THE FEDERAL BUDGET FOR 1979

HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

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THE FEDERAL BUDGET FOR 1979

WEDNESDAY, FEBRUARY 1, 1978.

BUDGET OVERVIEW

WITNESSES

HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY
CHARLES L. SCHULTZE, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
JAMES T. McINTYRE, JR., ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
W. BOWMAN CUTTER, EXECUTIVE ASSOCIATE DIRECTOR FOR BUDGET, OFFICE OF MANAGEMENT AND BUDGET
DALE R. McOMBER, ASSISTANT DIRECTOR FOR BUDGET REVIEW, OFFICE OF MANAGEMENT AND BUDGET

Mr. MAHON. The committee will come to order.

The law requires that the House Committee on Appropriations shall have an overview hearing each year for the purpose of considering the budget, hearing the Secretary of the Treasury, the Director of the Office of Management and Budget, and we usually have a 2-day hearing, and that is what is planned this year.

Now it is understandable, with 55 members of the Appropriations Committee, we cannot have an in-depth interrogation of the witnesses and there is no way for members of the committee to participate in the interrogation of the witnesses to the extent they would like. We just have to do the best we can with the situation.

Now with respect to the order of procedure, after I have made a few preliminary remarks I shall yield to Mr. Cederberg and then I will yield to 2 members of the majority party and one of the minority party as we proceed in the order of seniority, and undertake to give everyone a chance to ask a question or make a statement in regard to the situation facing us with respect to the budget and the economy and matters generally.

Of course I want the witnesses to feel free to amplify their statements but not to speak at great length in response to all questions because one could spend a half-day in response to 1 or 2 questions. So what we want to try to do is to have a hearing that will be helpful to us as we proceed with our investigation of the budget. We have the budget document before us and it will be before us throughout our hearings for the next few months.

In addition to having the budget document before us, we need to have some response from the Executive branch in regard to questions that will be raised here. That will be then a supplementary document for us to consider in connection with our hearings. So I think it is very important that we have a good transcript, have a good volume to which we can make reference.

I would hope that the witnesses and members of the committee will help as much as possible to expedite the printing, the preparation of the transcript, and the printing of the record.

I want to mention this matter: The International Monetary Fund problem will be before us to some limited extent tomorrow afternoon. The matter of authorization is scheduled to be before the House tomorrow, and we will have an overview with the full Appropriations Committee with respect to this matter later on tomorrow.

When the budget was submitted on Monday of last week, I made a statement in the House of Representatives in which I tried to put my finger on the central theme of this budget. I tried to put it in perspective in terms of the general economic situation and in terms of Federal fiscal policy.

ALL GOALS NOT ATTAINABLE

I observed that those in the Congress, ~~for a~~ period of many months, have been considering and evaluating the concurrent objectives of a balanced budget by 1981, 4% unemployment, and sharply reduced inflation within the framework of a prosperous economy. I indicated I felt the budget recognized that those goals are fully compatible and not fully attainable within the timetable which had been projected.

FIRST ORDERING OF PRIORITIES

I have said, I think by far the most significant aspect of this budget is that it represents the first real ordering of priorities by the Administration. I have always felt that it is essential that we have stability and certainty in regard to Federal policy. The business community cannot and will not make maximum investment decisions in an atmosphere of uncertainty, confusion, and frustration.

CENTERPIECE OF BUDGET IS TAX CUT

For me, the centerpiece of the budget is the so-called $25 billion tax cut. The budget is banking on the hope that a stimulative Federal policy will propel the current economic upswing by encouraging investment to provide jobs for the growing labor force and to boost productivity through more modern and efficient plant and equipment.

The plan is to spend our way—through tax cuts for citizens, incentives to business, and more government outlays and higher debt—to economic stability and prosperity.

RELIANCE ON THE PRIVATE SECTOR

Another important characteristic is that in identifying the direction of administrative fiscal policy for coming years, the President has placed principal reliance for economic growth on the private sector. I heartily applaud this.

TAX CUTS INSTEAD OF BIG SPENDING

I also applaud the concept of promoting economic growth by means of proposed tax legislation, not stimulus through massive new shotgun spending programs. I have not been impressed with the results of big, hastily conceived spending programs as a cure for the Nation's economic woes. I think we are on the right track here.

INFLATION DANGERS

But the growth policy outlined by the President is not without risks. The biggest risk, in my judgment, is inflation.

For years now the Federal Government has been generating large budget deficits and increases in the national debt. During the severe recession of 1974–75, there was probably some justification for this but that recession is clearly behind us.

The same economic philosophy that calls for government spending stimulus in economically depressed times calls for surpluses or at least less deficit spending in improved times. But instead of following this philosophy, the President and the Congress are applying only the spending side of the philosophy, not the restraint side.

It seems to me there are inflationary pressures here along with increased interest rates and a tightening of funds for private borrowers as the economy continues to improve and the idle productive capacity of our economy begins to be utilized.

DEBT INCREASES HIDDEN

The budget has received wide press coverage but I have not seen in the Washington press any reference to the fact that the real increase in the debt will be $89.6 billion next year. All we see is the $60.5 billion deficit which is the counting on the unified budget basis. The difference of course is the trust fund borrowings and the off-budget agencies.

Instead of deficits in fiscal years 1978 and 1979 of $62 billion and $61 billion, we really have debt increases of $78 billion and $90 billion. In other words the debt increase for the two years is $168 billion instead of $123 billion. I just think the press should give more attention to the real debt picture.

Of course we will be discussing the economy, we will be discussing the implication of tax cuts, we will be moaning and groaning about inflation, and we will be talking about the debt increase as I have mentioned, and other matters. So I am not going to undertake any interrogation at this time, but when the witnesses have made their statements I am going to first yield to Mr. Cederberg as I said, then I will yield to Mr. Whitten, and down the line as we have explained.

Mr. Secretary Blumenthal, we are pleased to have you before the committee. You are an old hand in this business. We know that you will be helpful to us. We have before us your prepared statement and we welcome you back before the committee. We would ask you to brief your statement in order that we may have more time for discussion.

[The prepared statement of Secretary Blumenthal follows:]

Testimony of Hon. W. Michael Blumenthal, Secretary of the Treasury

Mr. Chairman and members of this distinguished committee, it is my privilege this morning to initiate the discussions with you of the President's economic program for 1979. There is a lot of ground to cover. While the program is simple in design, it is comprehensive in scope. It builds on the great strengths of our private economy, at the same time that it addresses the need for important structural changes in the economic process. Most importantly, it is designed to continue the good performance achieved by our economy last year.

For 1977—the first year of this Administration—was indeed a good year. It was a year of balanced, sustainable growth, free of most of the strains and stresses which have in the past marked the third year of many previous recoveries. Real GNP growth of 5¾ percent was close to the target set by the President in his Budget message last February, and the reduction in unemployment—to a rate of 6.4 percent in December—more than met expectations.

Overall, an extraordinarily large number of jobs was created—4.1 million between December 1976 and December of last year. The number of unemployed was reduced by 1.2 million.

While progress was not even throughout the year, the year ended on a strong note, as the lull of the summer gave way in the fall to renewed vigor of consumer and business spending. The strength of the economy at year-end is underscored by a few statistics:

Retail sales increased by 11½ percent, in real terms, between the third and fourth quarters of 1977.

Orders placed with manufacturers of durable goods—responding to the good performance of retail sales—advanced at a very high rate, in real terms, in the fourth quarter and were 11 percent above levels of a year earlier.

Total employment jumped 1½ million during the final three months of the year.

Starts of new housing units were at a 2.3 million annual rate at year-end, the best since the 1972–73 housing boom, and 21 percent above a year earlier.

The economic program proposed by the President is designed to sustain this good economic performance. Let me stress the verb "sustain", for there is some misunderstanding as to the objectives of the program.

We start with the premise that a growth rate of about 4½ to 5 percent in real gross national product is about the right pace for our economy at this stage of recovery. Such a rate of growth will permit steady improvement in the utilization of labor and capital resources—that is, a steady reduction in unemployment and a steady increase in industrial plant utilization—without fueling a resurgence in inflation.

Our economy is, today, progressing along such a growth track. We intend to keep it on this path. The risks in stimulating the economy to an even faster growth track are great; we still suffer from a much too-high rate of inflation to afford actions which could push the advance in prices even higher.

But we also recognize that there are many forces that could pull us down from our safe track. Potential hazards include:

The sharp increases recently legislated in taxes for social security.

The impact of inflation on effective tax rates.

The impact of inflationary expectation on consumer and business spending plans.

The inequities in the current distribution of the total tax burden.

The levelling off in the thrust provided by the economic stimulus program enacted last year.

The large drain on our economy of payments for imported fuels.

The inadequate rate of business capital formation.

The inadequate employment opportunities for important segments of our society, particularly minorities and youth.

The slowing in our rate of technological innovation, which threatens the technical supremacy of the American industrial system.

Our basic strategy in overcoming these potential roadblocks rests on three fundamental principles:

The enormous strength and vitality of our private sector must be freed from the burden of excessive taxation and unnecessary regulation. As the President stated in his Economic Report, "We should rely principally on the private sector to lead the economic expansion and to create new jobs for a growing labor force."

The rise in government spending must be restrained. The more our Nation's resources are usurped by government, the less is available for the private economy.

Within this restraint, total government spending must be redirected to focus on the major social and economic problems of our society.

The proposed implementation of this strategy is spelled out in the various messages the President has transmitted to the Congress in recent weeks. Central in this strategy is the proposed tax program, which will offset an imminent rise in the burden of taxation and assure a more equitable sharing of the burden.

Prompt tax relief is particularly necessary in light of the recent changes that have been made in social security taxation. To restore the financial integrity of the social security system, which was battered by the severe recession and severe inflation of recent years, and to insure social security benefits for future generations, large infusions of revenues are needed. But the taxes enacted to provide these revenues will represent a significant drain on the current purchasing power of American workers. To sustain an adequate rate of economic growth, the drain of higher social security taxes must be offset by income tax reductions.

In addition to the rise in social security taxes, inflation has been levying a growing but hidden tax. Under our progressive income tax system, inflation pushes individual incomes up the tax rate schedule and into higher tax brackets, resulting in a higher tax toll even though real purchasing power of incomes may remain constant.

The income tax reductions proposed in the President's tax program will offset both the rising social security tax burden and the effects of inflation on effective tax rates. We estimate that for the consumer sector of the economy, the combined drain of social security and incomes taxes—which together absorb about 14 percent of personal income—will be about the same in 1979 as it was in 1977. Without the proposed tax cut, the tax drain would rise by about one percentage point.

Most of the proposed income tax relief is directed toward low- and middle-income families. The President is committed to the principle that the net tax reductions should be focused on those individuals who need tax relief the most—low- and middle-income Americans. Through a combination of substantial tax cuts and needed tax reforms, the Administration's tax program lessens the burden significantly on those individuals who now shoulder a disproportionately large share of the burden of public support while providing lesser relief—or, in some cases, raising the tax liability—for those persons who now make use of unjustified tax preferences to escape paying their fair share of taxes. Over 94 percent of the proposed tax relief is provided to families making less than $30,000.

By offsetting the fiscal drags that threaten to reduce consumer purchasing power, the tax program promotes continuation of strong markets for the goods and services produced by American business. In addition, the tax program provides specific encouragement for the business investment that will enable our industrial society to meet expanding demands and provide the tools of production for a growing labor force.

Over the past decade, the growth of our productive capital stock has not kept pace with the expansion of the economy or of its labor supply. Capacity growth in manufacturing has declined from a growth rate of about 4.5 percent during the period 1948 to 1969, to 3.5 percent from 1969 to 1973, and to 3 percent from 1973 to 1976. Real business fixed investment in the fourth quarter of 1977 was still 3 percent below its previous peak, reached in the first quarter of 1974.

We are simply not allocating enough of current output to provide the capacity for future growth. Several years ago, a study by the U.S. Department of Commerce concluded that in order to build a capital structure adequate to support a full employment economy by the end of the decade, we would have to allocate at least 12 percent of national output to business fixed investment. In recent years, we have been allocating less than 10 percent of output to investment. The lagging rate of capital growth has impaired our productivity, threatens capacity bottlenecks and price pressures in the years ahead, and fails to provide adequate job opportunities for our growing labor force.

Many factors have combined to restrain the rate of business investment. One of the most important has been the low rate of return on capital. Reported profits do not accurately measure the true return on capital, for conventional accounting practice does not adequately take into account the costs of replacing the capital equipment and inventories used up in production. If the reported figures are corrected for the inflation in these costs, it will be seen that the return on capital has been very depressed in recent years, and is still at levels well below that of the mid 1960's.

The tax program we are proposing addresses directly the urgent need to provide more adequate incentives for investment. The key element is the proposed reduction in the tax rate on corporate incomes—a reduction of 3 percentage points to become effective on October 1 of this year, and an additional reduction of 1 percentage point on January 1, 1980. Intensive discussions with business leaders from many industries affirm that this form of tax relief will be very beneficial as an incentive for long-term productive investment.

In addition to the reductions in corporate tax rates, we are proposing several modifications of the investment tax credit. By making the present 10 percent rate permanent, rather than reverting to the 7 percent level that is now scheduled to apply after 1980, businesses can plan ahead with greater certainty of the tax benefits that will be associated with projected capital expenditures.

Further, it is proposed to extend the investment credit to utility and industrial structures. The current ineligibility of structures results in an unbalanced industrial expansion. It should be noted that the extension of the credit is not only for new structures, but also applies to the rehabilitation of existing buildings, to avoid the possibility of an anti-urban bias.

In addition, the eligibility for the full 10 percent investment tax credit would be extended to all pollution control facilities. Also, the ceiling on the extent to which investment credits can generally be used to offset tax liabilities would be raised, from the present ceiling of 50 percent to a new 90 percent of tax liabilities. The extension of the tax liability ceiling should greatly broaden the range of business which can benefit from the investment credit and encourage a broader base for industrial expansion. Finally, a number of specific measures of tax relief for small businesses are proposed. Together, this package of proposed tax reductions will provide powerful incentives for business investment, enabling American industry to put into application the latest and most efficient technologies.

Some have argued that the amount of the proposed tax reduction will not be large enough to meet our national objectives, particularly in reducing unemployment. But the Administration's program does not rely solely on aggregate fiscal policy to address the unemployment problem, which has strong structural characteristics. In particular, unemployment among youth and minorities remains unacceptably high despite the improvement that has occurred in the overall economic environment.

The Budget before you requests funds for specific programs targeted on these major pockets of structural unemployment. These include extension of the public service employment program, more sharply focused on the long-term unemployed and the disadvantaged, and expansion of programs directed at youth. Importantly, a new initiative is being launched to encourage the involvement of the business sector in local employment and training programs. The Administration recognizes that, for the long-run, private sector job creation is the right answer to our unemployment problems.

Countering the concerns of those who fear the tax reduction program might prove inadequate are the concerns of those who fear that with the economy advancing at a vigorous pace, a $25 billion tax reduction would overstimulate demand and accelerate inflation. This is often coupled with the concern that financing the resultant deficit will impact financial markets adversely, with a resultant rise in interest rates that could negate the stimulus from tax reductions.

Such fears are understandable, but not warranted. The proposed tax reductions have been gauged so that, in aggregate, they offset the scheduled rise in social security taxes and the drag on purchasing power from the inflation impact on effective tax rates. The intent is to maintain the satisfactory growth rate of the economy, not to accelerate activity to an unsustainable pace.

Moreover, the effects of the proposed tax reductions must be evaluated in the context of the entire fiscal program submitted by the President. On the expenditure side of the Budget, the President proposes an increase, in real terms, of only a little over 1 percent, the smallest rise in five years and a third less than the average annual increase in spending in the 1969 to 1976 period. The Federal government's demands on the nation's resources will decline; the ratio of Federal outlays to GNP will drop from 22.6 percent this year to 22 percent in FY 1979, and decline further in the years ahead.

With this restraint on spending, the $60 billion deficit projected for 1979 does not threaten serious upward pressures on wages, prices or interest rates. We would not, after all, be running a deficit in an overheated economy. With slack still remaining in labor markets, and a substantial margin of industrial capacity still available, a deficit of this order of magnitude in FY 1979 would reflect appropriate tax and expenditure policies.

Financing a deficit of this size should not present serious problems for financial markets. Treasury financing requirements—in the order of $65 to $70 billion in FY 1978 and FY 1979—will represent a smaller share of total credit market flows than in 1975 or 1976, and not much higher than in 1977. It must be remembered that the volume of savings flows grows along with the rise in economic activity—personal savings alone is expected to rise by almost $20 billion this year—and we expect that our financial markets will prove attractive to foreign investors. As we gauge the prospective flows of credit demand and supply, we see no basis for concern over the possibility that Treasury financing needs will "crowd out" private sector financing. And the Administration's tight control over Federal spending, along with the initiatives we are taking to reduce the rate of inflation, will alleviate some of the burden on monetary policy.

One very important element of the President's economic program is the effort we are mounting to reduce the rate of inflation. The prudence evident in the President's spending plans is assurance that the government's demands on the nation's resources will not be a source of inflationary pressures. The tax program's strong incentives for investment in new production facilities will reduce the possibilities of shortages or bottlenecks as the economy reaches higher levels of resource utilization. Similarly, the jobs-training and employment opportunity programs proposed in the Budget will develop a reservoir of skills we will need as demand for workers continues to grow.

The President's tax program also includes proposals to reduce excise and unemployment insurance taxes, modest steps but ones that will contribute directly to reducing costs and prices. The development of larger grain reserves will also contribute to price stability, by providing a buffer against food price changes in the event of bad weather. Legislation has already been submitted to limit the rate of increase in hospital care costs.

A vigorous program is being launched to reduce the burden of government regulations which add unnecessarily to costs and prices. Steps taken this past year have already reduced the number of regulations, and the paperwork burden involved in complying with regulations. The program is being expanded through the development of procedures that encourage regulatory agencies to apply the most cost-effective solutions in accomplishing their regulatory objectives, and by a careful review of the economic justification of major new regulatory proposals. An interagency committee has been established to review the adequacy of the economic analyses underlying such regulations, and to assure that all alternatives have been explored in the search for the least costly means of achieving the objectives. We are also undertaking an assessment of the impact of regulation on the economy as a whole, to find ways of setting priorities among regulatory objectives.

A major element in the Administration's efforts in restraining inflation is a cooperative program with business and labor to lower the rate of wage and price increases. Because this program is voluntary, rather than mandatory or coercive, and because it does not rely on a single standard of wage and price behavior, it has been dismissed by some as ineffective.

Such premature judgments appear based on a lack of understanding of the inflation process, a process in which wages have been vainly chasing prices which have been vainly chasing wages, in an escalating cycle with no one the victor for long. We believe it is possible to reduce the rate of escalation in almost every market, and we intend to work closely with business and labor leaders in every major industry to achieve this.

If we can all cool off in concert, everyone will benefit. Reduction in the rate of inflation will encourage business and consumer spending plans, stabilize financial markets, and improve our ability to compete in international markets. The price deceleration program we are initiating, which involves a collaboration of government, business and labor, will substitute *ex ante* consultation for *ex post* confrontation, and we are confident it will achieve a significant degree of success.

The success of our efforts to promote domestic growth, reduce unemployment and curb inflation depend importantly on maintenance of an open, prosperous, world economy. The continuation of large imbalances in international payments is, however, placing a strain on the international monetary system which threatens a further slowdown in the world economy and resort to trade restrictions.

All nations must cooperate to reduce these payments imbalances, and to increase the world's ability to cope with them. Strong domestic economic growth in major industrial societies is a prerequisite to achieving better international balance. The Administration's economic program will assure that the U.S. remains a source of strength in the world economy. It is important that other strong nations join us in comparable efforts, if we are to sustain economic recovery throughout the industrial world.

The persistence of large international payments imbalances has become a source of disturbance in international exchange markets. Toward the end of 1977, the foreign exchange market became increasingly volatile, and the United States has intervened more forcefully to counter increased market disorder.

Our objective is the limited one of checking speculation and re-establishing orderly conditions. I believe we are making progress in calming the situation.

The measures that have been taken are designed to deal with a particular market situation. They are not a substitute for action to correct the root causes of international trade problems.

For the United States, the trade deficit is not the result of an overheated domestic economy that must be restrained through sharply higher interest rates. It primarily reflects two factors: excessive U.S. dependence on imported oil, and slow growth abroad. The solution lies in implementing a strong U.S. energy policy and in the restoration of maximum sustainable non-inflationary growth in other countries. World economic recovery and confidence in the dollar will be better served by a dynamic rather than a stagnant U.S. economy.

The Administration's fiscal program will support dynamic growth. But, concomitantly, we must intensify our efforts at reducing the drain on our domestic economy of much-too-high a bill for imported fuels. Prompt enactment of an effective energy policy, one that will enable us to limit our fuel imports as we substitute more abundant, more reliable domestic sources of energy, is undoubtedly the single most important step we can take to reduce our international payments deficit and to assure, for the longer-run domestic economic growth.

Adjustment of the world's international payments to a better balance cannot be an instantaneous process. In the interim, it is important to ensure that financing facilities are in place to permit orderly adjustment.

Last year agreement was reached—with strong support from the United States—on a major improvement in the world's ability to cope with payments imbalances, through establishment of a \$10 billion Supplementary Financing Facility in the IMF. By assuring that adequate official financing is available if needed, this Facility will enable and encourage countries to correct their imbalances in an internationally responsible manner. In promoting a more sustainable international financial system, the Facility will also provide the confidence needed to foster expansionary economic policies in the stronger countries, to spur the business investment essential for sustained growth, and to avoid trade restrictions.

Legislation to provide for U.S. participation is now before Congress. Our share of approximately \$1.7 billion represents an appropriate and needed investment in a sound, open world economy. Prompt action by the United States is required to bring the facility into operation, to reduce present uncertainties that are unsettling to markets and to preserve the important U.S. leadership role in the international financial area.

We are consulting closely with the Congress as to the appropriate budgetary treatment of U.S. participation in the new Facility. We recommend that the Congress authorize budget authority and budget outlays only to the extent of possible exchange losses arising from changes in the dollar value of the SDR because of exchange rate fluctuations. Accordingly, the President's proposed FY 1978 Supplemental Budget request provides for a \$200 million contingency reserve to meet such losses.

There is one other Budget item, of critical importance to the international position of the U.S. economy, on which I would like to comment.

In the international area, one of the Administration's highest priorities is the request for funds for the international development banks. These banks represent an extremely effective channel for U.S. assistance to the poorer countries, which are of growing importance to us in both political and economic terms. They assure full burden-sharing by other donor countries, who now contribute \$3 for every \$1 contributed by the United States. They represent an extremely effective instrument for improving overall North-South relations, because they engender true partnership among the developed and developing countries. They support basic human needs around the world, promote international respect for human rights and increase world production of food and energy.

We are asking for $3.5 billion for the banks in FY 1979. However, nearly $1.4 billion of our request is for callable capital. Unlike paid-in capital, which entails a budgetary outlay, callable capital does not; it serves simply as backing for the borrowing operations of the banks, whose loans are financed through their own borrowings from the private capital markets. Our capital would be called only if needed to cover a default by one of the banks on a bond issue, which has never happened in the past and is extremely unlikely to happen in the future.

In addition, $835 million of our request represents past unfunded appropriations of amounts previously authorized by the Congress. Our failure to make good on these pledges has reduced the level of funds available to the developing countries, forced other donor countries to assume higher shares in the banks than they had accepted in good faith negotiations and, most importantly, jeopardized the overall international credibility of the United States. The Administration considers it essential that this particular portion of our request be made available to the development banks this year.

Let me summarize, Mr. Chairman, by noting, that the economic program proposed by the President will make possible solid progress towards achieving our goals of steady growth, reduction in unemployment, fuller utilization of industrial capacity, and strengthened international confidence in the U.S. economy. Our projections indicate that, with this program, there will be five million additional persons employed by the fourth quarter of 1979. Moreover, about 700 thousand fewer persons will be faced with the frustrating experience of being unable to find meaningful work; the overall unemployment rate will drop to about 5¾ percent. Real gross national product will be almost 10 percent above fourth quarter 1977 levels, and real disposable personal income per capita will be about 8 percent higher.

By emphasizing expenditure restraint, and relying on tax reductions to promote growth, the share of GNP absorbed by government would decline. This would permit an increase in the share of our national output to be devoted to the private sectors' decisions, and particularly to fixed investment—the basis for increased productivity and expanded future consumption. This can be accomplished without accelerating inflationary pressures.

