Permanent.....	---	100,000	150,000
Construction grants (current authority).....	5,000,000	4,000,000	---
Total, Environmental Protection Agency.....	5,050,000	4,100,000	150,000
<u>Veterans Administration:</u>			
Supply Fund (permanent).....	2,475	10,576	10,000
Total, Contract authority.....	10,034,509	23,781,337	11,567,400
CONTRACT AUTHORITY PROPOSED FOR LATER TRANSMITTAL			
<u>Department of Transportation:</u>			
<u>Federal Highway Adminis- tration:</u>			
Highway beautification (Trust fund) (T)			
(permanent).....	---	50,000	50,000

Table IV-E con't.

4

	1973	1974	1975
AUTHORITY TO SPEND DEBT RECEIPTS			
Department of Agriculture:			
Rural Electrification			
Administration:			
Rural telephone bank (permanent).....	280,564	---	---
Farmers Home Administration:			
Rural housing insurance fund (permanent).....	24,460	156,353	---
Agricultural credit insurance fund (permanent).....	82,876	40,075	---
Rural development insurance fund (permanent)....	---	342,218	217,129
Total, Department of Agriculture.....	387,900	538,646	217,129
Department of Defense -			
Military:			
Family Housing:			
Homeowners assistance fund - Defense (permanent).....	---	3,793	3,000
Department of Health, Education and Welfare:			
Office of Education:			
Student loan insurance fund (permanent).....	15,000	---	---
Department of Housing and Urban Development:			
Housing Production and Mortgage Credit: Federal Housing Administration and Government National Mortgage Association:			
Federal Housing Administration fund (permanent)....	933,880	903,314	1,079,354
Other Independent Agencies:			
District of Columbia:			
Advances to stadium sinking fund, Armory Board (permanent).....	832	832	832

Table IV-E con't.

	<u>1973</u>	<u>1974</u>	<u>1975</u>
Total, Authority to spend debt receipts.....	<u>1,337,612</u>	<u>1,446,585</u>	<u>1,300,315</u>
General Revenue Sharing.....	<u>8,294,670</u>	<u>6,054,780</u>	<u>6,204,780</u>
Total, backdoor authority.....	19,666,791	31,332,702	19,122,495

Selected "Uncontrollable" Outlays
(original estimate compared to actual,
excluding Congressional Action)
(In Billions)

Table IV-F

	Outlays		
	Original Estimate	Actual	Change
<u>Fiscal year 1969</u>			
Social insurance trust funds	38.5	39.8	+1.3
Interest	14.4	15.8	+1.4
Veterans benefits	5.2	5.7	+0.5
Public assistance	5.7	6.3	+0.6
Farm price support	2.9	4.1	+1.2
Postal service	0.3	0.5	+0.2
Military retired pay	2.3	2.4	+0.1
Housing payments	0.3	0.4	+0.1
	<u>69.6</u>	<u>75.0</u>	<u>+5.4</u>
Congressional increases in above categories as scored by Joint Committee			<u>-0.3</u> <u>+5.1</u>
<u>Fiscal year 1970</u>			
Social insurance trust funds	42.4	45.2	+2.8
Interest	16.0	18.3	+2.3
Veterans benefits	5.9	6.6	+0.7
Public assistance	7.4	8.0	+0.6
Farm price support	3.1	3.8	+0.7
Postal service	0.5	1.5	+1.0
Military retired pay	2.7	2.8	+0.1
Housing payments	0.6	0.5	-0.1
	<u>78.6</u>	<u>86.7</u>	<u>+8.1</u>
Congressional increases in above categories as scored by Joint Committee			<u>-2.1</u> <u>+6.0</u>
<u>Fiscal year 1971</u>			
Social insurance trust funds	51.5	54.9	+3.4
Interest	17.8	19.6	+1.8
Veterans benefits	6.7	7.6	+0.9
Public assistance	8.5	11.3	+2.8
Farm price support	3.7	2.8	-0.9
Postal service	0.9	2.2	+1.3
Military retired pay	3.2	3.4	+0.2
Housing payments	0.6	0.7	+0.1
	<u>92.9</u>	<u>102.5</u>	<u>+9.6</u>
Congressional increases in above categories as scored by Joint Committee			<u>-1.4</u> <u>+8.2</u>

Table IV-F con't.