I trust you will agree that the Administration's program represents a balanced effective response to the nation's major social and economic needs. I will be happy to respond to any questions you may have.

Mr. Mahon. Now Jim McIntyre, the Director of the Office of Management and Budget, is with us. I believe, Jim, this is your first appearance before the Committee on Appropriations. We are pleased to have you. We realize that there is no more difficult assignment in the Government than the job you have as Director of the Office of Management and Budget. So we will look forward to hearing your statement.

Charlie Schultze, the Chairman of the Council of Economic Advisers, will be here with us this afternoon.

So with those preliminary statements, I think we might begin the hearing, as I ask for the tolerance and understanding of the members of the committee because we cannot really have the kind of hearing we would like to have with the participation of the full committee.

Mr. Secretary.

Secretary Blumenthal. Thank you very much, Mr. Chairman.

Mr. Chairman and distinguished members of the committee, I appreciate your welcome and I note with pleasure that you consider me an old hand, based on one previous appearance before this full committee.

I am pleased to appear before the committee in order to testify with my colleagues on the President's budget and his economic program. I have a prepared statement which I understand is being submitted for the record, and I will merely summarize some of the high points in that statement.

Summary Statement of the Secretary of the Treasury

Mr. Chairman, the President's economic program for 1979 can be characterized by the 3 big C's: it is comprehensive, it is consistent in philosophy, and it is conservative. It builds on the existing strengths of the economy, and they are considerable, while at the same time pinpointing and seeking to deal with particular weaknesses and spots that need action.

It puts major emphasis on the private sector by keeping government spending down to the absolute minimum and by returning resources to the economy through tax reductions, both for individuals and for business. This is geared to reduce Federal outlays as a percentage of the GNP and thus to rely on the free enterprise system to do the job of creating additional employment for all of our citizens.

At the same time it focuses strongly on the question of inflation, recognizing that we cannot have a growing and stable economy and we cannot depend on having permanent jobs and job creation if we do not deal with the problem of inflation.

In that regard, Mr. Chairman, I think it is important to point out that we are not starting from a position of weakness as we present this budget, but instead, we are starting from a position of considerable strength.

The GNP grew by 5¾ percent in real terms last year; unemployment moved down from 7.8 to 6.4 percent; we added 4.1 million new jobs, which is a record in the postwar period for any one year. The inflation, as measured by the Consumer Price Index, abated as the year progressed.

In the first 6 months, fueled by increased food prices and energy costs because of bad weather, we were running close to double digit inflation again, 9 percent; in the second 6 months of calendar 1977 we were back down to a rate of 4.4 percent, giving us a 6.8 percent for the year. This rate of inflation is not satisfactory, Mr. Chairman, in the view of the Administration, but we have managed to keep it under control and we are suggesting a variety of ways to reduce it in the year to come.

The President's program, building on the strength in the economy, seeks to assure a growth rate of 4.5 to 5 percent in real terms and to take into account, in particular, some of the problems that individual Americans face at the present time. These are, of course, the pressures of inflation which force individuals into higher income tax brackets, as well as the increase in Social Security taxes that was voted by the Congress this year and that which was previously voted and went into effect this year.

We also have to consider the fact that the stimulus which the Congress voted in early 1977, while still making an important impact, will run out. We therefore have to look at the latter part of 1978 to see to what extent, with the phasing out of the stimulus, we are forced to take additional measures in order to keep the economy growing at this 4.5 to 5 percent real rate.

The central part of the President's program as reflected in this budget, Mr. Chairman, is the tax program. The tax program has 3 major goals. One is to provide reductions for individuals; second, to provide reforms to simplify the program and assure greater equity for taxpayers; and third, to provide important incentives for business investment, thus creating the jobs that are needed to bring down the rate of unemployment and counteract inflation by increasing capacity and eliminating the danger of bottlenecks.

The tax program involves net reductions for individuals of $16.8 billion, with gross reductions of $23.5 billion and offsetting reforms of $6.8 billion.

Secondly, it calls for gross reductions for business of $8.3 billion, offset by $2.6 billion in reforms, for a net of $5.7 billion of important reductions for business.

Thirdly, $2 billion worth of payroll and excise tax deductions are proposed in order to make a contribution toward the fight against inflation.

The measures which the President is proposing on the tax front, Mr. Chairman, will to a very significant extent offset for the large number of Americans the impact of Social Security tax increases and the impact of inflation. All personal taxes, for example the Social Security tax increases that were part of the pre-1977 law and those voted in 1977, amount to $5.7 billion.

As I indicated, the reductions for individuals will be $16.8 billion for 1979, about 3 times the amount of the Social Security tax increases.

Taking all payroll taxes, those imposed on individuals as well as those imposed on business, and again counting those that are due to the pre-1977 law, as well as those enacted in 1977, and including unemployment insurance, these amount to $14.9 billion. That compares to the $24.5 billion of net tax reductions which the President is proposing.

Let's look at another measure, all Federal personal taxes on a payments basis as a percentage of personal income. Here I am including income taxes as well as payroll and unemployment taxes. The President's program envisages that that will remain in 1979 roughly where it is in 1977, namely, at about 14 percent of personal income. So you can see that the tax reductions which the President is proposing more than offset all of these tax increases and take into account the element of inflation.

One further point to be emphasized with regard to his tax program as it affects individuals, Mr. Chairman, is that the emphasis is on providing relief, particularly for lower and middle income taxpayers.

Virtually everyone below $30,000 in annual income gets a major tax cut, and everyone in the tax rates receives a reduction below $100,000 of income. But the emphasis is clearly on the lower and middle levels, as it should be.

The reforms that the President is recommending are importantly designed to remove inequity and to make the system fairer for everyone, again with emphasis to the lower and middle level incomes.

On the business side there is an important need to increase the rate of growth in our capital stock, which has not kept pace with the growth in the labor supply.

For example, in the years 1948 to 1969 there was a 4½ percent average growth in manufacturing capacity. In the period 1969 to 1973, that dropped off to 3½ percent. In the period 1973 to 1976 that dropped further to less than 3 percent. Clearly that is not enough, if we are to rely on the private sector to create the jobs that are needed in this country. This again is reflected in the slowing down of productivity growth, and that is a very worrisome trend in this country.

Again in the period 1948 to 1966, the average annual growth in productivity was 2.7 percent; in the period 1966 to 1973, the average growth in productivity was only 1.8 percent. There are a number of reasons for this Mr. Chairman, but one of them clearly is the lower rate of return on capital; put in another way, the decline in profitability for business. So the tax cuts that the President is proposing are designed to deal with this problem, to provide incentives to invest more and to provide greater profits to American industry in order to do that.

That is being done by means of a suggested rate cut in corporate taxes to 45 percent and eventually to 44 percent by January 1, 1980. Similarly, it is being done by a liberalization in the investment tax credit, making the investment tax credit applicable to industrial structures, increasing the proportion of profits tax liability that may be offset to 90 percent from the present 50 percent limit, and in that way making it more attractive for business to go out and invest by increasing the return to capital.

These are very important recommendations. They conform to what the business community indicated was needed in order to step up investment, and they provide the kind of certainty for the future which the business community felt was needed in order to give them assurance of a stable and growing climate in which they could operate effectively.

Mr. Chairman, the question of course also arises about whether this tax cut which, together with the spending proposals, will lead to a budget deficit of $60½ billion, is either too large or not large enough. I am sure there are people who can legitimately argue either side of the case.

We did not pick this number out of the air. It was carefully considered, carefully analyzed over a period of many months. We feel it needs to be that large in order to offset the drag due to inflation, due to increases in some of the other taxes, and in order to allow us to reduce the rate of unemployment further.

We do not believe that it should be larger, because a larger deficit really would put pressure on inflation. Also, we do not believe that a larger deficit or larger tax cut would make any great inroads into the unemployment problem. This has to be addressed with pinpointed programs geared toward structural unemployment, but we do not believe, in addition to that, that this particular budget deficit will result in any crowding out.

We have carefully looked at the numbers and they indicate that there will be an ample supply of resources available to fund this deficit. As a matter of fact, this year the percentage of Federal borrowing in terms of total borrowing actually declined somewhat. It will not increase more than a fraction in the coming year, and with personal savings flows increasing by about $20 billion the added requirements by the Federal Government, in our judgment, will not put any undue pressure on interest rates and on the market.

Let me conclude very quickly by commenting on the international aspects of this program and of the budget.

As you already mentioned, I will be testifying tomorrow before this committee in more detail, in particular on our requests relating to the so-called Witteveen facility. But it is important that we continue to play a leading part within a world context, because we are the world's largest and most productive economy, because many other countries depend on the success of our economy to continue with steady, regular growth—and the 4 to 5 percent real GNP growth will achieve that—and because we must cooperate with others in order to achieve that goal.

We must grow while curbing inflation, all countries must do that, and we must work to reduce the imbalance in our current account and in our trade deficit.

The program on taxes is designed to do that. It allows expansion of productive capacity which maintains income streams for individuals and at the same time supports the entire inflation program. Early passage of the energy program will be a very important factor in helping to reduce the deficit in the trade balance because it will begin to reduce the $45 billion bill that we have for annual energy imports. Increases that we are requesting for the activities of the Export-Import Bank will be helpful to American businessmen seeking to export their goods and in that way contribute to a reduction of the deficit in the balance of trade.

The individual Witteveen facility, which I will be discussing later, represents an important means of interim financing through the IMF. This involves, on a worldwide basis, a $10 billion supplemental financing facility. Through international collaboration it will help those countries, countries friendly to the United States, who are in temporary payments difficulties and who are engaged in stabilization programs.

Our share of that is $1.7 billion. As you know, legislation is now pending on that question and we are consulting closely with you and others in order to determine what the appropriate budget action is. We are recommending, Mr. Chairman, that Congress authorize budget authority and budget outlays only to the extent of possible losses arising from the changes in the dollar value relating to the SDR, due to exchange rate fluctuations. This will mean a supplemental appropriation for fiscal 1978 of $200 million as a contingency reserve for that purpose.

Finally, Mr. Chairman, we are also in this budget requesting additional help to the International Development Banks. This help is vitally important to the United States and provides us with important leverage; for every $1 that we contribute, $3 are contributed by other countries. We are asking for $3.5 billion in fiscal 1979, but it is important to note that $1.4 billion of that is callable capital, which is quite different from paid-in capital. It only serves as a backing to the lending activities of the International Development Banks and would be called on only in case of defaults by the borrowers, which has never happened in their history.

It should also be noted that another $835 million of that $3.5 billion represents unfunded appropriations of amounts previously authorized by the Congress.

Mr. Chairman, this is a very, very rapid summary of a much more complete statement on the economy and on the budget, which I presented to you for the record. It is a carefully thought-out program. It meets the needs of our economy, and I hope that you will give it your serious and positive consideration.

Thank you very much.

Mr. MAHON. Thank you, Mr. Secretary, for a very interesting and helpful statement. We will have questions in regard to your testimony as we proceed with the hearing.

At this time we will hear Mr. McIntyre, the Director of the Office of Management and Budget. You may brief your statement and then we will get into the period of interrogation.

Mr. MCINTYRE. Thank you, Mr. Chairman.

I do have a formal statement that I would like to submit for the record. Therefore, I will abbreviate my remarks today and submit the formal statement to the committee.

Mr. MAHON. Off the record.

[Discussion off the record.]

[The prepared statement of Mr. McIntyre follows:]

STATEMENT OF JAMES T. MCINTYRE, JR., ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman and members of the committee, good morning. I am pleased to be here with you today to discuss the President's 1979 budget—President Carter's first full budget. I join with my colleagues, Secretary Blumenthal and Chairman Schultze, to present the President's Budget for 1979 from our individual perspectives and answer any questions you may have concerning its basic content and philosophy.

Our work on the 1979 budget began last spring, with detailed reviews by OMB. Following those reviews, the President met with each of the Cabinet officers to discuss major budget issues and to set budget targets. In September, the agencies submitted their budget requests to OMB. At the President's direction, these requests were—for the first time—prepared using a detailed, zero-base process that:

—Provided new ways to look at program budgets,

—Involved program managers more directly than ever before in the evaluation of program operations, and

—Provided agency rankings of their programs that were used to compare and evaluate the many requests competing for resources.

We believe that zero-based budgeting resulted in a better, more consistent set of budget proposals than we would have had under previous practices. We intend to continue this process in future budgets, and we are convinced that we can achieve even better results in the years ahead.

OMB's reviews of agency requests and our discussions with agencies about them were followed by many hours of detailed discussions with the President. Throughout these reviews we kept in mind several themes that the President has now identified in his budget message. In brief, the themes are:

1. Our fiscal policy must provide for continuing recovery of the Nation's economy.

2. We must meet critical national needs, particularly human and social ones.

3. The use of government resources must be carefully planned with an awareness that they originate from the American taxpayer.

4. There is a limit to what Government can do. New priorities must be set and some old priorities must be altered to meet our needs effectively.

5. We have an obligation to manage with excellence the large sums entrusted to us by the taxpayers.

These considerations resulted in a budget with a spending total of a little over $500 billion in 1979 and a deficit of a little under $61 billion. The budget totals are shown in the following table, which I would like to insert for the record.

THE BUDGET TOTALS

[In billions of dollars]

	1977 actual	1978 estimate	1979 estimate
Budget receipts	356.9	400.4	439.6
Budget outlays	401.9	462.2	500.2
Deficit (−)	−45.0	−61.8	−60.6
Budget authority	465.2	502.9	568.2

This budget represents a total of $568 billion in new budget authority requests. Nearly two-thirds of this amount will require action by this committee. The remainder will automatically become available without further action by this committee.

The 1979 budget is realistic, responsible, and responsive to the Nation's most critical needs. Spending has been held to an overall increase of eight percent, the smallest increase since 1973. True, the deficit for 1979 is only one billion less than the deficit in 1978. Had no tax cut been proposed, we could have shown a decrease of $15 to $20 billion. It is more important now, however, that we have a tax cut to help the economy continue to grow and to encourage the increased capital investment that will improve productivity. The President's proposed reductions also mean that Federal taxes will represent a smaller share of our gross national product. This, in turn, will provide an additional incentive for both the Congress and the President to restrain the growth in spending.

This budget keeps open the option for a balanced budget in 1981. In an effort to control the budget more effectively so that we can remain on this path, the President has asked each agency to prepare future budget requests within the context of a planning period that extends for three years beyond the budget year. The multiyear budget planning system that we are developing will help to assure better control of Federal spending by identifying the long term spending consequences of program proposals. The 1979 budget requests together with detailed long-range estimates prepared in connection with this budget will form the initial elements of the new system.

While the outlays recommended in this budget are restrained, they are, nevertheless, directed toward overcoming our Nation's crucial problems. The Administration looked carefully at existing approaches to these problems and improved those approaches where possible. The spending priorities of the past are now being shifted toward long-neglected areas. I will summarize a few of these new priorities:

An effective national energy plan is essential to reduce our increasingly critical dependence upon diminishing supplies of oil and gas, to encourage conservation of scarce energy resources, to stimulate conversion to more abundant fuels, and to reduce our large trade deficit.

To move toward these goals, the budget reiterates the President's energy proposals made last April. As his budget message states, the President believes firmly that the Nation's leaders have an obligation to plan for the future in this area. The budget proposes:

A 23 percent increase in spending for all energy programs.

An increase of 33 percent in outlays for research and development of energy conservation programs.

Substantial increases for research in fossil fuels and inexhaustible fuels, including solar energy.

Full funding of more than $4 billion to buy and store the first 500 million barrels of crude oil in the Strategic Petroleum reserve, as well as funds to begin construction of facilities for the next 250 million barrels.

The essential human needs of our citizens must be given high priority. In the spring of 1977, the President proposed a long-overdue reform of the Nation's welfare system that included a combination of employment opportunities and incentives for those who should work, and a basic income for those who cannot. The 1979 budget anticipates that Congress will pass the program for better jobs and income, and begins the process of careful planning for the implementation of an efficient and equitable system.

The budget also recognizes that ensuring the opportunity to compete and excel remains very important to our people. Toward this end it proposes:

Major expansion of medical care and nutritional supplements for low-income expectant mothers and infants to give all children the healthiest possible start in life;

Major increases in educational assistance at all levels, including increases of more than 16 percent in spending for elementary and secondary education, primarily to improve basic skills (especially reading) of the children from poor families, and more than 50 percent in funds to assist State and local education agencies to meet excess costs required to educate handicapped children;

Continuation of the public sector jobs program at 725,000 jobs for another year to help reduce the current rate of unemployment, particularly among minorities;

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Major increases in programs stressing employment for unemployed youth—from $0.8 billion in 1977 to $1.6 billion in 1978 and to $2.3 billion in 1979; and

A $400 million initiative to place more disadvantaged persons in private sector jobs by increasing the involvement of the business community in local employment and training programs.

Because a workable urban strategy is an important link in a well-articulated domestic program and essential to the continuing recovery of the national economy, the budget includes increases for many programs benefiting urban areas and supports several efforts to improve these programs. The President anticipates sending to the Congress early in the spring a set of further proposals dealing with the Nation's urban problems.

The Nation's armed forces must always stand sufficiently strong to deter aggression and to assure our security. The 1979 budget provides for the steady modernization of our strategic forces, and for substantial improvements in the combat readiness of our tactical forces. To parallel commitments made by our European allies, it proposes significant increases in our overall defense effort, with special emphasis on those forces and capabilities most directly related to our NATO commitments; at the same time defense outlays are being restrained by introducing important efficiencies and by placing careful priorities upon our defense needs. The 1979 defense budget is prudent and tight. It:

Provides three percent real growth in outlays between 1978 and 1979, with particular emphasis on assistance to our NATO allies; and

Is $8 billion less in total obligational authority and $5½ billion less in outlays than that projected by the previous Administration for 1979.

The Federal Government has an obligation to nurture and protect our environment—the common resource, birthright and sustenance of the American people. Accordingly, this budget provides for substantially increased emphasis on protection of all our environmental resources, for new attention to our common heritage, and for substantial additions to our system of public lands.

The Federal Government must lead the way in investing in the Nation's technological future. Shortly after taking office, the President determined that investment in basic research on the part of the Federal Government had fallen far too low over the past decade, and he directed that a careful review be undertaken of appropriate basic research opportunities. As a result of that review, this budget proposes a total of $3.6 billion in obligations—a real rate of growth of almost five percent—for basic research in 1979. This emphasis is important to the continued vitality of our economy.

The Federal Government must change its program priorities as the needs of the nation change. This adjustment is reflected in the 1979 budget in the programs noted above and in the following programs as well:

For agriculture, fiscal year 1978 outlays for farm price supports and related programs are estimated to be $7.3 billion. This is a record high and is 92 percent above the $3.8 billion paid out in 1977. For 1979, the budget assumes a return to more normal weather. As a result, outlays for farm price supports are estimated to decline to $4.3 billion, still a very high level by historical standards.

For transportation, the Administration is proposing a major new highway and transit bill that will provide more than $45 billion in the next four years. The most important feature of this legislation is the increased flexibility it would provide State and local governments in planning the use of highway and transit funding.

For subsidized housing programs, outlays:

Will increase more than 17 percent; and

Will provide rental and home-ownership assistance to an additional 450,000 lower income families, about 10 percent more than the 1978 level.

In addition to the budget proposals we are making for 1979, this budget includes—for your consideration—1978 supplemental requests totaling just under $7 billion. These requests are intended to fund increased program needs and requirements—including those associated with the October 1977 pay raise.

As you go about your account-by-account deliberations of these proposals, you will find the many effects of the President's reorganization efforts. These efforts seek more than just a streamlining of organization structure and the elimination of overlaps and duplication. They seek to make our Government more responsive, more efficient, and more clearly focused on the most pressing needs of our society.

The establishment of the Department of Energy, the streamlining of the Executive Office of the President, and the consolidation of our international information and cultural activities are the prime examples of these efforts to date.

Additional reorganization proposals will be made as the President's reorganization effort continues to evaluate new areas.

To summarize—and to repeat—President Carter's 1979 budget is realistic, responsible, and responsive to the Nation's most critical needs. At the same time, it is lean and tight. All of us in the Administration—from the President down—recognize that to carry it out successfully we will need the help and the cooperation of the Congress. We look forward to working with you as you review it.

Mr. Chairman, this concludes my formal statement. I would be pleased to answer the Committee's questions.

Summary Statement

Mr. McIntyre. Mr. Chairman and members of the committee, I am pleased to be here with you today to discuss the President's 1979 budget—President Carter's first full budget.

I join with my colleagues, Secretary Blumenthal and Chairman Schultze, to present the President's budget for 1979 from our individual perspectives and answer any questions that you might have concerning its basic content and philosophy. I do not intend to go over each and every item of the budget at this time, but my staff, my colleagues and I will be glad to try to answer any specific questions that the committee might have.

Mr. Mahon. You understand that we will have a much more extensive probing and interrogation at a later date in regard to all the items in the budget.

Mr. McIntyre. Yes, sir.

Our work on the 1979 budget began last spring. We went through the normal process of working with the agencies in the spring reviews that have been traditional in the budget development process in government.

ZERO BASE BUDGETING

We did, however, install for the first time the zero base budgeting process in the development of agency requests and in the budget process this year. We feel that this process provided new ways for managers to look at the program budgets. It involved program managers more directly than ever before in the evaluation of program operations, and it provided agency rankings of their programs that were used by our examiners to evaluate the many requests for competing resources.

We believe that zero-base budgeting resulted in a better, more consistent set of budget proposals than we would have had under previous practices. We intend to continue this process in future budgets and we are convinced we can achieve even better results in the years ahead.

Our reviews of the agency requests and our discussions with the agencies about their requests were followed by many hours of detailed discussion with the President. Throughout these discussions we kept in mind several themes that the President has now identified in his budget message.

In brief, the themes are, first, that our fiscal policy must provide for continuing recovery of the Nation's economy. Second, we must meet critical national needs, particularly human and social ones. Third, the use of government resources must be carefully planned with an awareness that they originate from the American taxpayer. Fourth, there is a limit to what government can do. New priorities must be set and some old priorities must be altered to meet our needs effectively. Finally, we have an obligation to manage with excellence the large sums entrusted to us by the taxpayers.

These considerations resulted in a budget with a spending total of a little over $500 billion in 1979 and a deficit of a little under $61 billion. The budget totals are shown in a table that I have submitted for the record as part of my prepared statement.

This budget proposes a total of $568 billion in new budget authority. Nearly two-thirds of this amount will require action by this committee, while the remainder will become available without further action by this committee.

We feel that this budget is realistic, responsible, and responsive to the Nation's most critical needs. Spending has been held to an overall increase of eight percent, the smallest increase since 1973.

BUDGET DEFICIT FOR FY 1979

True, the deficit for 1979 is only $1 billion less than the deficit in 1978. Had no tax cut been proposed, we could have shown a decrease of $15 to $20 billion. However, we feel that it is more important now that we have a tax cut to help the economy continue to grow and to encourage the increased capital investment that will improve productivity.

BUDGET PRIORITIES

The budget does represent certain shifts in priorities. While it is a tight budget, we have recommended increases in the energy area. In fact, a 23 percent increase in spending for all energy programs has been recommended.

In the area of education, we have recommended substantial budget authority increases totaling approximately $2 billion over the 1978 level.

We have recommended expansion of medical care and nutritional supplements for low-income expectant mothers and infants to give all children the healthiest possible start in life.

We have recommended continuation of the public sector jobs program at 725,000 jobs for another year to help reduce the current rate of unemployment, particularly among minorities.

Major increases in programs stressing employment for unemployed youth have been increased from $.8 billion in 1977 to $1.6 billion in 1978, and to $2.3 billion in 1979. In addition, a $400 million initiative is proposed to place more disadvantaged persons in private sector jobs by increasing the involvement of the business community in local employment and training programs.

We have also recognized that the Nation's armed forces must always stand sufficiently strong to deter aggression and to assure our national security. The 1979 budget provides for the steady modernization of our strategic forces and for substantial improvements in the combat readiness of our tactical forces. Overall, we have recommended 3 percent real growth in defense spending between 1978 and 1979.

To summarize, Mr. Chairman, President Carter's 1979 budget is realistic, responsible, and responsive to the Nation's most critical needs. At the same time it is lean and tight. All of us in the administration—from the President down—recognize that to carry it out successfully we will need the help and the cooperation of the Congress. We look forward to working with you as you review it.

Mr. MAHON. Thank you very much, Mr. Director.

If there is any encouraging statement that has been made this morning it was a statement that there is a limit to what Government can do. It is very refreshing to hear this before the committee. I do not remember having heard it for a number of years. I was pleased that the President made the statement that there is a limit to what Government can do, and I think that is something we need to bear in mind, both in the Executive branch and in the Legislative branch.

We are going to begin our interrogation and I am going to yield to Mr. Cederberg, the ranking minority member of the Committee on Appropriations, for 5 minutes.

Mr. CEDERBERG. Mr. Chairman, on a personal note, we all know you have announced your retirement, so this will be your last overview hearing. I want to thank you for the fairness and courtesy that you have given all of the members in all of the years that we have had these hearings. I only wish we could balance the budget for you as one last hurrah before you leave, but it does not look like that is going to be possible.

Mr. MAHON. We are still given some assurance that the budget will be balanced, that was one of the factors involved in my announcing my retirement, because there will not be anything more to do after it is balanced.

Mr. CEDERBERG. I am going to try to get into that just briefly, if I may.

We are here today considering for the first time a $500 billion budget and anticipated outstanding total debt by the end of fiscal 1979 of $1 trillion. That is a rather awesome figure.

BUDGET PROJECTIONS

Now President Carter pledged without qualification to balance the budget during his first term. I thought it would be interesting to look at some of the budget projections and what has happened to them in the past. If I read the budget figures correctly, it shows a projected $45.2 billion surplus for fiscal year 1982. The budget carefully states, and just as carefully I want to emphasize, that these projections are based solely on current law and the proposals in this budget, and no allowance is made for significant changes in this budget or for any new programs or tax cuts in future years.

It is always interesting and instructive to look at the record. The budgets for fiscal 1969 through 1975 did not contain 5-year budget projections. During that period only the 1970 budget estimated a surplus, and that surplus became a $23 billion deficit.

For 4 budgets now, 1976 through 1979, we have had 5-year budget projections. The budget for fiscal 1976 projected the first out-year surplus, $400 million in fiscal 1979. The budget for 1979 is now before us, with a $60.6 billion deficit. The budget for 1976 also projected a $25 billion surplus for 1980. Now the current projection for 1980 is a deficit of $37.5 billion.

The budget for fiscal 1977 projected a surplus of $75.5 billion in 1981. That surplus has diminished to $8.6 billion.

The budget for fiscal 1978 projected a surplus of $28.6 billion for 1982, and that projected surplus has grown to $45.2 billion in this budget.

PROJECTED BUDGET SURPLUS FOR FISCAL YEAR 1982

My first question is, on what basis has the projected surplus for 1982 grown? Past projection was 18.6, now it has grown to 45.2. There seems to be a trend that surpluses increase, and then they disappear.

My second question is, with our long history of projected margins, dividends and surpluses, have any of these projected margins, dividends, or surpluses ever materialized?

Finally, is it still the firm objective of this administration to balance the budget by fiscal 1982 and do you plan to fight and pursue that objective?

Mr. McIntyre. Let me make a general statement about the reasons for the figures. I believe you are looking at page 34 in the main budget document.

Mr. Cederberg. Right.

Mr. McIntyre. Those numbers are always, of course, based upon economic assumptions. Those economic assumptions are reviewed periodically during the course of the year. Obviously, changes in economic assumptions affect the surplus or deficit that is projected for any given year. That is what has happened in this case; changes in economic assumptions have affected the outyear projections.

BALANCING THE FEDERAL BUDGET

I think the general thrust of your question relating to the issue of the balanced budget can best be handled in this manner: This administration does have a goal of balancing the budget. It is an important goal, but there are other factors that we have to consider in how to attain that balance.

One of those factors is the continued strong performance of our economy. As Secretary Blumethal has stated, that is one of the basic reasons for the tax reductions that are being proposed, to continue our economy on the strong recovery that we are now experiencing from the most recent recession.

We do develop in this budget a path that will keep open the option for balancing the budget. However, if there are other considerations that arise over the course of the next several years that we have to take into account, then obviously we would not recommend any action that would have some adverse effect on our economy, or that would otherwise jeopardize the prosperity that all Americans now enjoy.

That is the philosophy that we have undertaken in trying to meet the goal of the balanced budget. Our assumptions speak for themselves.

Obviously, if it is decided that it is important to have another tax reduction sometime in the course of the next year or so, then that is a matter with which we will have to deal. I do not think anyone would recommend that we take action that would have some adverse effect on the economy just to achieve the balanced budget, but it is an important goal and it is a goal to which we are still committed.

COMMITMENT TO A BALANCED BUDGET

Mr. Cederberg. It appears that you are hedging on the President's commitment, because the President said very clearly, I am committed to achieving a balanced budget by the end of my first term. So that is a hedge, is that correct?

Mr. McIntyre. No, sir, I do not think that is a hedge; I think that is approaching the matter realistically.

I think all of us have to deal with the facts as we find them at the time. For example, in OMB we have attempted to get a handle on estimated outlays by instituting a 3-year planning process—referred to by some people in the budget business as multiyear budgeting—in order to develop a method of assuring better control of Federal spending through identifying the long-term spending consequences of program proposals.

I imagine every member of this committee can probably recall spending proposals that started off at a very small amount and then have mushroomed over the years.

We hope to get a handle on this situation, and multiyear budgeting is part of the process that we are going to use to achieve our goal of balancing the budget. The important thing I believe is to get the deficit under control and to keep our economy moving strongly. Those are the two important objectives that we must give attention to and that we must deal with so that this Nation will continue to prosper the way the American people want.

Mr. Cederberg. I find it amazing that the projection in the 1978 budget was a $28.6 billion surplus for 1982, and in this budget it is $45.2 billion. That seems very unrealistic to me. I have one other question.

IMPACT OF INFLATION ON FEDERAL REVENUES

Would you place in the record—you may not have it at the present time—what figures you anticipate as far as revenues are concerned as a result of inflation? In other words, inflation accounts for increased revenues. How much of the revenues proposed in this budget are the result of inflation? Do you have that figure? You can supply that for the record.

Mr. McIntyre. If it can be determined, we will.

Mr. Cederberg. Yes, if you can.

[The information referred to follows:]

Inflation moves taxpayers into higher tax brackets and thereby increases the share of their income that is paid to the Federal government in the form of individual income taxes. However, tax reductions enacted periodically over the past three decades have offset much of the increase in effective tax rates that would otherwise have occurred as a result of our progressive tax system.

The effect of inflation on average tax rates increases receipts by an estimated $54 billion between calendar year 1977 and 1983. About half of this increase is offset by the Administration's tax reduction and reform proposals in the 1979 budget. Moreover, further tax cuts in the 1980's may prove to be necessary to keep the economy on a steady course of expansion and to keep total revenues at or below the President's target of 21% of GNP.

Mr. Cederberg. Mr. Chairman, I think my time is about expired, but I would like to ask to submit other questions for the record.

Mr. Mahon. Mr. Cederberg has some questions for the record which you will respond to.

[Congressman Cederberg's questions and the responses submitted by the Office of Management and Budget follow:]

Question. You have proposed fiscal 1979 Defense outlays of $117.8 billion. Will the President and the Secretary of Defense fight for this program level?

Answer. The 1979 Defense budget reflects a well considered set of programs and requirements that have the full support of the President and the Secretary of Defense.

Question. Your estimates and proposals in other program areas show a number of instances where outlays are significantly reduced in 1979. To the extent that these estimates and proposals are subject to congressional action, will you fight for them? Will the President veto bills where the *true* outlay impact exceeds his budget?

Answer. The President feels very strongly that this budget is the proper one at this time. In that respect, the entire Administration will work to implement the programs and proposals as presented in it. However, due to the great number of variables—including the quite proper review of the budget by this committee—we cannot speculate at this time as to what the President might do in various hypothetical situations. In addition, the impact on outlays due to congressional action on each bill is but one factor considered by the President in his decision to either veto or sign appropriation bills.

Question. The President's budget increases funding to complete preparation for the 1980 Decennial Census to $146 million in 1979. It has been estimated that this Census will cost close to $1 billion. The Bureau of the Census has estimated that, allowing for inflation and the increase in population, it would cost $555 million to repeat the 1970 Census today. What are we getting from the proposed 1980 Census that justifies the large increase in cost?

Answer. The major differences in costs between the 1970 and the 1980 Censuses are attributable to three factors:

1. The response rate to the mail census questionnaire is expected to decline from 90% in 1970 to only 70% in 1980. This change will necessitate significant increases in personnel follow-up efforts by the Census Bureau to locate and count nonresidents.

2. The White-Reynolds Act requires that Census results be compiled and published within one year after the start of the Census, that is, by April 1, 1981. In 1970, this effort took 18 months. Congress has asked Census to increase the efficiency of its operations by 33%.

3. Major new efforts are being made to reduce the Census undercount, especially among minorities and in urban areas. These efforts will cost at least $150 million and include such innovations as a Spanish-language questionnaire, minority community service representatives in major urban areas, paid publicity in minority news media, and having local officials review address lists and population counts in advance. Temporary field officers and staff will be maintained longer for more extensive follow-up efforts, and a special "dress rehearsal" will be held in Manhattan next fall to test procedures for improving census coverage among urban minority groups.

Mr. Mahon. Mr. Whitten.

Mr. Whitten. Thank you, Mr. Chairman. I would like the privilege of submitting orally some points that I think need attention. Further, I would like to point out that one of the reasons for these hearings is that the broad budgetary review information will be available to us as we start our subcommittee hearings on the individual appropriations.

That being true, the system of getting answers back in printed form along in May or June is no good for our separate hearings. So I would like, Mr. Chairman, that the questions that I raise, and that is all I really do, that they be lifted from the record, submitted to these gentlemen, and that they be asked to give us the answers within 10 days, so that we may use them in this year's hearing.

I will just briefly go down these. I am not trying to find fault with the past but trying to find where we are now.

GOLD PURCHASES BY FOREIGN COUNTRIES

It is on that basis that I proceed; for instance, it is said that, from the period 1960 to 1972, we sold gold at $35 an ounce, but it was worth three times that. As a result, tremendous amounts of our gold ended up in foreign hands. I would like that in the record.

[The response provided by the Department of the Treasury follows:]

Prior to August 15, 1971, the United States purchased and sold gold in monetary transactions with foreign countries at $35 per fine ounce. Such transactions were undertaken to support the par value of the dollar, as communicated to the International Monetary Fund (IMF). Following 1960–1972, such sales totaled $8,801 million, as shown in the following tables reproduced from issues of the *Treasury Bulletin*; a few small sales were made in late 1971 and 1972 to countries which required gold payments to the IMF. Since the United States suspended gold purchases and sales with foreign countries and following the elimination of all restrictions on gold holdings by Americans at the end of 1974, the Treasury has sold gold in the market on two occasions, in January and June 1975. The Treasury will continue to sell gold in the market from time to time to help reduce the U.S. demand for imported gold.

TREASURY BULLETIN

INTERNATIONAL FINANCIAL STATISTICS

TABLE 3.—U.S. NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL AND REGIONAL ORGANIZATIONS

[In millions of dollars at $35 per fine troy ounce; negative figures represent net sales by the United States; positive figures, net purchases]

Area and country	Calendar year					1963, Oct.–Dec.	1964			
	1960	1961	1962	1963	1964		Jan.–Mar.	Apr.–June	July–Sept.	Oct.–Dec
Western Europe:										
Austria	−1		−143	−82	−55	−32	−32	−23		
Belgium	−141	−144	−63		−40					−40
Denmark	−15	−35	15							
France	−173		−456	−518	−405	−101	−101	−101	−101	−101
Germany	−34	−23			−225		−200		−25	
Greece	−47	−10	−19							
Italy		100			200		200			
Netherlands	−249	−25			−60					−60
Spain	−114	−156	−146	−130	−32			−2		−30
Switzerland	−324	−125	102		−81			−30		−51
Turkey	−6	−2	−1	2	1	−5	−1	15		−13
United Kingdom	−550	−306	−387	329	618	131	109	221	163	125
Bank for International Settlements	−36	−23								
Other	−28	−3	−7	−1	−9	1	−6	−1	−1	−1
Total, Western Europe	−1,718	−754	−1,105	−399	−88	−7	−31	79	35	−171
Canada			190							
Latin American Republics:										
Argentina	−50	−90	85	−30		−30				
Brazil	−2	−2	57	72	54	28	−1	28	−1	28
Colombia	−6		38		10				10	*
Mexico	−20			−4						
Peru	−15	−6	−1	−11						
Venezuela										
Other	−7	−12	−5	4	−9	−1	−3	−3	−2	−2
Total, Latin American Republics	−100	−109	175	32	56	−3	−4	25	7	27
Asia:										
Japan	−15									
Other	−97	−101	−93	12	3	−4	5		−1	−1
Total, Asia	−113	−101	−93	12	3	−4	5		−1	−1
Africa	−35	−5	−3	−36	−10	−1	−1	−9	−1	1
Other countries	−3	−1	2		3		3			
Total foreign countries	−1,969	−970	−833	−392	−36	−15	−28	95	41	−145
International and regional organizations	[1] 300	150	(*)							
Grand total	−1,669	−820	−833	−392	−36	−15	−28	95	41	−145

[1] Includes purchase of gold from the International Monetary Fund with the right of repurchase by the Fund; see table 1, footnote 1.

*Less than $500,000.

TABLE IFS–6.—U.S. NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL AND REGIONAL ORGANIZATIONS

[In millions of dollars at $35 per fine troy ounce; negative figures represent net sales by the United States; positive figures net acquisitions]

Area and country	Calendar year— 1965	1966	1967	1968	1969	1968, Oct.–Dec.	1969 Jan.–Mar.	Apr.–June	July–Sept.	Oct.–Dec.
Western Europe:										
Austria	–100	–25			4					4
Belgium	–83			–58						
Denmark		–13			25			25		
France	–884	–601		600	325	140	50	275		
Germany					500					500
Greece		–1	19	–11	–1	–11		(*)		(*)
Italy	–80	–60	–85	–209	–76		–76			
Netherlands	–35			–19						
Spain	–180									
Switzerland	–50	–2	–30	–50	–25		–25			
Turkey	–37	–12	(*)	–3	–18	10		–7	–6	–5
United Kingdom	150	80	–879	–835		15				
Bank for International Settlements					200					200
Other		–23	–5	–90	36	–4	–1	–1	15	23
Total, Western Europe	–1, 299	–659	–980	–699	969	150	–52	292	9	721
Canada		200	150	50						
Latin American Republics:										
Argentina		–39	–1	–25	–25	–5			–10	–15
Brazil	25	–3	–1	(*)						
Colombia	29	7	(*)		(*)					(*)
Mexico		10	–10							
Peru			35		–12		–5	–3	–3	(*)
Venezuela	–25									
Other	–13	–16	–14	–40	–18	–3	–2	–2	–2	–11
Total, Latin American Republics	17	–41	9	–65	–54	–8	–7	–5	–15	–27
Asia:										
Japan		–56								
Other	–24	–30	–44	–366	42	–6	5	28	10	–1
Total, Asia	–24	–86	–44	–366	42	–6	5	28	10	–1
Africa	–8	–19	–157	–66	–9	–1	–1	–4	–1	–4
Other countries	–8	–3	–9	–2	9		–1	5		5
Total, foreign countries	–1, 322	–608	–1, 031	–1, 118	957	136	–57	316	2	695
International and regional organizations [1]	[2] –225	177	22	–3	10		1	1	8	
Grand total	–1, 547	–431	–1, 009	–1, 121	967	136	–56	317	10	695

[1] Includes International Monetary Fund gold sales to the United States, gold deposits by the IMF (see table IFS–2, footnote 1) and withdrawal of deposits. The first withdrawal, amounting to $17,000,000, was made in June 1968.

[2] Reflects the U.S. payment of the $259,000,000 increase in its gold subscription to the International Monetary Fund less gold deposited by the International Monetary Fund.

*Less than $500,000.

TABLE IFS-6.—U.S. NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL AND REGIONAL ORGANIZATIONS

[In millions of dollars][1]

Area and country	Calendar year— 1968	1969	1970[2]	1971	1972	1971, Oct.–Dec.	1972 Jan.–Mar.	1972 Apr.–June	1972 July–Sept.	1972 Oct.–Dec.
Western Europe:										
Austria		4								
Belgium	−58			−110						
Denmark		25	−2							
France	600	325	−129	−473						
Germany		500								
Greece	−11	−1	−10							
Italy	−209	−76								
Netherlands	−19		−50	−25						
Spain			51							
Switzerland	−50	−25	−50	−175						
Turkey	3	−18	1	12						
United Kingdom	−835									
Bank for International Settlements		200								
Other	−90	36	−15	−25						
Total, Western Europe	−669	969	−204	−796						
Canada	50									
Latin American Republics:										
Argentina	−25	−25	−28							
Brazil	(*)		−23							
Colombia		(*)	−1							
Mexico			−25							
Peru		−12	−13	−4						
Venezuela										
Other	−40	−18	−42	−1						
Total, Latin American Republics	−65	−54	−131	−5						
Asia:										
Japan			−119							
Other	−366	42	−95	−38	−3	−1			−3	
Total, Asia	−366	42	−213	−38	−3	−1			−3	
Africa	−66	−9	−70	−4		(*)				
Other countries	−2	9	−11	−2						
Total, foreign countries	−1,118	957	−631	−845	−3	−1			−3	
International and regional organizations[3]	−3	10	−156	−22	−544		−544			
Grand total	−1,121	967	[1] −787	−867	−547	−1	−544		−3	

[1] At $35 per fine troy ounce through May 8, 1972 and $38 thereafter; negative figures represent net sales by the United States; positive figures, net acquisitions.

[2] Includes in 1970 total (October–December 1970) the U.S. payment of $385,000,000 increase in its gold subscription to the IMF and gold sold by the IMF to the United States in mitigation of U.S. sales to other countries making gold payments to the IMF. The country data include, for the same period, gold sales by the United States to various countries in connection with IMF quota payments. Such sales to countries and resales by the IMF totaled $548,000,000 each.

[3] Includes International Monetary Fund gold sales to and purchases from the United States, gold deposits by the IMF (see table IFS–2, footnote 1) and withdrawal of deposits. The first withdrawal, amounting to $17,000,000, was in June 1968.

*Less than $500,000.

Mr. Whitten. About 3 years ago it was testified here from your side of the table, that the West German Government had billions in American money which was surplus to their trade needs. It was also stated that Japan, where we also have provided their defense which has enabled them to put all their money into their industry and their economy, had large holdings of our money. It was estimated that the citizens had an equal amount.

You understand that at that time our dollar was about as strong in the world as when they started this. As long as they kept that huge sum of American currency in the lockbox as their security, it didn't bother us particularly. It is just like your own personal note which, if a fellow would hold it for life, it would never bother you. But when they began to get disturbed about it and began to buy things and were prepared to pay the price, we had to use our own American dollars to meet the demand.

[Response of the Department of the Treasury follows:]

The strength of the dollar internationally depends basically on the health of the U.S. economy. We need an economy which is moving steadily toward high employment while at the same time containing and reducing the rate of inflation. That is what the tax reductions proposed by the administration are intended to do. Tax cuts of this dimension which demonstrate this determination to keep the economy strong should enhance confidence in the dollar not undermine it.

FOREIGN INVESTMENTS IN U.S. FARMLANDS

I have here a series of articles about the dollar sinking. We have had a march by the farmers at the Capitol recently, and I realize that foreclosures are increasing regularly and the farmers' debts are getting so big—this is the reason for buying up U.S. farmlands. If people have U.S. money which they don't value very highly, they don't care what they pay. But that price that they pay for that land sets the value that the U.S. farmer has to pay, and then he is not getting enough income to finance such price levels.

I would like to know, to the degree that you know, how much foreign money has been invested in the United States. At one time Dr. Burns said he thought it was a favorable thing, in that it showed public confidence in the United States. I said "Not when they pay you with your own notes." So I would like to have a discourse on the degree to which that is a factor, in addition to this matter of buying all this foreign produced oil.

It strikes me that it is a much bigger factor than the oil.

BUDGET REDUCTIONS FOR FLOOD CONTROL

In this budget you have submitted for fiscal year 1979, Mr. McIntyre, you eliminate or cut down on the studies for future flood control and similar things so essential to protect our country, so that we can handle our debt.

BUDGET INCREASES FOR FOREIGN AID

But at the same time this budget has about $1.5 billion, I think, for increased foreign aid. I raise this for the record only.

Now if we helped one of those countries through foreign aid, and if we picked up the paper tomorrow and saw that the country we are assisting with our aid has reduced its taxes $25 billion, what do you think the attitude of the American people would be? How do you think our people would feel about our giving money to them, while at the same time they are using our taxes?

I recall that the British loan was about $4 billion. I tried to get it under the Export-Import Bank where we could control how it was spent. My efforts failed. It was said that they used the $4 billion to make life easier for the Labor voters to keep the Labor Government in power. Go back in history and you will find that is true. I would like to know what you think about it.

There is another thing which affects the Department of Agriculture and other departments. May I say I did not support this present impoundment procedure. I did not want to recognize in a statute the right of the Executive to freeze or impound funds. I knew the President had the power to get it passed anyway.

EMPLOYMENT FOR FARMERS HOME ADMINISTRATION

Now, you have been obviating that provision by putting ceilings on personnel. The Farmers Home Administration has over $20 billion of farm credit outstanding. The farmers are in the hole because you haven't given FHA the people to supervise the use of the loans so that farming would be done on a proper basis so as to repay the loans. I will have in the record a list of how many people you have kept from supervising the government's loans. When I say "you," I mean the people preceding you in your present positions. These are points I think we have to give attention to.

[The information follows:]

Volume 3 of the Department of Agriculture 1979 Budget explanatory notes includes on page 354 data on Farmers Home Administration (FmHA) employment for the period 1977 to 1979. It shows that total permanent full-time end-of-year employment for FmHA increases from 7,319 in fiscal year 1977 to 7,675 in 1978, and further to 7,775 in 1979. Permanent full-time end-of-year employment at the County Office level, where loans are made and serviced, increased from 5,132 in fiscal year 1977 to 5,398 in 1978, and further to 5,498 in 1979. These data demonstrate that virtually all of the budgeted increase will be assigned to the County offices.

[Clerk's note: For the following fiscal years, the personnel ceiling was lower than the number authorized by Congress in the indicated amounts: 1971, 400; 1972, 350; 1973, 346; and 1976, 950.]

Mr. WHITTEN. Mr. Secretary, I notice you refer to the fact that we have got 1 million extra federally funded jobs. You do know, because your predecessors have agreed, Mr. Schultze and others, the gross national product includes services we don't really need and goods that are of little or no value. The more the goods, even though no good, the bigger the GNP. The more you pay for personal services, the bigger the GNP, even though the work may not be productive.

BUDGET REQUEST FOR SOIL CONSERVATION ADMINISTRATION

In our budget for the Department of Agriculture, Mr. Budget Director, you have recommended cuts in those things where you have soil conservation to protect the Nation's resources for future generations. You have cut all that back and substituted other programs that, to say the least, are greatly questionable.

[The Office of Mangement and Budget submitted the following response for inclusion in the hearing record:]

The budget request for the Soil Conservation Service reflects the Secretary's preference that priority be given to assisting farmers to install those conservation measures that are already planned instead of emphasizing the planning of additional measures. Accordingly, those programs that contribute most toward the achievement of this objective received an additional $10 million (technical assistance to farmers, inventory and monitoring, soil survey, and snow and water forecasting).

Reductions are in primarily two areas: (1) no new starts in the water resource development programs—Watershed Protection and Flood Prevention, and Resource Conservation and Development—to be consistent with the Government-wide policy on water resource projects (funding is provided for ongoing projects); and (2) no new cost share contracts under the Great Plains Conservation Program (to be funded under the reformed Agricultural Conservation Program).

Mr. WHITTEN. Mr. Chairman, I am going to make this statement on your time. On behalf of the committee I want to say that we hate to see our chairman, Mr. Mahon, leave here at the end of this session. He has rendered a great service through the years to the Congress and the Nation. I don't know of anybody who ever left here with as many friends who love him and deeply appreciate the great job he has done.