<u>Fiscal year 1972</u>	<u>Outlays</u>		
	<u>Original Estimate</u>	<u>Actual</u>	<u>Change</u>
Social insurance trust funds	55.8	61.7	+5.9
Interest	19.7	20.6	+0.9
Veterans benefits	8.4	8.3	-0.1
Public assistance	13.4	15.0	+1.6
Farm price support	3.6	4.0	+0.4
Postal service	1.3	1.8	+0.5
Military retired pay	3.7	3.9	+0.2
Housing payments	1.3	1.1	-0.2
	<u>107.2</u>	<u>116.4</u>	<u>+9.2</u>
Congressional increases in above categories as scored by Joint Committee			-2.3
			<u>+6.9</u>

Table IV-F con't.

	Outlays		Change
	Original Estimate	Latest revisions	
<u>Fiscal year 1973</u>			
Social insurance trust funds	68.1	71.0	
Interest	21.2	22.8	
Veterans benefits	8.7	9.1	
Public assistance	14.6	14.0	
Farm price support	4.3	3.4	
Postal service	1.4	1.7	
Military retired pay	4.3	4.4	
Housing payments	1.8	1.7	
	<u>124.4</u>	<u>*128.1</u>	+3.7
Congressional increases in above categories as scored by the Joint Committee			<u>-2.9</u>
			+0.8
<u>Fiscal year 1974</u>			
Social insurance trust funds	80.4	80.3	
Interest	24.7	26.1	
Veterans benefits	9.1	9.1	
Public assistance	17.0	17.0	
Farm price support	2.7	2.7	
Postal service	1.4	1.4	
Military retired pay	4.7	4.7	
Housing payments	2.0	2.0	
	<u>142.0</u>	<u>*143.3</u>	+1.3
Congressional increases in above categories as scored by the Joint Committee			--

* Estimated on basis of June 1 revisions.

SOURCE: "Uncontrollable" tables Budget Documents.

Table V-A

Outlays, receipts and surpluses or deficits in Federal funds, trust funds, and the unified budget, fiscal years 1960-75

[In millions of dollars]

Fiscal year	Federal funds			Trust funds			Intragovernmental transactions	Unified budget		
	Outlays	Receipts	Surplus or deficit (-)	Outlays	Receipts	Surplus or deficit (-)		Outlays	Receipts	Surplus or deficit (-)
1960--	74,865	75,650	785	19,743	19,228	-515	-2,385	92,223	92,492	269
1961--	79,336	75,179	-4,157	21,048	21,800	752	-2,589	97,795	94,389	-3,406
1962--	86,594	79,703	-6,891	22,898	22,652	-246	-2,680	106,813	99,676	-7,137
1963--	90,141	83,550	-6,591	23,958	25,799	1,841	-2,788	111,311	106,560	-4,751
1964--	95,761	87,205	-8,556	25,884	28,518	2,634	-3,061	118,584	112,662	-5,922
1965--	94,807	90,943	-3,864	26,962	29,230	2,268	-3,339	118,430	116,833	-1,596
1966--	106,512	101,427	-5,085	31,708	32,997	1,289	-3,568	134,652	130,856	-3,796
1967--	126,779	111,835	-14,944	36,693	42,935	6,242	-5,218	158,254	149,552	-8,702
1968--	143,105	114,726	-28,379	41,499	44,716	3,217	-5,771	178,833	153,671	-25,161
1969--	148,811	143,321	-5,490	43,284	52,009	8,725	-7,547	184,548	187,784	3,236
1970--	156,301	143,158	-13,143	49,065	59,362	10,297	-8,778	196,588	193,743	-2,845
1971--	163,651	133,785	-29,866	59,361	66,193	6,833	-11,586	211,425	188,392	-23,033
1972--	177,959	148,846	-29,113	67,073	72,959	5,886	-13,156	231,876	208,649	-23,227
1973--	186,403	161,357	-25,046	81,447	92,193	10,746	-21,325	246,526	232,225	-14,301
1974--	203,715	185,581	-18,134	92,075	105,548	13,473	-21,129	274,660	270,000	-4,660
1975--	220,636	202,757	-17,879	107,385	115,818	8,433	-23,575	304,445	295,000	-9,445