I have sat right beside him through all these years, and on occasion I have had to do his work. He will be sorely missed by all.

Thank you, Mr. Chairman.

[The following question submitted by Mr. Whitten was responded to by the Office of Management and Budget:]

Question. Mr. Director, I would like to have a justification for this shift in connection with the Department of Agriculture for, as you know, the Congress has had to override 21 times your predecessors recommendations on the *Agriculture Conservation Program* where over a million Americans have put up an equal amount of cost plus their labor to improve and restore land and timber for this and future generations.

I note that once again you have scaled this program back along with new studies and new starts for protecting our country from destructive floods while, in the same budget, you recommend an increase in foreign aid which is almost 100% inflationary of over a billion and a half dollars.

Does this mean we are embarking on a "stop now and let the country reach a stalemate?"

Mr. Director, this has many times originated with your Office of Management and Budget and not with the President. It could well be that our Appropriations Committee would like to summon before the Committee the persons who handle these flood control, reclamation and soil conservation programs. For the record, who should we summon?

Answer. To recount the recent history on funding for this program, President Carter restored the ACP program level for fiscal year 1978 to the congressionally funded level for 1977 of $190 million. (This compares to a program termination beginning in 1978 proposed by the previous Administration.) This request was made with the understanding that the programs for conserving our national land and water resources (i.e., ACP, Water Bank Program, Great Plains Conservation Program, and the Forestry Incentives Program) would be revised with the objective of improving their effectiveness.

The $340 million actual funding level in 1977 resulted from two things: (1) a $190 million level of funding for the regular ACP, and (2) the President's funding request for a special program for drought and flood disaster relief which provided an additional $150 million for these specific one-time purposes.

In 1979 it has been determined that $100 million will be sufficient to fund a reformed program directed toward the alleviation of non-point source pollution problems and the treatment of critically eroding lands.

This is, therefore, a Presidential decision fully coordinated with the Secretary of Agriculture.

[The following question submitted by Mr. Whitten was responded to by the Department of the Treasury:]

Question. My recollection is that we require that foreign investors in the United States list their investments. Would you provide for the record the law governing this and the amount of foreign investment in the United States in real estate, in stock in American corporations and particularly with reference to banks?

Each article that I read along this line says there is no way to tell just exactly what might have been invested through other names. Could we have an estimate as to the government's belief as to such investments and how widespread it may be by locality, by type of corporation and type of bank?

How far is it sound to have foreigners owning our corporations, our real estate, or our banks?

Could we reach a point where we would have to provide a requirement, as I understand they have in Mexico, that 51% of any ownership must be by American citizens?

Do you understand that I am talking about buying it with our outstanding obligations—our money?

I brought the whole Reconstruction Finance Corporation Act up to date and introduced it in the last Congress and again in this Congress. This vehicle, if you know your history, was used to squeeze the water out and start again. With inflation getting greater and greater, do you see any need perhaps of this vehicle in the future?

Of course, I distinguish the value of our country in its resources, its structures, its highways, its schools, its timber, etc. and money, of course, as different from money which is a medium of exchange. In the Budget before us, you recommend great shifts from programs which enrich our country such as soil conservation, protection from floods, etc. over to expenditures for services that are, at best, questionable and the value of which is doubtful. How much of this can we stand before we reach a dangerous level? How do you justify cutting out productive jobs and increase foreign aid?

Answer. Existing statutes do not require foreign investors in general to list or register their investments with any government agency. The Congress passed in 1976 the International Investment Survey Act, which calls for a comprehensive benchmark survey of both foreign direct and portfolio investment in the United States every five years. The last survey of foreign direct investment in the U.S. was conducted at the end of 1974. At that time foreign direct investments in the U.S. were estimated to be worth $21.7 billion. Long-term foreign portfolio investment in stocks and bonds at the end of 1974 was estimated at $67 billion. The Commerce Department is currently conducting a survey of direct investment and will tabulate its value as of the end of 1977. The Treasury Department is initiating a survey of foreign portfolio investment that will use December 31, 1978, as the reporting date. Short-term liabilities to foreigners reported by banks in the United States totalled $117.5 billion as of the end of November 1977. Long-term liabilities to foreigners reported by banks totaled $2.3 billion at the end of November, 1977. Total bank liabilities at the end of November, 1977, totaled $883.5 billion; thus, liabilities to foreigners constituted 13.6 percent of total liabilities of U.S. commercial banks.

Banks and other foreign financial institutions do frequently hold stocks and bonds issued in the United States for beneficial owners. Since the financial agents in these cases are also foreign entities, there is no reliable way for the United States Government to estimate the citizenship or other characteristics of ultimate owners. In recent years foreign investment in the United States has been beneficial in helping prevent a shortage of capital, in providing financing for corporate expansion, and in financing imports of petroleum and other commodities.

[Additional questions of Mr. Whitten and responses appear at p. 189.]

Mr. Mahon. Thank you very much.

Mr. Sikes of Florida.

Mr. Sikes. Thank you, Mr. Chairman.

I subscribe to what my colleagues, Mr. Cederberg and Mr. Whitten have said about the distinguished services of our chairman.

Mr. Mahon. We will agree that the chairman has done a remarkable job.

Mr. Sikes. We will go further than that.

I am impressed by the statements of the articulate and able witnesses who are here today. In Congress, Mr. Cederberg, Mr. Director, we are accustomed to election year tax cuts every 2 years. It is not original with this administration.

TAX INCENTIVES

Why is there not now more emphasis on incentives for business and industry? I think we all realize the business community is uneasy. There is a feeling of a need for more incentives for modernization and expansion in the business world, the industrial world, to cut costs, to help to meet foreign competition, and to provide employment for more people.

Why isn't a bigger part of this tax package directed toward business incentives?

Secretary BLUMENTHAL. Mr. Sikes, I think that the amount of incentives contained in the tax proposals for business is quite substantial. They compare favorably to the portion of tax reductions directed towards business in previous cuts. We are recommending a four-point cut in the corporate rate, and that is very substantial.

We are recommending that the investment tax credit be made permanent, which is directly designed to ease the feeling of uncertainty to which you have referred in the business community. We are expanding the applicability of the investment tax credit to a significant extent. We are, moreover, reducing taxes for lower- and middle-income taxpayers, which will maintain the spending stream of these people. It is the ring of the cash register more than anything else that provides the basis for business to go out and to invest. We are asking for business to do the job, rather than for government spending to do the job, which is what the business community generally wants. So by presenting a comprehensive program, by doing these things, I think we are in fact providing strong incentives to the business community, and I think they will meet that challenge.

Mr. SIKES. But you realize that the business community does not feel that this is adequate. They do not feel that there is an adequate percentage of cuts or incentives directed toward business in comparison to the remainder of your package. In this tax cut I see no indication that there is an effort for an accompanying cut in expenditures.

Could we not have had a better balanced package if there had been an equivalent proposal for cuts in costs of government?

Secretary BLUMTHENAL. Mr. Sikes, I think it is significant that the Business Roundtable, an organization that comprises in its membership a good many of the leading companies in this country, I believe yesterday put out a statement, generally commending the President for this program. While obviously they don't agree with every aspect of it, generally speaking, they endorse it.

There have been statements by members of the Business Council, another similar organization, endorsing it. There are important proposals here for small business. We are reducing taxes for small business by 10 percent on the first $50,000 of income.

Mr. SIKES. You are not addressing the need for accompanying cuts in government expenditures.

Secretary BLUMTHENAL. I believe that keeping the budget to an increase in real terms of a very small amount, 1 or 2 percent, certainly is an effort in that regard. There is only so much in the budget that you squeeze down on. The President has done that very assiduously.

Mr. McIntyre can speak about that with a great deal of knowledge since he sat through all of those meetings. But I think an increase in real terms of such a very small magnitude, smaller than for quite a few years, is an indication of keeping spending down.

Mr. SIKES. When we talk about a half trillion dollar budget, it doesn't sound very much like keeping spending down.

Let me ask you this question, and I will want to add some more questions for the record, Mr. Chairman. I realize that in 5 minutes you can just skim the surface.

TRADE DEFICITS

Why is there not a greater effort in progress for foreign sales? That would, of course, help to balance the deficit in trade, which is growing year by year. There are two areas in which there is a market for American goods, food and weapons.

We could do more to sell food abroad. A number of us have introduced bills to encourage efforts in the sale of food abroad. The Administration appears to be more interested in cutting back on the sale of weapons than in increasing the sale of weapons, even though when we don't sell weapons to a country that is in the market they are simply going to buy them somewhere else. We are not preventing weapons from being obtained, and it is the foreign manufacturers and foreign workmen who get the benefit.

Secretary BLUMENTHAL. Mr. Sikes, I think there are a number of important initiatives and efforts in this budget to do exactly what you are suggesting. I have already referred to the increased resources available to the Export-Import Bank.

In addition to that, we have to recognize that our deficit of $30 billion in trade arises because of a $45 billion deficit in energy. Actually if you take out energy, we have roughly a $15 billion surplus. X

EXPORTS

We are also expecting an increase in agricultural exports in the coming year, as compared to the past year. Essentially our agricultural exports were flat last year because the growth in other countries was not as fast as in this country. We grew well, but other countries did not. There is a direct relationship in the demand for food products both to the growth of the economies of those countries and, secondly, to climatic conditions.

We expect those exports to increase. We are supporting, through the CCC and in other ways, farm exports in every way possible.

The President recently directed the Secretary of State to make sure that the ambassadors in all of our countries overseas make additional efforts to work with exporters, both industrial and agricultural, to promote our products.

I think that is a very important initiative which he has just recently asked for, and I think all of these things together will increase our sales.

Mr. SIKES. One quick comment. I will have further questions, particularly on the problems of the farmer, and on cutbacks in the Administration proposal for farm programs.

REDUCTIONS IN FEDERAL REPORTING REQUIREMENTS

If you really want the business community of this country to rise up and call you blessed, you and I both know it is by cutting back on the amount of paperwork required. I commend the fact that the President made the statement that there has been a 12 percent cutback in the past year, and I sincerely hope that emphasis is going to continue and expand.

Mr. MCINTYRE. It is going to continue and it is going to be aggressively followed by OMB in particular. We are working very carefully and closely on this matter with all agencies of the Executive Branch.

Mr. MAHON. Mr. Director, you can expand that for the record.

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Mr. McIntyre. All right, sir.

[The information referred to follows:]

Americans are or soon will be spending almost 12 percent less time responding to Federal agency requests for information than they did in January 1977.

They will experience even further reductions in 1978 as the result of actions undertaken by the Administration. Reporting relating to Occupational Safety and Health (OSHA) and employee retirement benefit plans (ERISA) are particularly noteworthy in this respect.

These are the conclusions derived from reports by departments and agencies to OMB summarizing progress in reducing paperwork. These reductions are a result of the President's Reporting Burden Reduction Program launched last February 16.

When President Carter directed heads of departments and agencies to cut their paperwork demands on the public, it was estimated that individuals, businessmen, farmers, State and local governments, universities, hospitals and other organizations were spending about 871.9 million hours in meeting Federal information requirements. As of September 30, this has been reduced to 768.3 million hours.

The saving—103.6 million hours—is equivalent to over 50,000 persons working full-time for a full year.

These are net savings which take account of increased reporting requirements associated with new and expanded government programs.

Federal Government reporting requirements spand a vast range from applications for benefits or grants to recordkeeping to assure accountability or compliance with law.

A very substantial part of this paperwork—43.2 million reporting hours—is not directly controllable by the managers of Federal programs since it results from the desires of individuals and organizations to obtain such benefits as jobs with Federal agencies, passports, and grants under a wide variety of Federal programs.

For this reason there can be upward and downward savings in paperwork depending upon how many persons or organizations choose to seek Federal assistance or other benefits.

However, more than 80 percent of savings, results from solid management efforts in departments and agencies to meet the President's objectives to cut back the paperwork burden.

An additional 79.7 million hours were saved by reducing existing reports either in length, frequency, scope, or in some combination of these.

The biggest savings are reported by the Internal Revenue Service which has revised tax reporting in ways which will save taxpayers an estimated 70 million hours in filing tax returns.

The Department of Health, Education, and Welfare has taken almost 10 million hours off its reporting requirements—a savings of over 20 percent. Most of these savings were made in basic education opportunity grants, student loan programs, and in reporting for the Social Security Administration.

Among the independent regulatory agencies, the Interstate Commerce Commission had the most productive program, cutting over 500,000 hours by eliminating 19 reports and over 287,000 hours by trimming back others.

Even agencies with relatively small reporting burdens contributed to the overall success of the President's program.

It has not been an easy task for agencies which have large programs over which they have no direct control. The Veterans Administration, for example, saw the effects of all its efforts obscured when applicants for benefits more than offset over a quarter of a million of hours of savings by filing new claims and benefits.

This does not mark the end of the President's program. Departments and agencies will shortly be sending forward their Fiscal Year 1978 goals to OMB, and the guidelines for agency action have already been discussed with the agencies.

The President has already indicated that he wants departments and agencies to give particular attention to reducing the reporting burden levied on State and local government applicants for Federal-aid programs.

This emphasis will be extended to all reporting related to applications. While the total burden is beyond the control of Federal program managers, they can at least assure that each application or other grant reporting requirement is reduced to a bare-bones minimum.

In addition, Federal agencies will be giving particular attention to responding to the hundreds of recommendations of the Commission on Federal Paperwork. While no estimate of savings can be made at this time departments and agencies have been instructed to respond positively to each of the recommendations or to explain in detail why they cannot.

Finally, the President's Reorganization Project in each of its examinations of particular Federal activities will give special attention to the ways in which reorganization can help reduce the Federal demands for information from the public.

REPORTING BURDEN

Table 1.

	January 1977			New reports	
	Number of reports	Burden (thousand hours)	Change in use	Number of reports	Burden (thousand hours)
Departments and agencies subject to Federal Reports Act	4,449	136,158	−2,177	+224	+3,786
Independent regulatory commissions	355	48,337	−17,781	+13	+299
Internal Revenue Service	262	684,552		+18	+3,070
Other units of Treasury Department not subject to Federal Reports Act	232	2,833	−82		
Total	5,298	871,880	−20,040	+255	+7,155

Table 1—Continued

	Reports eliminated or cutback		September 1977		Change January through September 1977	
	Number of reports [1]	Burden [2] (thousand hours)	Number of reports	Burden (thousand hours)	Number of reports	Burden (thousand hours)
Departments and agencies subject to Federal Reports Act	−427	−16,835	4,246	120,932	−203	−15,226
Independent regulatory commissions	−28	−924	340	29,931	−15	−18,406
Internal Revenue Service	−13	−72,880	267	614,742	+5	−69,810
Other units of Treasury Department not subject to Federal Reports Act	−3	−92	229	2,659	−3	−174
Total	−471	−90,731	5,082	768,264	−216	−103,616

[1] Number of reports eliminated.
[2] Reduction of reporting burden resulting from elimination of reports and cutting back on reports continued in use.

PRESIDENT'S REPORTING BURDEN REDUCTION PROGRAM—DEPARTMENTS AND AGENCIES SUBJECT TO FEDERAL REPORTS ACT AND HAVING MORE THAN 500,000 REPORTING HOURS BURDEN SHOWN SEPARATELY

[Hours in thousands]

	January 1977			New reports		Reports eliminated or cut back		September 1977	
	Number of reports	Burden (hours)	Change in use (hours)	Number	Burden (hours)	Number	Burden (hours)	Number	Burden (hours)
Agriculture	685	10, 074	−260	+14	+164	−37	−487	662	9, 491
Commerce	450	5, 569	+71	+28	+160	−37	−1, 882	441	3, 918
Defense	192	5, 489	−308	+6	+102	−11	−136	187	5, 147
Energy	[104]	[5, 649]	[−357]	[+20]	[+376]	[−8]	[−337]	[116]	[5, 331]
HEW	771	44, 226	−916	+52	+1, 566	−146	−10, 769	677	34, 107
HUD	282	11, 538	−1, 040	+28	+749	−27	−881	283	10, 366
Interior	279	1, 345	−103	+2	+1	−12	−105	269	1, 128
Justice	167	3, 486	−4	+3	+22	−12	−295	158	3, 209
Labor	244	20, 311	−89	+12	+70	−13	−463	243	19, 829
State	30	2, 433	+1	+3	+2			33	2, 436
Transportation	247	5, 410	+179	+17	+163	−34	−535	230	5, 217
Treasury	108	4, 293	−59	+2	+42	−3	−255	107	4, 021
EPA	55	600		+5	+168	−9	−91	51	677
OMB	12	737				−2	−47	10	690
U.S. Civil Service Commission	114	3, 704	−234	+3	+2	−7	−121	110	3, 351
Veterans' Administration	258	8, 423	+1, 049	+11	+86	−5	−208	264	9, 350
Total: All agencies with burden over 600,000 hr or more	3, 998	133, 287	−2, 070	+206	+3, 673	−363	−16, 612	3, 841	118, 268
Other agencies subject to Federal Reports Act	451	2, 871	−107	+18	+113	−64	−223	405	2, 664
Total all agencies subject to Federal Reports Act	4, 449	136, 158	−2, 177	+224	+3, 786	−427	−16, 835	4, 246	120, 932
Independent regulary commissions	355	48, 337	−17, 781	+13	+299	−28	−924	340	29, 931
Agencies not subject to Federal Reports Act	494	687, 385	−82	+18	+3, 070	−16	−72, 972	496	617, 401
Total	5, 298	871, 880	−20, 040	+255	+7, 155	−971	−90, 731	5, 082	768, 264

Mr. MAHON. I might point out to my colleagues that an organization of businessmen has been established call FOR, Forum on Regulations, and there is a great deal of interest in trying to do something about it.

Mr. Director and Mr. Secretary, I do hope that you will cooperate to the fullest extent in trying to do something about the problem of overregulation and the waste of time, energy, and money that this brings about.

I yield now to the gentleman from Illinois, Mr. Michel.

Mr. MICHEL. Thank you, Mr. Chairman.

Mr. McIntyre, last year some of us found that the Carter Administration was not quite ready to fight to the death in holding their budget in line. This was particularly true in the labor, health, education, and welfare field where we were trying to hold spending levels closer to those the President proposed but received absolutely no help from the Administration.

Is the situation going to be the same again this year, or will there be a stronger commitment in the form of assistance to those who might support you on behalf of the budget figures you are proposing?

Mr. MCINTYRE. Mr. Michel, as I said in my opening remarks, we think we have a realistic budget, a very prudent budget. You can be assured that we are going to fight to keep it that way.

BUDGET OUTLAYS

Mr. MICHEL. I am glad to hear that, but I would promptly differ with the fact that it is a good, honest budget. I have said in the last several days that it is a fraudulent one and I stand by that. You have, in the words of our Budget Office, called for "a sharp acceleration of growth in budget authority," and you have, in my opinion, grossly underestimated the level of actual outlays by roughly $20 billion.

Now, very few people realize that, historically, during the past decade, budget outlays have approximated 92 percent of budget authority. You are now arbitrarily stating that budget outlays are going to be in the neighborhood of 88 percent of budget authority, against a half trillion dollar budget. Four percentage points makes a difference of $20 billion to $22 billion. And I submit that when you just begin flat out with that kind of figuring, you are going to run into trouble.

You have cut popular and important programs in veterans affairs and in agriculture. You have badly overestimated savings resulting from quality control, legislative action on hospital cost containment, and Social Security reform. You don't even live up to the President's commitment to the Humphrey-Hawkins bill, in long-range inflation figures. In this regard you have published your intention not to adhere to the law you are supporting. Specifically, the administration has endorsed the Humphrey-Hawkins bill which calls for a 4 percent unemployment rate. Yet your budget documents talk about full employment in terms of 4.9 percent currently and 4.7 percent in 1983.

UNEMPLOYMENT GOALS

What is the Administration's policy in this regard? How can you support a goal of 4 percent when you apparently feel there is no real way to lower that rate below 4.7 by 1983? Do you want to respond to that?

[The information follows:]

[A 4-percent rate of unemployment in 1983 is a very ambitious objective, for it would imply that actual GNP would exceed our present estimates of potential GNP.] The major unanswered question regarding this target is whether it can be achieved without creating pressures in labor and product markets that would touch off a new round of inflation. Given the present structure of these markets, it is unlikely that a 4-percent unemployment rate could be achieved through aggregate demand policies alone without at the same time causing a significant increase in the rate of inflation. Responsible policy, however, requires not that we abandon efforts to reach the 1983 unemployment goal, but that we work steadily to reduce the conflict between low unemployment and inflation by developing structural measures to improve the functioning of markets.

Mr. MCINTYRE. Mr. Chairman, that is a long agenda to address. I am glad Mr. Michel asked the first question concerning the ratio of budget authority to outlays, and if I might, I would like to address as much of that question as you feel is appropriate, and then I will be glad to submit additional responses for the record.

I think we can adequately address every issue that Mr. Michel has raised.

First of all——

Mr. Mahon. You have, of course, permission to extend your remarks in order to make your points clearer as to the views of the administration.

Mr. McIntyre. Yes, sir.

First of all, we disagree with the allegations that the budget is not honest with respect to outlays. The Congress' own Budget Office states that the $500.2 billion estimate for 1979 "appears to be realistic in light of historical spending patterns." That is on page 29 of the CBO analysis of the 1979 Budget.

Mr. Michel. You just wait until that Budget Committee of the Congress gets done with your budget and I will stack up what I have said here against what they do.

Before you take up all my time, I just want to ask one question here, and you can expand the answers on the others, as through this kind of charade we get nothing but a lengthy answer and no questions.

If Congress passes a higher tax cut without including most of the revenue-producing reforms, I would simply like to know, would the President ask for spending reductions to match the additional loss of revenues or simply go along with a higher deficit? Of course he could veto the bill but I would doubt that he would do that.

Mr. McIntyre. Mr. Michel, I think that we would have to examine the circumstances as they are at that time. We can't sit here and say what would be the case. It would depend on the types of reductions. It would depend on the circumstances surrounding any additional proposals. We think that the proposed reforms and the reductions are interrelated. They are very integral to the overall fabric of our fiscal and economic policies. What decision we might make on some hypothetical situation I think would be premature for us to say at this time.

The Secretary might want to comment further on that.

Secretary Blumenthal. I think that is——

RATIO OF OUTLAYS TO BUDGET AUTHORITY

Mr. McIntyre. Let me make one statement, Mr. Chairman, about the ratios that are being used with respect to the outlays. We have some real concern about the analysis of outlays that has been presented to me on previous occasions. If you look at this over the past 10 years, you will see that the pattern of outlays—actual, not estimated—ranges from a low in 1975 of 78.8 percent to a high in 1972 of 93.5 percent. The other figures range in the area of 89.4, 89.2, 85.5, 86.4, and 88.2 percent. Eighty-eight percent happens to fall approximately in the middle of that range. It seems like a pretty good place to be under these circumstances.

In addition, if you will look at the ratio in the 1979 budget of total obligational authority to outlays, you will see that there are several reasons for that difference in outlays versus total obligational authority.

First, the taxable bond option contains a budget authority of $7 billion with an outlay estimate in 1979 of $0.1 billion. There are a number of other areas in which that occurs.

We have a contingency allowance of $3 billion in budget authority with estimated outlays of $1.7 billion.

I have an analysis, Mr. Chairman, that I would like to submit for the record on this, which adequately addresses the issues raised by Mr. Michel.

[Additional information submitted by the Office of Management and Budget follows:]

The declining ratio of outlays to budget authority—91.9% in 1978 and 88.0% in 1979—has been cited in support of the proposition that 1979 outlays are being understated; i.e., if the 1979 ratio is less than the 1978 ratio, then 1979 outlays are being understated. A related argument has been developed to suggest that a "reverse shortfall" problem may occur beyond 1979 through an abnormal build-up in obligational authority not being liquidated in 1979.

But an objective assessment of budget detail does not serve either proposition. Rather, the analysis below suggests that the 1978 ratio is abnormally high and that the 1979 ratio is comparable to—and even higher than—the ratios of recent years.

RATIO OF OUTLAYS TO BUDGET AUTHORITY

[Dollar amounts in millions] [1]

	Outlays	Budget authority	O/BA (percent)
1979 estimate	$500, 174	$568, 172	88. 0
1978 estimate	462, 234	502, 907	91. 9
1977 actual	401, 902	465, 231	86. 4
1976 actual	366, 466	415, 336	88. 2
1975 actual	324, 601	412, 099	78. 8
1974 actual	268, 392	313, 861	85. 5
1973 actual	246, 526	276, 417	89. 2
1972 actual	231, 876	248, 097	93. 5
1971 acutal	211, 425	236, 406	89. 4
1970 actual	196, 588	212, 973	92. 3
10-yr total	3, 210, 184	3, 651, 499	87. 9

Source: Federal budget documents from 1972–79. Data from the budgets of 1972 through 1978 exclude later minor adjustments to historical data in table 21 of the 1979 budget for treatment of off-budget Federal agencies.

Many factors contribute to the relatively high 1978 outlay/authority ratio. While the budget detail reflects many countervailing effects on the outlay/authority ratio, an identification of major programs with unusual budget authority-outlay patterns confirms that these unusual patterns in 1977 through 1978 produce an upward bias in 1978.

The cause and effects underlying these overall patterns are summarized as follows:

Economic stabilizers and jobs programs: These countercyclical programs reached a funding peak in 19ı7, $36.5 billion in authority, much of which will spend out in 1978. Funding in 1978 decreased $16.6 billion while related outlays will increase $3.0 billion in the same period. The budget authority/outlay relationship in 1979 is more comparable to 1977 than 1978.

Disaster/Weather related trends: The weather and the Farm bill in 1977 resulted in disproportionate outlay increases in 1978.

Special financial activities: These programs—largely self-financed and relatively uncontrollable—display highly irregular authority/outlay patterns in the best of years. In the 1979 budget, they contribute to the upward bias in the outlay/authority ratio for 1978.

Other unusual trends: The Social Security Act of 1977 provided a substantial social insurance tax increase in 1979 which, in turn, results in a higher level of budget authority. Outlays maintain a normal rate of increase to produce a higher outlay/authority ratio in 1978. Unused balances of 1978 authority will be used to fund the 1979 subsidized housing program. The decrease in budget authority of $6.8 billion in 1979 creates an upward bias in the 1979 outlay/authority ratio.

Major 1979 legislative initiatives: These initiatives with "first time" funding in 1979 pull down the 1979 outlay/authority ratio.

The following table summarizes the effects of the unusual budget authority-outlay patterns on the 1979 budget. The ratios that result from deducting the unusual budget authority/outlay relationships from the budget totals simply does not support the assertion that outlays in 1979 are understated.

UNUSUAL BUDGET AUTHORITY/OUTLAY PATTERNS IN THE 1979 BUDGET

[In millions of dollars]

Item	1977		1978		1979	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
Economic stabilizers and jobs programs:	(36, 456)	(22, 261)	(19, 823)	(25, 216)	(28, 960)	(26, 260)
Unemployment trust fund	14, 986	14, 103	15, 400	11, 800	16, 800	11, 600
Employment and Training Administration (Federal funds)	18, 912	11, 015	5, 019	11, 712	12, 149	12, 649
Interfund transactions within ETA	−3, 442	−3, 442	−600	−600		
Local public works	6, 000	585	4	2, 304	11	2, 011
Disaster/weather-related trends:	(2, 404)	(4, 510)	(4, 721)	(9, 795)	(6, 561)	(5, 904)
Farm price supports	946	3, 501	2, 082	7, 528	5, 534	4, 527
Small Business Administration	983	700	2, 339	1, 742	827	1, 093
Disaster relief	300	294	300	375	200	284
Drought assistance	175	15		150		
Special financial activities (largely uncontrollable):	(860)	(−3, 328)	(4, 502)	(964)	(6, 165)	(−237)
Military assistance trust fund (net)	−744	−1, 159	2, 400	−200	3, 100	300
Farmers Home Administration (asset sales)	1, 594	963	1, 680	1, 262	1, 422	146
Government National Mortgage Association	10	−1, 090	7	42	1, 507	334
Federal Deposit Insurance Corporation		−852		−379		−945
Federal Home Loan Bank Board		−1, 913	−10	−360		−467
Purchase of ConRail securities		723	425	599	136	395
Other unusual trends:	(115, 047)	(92, 808)	(126, 520)	(103, 746)	(134, 241)	(113, 589)
Social security trust funds (larger rate of increase in authority from tax provisions in 1977 Social Security Act)	81, 169	85, 068	89, 723	94, 729	101, 530	104, 458
Supplemental security income	5, 895	5, 297	5, 250	5, 974	5, 715	5, 555
Subsidized housing programs (balances carried forward from 1978 require less authority in 1979)	27, 983	2, 443	31, 547	3, 043	24, 690	3, 576
Increase in forward funding authority (in 1979 for 1980) HEW programs					2, 306	
Programs with major 1979 legislative initiatives/contingencies	(1, 596)	(2, 584)	(2, 409)	(2, 813)	(16, 463)	(4, 958)
Taxable municipal bond option					7, 094	99
Urban mass transit program	455	1, 709	484	1, 975	2, 865	2, 250
International financial institutions	1, 141	875	1, 925	838	3, 504	909
Allowance for contingencies					3, 000	1, 700
Total	156, 363	118, 835	157, 975	142, 534	192, 390	150, 474
Other items	308, 868	283, 067	344, 932	319, 700	375, 782	349, 700
Budget total	465, 231	401, 902	502, 907	462, 234	568, 172	500, 174

RATIO OF OUTLAYS TO BUDGET AUTHORITY

[Dollar amounts in millions: ratio in percent]

	1977			1978			1979		
	Budget authority	Outlays	Ratio O/BA [1]	Budget authority	Outlays	Ratio O/BA [1]	Budget authority	Outlays	Ratio O/BA [1]
Budget totals	$465, 231	$401, 902	86. 4	$502, 907	$462, 234	91. 9	$568, 172	$500, 174	88. 0
Total, unusual budget authority/outlay patterns	156, 363	118, 835	76. 0	157, 975	142, 534	90. 2	192, 390	150, 474	78. 2
Other items (budget totals less unusual budget authority/outlay patterns	308, 868	283, 067	91. 6	344, 932	319, 700	92. 7	375, 782	349, 700	93. 1

[1] Outlays/budget authority.

Mr. MICHEL. Mr. Chairman, I will have some other questions to submit.

Mr. MAHON. Thank you.

[Representative Michel's questions and the answers submitted by the Office of Management and Budget follow:]

Question. This is a question for Mr. McIntyre. Over a year ago, HEW developed some new regulations governing the payment of indirect costs which are designed to tighten things up, at least to a certain degree. As you know, HEW pays out hundreds of millions of dollars a year in overhead payments to grant recipients, and I have been critical for some time of this because the standards in many respects are so loose that we're getting ripped off. It's been a struggle to get HEW to do something of a corrective nature, but when they have, I now find that OMB has been sitting on the new regulations for over a year. What's the problem?

Answer. OMB is in the final stages of publishing a proposed revision to Circular A–21, "Cost principles for educational institutions." The proposed revision would be clearer, more equitable, and easier to administer than the current Circular and should go a long way toward resolving differences between agencies and universities regarding the allowability of costs. It results from recommendations made last year by the Department of Health, Education, and Welfare and reflects extensive consultation with Congress' Cost Accounting Standards Board, other Federal agencies, affected State and local governments, universities, and the public. These consultations, while admittedly time consuming, were essential to the development of an equitable set of principles.

Question. Your budget shows $49 billion in interest on the National debt. What kind of an interest rate did you use to arrive at that figure? The current rate?

Answer. The January budget estimates of interest were based upon a range of interest rates consistent with the short term, 91-day Treasury bill rate of 6.1%. Long term issues were financed at 7.5%. The current interest rates are higher than the budget assumptions; short term 91-day Treasury bills are now at 6.5%. Other securities are correspondingly higher.

Question. What is the average interest rate being earned by all the trust funds taken together?

Answer. The average interest rate currently being earned by Government account series securities—largely holdings by trust funds—is 7.0%.

Question. What is the rate of interest currently being earned by the Social Security trust fund, and the total amount per year?

Answer. New securities held by the Social Security trust fund—old age survivors and disability insurance—are currently earning interest at the rate of 7⅛%. The estimated interest paid to these trust funds is estimated to be $2.4 billion in 1978, compared to $2.6 billion in 1977.

Question. What is the total amount of all the Federal trust funds currently on hand?

Answer. At the end of fiscal year 1979 it is estimated that the Federal trust funds will have a balance of $176.7 billion. This covers the amounts on deposit with Treasury, and the U.S. securities held. (See page 81 of the *Special Analyses* for detail by major fund.)

Question. What proportion of this total is the Treasury borrowing to finance the national debt?

Answer. $138.3 billion or 95.2% of the balances held by Federal trust funds is used to finance the national debt.

Question. Mr. McIntyre, you mentioned that your budget includes some $3 billion or was it $1.7 billion for so-called "contingencies". What would these monies be used for?

Answer. The President's 1979 Budget includes $3.0 billion in 1979 budget authority and $1.7 billion in estimated 1979 outlays for contingencies. This allowance does not represent a compilation of a specific list of future needs. It is a rough estimate taking into account past experience of unanticipated requirements and possible requirements for future initiatives. The nature of the contingency allowance precludes our knowing all of the specific requirements for which this money might be used. However, funds are likely to be required from the contingency allowance for the following purposes:

[In millions of dollars]

	Potential cost (low to high range)	
	Budget authority	Outlays
Increased aid to middle-income families with students in higher education programs [1]	1,200	215
New starts for water resource projects [1 2]	(3)	(3)
Union Station National Visitor's Center: Shift of control from Department of the Interior to Department of Transportation and completion of construction [2]	20–50	10–20
Defense cooperation agreements with Greece and Turkey [1]	(3)	(3)
Metro construction program (pending reevaluation of unbuilt segments) [1 3]	(3)	(3)
Urban initiative [1]	(3)	(3)
Educational broadcasting facilities	(3)	(3)

[1] The 1979 budget made reference to the need for later funding for these programs.
[2] Amounts requested would be on a full funding basis
[3] Undetermined.

[Representative Michel's questions and the answers submitted by the Department of the Treasury follow:]

Question. As I see it, with a $60 billion proposed budget deficit piled on top of the $62 billion deficit projected for the current fiscal year, the only anti-inflationary policy the Carter Administration has is this vague sort of voluntary cooperative effort which doesn't have the support of either business or labor. In view of this, there really isn't any likelihood that we will see anytime soon a rate of inflation as low as the 4.8 percent President Ford achieved in his last year in office, is there?

Answer. The slowing in the rate of increase in the consumer price index to 4.8 percent between the end of 1975 and the end of 1976 was largely due to a fortuitous decline in prices of food at grocery stores. Lower food prices, in turn, were related to sharply falling prices received by the nation's farmers, particularly livestock producers. The slide in livestock prices left many farmers in severely strained financial positions.

Subtracting out food and also energy prices, whose movements have also been highly irregular, consumer prices increased 6.1 percent during the course of 1976 and about maintained that same pace in 1977. The excesses of the late 1960's and early 1970's appear to have left a legacy of an underlying rate of inflation in the 6 to 6½ percent range.

The Administration's effort to slow the rate of inflation is two-pronged. First, underlying conditions must be conducive to price stability, and we have shaped our fiscal program toward that end. It is designed to move the economy forward in a sustainable manner, avoiding the possibilities of excesses. Though substantial deficits are expected in the near-term, these should not generate inflationary pressures because of the substantial slack that will still exist in the utilization of the nation's capital and labor resources. The fiscal program emphasizes the role of the private sector in leading the expansion and reduces the relative size of the Federal sector, which is not subject to the rigors of the market place.

Further, to insure the growth of our productive capital, the Administration's program provides for more adequate incentives for investment, as faster growth in business capital stock will help in the battle against inflation by spurring productivity gains and by reducing the likelihood that the economy will eventually bump against bottlenecks and capacity constraints in individual industries.

Finally, we are taking steps to curtail the possible inflationary impacts of Government regulations. Procedures are being established to encourage regulatory agencies to apply the most cost-effective means of attaining national objectives.

These steps to foster conditions conducive to price stability may not be sufficient, however. Considerable inflationary momentum still exists and has shown itself to be unresponsive to the existence of considerable economic slack in both 1976 and 1977. Workers have come to expect continued inflation, building this expectation into wage demands. Businesses, in turn, accede to these wage demands on the expectation that continually rising prices will permit the passing on of higher costs.

The second prong of the attack is designed to brake this inflationary momentum and includes a program of voluntary cooperation between business and labor. We have no guarantee that this program will be successful, but with the cooperation of all concerned, we believe we can build the foundation for a return to a reasonable degree of price stability.

Question. Your proposed tax reforms would eliminate the deduction for health insurance premiums, a move which would raise health insurance costs for millions of Americans. If I had a suspicious nature, I would almost think you were trying to make private health insurance more costly in order to increase the demand for national health insurance. Why this proposed change?

Answer. There are two reasons for the proposal to eliminate the separate itemized deduction for one-half of the first $300 of health insurance premiums. First, it is a simplification measure. Second, it is the Administration's position that the itemized deduction for medical expenses is supposed to provide tax relief only for taxpayers whose ability to pay is reduced because they were forced to pay extraordinary high medical expenses. For the economy as a whole, medical expenses are about eight percent of personal income; thus, we believe that ten percent of income represents a fair cut-off point for measuring extraordinary medical (and casualty) expenses. Our proposal continues to include medical insurance premiums as medical expenses, and to the extent that the total exceeds ten percent of AGI, they will continue to be deductible.

The proposed changes in the deductibility of medical insurance premiums and of other medical expenses are completely unrelated to proposals for national health insurance.

The proposed changes in the medical expense deduction are only one facet of more comprehensive tax reform and major tax reduction. Thus, the proposed limitations for the medical deduction will not result in actual tax increases for more than a minute fraction of taxpayers, and any tax increases which do occur will be small.

Question. You are also proposing to eliminate the deduction for state sales taxes but not state income taxes. Are you singling out one tax and not the other? Is this a backhanded effort to tell the states what kind of taxes they should enact?

Answer. The proposal to eliminate the itemized deduction for state and local *sales* taxes but to continue to allow the deduction for state and local *income* taxes definitely does not represent an effort to tell states what kinds of taxes they should enact. Any indirect effect that the proposal may have in that direction will be minimal. Even under current law, only one-fourth of taxpayers itemize deductions and are able to deduct sales taxes. The effects of repeal of the deduction for this fraction of taxpayers are not significant enough to affect state and local decisions about the appropriate mix of taxes.

The proposal to eliminate the itemized deductions for most state and local taxes stems from the proposition that personal expenses unrelated to the production of income generally ought not be deductible. Since income taxes are directly related to the production of income, it is appropriate to continue the deduction for them. The continuation of the deduction for real property taxes is due to the long-standing public policy of encouraging home ownership.

In fact, virtually all itemizers who claim the deduction for sales taxes calculate their sales tax expenses from tables supplied by the Internal Revenue Service rather than keeping detailed records of sales taxes paid during the entire year. Thus, the effects of repeal can be and are being offset by reductions in tax rates. As a result of these rate reductions, repeal of the sales tax deduction will not, except in very rare instances, produce any significant tax increases.

Question. Your Budget shows $49 billion in interest on the national debt. What kind of an interest rate did you use to arrive at that figure? The current rate?

Answer. The estimate for the budget function classification, "Interest", for FY 1979 is $49 billion. It consists of estimated outlays for interest on the public debt of $55 billion reduced by estimated offsetting receipts of interest of $6 billion.

Budget estimates for interest on the public debt are made by the Office of Management and Budget. The interest which must be paid during the budget year on public debt securities which are outstanding at the time the estimate is made is calculated by multiplying the effective interest rate on each security by the amount of that security outstanding. For outstanding securities that will mature in the budget year, the OMB methodolgy assumes that these will be refunded by the issuance of like securities, e.g., bills, notes, bonds, with like maturities. Similarly, for borrowing to raise new cash, the methodology assumes that the maturity of new issues will be comparable to the maturity distribution of the outstanding debt. OMB does not predict changes in interest rates. Therefore, estimated interest rates, based on market yields on outstanding securities of comparable maturities prevailing at the time the estimates are made, are applied to the estimated amounts of refunding and new cash borrowings.

The interest rates used in the January 1978 Budget presentation are as follows:

Interest Rates Used to Estimate on the Public Debt in the January 1978 Budget

Maturity:	Percent [1]
13 weeks	6.1
26 weeks	6.4
52 weeks	6.75
1–3 years	7.0
3–6 years	7.25
Over 6 years	7.5

[1] Rates based on market yields prevailing in December 1977.

Question. What is the total amount of all the Federal trust funds currently on hand?

Answer. The total amount in Federal trust funds was $152.5 billion at the end of fiscal year 1977.

Question. What proportion of this total is the Treasury borrowing to finance the national debt?

Answer. At the end of fiscal year 1977 nearly 94 percent of the $152.5 billion in the Federal trust funds was invested in Treasury public debt securities.

Question. What is the average interest rate being earned by all the trust funds taken together?

Answer. The average rate earned by Federal trust funds as a group was about 6.77 percent in fiscal 1977.

Question. What is the rate of interest currently being earned by the social security trust fund, and the total amount per year?

Answer. In FY 1976 the effective rate of interest, on all trust fund investments was 6.8 percent for the OASI and DI trust funds and 72 percent for the HI trust fund. We are in the process of calculating the effective rate of interest for FY 1977. However, the average rate of interest earned on *new investments* during FY 1977 for the social security trust funds was 6.94 percent.

Total interest income for each of the social security trust funds from FY 1970 through FY 1977 is shown below:

NET INTEREST

[In billions]

Fiscal year	OASI	DI	HI
1970	$1.3	0.2	0.1
1971	1.6	.3	.2
1972	1.7	.4	.2
1973	1.8	.4	.2
1974	2.0	.5	.4
1975	2.3	.5	.6
1976	2.3	.5	.7
1977	2.3	.4	.8

Mr. MAHON. Mr. Boland.

Mr. BOLAND. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Director, I don't think anybody sitting here on this upper tier ever thought we would come to the point where we would have a budget of $500,200,000,000 for any year. When I joined this committee some years ago, and those who sit on the upper tier have been on the committee for some time too, the national budget was around $75 billion. So we have come a long way since that time.

I understand that something like 74 percent of this budget is uncontrollable; is that correct?

Mr. MCINTYRE. Approximately, yes.

CONTROLLABILITY OF BUDGET AUTHORITY

Mr. BOLAND. So really the Administrations that present the budgets to the Congress every year are not totally responsible for the size of the budget, are they?

Mr. MCINTYRE. No, sir. Much of our 1979 budget request—nearly 45 percent—is predetermined by current laws requiring payments to individuals; over 12 percent is earmarked toward meeting fixed costs, e.g. interest on the public debt; and nearly 18 percent represents outlays from contracts and other obligations in prior years.

ZERO BASE BUDGETING

Mr. BOLAND. As I understand it, one of the ways you are trying to get a handle on the budget is through the process of zero based budgeting. You place a lot of confidence in it. You are probably more responsible for the establishment of ZBB in the State of Georgia than any other individual outside of the President himself.

Is there much of a difference in trying to zero base budget an item of $2 billion, the size of the Georgia budget, and a budget of a half trillion dollars?

Mr. McIntyre. Mr. Boland, there is a significant difference in trying to do that.

Mr. Boland. But you are making a start. You are apparently rather satisfied that the start this year did produce some results. As I understand the process of zero based budgeting, it is predicated on minimum, current and improvement levels; is that correct?

Mr. McIntyre. That is correct.

Mr. Boland. What would be the figure for the 1979 fiscal year budget if the Administration and if OMB accepted all the improvement levels? What would that figure be? You may supply it for the record.

[The information referred to follows:]

I think it would be fair to say that the total amount of all the improvement levels would be at least more than the $500 billion outlays estimated for fiscal year 1979. I say his because only those proposed improvements that can be thoroughly justified at each level in the Executive branch—as the package moves up through the decision making process to the President—would ultimately be included in the President's budget.

We do not compile the total amount of what the budget would have been if all the improvement levels had been included in the President's budget. During the 1979 budget process there was no practical way to compile this information.

Since your questions emphasize an interest in the results of the ZBB process, we can offer a report that assesses the impact of ZBB on the 1979 budget. That report, which is scheduled to be issued at the end of the month, will identify specific savings in individual programs and should answer most of your questions on this subject. We will make sure that you receive a copy of the report as soon as it is issued.

Mr. Boland. And whether or not the Office of Management and Budget really got a close look at how the particular departments or agencies arrived at their priorities. The priorities as I understand it are arrived at by looking at decision packages, trying to assess what the programs are that the agencies and departments consider to be of the highest priority, and then dropping those that are the lowest priority.

How closely do you actually look at those decision packages?

Mr. McIntyre. We looked at them very closely in our own office. Our budget examiners were responsible for analyzing every decision package that was submitted to us.

Mr. Boland. So you have been looking at some of the programs.

ANTIRECESSION INSURANCE

Let me take the program of antirecession fiscal assistance to States and local communities. You requested in this budget $1,040,000,000 for that activity in fiscal year 1979. As you know, that program has not been extended. It must be extended by law in order to expend this particular item.

As I read the budget document, I get the impression that the Administration's position and probably the Treasury's position in this area is rather weak. They really are not too supportive of it.

Is that fair?

Secretary Blumenthal. Maybe I should take that question, Mr. Boland. We are doing an analysis of that program in order to see how it can be improved, particularly as economic conditions improve throughout the country. I think it would be incorrect to say that we are weak on it, but we would like to see whether or not it ought to be continued in its present form or, if not, how it should be amended. We will be making some recommendations in that regard.

Mr. Boland. As you know, and all of us here know, the reason for the passage of that Act really was to continue ongoing basic services, so that communities would not be laying off people who were engaged in this kind of activity.

NEW YORK SEASONAL FINANCING FUND

Therefore, it impinges a little bit upon that program, and a program for which you have not provided any particular solutions for fiscal year 1979. That program in the New York City seasonal financing fund. The budget indicates that there may be some recommendations made or proposed in the 1979 activities. I know you are looking at it. I know that the Administration and the Treasury Department do not want the City of New York to go bankrupt, at least I don't think they do.

Do you have any particular proposals for that or is that an ongoing matter that Treasury and the Administration are now looking at? Do you believe in loan guarantees or do you think there ought to be more of the direct loans that have been assisting New York over the past year?

NEW YORK BUDGET AND FINANCING PLAN

Secretary Blumenthal. Mr. Boland, we have just received New York City's 4-year budget and financing plan. I am scheduled to testify before Mr. Moorhead's Subcommittee on Economic Stabilization on February 23. We will in the interim, having received these budget and financing recommendations, be analyzing their feasibility, discussing them with the responsible officials in the City and the State of New York to assess what might be done, and be developing our position to present before Congress in late February.

The seasonal loans to the City really are borrowed and repaid in the course of each fiscal year. The $2.3 billion appropriated in fiscal 1976 has been a revolving fund which has been repaid each year. Indeed we have earned some interest on these seasonal loans.

The question of whether or not the seasonal financing program ought to be continued, or whether it ought to be phased down over time, over several years, and therefore continued on a declining basis, or whether no further aid is needed or some different form of aid is needed, is really what we have to determine in evaluating the City's 4-year plan.

There are important contributions that the City, the State and other local parties will have to make to the solution of that problem.

Mr. Boland. Thank you, Mr. Secretary.

Thank you, Mr. Director.

ZERO BASE BUDGETING

Mr. Mahon. Mr. Director, Mr. Secretary, zero base budgeting has been heralded as the panacea for many of our ills, and I wish in response to the questions that have been asked you that you would amplify your statement somewhat with respect to zero base budgeting. It may be a brilliant idea, but I haven't seen much favorable results from the application of the theory. Where is something specific?

UNCONTROLLABILITY OF THE BUDGET

Now I think the average citizen who isn't familiar with the budgetary problems and jargon would wonder why it is that about 75 percent of the expenditure in the budget is uncontrollable. They would tend to say what is wrong with the Executive. What is wrong with the Congress if 75 percent of the expenditure in the budget is uncontrolled? Will you give us the ABC's of that in your remarks, not at this moment? Will you do that for us?

Mr. McIntyre. Yes, sir.

[The information follows:]

Each year as the Executive Branch begins its formulation of the budget, it must take into account the effects of prior actions on the budget totals. The extent to which the budget is constrained by the effects of these actions is reflected in the concept of controllability of budget outlays. Outlays are defined as relatively uncontrollable in any one year when the President's decisions in that year can neither increase nor decrease them without a change in substantive law.