Source: Budget Documents.

Table V-B

Debt Subject to Statutory Limitation
At End of Fiscal Years 1933-1975
(In Billions of Dollars)

1933-----	22.5	1957-----	270.2
1938-----	36.9	1958-----	276.0
1939-----	40.3	1959-----	284.4
1940-----	43.2	1960-----	286.1
1941-----	49.5	1961-----	288.9
1942-----	74.2	1962-----	298.2
1943-----	140.5	1963-----	306.1
1944-----	208.1	1964-----	312.2
1945-----	268.7	1965-----	317.6
1946-----	268.9	1966-----	320.1
1947-----	257.5	1967-----	326.5
1948-----	251.5	1968-----	350.7
1949-----	252.0	1969-----	356.9
1950-----	256.7	1970-----	373.4
1951-----	254.6	1971-----	399.5
1952-----	258.5	1972-----	428.6
1953-----	265.5	1973-----	459.1
1954-----	270.8	1974 (est.)-----	475.4
1955-----	273.9	1975 (est.)-----	495.2
1956-----	272.4		

House Committee on Appropriations

Sources: Annual Report of the Secretary of the Treasury on the State of Finances (Table 21) and Budget Documents.

TRUST FUND SURPLUSES
(In Millions of Dollars)

<u>Description of Trust Funds</u>	<u>1974</u>	<u>1975</u>
Federal old-age, survivors, and disability insurance -----	3,085	1,179
Health insurance -----	3,297	2,523
State and local government fiscal assist. -----	- 92	31
Unemployment -----	1,056	- 410
Railroad retirement -----	- 79	16
Federal employees retirement -----	3,238	2,781
Airport and Airway -----	279	- 186
Highways -----	1,679	1,416
Foreign military sales -----	161	150
Veterans life insurance -----	172	178
Other trust funds (nonrevolving) -----	- 83	- 59
Trust revolving funds -----	<u>763</u>	<u>815</u>
TOTAL -----	13,476	8,434

Table VI-A

PERCENTAGE INCREASES IN THE CONSUMER PRICE INDEX

	All items	Commodities	Commodities		Services
			Food	Fuel & Utilities*	
1963	1.2	0.9	1.4	0.9	2.0
1964	1.3	1.1	1.3	0.2	1.9
1965	1.7	1.2	2.1	-0.1	2.2
1966	2.9	2.6	5.0	0.5	3.9
1967	2.9	1.8	0.9	1.2	4.4
1968	4.2	3.7	3.6	1.3	5.2
1969	5.4	4.5	5.1	2.3	6.9
1970	5.9	4.7	5.5	3.9	6.1
1971	4.3	3.4	3.0	7.0	5.6
1972	3.3	3.0	4.3	4.4	3.8
1973	6.2	7.4	14.5	5.7	4.4

*This figure is a component of the Housing Index and does not include gasoline.

NOTE: These figures are seasonally adjusted.