In 1979, it is estimated that nearly 75%—$374.8 billion—of the total budget outlays of $500.2 billion is relatively uncontrollable under current law. The relatively uncontrollable outlays are classified into three categories (in billions of dollars):

	1979 outlays	Percent of total outlays
Payments for individuals	$223.9	44.8
Other open-ended programs and fixed costs	61.5	12.3
Outlays from prior-year contracts and obligations in relatively controllable programs	89.5	17.9
Total, relatively uncontrollable outlays	374.8	74.9

The category "payments for individuals" consists of spending required to meet entitlement and related provisions of law in effect when the budget was prepared. This includes payments to social security, Federal employee retirement, medicare and medicaid, and other beneficiaries. The amounts included in the 1979 budget reflect the Administration's estimate of the number of beneficiaries entitled to the benefits prescribed under the various provisions of law.

The "other open-ended programs and fixed-costs" category includes similar kinds of entitlement authority vested in other beneficiaries, e.g., State and local governments. In addition, certain outlays are required to meet fixed costs of Federal government operations including the payment of interest on the Federal debt.

Finally, spending in nearly every Federal program not included in the categories above is constrained by the extent to which payments must be made for "prior year contracts and obligations" entered into by the Federal government.

Mr. Mahon. The gentleman from Kentucky, Mr. Natcher.

FINANCING EDUCATION

Mr. Natcher. Mr. McIntyre, in your statement to the committee you point out that the budget for fiscal year 1979 contains substantial increases for education, increases totaling approximately $1,300,000,000.

Is the Administration proposing a new or a different role for the Federal Government in the financing of education?

Mr. McIntyre. As you know, the Elementary and Secondary Education Act is up for reauthorization this year. With that basic exception, there is no new or expanded role being recommended by the Administration. The President did say in his State of the Union Message that he would be recommending the creation of a separate Department of Education.

Mr. Natcher. What about the financing as far as education generally is concerned? Do we have any change there, not necessarily as to the role of the Federal Government in education?

Mr. McIntyre. I am not aware—let me check with my staff—of any recommendations for any changes in the Federal role. The State and local governments, as you are well aware, play the dominant role in this country in education, and I do not envision any major shifts in policy.

The major thrust of the budget, particularly as related to the Elementary and Secondary Education Act, will also emphasize aid or assistance to the disadvantaged, and will emphasize the need to give attention to basic education skills such as reading.

EMPLOYMENT AND TRAINING

Mr. Natcher. Mr. Secretary, would it be fair to say that the 1979 budget for employment, for unemployment and for the training programs in the Labor Department is pretty much a status quo budget, in terms of the number of people enrolled in the programs?

Secretary Blumenthal. I think there are significant increases in the 1979 program, sir.

Mr. Natcher. What are they, Mr. Secretary? Generally where are the increases?

Secretary Blumenthal. The increases are particularly in the area of employment and training, with special emphasis on employment and training for young people.

Mr. Natcher. Thank you, Mr. Chairman.

ZERO BASE BUDGETING

Mr. Mahon. Mr. Director, we spoke a moment ago about zero base budgeting, and I asked you to supply for the record some information in regard to your experience with it thus far. It would be easy to theorize and speculate. What I had in mind was to show us in the preparation of the budget where you made reductions or increases as a result, some specific examples, as a result of zero base budgeting techniques.

Mr. McIntyre. I would like to describe the way we implemented zero base budgeting to put it in a proper perspective, and to provide background for analyses of a statistical nature that might be made.

Mr. Mahon. It is all right to give the background, but also we want the specifics. That is what we really need. It is a beautiful theory, you know, but we want to see whether or not it really was effective in the preparation of this budget in specific instances.

Mr. McIntyre. I agree that ZBB is not a panacea. I have found very few panaceas in life, and certainly zero base budgeting is not a panacea in dealing with $500 billion. However, it is a useful and helpful tool in formulating our recommendations.

Specific examples of increases and decreases as a result of zero base budgeting will be provided to you in the ZBB assessment report that I promised earlier.

Mr. MAHON. The gentleman from North Dakota, Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

Something bothers me in this overall budget. I am not about to say that it is a phony budget or that it is wrong or anything like that. Its actual figures scare me, and I think would scare most Americans, if the press would inform them of the actual figures. We have been talking here so far about the fact that you project this budget will be balanced by 1982. The President campaigned on that basis, and he is going to balance it all right, but nobody takes into account the fact that it is going to be balanced by increasing receipts from all of us, from $356 billion in 1977 to $657 billion in 1982.

Now most households in America could do pretty well in their budget if they could double their income or double their take inside of 5 years.

We talked about zero base budgeting, and you are going to supply a lot for the record. But, Mr. Director, I would like to ask just one short question. You can answer it yes or no before I get into another question for the Secretary.

ELIMINATION OF PROGRAMS THROUGH ZBB

Have any programs been eliminated by your zero base budgeting so far?

Mr. MCINTYRE. Some minor programs have been eliminated. However, I know of no major programs, such as Social Security, that have been recommended for elimination.

Mr. ANDREWS. Nobody is talking about major programs like Social Security.

Have you eliminated any of these boards or any of these functions or any of these other things?

Mr. MCINTYRE. We have proposed to eliminate over 400 advisory committees throughout the government this past year.

Mr. ANDREWS. Any specific programs?

Mr. MCINTYRE. In addition to the proposed elimination of the 400 advisory committees. There are some small programs that have been eliminated through the ZBB process. A sample of these will be provided to you in the ZBB assessment report that I promised earlier.

Mr. ANDREWS. Then in the case of the Treasury Department specifically, Mr. Secretary, in your department, have you eliminated any programs in Treasury by zero base budgeting?

Secretary BLUMENTHAL. We have not eliminated any programs in the Treasury as a result of zero base budgeting. But we have eliminated quite a few advisory committees. I personally participated in the elimination of an office that was set up to administer the assistance which the Congress approved to the Lockheed Corp., and that was a pleasurable experience.

Mr. ANDREWS. That was foreordained.

Secretary BLUMENTHAL. It was foreordained because they paid back their debts.

Mr. ANDREWS. That is right.

Secretary BLUMENTHAL. We didn't have to continue. I hope I will be able to preside over that same ceremony for New York City.

INCOME TAX AND SOCIAL SECURITY TAX RECEIPTS

Mr. ANDREWS. Mr. Secretary, as the chief financial adviser for the President: We hear an awful lot of talk about the right to know, and sunshine acts and how the public should be aware of what is happening, and so help me, what I have read in the press or watched on television or heard on the radio in the last few weeks has been about the Administration proposing a tax cut.

In other words, Mr. and Mrs. Average American feel that they are going to get a tax cut.

Now in this budget book that comes up, that you present, it indicates that, far from a tax cut, you folks down at the other end of Pennsylvania Avenue anticipate that individual income taxes are going to go from $156 billion this year to $301 billion in 1982, that magic year, and Social Security is going from $108 billion to $208 billion. That's individual income taxes doubling in this 5-year period, and Social Security taxes doubling in this 5-year period. You know the talk: don't tax you, don't tax me, tax that fellow behind that tree. The point is, how can the American public respond intelligently about what you have mapped out in this budget of doubling income and social security taxes in this 5-year period if they don't know about it?

Where do we get away from the flimflam of telling the American people that somehow or another they are going to get a tax cut when the document you lay before our committee calls for doubling income taxes and doubling Social Security taxes in 5 years?

Secretary BLUMENTHAL. Sir, we have proposed that there be a tax cut this year. The numbers to which you refer are projections as to what would happen with revenues if there were no further action. I don't believe that we have ever said, nor would it be reasonable to assume, that there will not be further actions, and that the Congress will not wish to consider between 1978 and 1983 some further reductions in taxes.

Mr. ANDREWS. But these tables show budget receipts, without modifications, and the increase from $356 billion to $657 billion includes a $30 billion package of income tax reductions, so you have already factored that into your figures. I am not using raw figures. I am using your net figures.

Secretary BLUMENTHAL. These are merely projections of what would happen without any new programs, without any additional actions on the tax front, and it is clear that with a strong and buoyant economy additional receipts would be coming in. What would be done with them is something that has to go beyond the projections, and that will have to be put before the Congress in future budget proposals.

PERSONAL INCOME TAXES

Mr. ANDREWS. But do you deny that you anticipate doubling income taxes on individuals in the next 5 years, and Social Security taxes in the next 5 years.

Secretary BLUMENTHAL. The President has clearly demonstrated in his recent statements that he wishes to keep the percentage of personal income that is paid in income taxes at about the present levels. Indeed, the proposals that he has made this year do that. They keep income taxes at about 10.3 to 10.5 percent of personal income. They keep total taxes at about 14 percent, and they are directed towards reducing total Federal outlays back to the 22 percent level of GNP in 1979. That, I think, is a clear indication of his desire to keep taxes and outlays under some control in relation to income and GNP.

Mr. ANDREWS. That sounds good, but I wish the general public could read these 5-year projections. I think they might have a little bit different interpretation of what they hear in the news. I would hope somehow or another we could point that out to them in the next few months.

Thank you, Mr. Chairman.

Mr. MAHON. The gentleman from Pennsylvania, Mr. Flood.

NATIONAL HEALTH INSURANCE

Mr. FLOOD. Mr. McIntyre, I notice there are no funds requested in the 1979 budget to cover the cost of initiating a national health insurance plan.

Why is that? Have you ruled out the possibility of national health insurance legislation in this budget?

Mr. McINTYRE. We have not ruled out the possibility of a national health insurance proposal. We intend to complete our studies and analyses of various ways to approach the national health insurance issue, and to present a proposal to the Congress later this year. We would expect that proposal to be thoroughly studied and debated by the Congress, and thus we cannot anticipate, in the 1979 budget, any costs that might occur.

I feel personally that the real cost would occur perhaps about 1980 after the Congress has debated it and come up with a viable program.

HUMPHREY-HAWKINS BILL

Mr. FLOOD. Does the administration plan to, what will I say, push hard this year for enactment of the Humphrey-Hawkins bill?

Mr. McINTYRE. The Administration supports the Humphrey-Hawkins bill, yes, sir.

Mr. FLOOD. What?

Mr. McINTYRE. The Administration does support the Humphrey-Hawkins bill, yes, sir.

Mr. FLOOD. I said something about push hard.

Mr. McINTYRE. Well, we are supporting it, working for it, yes, sir.

Mr. FLOOD. What are the budget implications of the Humphrey-Hawkins bill? By that I mean what impact would it have on the 1979 budget?

Mr. McINTYRE. On the 1979 budget?

Mr. MAHON. Anyone can respond.

Mr. McINTYRE. Let me make this general statement. I don't recall the specific figures for each year, but we are on the path that would achieve the ultimate goals that are expressed in the Humphrey-Hawkins legislation.

Mr. FLOOD. Obviously you want to develop that for the record a little bit. Suppose you do.

Mr. MCINTYRE. I would like to do that, Mr. Flood.

[The information referred to follows:]

The Administration supports the Humphrey-Hawkins bill and believes that its passage would be a fitting memorial to the late Senator Humphrey. We intend to take all necessary steps to assure the prompt passage of the legislation.

More importantly, we believe that the President's economic policy proposals respond to the spirit of the Humphrey-Hawkins bill. We have proposed a program which will assure that the economy continues a strong recovery from the 1974–5 recession and we have proposed additional steps which must be taken to increase the employment opportunities of the disadvantaged.

Consistent with the anti-inflation objectives of the Humphrey-Hawkins bill, the Administration has also proposed a number of policy initiatives aimed at reducing the rate of inflation. We regard these steps as essential both because the rate of inflation must be reduced and because by controlling inflation it is much more likely that the recovery will continue and that the unemployment rate will decline.

The budget itself embodies the Humphrey-Hawkins objectives in its long-range economic assumptions. The outlay and receipts figures which are shown in the long-range projections are those which would be observed if the goals of the Humphrey-Hawkins bill were attained.

TUITION TAX CREDITS

Mr. FLOOD. There is a growing interest, as you know, in what is known as tuition relief for middle-income families through some form of tax credit.

What do you gentlemen think about that approach?

Secretary BLUMENTHAL. We are opposed to a tuition tax credit because we think that it would not be the most effective device for providing relief. There are many, many proposals that have been put forward, even some that deal with primary and secondary schools. We are certainly opposed to those. We do think that the best way of dealing with the question of providing relief for low- and middle-income families is through emphasizing overall tax cuts particularly for these groups.

We are going to try to see whether there are additional programs or other ways in which we can help with tuition problems for the college level, but we do not favor using the tax system to provide specific credits either for primary, secondary, or for college level.

PROPOSED DEPARTMENT OF EDUCATION

Mr. FLOOD. There appears to be no reference to a new Department of Education in this budget.

Is that proposal still on the drawing board? When will a proposal like that be sent to the Congress?

Mr. MCINTYRE. Presently, we are working with the Government Affairs Committee in the Senate to submit some recommendations to that committee concerning the bill that is pending in the Senate for a separate Department of Education. Hearings are expected to be held in April on that issue and we will have our final recommendations completed by that time. At that time, we will make a formal recommendation to the Congress. In the interim, we are working to finalize our recommendations for what should be contained in a separate Department of Education.

If such a department were to be approved this year by the Congress, we feel that there are sufficient funds in the current budget to fund that department, as in the case of the Energy Department, which was created this year.

On your previous question, Mr. Flood, I might add that we do expect to have some recommendations to the Congress shortly concerning ways to assist middle-income families who have children in college.

WELFARE REFORM

Mr. Flood. What is your current estimate on the timing for welfare reform legislation? In other words, when shall we expect some budgetary impact for welfare reform?

Mr. McIntyre. Mr. Flood, we, of course, would like to see the total welfare package completed by the Congress this year. We have recommended approximately $200 million in the budget to initiate some demonstration programs in order to gain some experience with the new proposals prior to their full implementation in the later years. The employment opportunities portion of the program for Better Jobs and Income will be gradually phased in prior to full implementation of all parts of the program in 1982.

Mr. Flood. I have some more questions here, but I think I will put those in the record for you.

Mr. McIntyre. All right, sir.

[Representative Flood's questions and the answers submitted by the Office of Management and Budget follow:]

Question. The HEW budget proposes reductions of $1.9 billion in several entitlement programs such as Medicare, Medicaid, social security benefits, and impact aid. These reductions are based on proposed legislation. Or cource, these programs are very popular and efforts to reduce the cost of these programs haven't been too successful in the past. Will you explain why you think there is a strong case for getting the Congress to go along with these proposed reductions in this budget?

Answer. Medicare and Medicaid: Since the proposed reductions in Medicare and Medicaid do not result from a reduction in services to those in need, it is our belief that Congress will support them.

Three programs will produce $1.17 billion in savings in the 1979 budget. Hospital cost containment will save $630 million; a program to reduce erroneous payments under Medicaid will result in $399 million in savings; and mandated common audit for Medicare and Medicaid will save $41 million.

Hospital cost containment is vital, not only to achieving savings in Medicare and Medicaid, but to reducing the unreasonable rate of inflation in the nation's health cost. Unless this rate is slowed, the nation will not be able to afford either adequate health care or national health insurance.

Medicaid quality control, by reducing erroneous Medicaid payments, will help insure that Medicaid money goes to those who are entitled to it, and mandated common audit will eliminate one source of wasteful duplication.

Social security: The primary emphasis in the Social Security amendments of 1977 was to eliminate the short run and long run deficit. This was accomplished primarily by correcting an error in the benefit computation formula and by increasing payroll taxes. There remain, however, a number of inequities in the benefit structure which provide windfalls to some and otumoded benefits to others. The Administration is studying ways to correct some of the more complex inequities. Meanwhile, there are some entitlements which are clearly in need of elimination or reduction and these have been proposed to be corrected in 1979. The effect would also be to further reduce the long range deficit which has not been entirely eliminated in the amendments of 1977, and therefore reduce the need for future tax increases.

Impact aid: The overriding objective of impact aid reform efforts has been to limit Federal aid only to those school districts adversely affected by Federal activity. This objective was reaffirmed both by this Administration and the Congress in discussions concerning the 1978 HEW appropriations. A consensus was achieved that a reform initiative would be introduced in 1979.

The 1979 budget request is a responsive measure aimed at achieving the desired result. The proposal requests $735 million for the basic Impact Aid program for 1979, eliminates payments for children whose parents work on property outside the county in which the child resides, requires that districts pay for educating some of the children and changes the basis for determining the Federal payment. In addition, $752 million is requested to provide forward funding in 1979 for use in 1980. This will allow school systems to know almost a year in advance of the school year what funds will be available to them.

This proposal represents the first step in a phased strategy which we are submitting to the Congress. We are confident that a mutually satisfactory proposal can be built from the Administration's initiative.

Question. The budget message states that "the Federal government must lead the way in investing in the Nation's technological future." That statement appears to be the reason why a 5% increase is requested for *basic* research. However, if this is true for the National Institutes of Health—which is responsible for biomedcial research—it must have been achieved by shifting the funds from *applied* research to *basic* research, because the overall increase for NIH research is only 3½%. Is this how you achieved your 5% increase in basic research throughout the government—by reducing applied research and increasing basic research?

Answer. The Administration recognizes the importance of basic research to the Nation's technological and economic future and the special role that the Federal government should play in assuring an adequate level of overall support for such research. In the development of the 1979 budget, special attention was given to the funding of basic research on a government-wide basis to assure significant real growth, above the projected rate of inflation.

The actual dollar level for Federal support of basic research largely emerged from consideration of the programs and requirements of individual agencies.

In some cases, such as the National Institutes of Health, Department of Energy and the Department of Agriculture, the increased support of basic research was achieved, at least in part, by reprogramming funds from applied reserach or developmental activities.

This reflects, in part, the recognition that the Federal government bears relatively more responsibility for basic research rather than for aspects of applied research and development—where there is greater incentive for private sector investment.

Question. Local school districts, colleges, universities, and other institutions are facing major problems in renovation and construction of their physical plant because of energy conservation, occupational safety and health requirements, and the needs of the handicapped. The budget includes $50 million for construction grants to colleges and universities. But we have heard that several billion dollars are required to meet these construction needs.

Why have colleges and universities been singled out for Federal assistance? Did they scream the loudest?

Answer. Colleges and universities have not been singled out. First, in elementary and secondary education, we have placed the highest priority on meeting the service rather than the architectural sections of the 504 regulations. The budget includes $804 million for formula grants to States, $269 million more than the current level. The $804 million will be used during the 1979–80 school year to meet 12 percent of the excess service costs compared to 9 percent in 1978.

In higher education, we will provide loans in 1978 and grants in 1979 to help deal with the more costly compliance problems of higher education institutions in removing architectural barriers. Most of the concerns expressed by school officials have come from higher eduation rather than elementary and secondary. In elementary and secondary, only a small fraction of all handicapped children have those kinds of impairments that hamper their gaining access to the average school building. Most school systems should be able to provide the required transportation to assign all physically handicapped children to a few of their buildings. For example, even a moderate size school system with 10 to 15 separate buildings with no new already accessible buildings should have to modify only one or two of its buildings.

Question. Is the Federal Government going to subsidize construction costs to help all institutions meet the law and regulations on the handicapped, and occupational safety and health.

Answer. It is our view that the Federal Government should not pay all of the costs to help institutions meet the law and regulations on the handicapped, and occupational safety and health. We believe that the main responsibility to provide equal educational opportunities and enforce safety and health regulations lay with the States. However, the Federal Government can assist where the cost of compliance is excessive. The $50 million funds provided in the FY 1979 budget are aimed at meeting that objective.

Question. There is a request in the Department of Labor's budget for $400 million for something called "private sector initiatives" under CETA (Comprehensive Employment and Training Act). This is an extremely *vague* proposal that is evidently supposed to get the private sector of the economy more closely involved with Federal employment and training programs.

Will you explain to us what this proposal is all about?

Answer. The private sector of our economy—where four out of five jobs are located—has achieved an impressive record of employment expansion during this period of economic recovery. In 1977 alone, more than three million additional jobs were created in private industry. However, the employment status of disadvantaged workers has been largely untouched by this growth in private sector jobs. In addition to direct employment, private employers also have a key role to play in assisting government in providing the training and related services for disadvantaged workers that are needed to enhance employability.

Achieving full employment is the key concern of the Administration. In addition to targeting our employment and training programs more directly to those most in need, we are proposing a major new initiative to build linkages between the public sector and the private sector for planning and developing employment and training programs. This new private sector initiative, for which we are requesting an additional $400 million ($250 million in outlays), will attempt to involve the private sector more effectively in the creation of training opportunities and jobs.

Question. Do you have any plans to *shift* the money currently being spent on public service employment over to the jobs portion of the Administration's *welfare reform* program?

Answer. We have no plans to shift money from public service employment to the jobs portion of the Better Jobs and Income program. The 1979 budget proposes to keep the number of subsidized public service employment jobs at the 725,000 level to be reached in 1978. Thereafter we expect it to decline as unemployment declines. This would have been our plan whether or not there was a proposal for welfare reform. However, since we have proposed welfare reform, we are showing the possible reductions in public service employment as an offset to the cost of welfare reform, so that our cost estimates will give a true picture of the relationship of the costs of welfare reform to the costs of current programs.

Question. All of us, both in the executive and the legislative branches, have been hearing about the burdens of the new social security payroll taxes. I know you were not entirely supportive of the law as enacted. Do you anticipate reopening this issue during the next year or two?

Answer. The Congress took two lines of action which the Administration's proposal had avoided: (1) it provided certain liberalized benefits that required more revenue to finance them, and (2) it depended entirely on payroll taxes to provide additional revenues. The result was to increase social security taxes, particularly for employees, above the levels proposed by the Administration. The difference in payroll tax levels is noticeably large in the near future when the countercyclical impact of the social security fund needs greater amount of revenue to pay benefit costs.

The Administration is proposing to offset some of the burden of the higher social security taxes in the near (and far) range by reducing general income taxes in 1978. However, the general tax reduction, although it is permanent, is not expected to mitigate the sharper payroll tax increases that are now scheduled in law for 1980 and 1981.

This is a matter of concern to the Administration and we are giving careful consideration to alternative tax policies.

Question. Last December Congresss enacted a Social Security bill which, among other things, authorizes $187 million in welfare fiscal relief to the States. You are requesting the funds for this payment in a supplemental. Do you fully support this payment or are you just requesting the funds because the law requires it?

Answer. The Administration concurred in the $187 million for fiscal relief in 1978 for the States when the Social Security Amendments of 1977 were passed by the Congress. Fiscal relief payments to the States for welfare costs in the future are proposed in the context of the enactment of welfare reform, the program for Better Jobs and Income. (See page 200 of the Budget.)

Question. HEW provided nearly $32 billion last year as the federal share of income maintenance and welfare payments. This year the request for these so called "uncontrollables" is over $34 billion. We have found that budget estimates in these areas have been notoriously undependable, resulting in billion dollar surpluses one year and billion dollar shortages in others. Is OMB doing anything to improve the quality of estimates for these entitlement programs?

Answer. The budget estimates for a given fiscal year for the income maintenance programs are initially prepared nearly two years before the final expenditure is made in that fiscal year for those programs. These estimates are based in great part on factors beyond the control of the program managers, such as, the subsequent state of the economy, unemployment rates, changes in benefit levels enacted by State legislatures, demographic trends, and price levels. HEW is nonetheless continually striving to improve its forecasts and to better understand how these factors can be predicted. I am gratified to say that substantial progress has been made. The original estimates for 1977 costs for the maintenance assistance program (of which the AFDC program is by far the largest component) were $6,215 million, exclusive of proposed legislation which was not subsequently enacted; two budget years later, the actual budget authority for this program in 1977 was $6,306 million, a difference of only $90 million out of more than $6 billion. While the estimating error is small, there will continue to be differences between estimates and actual costs due to the inevitable uncertainties that accompany these entitlement programs.

Mr. MAHON. Mr. Steed.

Mr. STEED. Mr. McIntyre, I have always thought one of the most interesting things in the materials we get is the table contained this year on page 71 of your budget in brief which deals with the relation of budget authority to outlays. It's a very interesting table.

Looking at this, we see you have projected here new authority of $568 billion with outlays estimated to be $500 billion. Reading further there you find we start out this year with a pipeline made up of appropriations from prior years of $614 billion, and we will end up this year, according to this projection, with a pipeline that will have $679.5 billion. We find of the $500 billion going to be outlayed this year $139.5 billion comes out of the pipeline, but while that is happening, under the new authority, we are pumping back into the pipeline $207 billion of the new obligation authority.

Now, in the work sheets that are presented to us by the Congressional Budget Office, the January work sheet shows the five-year projection of receipts and outlays both as estimated by the Office of Management and Budget and by the Congressional Budget Office, and they are very similar. They project in the year 1983 that receipts of the Government will be around $726 billion and the outlays will be $650 billion, which would show a very substantial surplus.

OUTLAYS NOT SUBJECT TO DISCRETIONARY ACTION

Now, I assume that if that happened the surplus would first have the impact of reducing the Federal debt.

What I am leading up to is since I think the legendary fellow in the woodpile causing a lot of our problem has more to do with the fact that 74 percent of the budget which is no longer subject to current discretionary action is in this pipeline problem.

Have you made any studies to project what the pipeline situation would be in 1983, assuming these other assumptions work out as you now have them listed?

Mr. McIntyre. Mr. Steed, I am informed we have not made those studies to determine what the outlays in the pipeline would be in 1983.

If my memory serves me correctly, I believe that the ratios here are about the same as they have been on an average or median over the past 10 years. So, there are no abnormalities in this relationship of outlays to total authority. I will be glad to try and look at that situation more closely and give you any additional information I discover.

[The information follows:]

In 1979, nearly 75% of total budget outlays are classified as relatively uncontrollable under current law. Of this percentage, nearly 18% is from prior-year contracts and obligations and the remainder is from outlays in open-ended programs and fixed costs. Although the 1979 Budget includes projections of outlays through 1983 on a controllability basis (page 42) for open-ended programs and fixed costs, outlays from prior-year contracts and obligations cannot be projected realistically in a long-range context. Under the "zero program growth" assumption, outlays from prior-year contracts and obligations—from balances of budget authority—would represent a decreasing proportion of total outlays. Thus, the "pipeline" would be decreasing in each year as balances spend out. This fact supports the proposition that the Federal government has greater control over expenditures in the long run and must examine its options for changing both the scope and direction of Federal programs in a long-range planning context.

Mr. Steed. Over the years I have seen this pipeline grow and grow and grow. It seems to have a very healthy growth factor to it. And as you try to figure out what causes this, it seems like we are always starting something that costs a little bit of money this year, then a whole lot next year, and more and more as years go on, and we are up to 74 percent now of the budget that is beyond our discretion.

How long is this going to be if this continues until a larger proportion of the budget than now will get into the category of not being eligible for discretionary action. If we continue, so little part of the budget will be subject to current action that neither zero based budgeting nor anything else will have very much impact on it, isn't that correct?

Mr. McIntyre. That is correct. And as I stated a little earlier, we are trying to institute a new process at OMB in order to get a handle on these programs that start off small and end up costing us a lot of money in the future. This process involves trying to do some realistic long-range planning about the cost of programs by requiring the agencies and departments in the Government to provide OMB with a detailed fiscal analysis any time they recommend a change in policy or a new program before it gets Administration approval.

So we are trying to take some steps in an effort to get a handle on this very real problem that you outline.

BALANCES OF BUDGET AUTHORITY

We do have an analysis of the balances of budget authority for this year, and I will be glad to give you and all of tne other members of the committee a copy of that, if you wish.

Mr. STEED. If you have the capacity to do it, if you could get a pretty good handle on all of the elements now working in the pipeline and how that big sum got there, I would appreciate that.

Mr. MCINTYRE. All right, sir.

[The information follows:]

The balances of budget authority in the "pipeline" are derived largely from a few principle sources. The growth in these balances in recent years is due more to certain changes in budget concepts than to increased Federal program levels.

For example, prior to 1974, small increases in housing subsidy program levels were reflected on an annual basis even though the increase in each year was related to 30–40 year contracts entered into by the Federal government. Thus, the long-range commitment was not reflected as budget authority. In 1974, we began to treat the total commitment as budget authority which, in turn, has resulted in a rapid growth in balances that will spend out over he next several decades. This procedure provides a more complete disclosure of the long-term commitment of budget resources.

Another major source of balances is from long-term construction and procurement projects such as water pollution control construction grants, defense systems, and space shuttle. We have recently expanded the concept of full funding to apply to more long-term projects of this nature. Instead of requesting budget authority for each year's requirements, we request the full funding authority required to complete the project when the project is proposed to the Congress.

Finally, over 40% of the balances of budget authority estimated at the end of 1979 are trust fund balances. Trust fund receipts usually form the basis for the funding authority. The recent social security tax increases were established by the Congress to put the social security system on a more sound financial basis. This tax increase resulted in an increase in budget authority for the social security funds will reflect increasing balances in the pipeline.

In summary, foreign aid, housing, defense and trust fund balances amount for about 85% of the balances of budget authority at the end of 1979.

Mr. STEED. What other things are on the horizon that will put more things in the pipeline, if that can be diagrammed in some simple way like this, maybe the Members of Congress would be astonished at what the long range effect some of their current decisions have on future government spending.

Mr. MCINTYRE. Yes, sir.

EXPENDITURES VS. BUDGET AUTHORITY

Mr. MAHON. I don't believe it has been made sufficiently clear that we have the outlays budget and a new budget authority, and the new budget authority for fiscal 1979 is $568 billion. That is what you are asking for in new budget authority. In expenditures you are estimating for $500 billion.

Congress has much more latitude in whether or not it wants to grant new budget authority than it does in the expenditure of budget, and I think that has not been made as clear as it ought to be. I hope in your remarks you will make that perfectly clear so the reader will understand.

Mr. MCINTYRE. Yes, sir.

Mr. MAHON. Thank you very much.

[The information follows:]

While the Congress has some latitude in determining whether to provide budget authority at the levels requested by the President in a given year, it does not establish specific limits on the outlays reflected in the budget. The outlays result from the application of the budget authority and balances of authority available to specific program requirements. In 1979, for example, it is estimated that only $218.0 billion or 44% of the total outlays of $500.2 billion will result from current budget authority provided by the Congress in 1979.

Mr. MAHON. The gentleman from Alabama, Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman.

UNOBLIGATED BUDGET AUTHORITY

Mr. Secretary, Mr Director, the Department of Defense unobligated balances for military activities grew from $11.9 billion in fiscal 1972 to $20 billion in fiscal 1977, and they are projected to rise to $21 billion in fiscal 1979. During the same period, 1972 to 1977, unobligated balances for the Federal Government in general rose from $177.2 billion to $255.2 billion, and I must say, that is rather mind boggling, when you think that the accumulated unobligated balances equal just about half of the fiscal 1979 Federal budget.

On the Defense Subcommittee, we have been considerably concerned about the problem for a long time, but for a lack of good data, we have never been able to get a firm grasp on the problem. The General Accounting Office has just completed a comprehensive study entitled, "Analysis of Department of Defense Unobligated Budget Authority", dated January 13, 1978. One of the principal findings of the GAO is that Presidents have consistently projected higher obligations and lower unobligated balances than has ever really been realized.

The GAO makes some specific recommendations to the Office of Management and Budget, as well as to the Defense Department, on how to remedy this problem.

First, and I know this is on short notice, the report having been dated January 13, but I wonder if you are familiar with this report, Mr. Director, or whether you have reviewed it?

First, and I know this is on short notice, the report having been may have received a copy. As I understand it GAO has not yet asked for OMB comments on the report because it must first be released by the National Security Task Force of the House Budget Committee. We expect, however, that the report will be made available for our review and comment in the near future.

Mr. EDWARDS. Do you have anything ongoing as far as the problem of unobligated balances is concerned?

Mr. MCINTYRE. We have a table on page 433 of the main budget document that presents the balances of budget authority by major agencies, including DoD's unobligated balances as you have described it. We are carefully watching these balances and we have a separate report entitled "Balances of Budget Authority" that provides a useful data base for review and analysis of obligated and unobligated balances. We will make sure that you receive copies of the report as soon as it is issued.

Mr. MAHON. Mr. McOmber, I think it would be good for you to make a comment in response to the question there.

Mr. MCOMBER. As you know, balances of budget authority are a natural outgrowth of the Federal budget system, in which outlays can occur only subsequent to the enactment of appropriations or other forms of budget authority. In the aggregate, unexpended balances are the result of a lag between the provision of budget authority (e.g., when an appropriation is enacted) and the expenditure of funds (e.g., when Treasury issues a check to pay for a service received). Balances may be obligated or unobligated.

They are obligated when budget authority has been obligated (e.g., a contract for services has been signed) but the check to liquidate the obligation (e.g., to pay for a service received) has not been issued.

They are unobligated when budget authority is available for use but has not been obligated, for example, when a contract is still being negotiated.

Our report on "Balances of Budget Authority" will provide information on all of the balances of budget authority carried forward at the end of each of the three fiscal years shown in the 1979 budget. It provides information on the obligated balances and on the unobligated balances.

For example, the report classifies unobligated balances by major program categories, e.g., guarantee and insurance programs, loan programs, procurement programs, etc. This information can be used to analyze the need for the balances previously provided by the Congress.

If you need extra copies after the report is issued, please let me know.

Mr. EDWARDS. The GAO suggests in this study that there is considerably more that the Director and the Office of Management and Budget could do to bring Congress up to date on what is involved in each budget as far as unobligated balance is concerned, identifying possible mis-estimates having to do with unobligated balances, that you could take a more active role in informing the Congress of the unobligated balances, and I hope you will make a good study of the GAO report.

It is something that has concerned us for some considerable time.

Mr. MCINTYRE. I appreciate you bringing that to my attention. I assure you I will give careful consideration to the recommendations of the GAO report. I am still getting a handle on a lot of things in the budget, so I hope that this GAO report will assist me in understanding balances more fully.

Mr. EDWARDS. The Defense Department makes the point that their unobligated balances are only about one-tenth of the general governmental balances, but GAO points out that when you take out trust funds and guarantees and this sort of thing, that really the Defense Department unobligated balances amount to about 40 percent of the Federal Government balances, and that it is something I know in our subcommittee we could use a lot of help on in trying to resolve this.

Let me give you one additional question. If we run out of time you can supply an answer for the record.

ADDITIONAL NATO SUPPORT

The President is reported to have said he wants to send 8,000 additional U.S. military personnel to Europe to serve in the NATO effort over there. Can you verify the fact that this is the plan?

Mr. McIntyre. Yes, sir. I believe that is accurate.

Mr. Edwards. Is it reflected in the fiscal 1979 budget?

Mr. McIntyre. There are a number of additions to the NATO supported areas of the budget. And some of them are more difficult to identify than others, but in general there is a substantial increase—a real increase—in the areas of the Defense budget that are related to our support for NATO.

Mr. Edwards. Is it true there is not a line item as such in the budgeting to do with the additional 8,000 troops?

Mr. McIntyre. I would have to look.

Mr. Edwards. If there is, I can't find it.

Mr. McIntyre. My staff informs me there is not a specific line item to that effect, but that it is a matter of general knowledge.

Mr. Edwards. I wonder then if you would include in your part of the record a breakout of the 8,000 troops, the additional cost to move those troops to Europe, and station them there?

Mr. McIntyre. I will consult with my staff and if it is possible to do that type of thing we will certainly provide the information.

Mr. Edwards. Wouldn't it seem feasible, if we are going to have that issue before us in our subcommittee, that we should know the cost?

Mr. McIntyre. Yes, sir.

[Additional information provided by the Office of Management and Budget follows:]

The Army plans to add 8,238 troops to Europe through activation of new units and individual transfers to increase manning of existing units. The first 5,937 troops are planned to be added in 1978. An additional 2,301 are planned to be added in 1979. The 1979 budget estimates associated with this increase are:

	Millions
Operation and maintenance, Army:	
One time	$3.2
Recurring	21.6
Military personnel, Army: One time	4.8
Total	29.6

Mr. Edwards. Thank you, Mr. Chairman.

Mr. Mahon. Let me say to our witnesses and to the members of the committee, I would plan, if there is no objection, to continue this hearing until 12:15.

The gentleman from Iowa.

RECOVERABLE INVESTMENTS AND LOANS

Mr. Smith. Mr. Director, how much of this $500.2 billion in outlays and how much of the $568 billion in obligational authority really represents either investments or loans that we expect to recover, and what would the net long term cost be of these items?

Mr. McIntyre. I don't know right off the top of my head, Mr. Smith, what that figure might be. I will have to go through the budget and summarize them for you.

Mr. Smith. I don't know of any private business that would fail to separate those items from the other items in the their budget. We talk about obligations and outlays, but seem to totally ignore the difference between investments or loans and regular expenditures. If we don't have those items separated, we don't really know what we are permanently consuming in resources.

Mr. McIntyre. However, I will have to develop the information that you request. I would call your attention to special Analysis D in our special analysis book.

Mr. Smith. I see that, but it really doesn't give the full answer.

Mr. McIntyre. You are right. So we will try to develop that for you.

[The information follows:]

Detailed information on the direct loan transactions of Federal agencies is displayed on pages 123 through 127 of the Special Analyses volume. For 1979, Federal budget agencies are expected to make loan commitments totalling $29 billion, and gross outlays for loans are estimated to be $27 billion. However, because of repayments and loan sales (and other adjustments), net outlays of loan principal charged to the budget are expected to total only $4.3 billion in 1979. Thus, loans outstanding are expected to increase from $76 billion in 1978 to $80 billion in 1979. The net long-term costs of these loans result from three components: defaults, interest subsidies, and administrative costs. Data on administrative costs and losses from defaults are not collected or estimated. Losses from defaults are difficult to predict and, meaningful actuarial data is developed by the agencies for only a few older programs with consistent historical experience. Interest subsidies—in terms of the difference between the rate the borrower pays and Treasury borrowing costs—vary from program to program. The interest subsidy cost for direct loans has not been estimated for the 1979 budget. Estimates made for the 1978 special analysis projected that the interest subsidy cost for all direct Federal loans to be committed in 1978 was expected to be about $3 billion using "present value calculations."

Mr. Smith. And, Mr. Secretary, you mentioned the effect of inflation on taxes, which is certainly quite true. Since taxes have been reduced less than enough to offset inflation, the graduated tax is much more progressive than it was just a few years ago.

OFFSETTING TAX REDUCTIONS TO SMALL BUSINESS

Now, with regard to small business, if the triggering of the surtax had kept up with inflation, we would be triggering it at $175,000 instead of $50,000. One way to offset that, of course, would be to not apply the surtax to incomes under $175,000; some oppose that but at least it seems to me we could graduate the rates from the regular tax of 50 up to 175. Now, I am not talking about reducing total taxes paid. By going to 45 percent instead of 44 as proposed by the President, and by using that 1 percent, we could graduate from 50,000 up to 150,000 at 5 percent per increment, and it would cost the same amount of money to the Treasury.

A lot of small businessmen think this makes a lot more sense than what the administration proposed. Are you opposed to this or have you investigated this?

Secretary Blumenthal. We looked at that rather carefully, and we decided to reduce the rate from 22 to 20 percent on the first $25,000, and then from 20 to 18, and from 22 to 20 on the next, so as to help small business.

Mr. Smith. I might point out to you that is $200 per taxpayer. That doesn't even offset the increase in Social Security taxes for the one self-employed person, let alone any of his employees.

Secretary Blumenthal. If we increase the surtax exemption substantially, we would be creating a sizable tax haven, because these small corporations are also used by rather wealthy taxpayers in order to avoid their proper share of taxes. So that is a device which we have generally opposed.

Mr. SMITH. They would also receive benefits from the larger decrease at the top the administration proposes, but if we have a graduated tax like all other taxpayers have, at least it would help the smaller businesses too.

Secretary BLUMENTHAL. Not if they organized themselves and sheltered some of their income.

Mr. SMITH. Of course, you know the law combines incomes to prevent tax avoidance by those with a controlling interest in more than one corporation, so that is not really an argument. The least we can do, it seems to me, for small business when the tax take increases both through inflation and through social security tax increases, is to give some of the offsetting tax reductions to small business. This is what small business people tell me they really want this year, probably more than anything else, is to get a graduated tax on the lower end instead of continuing the sudden death surtax which jumps more than 20 percent at one point.

If it's reasonable now to give small business some of the break, why was it that way 30 years ago?

Secretary BLUMENTHAL. A lot of what we define as small business is really below $50,000, and when you get into $100,000, $200,000, $300,000 of taxable income, you are not really talking about small business anymore. At those levels the reduction in rates from 48 to 44 percent makes a considerable amount of difference.

[The following questions were submitted by Representative Smith:]

Question. Why is the Budget for agriculture being reduced 40 percent for FY 1979?

Answer. The principal factor that accounts for the $3.7 billion or 40 percent reduction in agriculture outlays in FY 1979 is the sharply lower (—$3.0 billion) estimated price support and related program payments. The acreage set-asides established for 1978 wheat and feed grain crops and the completion of grain reserve acquisitions in 1978 are expected to raise the market prices that farmers receive for their crops and reduce the amount of price support payments that farmers will receive from the government. Another factor that will help reduce agriculture outlays in FY 1979 is the anticipated decline in emergency loans from the agricultural credit insurance fund. These loans increased sharply in 1977 and 1978 because of adverse weather conditions during 1977.

Because more normal weather conditions are anticipated in 1978, loan volume is expected to decline in 1979.

Question. What will be the total costs of the legislative proposals for major new and expanded programs listed on pages 472–475 of the 1979 Budget?

Answer. The total of budget outlays for the legislative proposals enumerated on pages 472–475 of the 1979 Budget are as follows:

Fiscal year:	*Outlays (millions)*
1979	$3,109
1980	5,737
1981	9,815
1982	14,876
1983	19,911

NOTE.—Does not include allowances for relatively small and unforeseen items.

Question. Why is the Small Business Administration loan program being reduced by $771 million?

Answer. The primary reason behind the submission of a smaller budget for the Small Business Administration for FY 1979 is because of the proposed shifting of all responsibilities for farm disaster loans to the Farmers Home Administration. This shifting is designed to remedy difficulties caused by an overlap of responsibilities. (It is further projected that outlays for disaster relief will decline in FY 1979, but the eventual size of outlays is subject to acts of nature.)

As may be noted from figures under item number 376 on page 460, the Budget projects little change in FY–1979 in SBA outlays for its basic function in support of the advancement of commerce, $543 million in 1979 compared with $547 million in 1978. In fact, the figures shown there understate the extent of the proposed SBA support for business because of the planned shifting from direct to guaranteed loans. This is in line with the Administration's commitment to channel lending activity through the private sector. The budget provides for $3.3 billion of new commitments for guaranteed loans in FY–1979, or $350 million more than in FY–1978.

Question. Why are you recommending a reduction in veterans benefits of $983 million?

Answer. Total outlays for veterans benefits and services are budgeted to rise $341 million in FY–1979 from FY–1978. One set of benefits expected to show substantial decline is education, training and rehabilitation. These are projected to fall $512 million from FY–1978 and by $1,080 over the two-year span of FY–1977 to FY–1979 (a decline of $980 million in outlays under existing law). This decline occurs in spite of increases in benefit rates in each of the last two years. Outlays for educational and training benefits are largely demand determined, and only 1.3 million persons are expected to be enrolled in GI-bill programs in FY–1979, a reduction of about 300,000 from FY–1978.

Mr. MAHON. The gentleman from New York, Mr. Addabbo.

Mr. ADDABBO. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Director, in looking over the budget, again we continue to feed the sacred cow of defense spending, we increase it by over $10 billion, and in looking at the special analysis, not only is it increased by $10 billion but there is also an increase over the 1979 estimates. In other words, the actual 1979 budget exceeds in several of the items, the 1979 estimates.

What makes it further shocking is here we are in 1978, five years after Vietnam, and that budget was 60 percent lower than this budget; and here we are in 1978, no wars, but spending an additional 60 percent for so-called national security and depriving the people of their needs and their hopes and expectations.

I have often said I don't know whether they would want to be defended if there is nothing to be defended for.

My colleague, Mr. Flood, mentioned national health, and this has been a prime need and prime statement on behalf of the Administration, yet when we read the budget we see there is nothing in this budget, and we are speaking about a budget which goes into effect October 1 of 1978, and there are no projections, which means we are now talking about national health for 1980.

We know what the needs of the people are today, but still nothing for the people today. Again, Mr. Flood alluded to welfare reform, and again a small pilot program. What do we need pilot programs for? We know what the national welfare program and needs are, and the problems, and the problems of the cities that have to pay this immense bill, a bill forced upon people.

UNEMPLOYMENT

Earlier in your opening statement, Mr. Secretary, you mentioned the reduction in unemployment. Is there actually a reduction in unemployment. Is there actually a reduction in unemployment, or has there just been a complete frustration of those who have been seeking a position for the last year and a half and they have just given up and left the market, and thereby that reflects possibly a reduction in the unemployment figures, and that there is no true reduction in unemployment.

There are not more people percentagewise working, just more people leaving the employment field. Have you any statistics to show whether we have true greater employment or whether we are just playing around with numbers?

Secretary BLUMENTHAL. With your permission, I would submit the detailed analysis of the employment statistics for the record to make the point. I think it will show that there has been a true increase in the number employed. We do have some estimates for the number of people that are no longer seeking work, but that is a far smaller number than those who were unemployed and found employment. Additionally there has been a very large increase in the labor force and work places were also found for the new people.

INCOME TAX REDUCTIONS

Mr. ADDABBO. Would you also supply and expand for the record but give a short summary statement today about the tax reduction all taxpayers are happy to hear about it, but they also know someone else is going to be paying for the tax reduction.

How will the tax reduction actually affect the tens of millions who are unemployed, who cannot pay taxes, who love to pay taxes, and how will this tax reduction that we speak of affect the cities that are in need of help when they see there is tax reduction and there is no help to the cities for their problems?

Secretary BLUMENTHAL. On the first point, the proposals which the President is making will actually raise the level below which no Federal tax is due from $7,200 a year to about $9,300 for a family of four with one wage-earner; and for a single taxpayer from some $3,200 to about $4,000 a year. Through the refundable portions, some taxpayers at the bottom levels will get an earned income credit. They actually get some money back. So we do help people at the very lowest levels and people who have been unemployed for some time.

URBAN ASSISTANCE

On the cities there will be an urban program which the President will be sending to the Congress in March of this year, and we are working with a number of initiatives, including these jobs initiatives to which we referred earlier which should have direct help to the cities.

Mr. MCINTYRE. There are several items in the budget that are already being recommended that will provide some direct assistance to people in urban areas.

For example, we have recommended the continuation of the counter-cyclical revenue-sharing program, as has been pointed out. We have increased the community development block grant program; we have made some increases in the budget for programs of the Economic

Development Administration dealing with problems in urban areas. The subsidized housing programs have been increased by 17 percent.

We intend to make additional recommendations that will have a direct benefit to all people living in urban areas.

Mr. ADDABBO. But, where you have increased you are also taking away, because you are canceling out the local public works programs which will be expiring, and there is no further request for funding of those programs on the countercyclical; is that correct?

Mr. MCINTYRE. Those were not funded entirely as countercyclical programs. Primarily they were viewed as one-time programs to help stimulate the economy while providing funds for long neglected public works. As you know, the level of funding in those programs totaled $6 billion in budget authority. About $600 million of this was spent in 1977, $2.3 billion is being spent in 1978, an additional $2 billion will be expended in 1979, and the remainder will flow out later. The impact of the program is continued and will be beneficial in 1979 to the tune of $2 billion.

NATO COMMITMENTS

Mr. ADDABBO. One last question on defense. In the Defense appropriations we will follow this very carefully, and it has been my amendment trying to cut the Defense budget on the basis of unexpended and unobligated funds for the Defense Department. But on the question of additional commitments, has it been proven to the OMB and proven in the Defense budget that this is not a unilateral action by the United States, that if we do increase our commitments to NATO that there will be also an increase in NATO by NATO nations, and we are not just filling the gap left by our NATO allies?

Mr. MCINTYRE. My understanding of that is that some of our NATO allies—particularly the Federal Republic of Germany—have contributed substantially more in this program. At the NATO ministerial conference last spring, there was a joint agreement by all members to improve the resources that are dedicated to NATO defense.

I think this is important for our overall strategic position.

Mr. MAHON. Mr. Addabbo, it seems to me that the Director might supply some specific detail for the record at this point.