Source: Bureau of Labor Statistics

Table VI-B

UNEMPLOYMENT RATES

	Total	Males	Females	MALES			FEMALES		
				16-19	20-24	25 & over	16-19	20-24	25 & over
1960	5.5	5.4	5.9	15.3	8.9	4.3	13.9	8.3	4.6
1961	6.7	6.4	7.2	17.1	10.8	5.2	16.3	9.8	5.3
1962	5.5	5.2	6.2	14.7	8.9	4.1	14.6	9.1	4.8
1963	5.7	5.2	6.5	17.2	8.8	4.0	17.2	8.9	4.9
1964	5.2	4.6	6.2	15.8	8.1	3.3	16.6	8.6	4.6
1965	4.5	4.0	5.5	14.1	6.4	2.8	15.7	7.3	4.0
1966	3.8	3.2	4.9	11.7	4.6	2.2	14.1	6.3	3.3
1967	3.8	3.1	5.2	12.3	4.6	2.0	13.5	7.0	3.7
1968	3.6	2.9	4.8	11.6	5.1	1.8	14.0	6.7	3.2
1969	3.5	2.8	4.7	11.4	5.1	1.7	13.3	6.3	3.2
1970	4.9	4.4	5.9	15.0	8.4	2.8	15.6	7.9	4.1
1971	5.9	5.3	6.9	16.6	10.3	3.5	17.2	9.6	4.9
1972	5.6	4.9	6.6	15.9	9.2	3.1	16.7	9.3	4.6
1973	4.9	4.1	6.0	13.9	7.3	2.5	15.2	8.4	4.0

Source: Bureau of Labor Statistics

Table VI-C

GROWTH IN GNP (ACTUAL AND FORECAST)

	GNP (Billions)		% Growth		Actual Growth*	
	Forecast	Actual	Forecast	Actual	Real	Inflation Factor
1964	623	632.4	6.5	7.1	5.4	1.6
1965	660	684.9	6.1	8.3	6.3	1.8
1966	722	749.9	6.9	9.5	6.5	2.8
1967	787	793.9	6.4	5.9	2.6	3.2
1968	846	864.2	7.75	3.9	4.7	4.0
1969	921	930.3	7.0	7.6	2.7	4.8
1970	985	977.1	5.7	5.0	0.4	5.5
1971	1,065	1,055.5	9.0	8.0	3.2	4.7
1972	1,145	1,155.2	9.5	9.4	6.1	3.2
1973	1,267	1,288.0	10.0	11.5	5.9	5.3
1974 (est.)	1,390	--	8.0	--	1.0	7.0

* Due to the method of calculation, the real growth figure and the and the inflation figure cannot be added to equal the actual percentage of growth.

Sources: Economic Report of the President

Department of Commerce, Department of Labor

Table VII-A

SUMMARY OF BUDGETARY RESERVES
(Dollars in millions)

Department or Agency	Amount as of	Amount as of	Amount as of
	Jan. 29, 1973	June 30, 1973	Feb. , 1974
Executive Office of the President-----	3	2	1
Funds Appropriated to the President-----	127	126	2,507
Department of Agriculture-----	1,497	1,316	1,091
Department of Commerce-----	181	140	59
Department of Defense - Military-----	1,899	1,618	2,514
Department of Defense - Civil-----	118	33	4
Department of Health, Education, and Welfare-----	35	21	361
Department of Housing and Urban Development-----	529	460	823
Department of the Interior-----	482	478	219
Department of Justice-----	36	36	14
Department of State-----	6	6	86
Department of Transportation-----	2,937	2,885	3,817
Department of Treasury-----	24	22	23
Atomic Energy Commission-----	316	118	--
Environmental Protection Agency-----	2	--	--
General Services Administration-----	261	262	95
National Aeronautics and Space Administration-----	33	2	2
Veterans Administration-----	71	44	--
Other Independent Agencies:			
National Science Foundation-----	62	62	--
Small Business Administration-----	51	50	31
All other-----	52	51	89
Department of Labor-----	--	--	21
TOTAL-----	8,723	7,732	11,813

Source: Impoundment reports required by P.L. 92-599.

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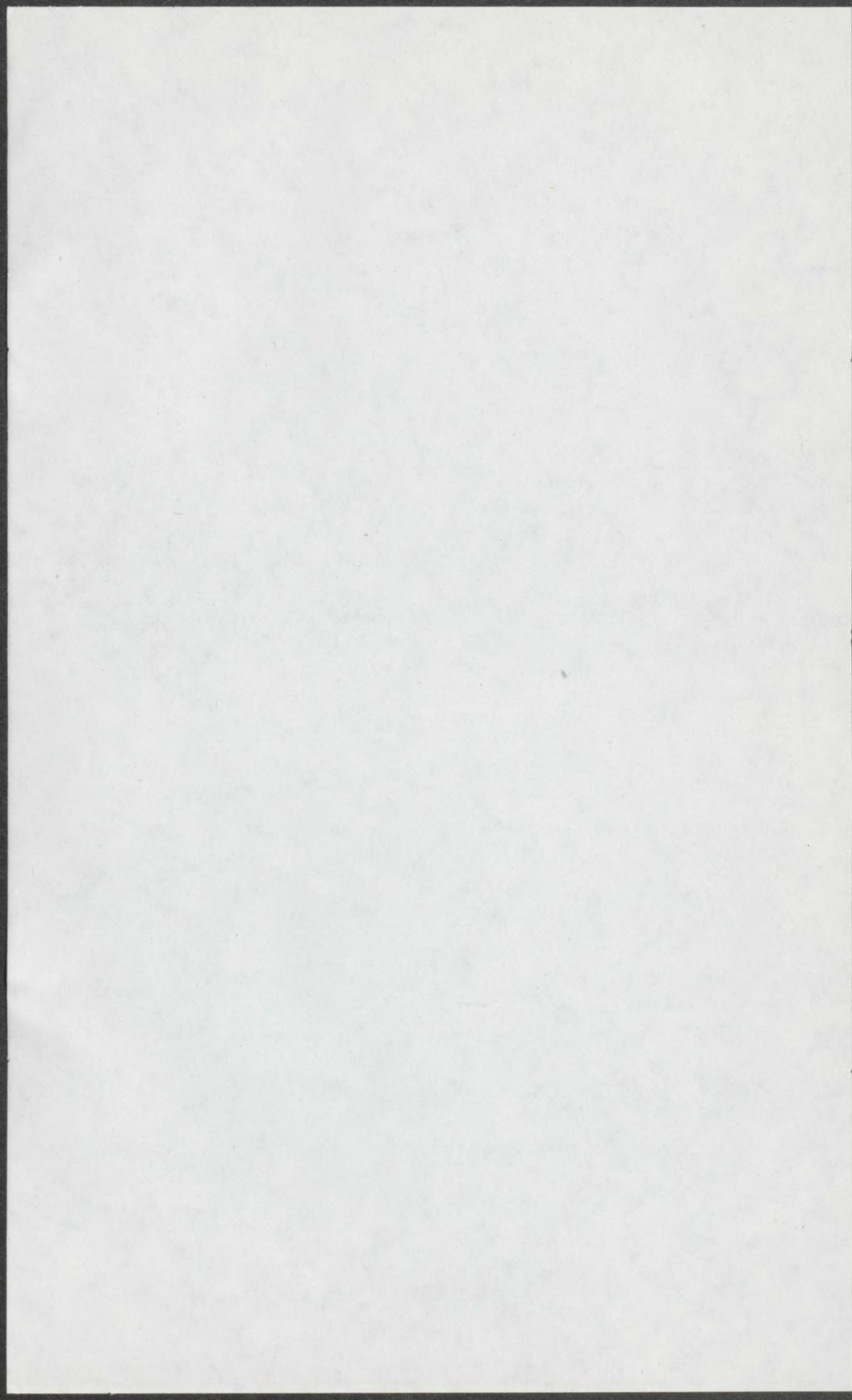
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