Mr. ADDABBO. I would appreciate it, because some of the information we have is that many of our NATO allies have reduced their commitments and some of those voids have been filled by the U.S. resources.

[The information follows:]

The NATO allies have been increasing their defense spending in real terms at a rate of 2 to 3 percent per year for a number of years, while the United States increases did not begin until 1976. We are now engaged in discussions with these allies to put together a detailed long-range program to improve our NATO capabilities in specific areas. Through this process of collective effort we expect to see our complementary efforts result in significant allied force improvements. We believe that the agreement we reached at the NATO ministerial conference last spring to increase the resources we devote to defense is already encouraging our NATO partners to do more.

Mr. MAHON. The gentleman from Indiana, Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman.

Mr. Secretary and Mr. Director, there have been a number of charges made throughout the country, and several here this morning, that this is not a realistic budget, both as far as revenue is concerned as well as expenditures. I have heard several glaring examples here, particularly in the welfare program. It seems to me that your budget is not consistent with your plan for welfare reform.

Another glaring example is the fact that you have a number of proposals in here that are still tied up in the conference between the Senate and the House as far as energy taxes and energy expenditures are concerned. The energy tax, I understand, is part of the revenue you have proposed here. In the event that this legislation should not be enacted providing for these funds, then the budget would be even more out of balance than you are currently projecting.

Particularly, I notice that the interest and debt service costs that you project in the 1979 estimate is $49 billion.

NATIONAL DEBT SERVICING AND INTEREST RATE PROJECTIONS

At the same time, you expect a gross Federal debt of $874 billion. If my statistics and my math are correct, that would mean your averaging cost for money would be approximately 5⅔ percent. Do you really expect to borrow money for 5⅔ percent and how can you defend the $49 billion debt service cost?

Secretary BLUMENTHAL. I believe that is not entirely a correct way of doing the arithmetic. We are not comparing apples to apples here. The $874 billion, includes some debt by independent agencies. The $49 billion, is the estimate for the budget function classification, "Interest," it consists of $55 billion of interest on the public debt issued by Treasury, reduced by $6 billion of offsetting receipts of interest, but does not include interest on debt of the independent agencies. What we have done in this budget is to include those rates of interest for various maturities which were prevailing at the time the budget was prepared, which for example, was 6.1% for 3 months bills.

To the extent to which actual interest rates differ either up or down, there is a plus or a minus. Indeed, rates have moved up since then. But, we generally follow the practice of taking the interest rates prevailing at the particular point in time.

Mr. MYERS. It would be very optimistic to think we could hold it to $49 billion, wouldn't it?

Secretary BLUMENTHAL. If interest rates continue at the present level, or increase, the cost would be greater.

ACCURACY OF BUDGET FIGURES

Mr. MCINTYRE. May I make one comment about the budget figures to which you have alluded? We think these are probably the most accurate figures that have been sent up to the Congress in a long time. They do not reflect, in our opinion, unrealistic savings from legislative changes. Moreover, we think they are entirely consistent with our welfare reform proposals. If the Congress enacts the welfare reform package this year, it will become effective in July of 1981. We have $200 million recommended in 1979 to start demonstration programs to prepare us for full implementation of the program.

On the energy proposals, we used the Administration's estimates in making our assumptions for the energy package, since it was the only base available.

NATIONAL DEBT SERVICING

Mr. MYERS. At this point please put in the record how much the national debt will be increased for each tenth of a percent that the cost of money goes up and how much it would add to the debt service cost.

[The information follows:]

For a single, full fiscal year, for each tenth of a percent that borrowing costs increase, the national debt servicing cost would increase $0.2 billion and the total national debt would therefore increase by $0.2 billion.

The effect in subsequent years would be compounded due to additional accumulated interest.

ENERGY R. & D. EXPENDITURES

Now, you mentioned energy. You say, Mr. Director, in your presentation, that there is a 23 percent increase in spending for all energy programs. I think this is true as I look at your budget.

But, unfortunatly, both of you spoke about the balance of trade and balance of payments problem. The actual expenditure for energy supply has gone down. How can you justify, at a time when we are running out of energy in this country, spending less money in research and development of energy supplies. If you will provide that for the record, and I have several other questions, Mr. Chairman, that are relative to energy and the energy budget.

[The information follows:]

The Administration's energy supply thrust consists of two basic elements:

Proposed financial, pricing and regulatory measures to encourage the development of new energy supplies and the adoption of alternative energy sources that are commercially workable now (e.g., solar heat).

Research, development and demonstration activities to help bring about the identification and development of appropriate future supply technologies.

Because of the need to move rapidly to conserve energy and help increase our domestic energy supplies, the emphasis is necessarily on the incentives, pricing and regulatory increases that will help to bring the full resources of the Nation, Federal and non-Federal, to bear rapidly on the solution to this problem.

We recognize, however, that for the longer term, the current approaches to producing and saving energy will not be sufficient, and that a high level of Federal R&D is appropriate to encourage private efforts on those new ideas that are potentially of great merit in contributions to new energy supplies for the Nation but are beyond the normal business horizon of private industry. This approach differs from that of the previous Administration, which relied principally on numerous large hardware development and demonstration projects to encourage the development of new energy supplies.

The apparent decrease in energy supply funding is due largely to the increase in off-setting revenues included in this activity. Actually, outlays for energy supply R&D are proposed to increase by about 8 percent in FY 1979. However, the effect of this increase in the non-nuclear R&D is far greater due to the reductions in the nuclear programs, particularly the breeder reactor. The energy R&D program allows for a greater emphasis on longer-term R&D measures to complement the necessary near term emphasis on non-R&D measures to meet our energy needs. The cost of the more fundamental R&D is characteristically less costly than the previous emphasis on demonstrations, and is also consistent with the Administrations necessary concern for continued fiscal restraint.

TAX EQUITY FOR MARRIED COUPLES AND HEADS OF HOUSEHOLDS

One last observation. As I recall, candidate Carter campaigned in several locations throughout the country on tax reforms, one of which was that he was going to provide more equity as far as the tax structure for married couples filing separately as well as heads of households who are single.

In the first proposal the President and you have sent to the Congress I see this has been neglected. Why was that left out? Are there any proposals for reform in this particular area?

Secretary BLUMENTHAL. There is, indeed, in his proposal a reduction in the discrimination between married and single taxpayers.

Mr. MYERS. But it has not provided equity yet.

Secretary BLUMENTHAL. Not total equity. We have moved in the right direction, but the cost of going all the way, and at the same time of providing the necessary relief at the low and middle income levels, would have added another $2.1 billion to the deficit, and hence to the interest costs. However, we have made considerable progress, reducing the difference from $460 to about $180 at the level of $30,000 of income.

Mr. MYERS. Would it be fair to say inequity will continue because you just need the money to spend too badly to justify the equity?

Secretary BLUMENTHAL. No, in the program we are proposing, the inequity will be considerably reduced. It will continue at a much lower level, and we hope to eliminate it as soon as we can.

Mr. MYERS. Thank you, Mr. Chairman.

[Representative Myers' questions and the answers submitted by the Office of Management and Budget follow:]

Question. On a year-by-year basis, what are OMB's estimates of increases in social security taxes through 1987?

Answer. The information furnished covers the taxes provided for old age and survivor's disability and health insurance programs. It does not include other receipts that come from interest on investments from payments from the general fund, etc. The Office of Management and Budget does not project annual estimates beyond the fifth year.

The information is as follows: [1]

[In millions of dollars]

	OASDHI taxes	Increase over previous year
Fiscal year—		
1978	101,927	11,936
1979	117,346	15,419
1980	136,534	19,188
1981	163,595	27,061
1982	186,568	22,973
1983	204,309	17,741

Question. On a year-by-year basis what are OMB's estimates of energy tax increases, based on the House-passed energy bill, through 1987?

Answer. OMB has relied on the energy bill tax estimates prepared by the Treasury Department, as we understand it, in cooperation with the Joint Tax Committee Staff.

Attached are Treasury tax revenue estimates for the House-passed bill.

ESTIMATED RECEIPTS EFFECTS OF TITLE II OF H.R. 8444, THE "NATIONAL ENERGY ACT," AS PASSED BY THE HOUSE OF REPRESENTATIVES

[In millions of dollars]

	Fiscal year—								
	1978	1979	1980	1981	1982	1983	1984	1985	1978–85
Pt. I. Residential energy tax credits:									
Credit for insulation and other energy-conserving components	−361	−466	−491	−518	−546	−576	−608	−541	−4,107
Credit for solar and wind energy expenditures	−26	−54	−62	−71	−87	−111	−140	−169	−720
Total, pt. I	−387	−520	−553	−589	−633	−687	−748	−710	−4,827

[1] Source, Treasury Department.

ESTIMATED RECEIPTS EFFECTS OF TITLE II OF H.R. 8444, THE NATIONAL ENERGY ACT," AS PASSED BY THE HOUSE OF REPRESENTATIVES—Continued

[In millions of dollars]

	Fiscal year—								
	1978	1979	1980	1981	1982	1983	1984	1985	1978–85
Pt. II. Transportation tax provisions:									
Gas guzzler tax		100	100	100	135	150	160	170	915
Repeal of deduction for state and local tax on gasoline	115	780	859	944	1, 039	1, 143	1, 257	1, 383	7, 520
Extension of existing tax rate on gasoline and other motor fuels			3, 302	3, 404	3, 496	3, 585	3, 677	3, 772	21, 236
Amendment of motorboat fuel provisions	1	4	4	4	4	4	4	4	29
Repeal of excise tax on buses	−13	−9	−9	−9	−9	−9	−9	−9	−76
Repeal of excise tax on bus parts	−3	−3	−3	−3	−3	−3	−3	−3	−24
Removal of excise tax on certain items used in connection with buses	−13	−13	−13	−13	−13	−13	−13	−13	−104
Credit for qualified electric motor vehicles	(1)	(1)	−1	−1	−2	−4			−8
Total, pt. II	87	859	4, 239	4, 426	4, 647	4, 853	5, 073	5, 304	29, 488
Pt. III. Crude oil equalization and natural gas liquids tax [2]	−347	3, 971	8, 638	11, 557	3, 633				27, 452
Business use of oil and natural gas:									
Pts. IV, V: Excise tax on business use of oil and natural gas: [3]									
Industry		−25	398	88	164	592	715	784	2, 716
Utility							98	94	192
Total, pts. IV, V		−25	398	88	164	592	813	878	2, 908
Pt. VI. Denial of investment credit on property financed with credit:									
Industry		57	184	238	231	261	298	345	1, 614
Utility						34	73	69	176
Total, pt. VI		57	184	238	231	295	371	414	1, 790
Total business use of oil and natural gas		32	582	326	395	887	1, 184	1, 292	4, 698
Business credits, pt. VI, excluding denial of investment credit on property financed with credit:									
Alternative conservation and new technology credits	−409	−415	−516	−673	−789	−491			−3, 293
Investment credit denied, and depreciation limited to straight-line on oil or gas burning equipment, and air-conditioning and space heaters	93	111	121	114	103	99	93	88	822
Total business credits	−316	−304	−395	−559	−686	−392	93	88	−2, 471
Pt. VII, Miscellaneous provisions:									
Treatment of intangible drilling costs for purposes of minimum tax		−32	−37	−42	−48	−56	−65	−74	−354
Option to deduct intangible drilling costs on geothermal deposits	−5	−10	−17	−21	−20	−20	−32	−54	−179
10 percent depletion in case of geothermal deposits	−1	−1	−1	−2	−2	−2	−2	−2	−13
Rerefined lubricating oil	−3	−3	−3	−3	−3	−3	−3	−3	−24
Total, pt. VII	−9	−46	−58	−68	−73	−81	−102	−133	−570
Total receipts effects, pts. I–VII	−972	3, 992	12, 453	15, 093	7, 283	4, 580	5, 500	5, 841	53, 770

[1] Less than $500,000.
[2] Tax net of business income tax offset and refunds and after per taxpayer credits.
[3] Tax net of income tax offset and rebates.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Aug. 8, 1977.

Question. On a year-by-year basis, what are OMB's estimates of total tax cuts as proposed by the President, through 1987?

Answer. The table below shows the effect of the Administration's tax proposals on receipts for fiscal years 1978 to 1983. Estimates for years beyond 1983 have not been developed.

	1978	1979	1980	1981	1982	1983
In comparison to current law:						
Individual income taxes	−1.7	−31.1	−39.3	−42.8	−48.3	−55.2
Corporation income taxes	−.6	−7.5	−11.2	−13.8	−16.2	−17.4
Social insurance taxes [1]		−.6	.2	.6	−.8	−.9
Excise taxes	1.8	6.8	16.6	21.0	23.0	25.6
Other		−.2	−.5	−.8	−.8	−.9
Total [1]	−.4	−32.6	−34.2	−35.9	−43.1	−49.7
In comparison to extension of temporary tax provisions:						
Individual income taxes	−1.7	−23.9	−26.5	−29.3	−33.5	−39.6
Corporation income taxes	−.6	−6.4	−8.6	−9.6	−9.8	−10.6
Social insurance taxes [1]		−.6	.2	.6	−.8	−.9
Excise taxes	1.8	6.8	12.1	15.3	17.1	19.4
Other		−.2	−.5	−.8	−.8	−.9
Total [1]	−.4	−24.3	−23.3	−23.7	−27.8	−32.6

[1] Includes the effect of accelerating State and local deposits of social security taxes, which can be accomplished by administrative action.

Question. On a year-by-year basis, what are OMB's estimates of the net effect of the President's proposed tax cuts as compared to these increases in energy and social security taxes through 1987?

Answer. As shown in the table below, the Administration's tax reduction and reform proposals would reduce receipts by $25 billion in fiscal year 1979 and by almost $35 billion by 1983, the last year for which estimates are available. The Administration's energy tax proposals would increase receipts in 1979–83, but these increases are roughly offset by higher Federal spending related to energy. The table below also shows the effect of the 1977 legislation increasing social security taxes; estimates of the effect of previously legislated increases in social security taxes are not immediately available.

	1978	1979	1980	1981	1982	1983
Tax reduction and reform proposals	−0.2	−25.0	−26.6	−28.6	−30.8	−34.9
Energy tax proposals	−.1	1.1	2.9	4.3	5.5	7.9
Social Security Amendments of 1977	([1])	3.2	8.8	16.6	23.8	26.1

[1] $50,000,000 o less.

Question. You and Secretary Blumenthal have said that complete deregulation of natural gas would be inflationary. What impact on the economy will the Administration's proposed energy taxes have?

Answer. The short-run effect of the President's energy plan on the aggregate demand for goods and services is expected to be quite small because it has been designed to change the prices of energy relative to other products, without changing the overall level of demand for goods and services. Energy taxes, for example, are largely offset by both tax rebates and new expenditures to prevent reductions of consumer purchasing power. As a result, the plan is expected to change aggregate demand in the short run by no more than a few tenths of a percent in either direction. Over the long run, because the plan will improve economic efficiency by rationalizing patterns of use in the energy sector, it should produce a more rapid growth in potential output.

The major foreseeable economic consequences of the program will follow from the effect of the increased prices for petroleum and petroleum products and for natural gas. The annual rate of inflation in 1978 and 1979 is expected to be 0.3 to 0.4 percentage points higher with the program than without it. In the subsequent 2 years, the inflationary impact of the program is projected to subside to between 0.1 and 0.3 percentage points.

Question. Following up with my question about the reduction in this year's budget dealing with energy supply, oil imports increased from $32 billion in 1976 to $42 billion in 1977. The trade deficit increased from $6 billion in 1976 to $27 billion in 1977. The Administration credits the trade deficit to oil imports, yet the oil imports contributed only $10 billion toward the $21 billion trade deficit. Can you explain this difference?

Answer. Rising payments for oil imports accounted for about one-half of the increase in our merchandise trade deficit in 1977. Another basic reason for the deterioration in our trade balance was the rapid economic expansion in the United States relative to that in other industrial countries. Real output growth in the United States was about 5 percent in 1977 (year-over-year), or nearly twice the rate of expansion experienced in the other Organization for Economic Cooperation and Development (OECD) countries. Consequently, our exports to those countries (especially manufactured goods) was quite sluggish, while our non-oil imports kept pace with the rather brisk pace of economic activity in the domestic economy. Moreover, the value of U.S. agricultural exports to the rest of the world was adversely affected by the sharp decline in farm prices during the second half of 1977.

Mr. MAHON. May I say that we will resume the hearing promptly at two o'clock, and I will recognize the Majority Member at two o'clock who is present at that time.

Thank you very much, gentlemen, for a very helpful morning.

[Whereupon, at 12:15 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. MAHON. The committee will come to order. We will resume the hearing.

I recognize the gentleman from California, Mr. McFall.

HIGHWAY AND TRANSIT LEGISLATIVE PROPOSAL

Mr. MCFALL. Mr. Secretary, my first question—and I have 2 of them—should be directed to Mr. McIntyre. I know he will be here very shortly. So in the meantime I will direct them to his assistant. I am sure he will be able to provide us with a description of the new major highway and transit bill that you describe on page 11 of the director's statement. The text says the program "will provide more than $45 billion in the next 4 years for a combined highway and transit bill."

I think the committee would be interested in a little better description of that. I have a summary of it which was sent to me by Brock Adams. I know Mr. Adams is testifying before the Legislative Committee today and will be before the subcommittee of this committee next week to describe this more fully. I think it would be well at this time to describe and perhaps tell us about the impact of this new bill, assuming it is passed in the way you have suggested it and its impact on the budget for the coming year.

Secretary BLUMENTHAL. This is Mr. Bowman Cutter, Deputy to Mr. MCINTYRE.

Mr. MCFALL. Go right ahead.

Mr. CUTTER. Thank you, sir.

We do have a longer description of the proposed highway and transit bill on page 145 of the budget document. I will mention a couple of the points, and then, if it is all right with you, I will submit additional comments for the record.

[Please refer to OMB response to a similar question by Mr. McFall on page 164.]

Mr. McFall. Fine.

Mr. Cutter. I will make 4 points. First, budget and the transportation legislation are intended to consolidate a number of the separate categorical programs in the overall transportation area that are currently extant.

Second, the legislation is intended to narrow the differences between the operation of highway and transit programs, so that there is more flexibility in the allocation of funds and the decisionmaking between them.

Third, as a follow-on from that point, it makes the matching ratios more common, so that all interstate highway projects, plus transit projects that are intended to substitute for interstate projects, are at a 90-percent matching rate and all others are at 80 percent, which is something of a consolidation of the matching rates.

Finally, it provides more flexible assistance for smaller urban and rural areas, and more generalized ability to move funds from one program category to another.

I would suspect that from the Congress' point of view another key factor would be that the legislation will attempt to accelerate completion of the highway system by requiring States to decide by 1982 wheher to build uncompleted segments or to remove them from the system.

Mr. McFall. You are referring now to the interstate system?

Mr. Cutter. Yes, sir. If there is more than that, I would be happy to submit it for the record.

Mr. McFall. What would be the impact on the 1979 budget, assuming passage of that legislation in a timely fashion in this calender year? Are you going to have new taxes, new expenditures, new rates?

HIGHWAY AND TRANSIT OUTLAYS PROJECTED FOR FISCAL YEAR 1979

Mr. Cutter. Not new from those that are currently stated in the budget. We propect 1979 outlays to be approximately $12 billion, which is an increase of about $800 million over 1978.

Mr. McFall. That is combining the highway funds and transit funds?

Mr. Cutter. Yes, sir. It also includes $1.9 billion for railroads and for the ICC. Subtract that out and we are looking at about $10 billion, so that funds for the highway legislation are included in the budget as transmitted.

Mr. McFall. You do not have any new trust funds or anything of that nature?

Mr. Cutter. No, sir.

DISPOSITION OF ANTICIPATED OIL TAX REVENUES

Mr. McFall. What would happen to the withholding of the oil money if there should be a tax, a wellhead tax in the energy bill passed by the Congress? What is going to happen to that money?

Mr. Cutter. Perhaps the Secretary would prefer to answer that.

Mr. McFall. Yes.

Mr. CUTTER. We have stated that the administration would prefer a full rebate of the tax. If this is not possible and if a small trust fund is necessary to obtain enactment of the crude oil equalization tax (wellhead), then we would go along. Most of the tax revenues would be rebated under this approach.

Secretary BLUMENTHAL. That is correct. I do not recall what the percentages are. I do not believe we have actually agreed to a specific percentage.

Mr. McFALL. A portion would go into a trust fund. Would that go into an expanded highway mass transit trust fund, a single trust fund; is that what you had in mind?

Secretary BLUMENTHAL. That is right, that is correct.

Mr. SCHULTZE. It has not necessarily been decided what the trust fund would be used for, what its uses would be limited to, but presumably the conferees are discussing it.

Mr. McFALL. You have not proposed that, but there is a proposal in the Congress. There are those who would want to have that kind of a trust fund. So you would be ready for that in case it is passed by the Congress?

Secretary BLUMENTHAL. That is correct.

IMPACT OF PROPOSED ENERGY LEGISLATION ON OIL IMPORTS

Mr. McFALL. My other question goes from transportation to what would happen if we had an energy bill, and if my time is up you can put this in the record, but I would like to have a short answer if the chairman would allow me.

How would the passage of the energy bill affect the import of oil in the fiscal year that we are considering?

Secretary BLUMENTHAL. In 1979, the passage of the energy legislation would have a relatively insignificant impact, in itself, on the amount of oil that is being imported. We are, of course, doing all we can even in fiscal 1979, to maximize utilization of our own resources, by making sure that production in California and in Alaska is maintained at the highest possible levels. But the energy legislation and the savings that would accrue from that would only begin to have an impact in 1980 and 1981.

Mr. McFALL. What would that impact result from? What provisions of the energy bill would cause this impact?

Secretary BLUMENTHAL. Well, the savings would result from a number of the provisions: The crude oil equalization tax, the shifting to other sources of energy away from oil——

Mr. McFALL. Nuclear or coal?

Secretary BLUMENTHAL. Coal in particular.

The change-over in the kind of fuel that is burned both by utilities and by industrial concerns, induced by the oil and gas consumption tax and the mandated coal conversion, the incentives for economizing, for insulation, all of those things would be intended to reduce the amount of energy consumed, so that we would get down to an annual import figure of about 6 million barrels a day by 1985.

Mr. MAHON. If necessary, Mr. Secretary, be sure to expand for the record the responses which you have given to the gentleman from California.

Mr. MCFALL. I would like to add, I think the responses have been very optimistic.

Mr. MAHON. The gentleman from New Jersey, Mr. Patten.

Mr. PATTEN. Thank you, Mr. Chairman.

It is always a pleasure to meet you who have the responsibility and to hear your discussions. You know the ulcer rate for people who make budgets compared to the rest of the population——

Secretary BLUMENTHAL. I do not want to know, Mr. Patten.

Mr. PATTEN. It is much higher. I have worked on a budget every year since 1934, State, county, local level, and in the House, for 16 years. I am never at peace with any of them. But my first one was during the depression and—we did not collect 30 cents out of a dollar that we taxed. We did not pay the employees. We gave them an IOU, piece of paper. We cut payrolls in half, salaries in half. There was no money in the pension fund for police and firemen.

So to sit here and listen to the problems brought out by some of the others, I agree with your earlier statement that this country is going to be pretty stable, enjoy a nice little growth next year; we are going to have a few more jobs, we are on the road to economic health. So I hope you have a good year in your office; you too, Mr. McIntyre and Brother Schultze.

He can remember the depression, he is old enough.

Mr. SCHULTZE. Unlike my colleague to my right here.

Secretary BLUMENTHAL. I consider that a compliment. It is not quite true but it is a compliment.

Mr. PATTEN. That is all, Mr. Chairman.

Mr. MAHON. Thank you very much, Mr. Patten.

The gentleman from Massachusetts, Mr. Conte.

Mr. CONTE. Thank you, Mr. Chairman.

Mr. Chairman, Mr. McIntyre is not here yet——

Mr. MAHON. Mr. Bowman Cutter is here.

Will you place in the record at some point a biographical sketch with respect to yourself?

[The biographical information follows:]

W. BOWMAN CUTTER

W. Bowman Cutter of Waterford, Virginia, was named Executive Associate Director for Budget of the Office of Management and Budget by OMB Director Bert Lance on January 21, 1977.

Mr. Cutter was Assistant to the President of the Washington Post Company, specializing in the area of corporate planning and budgeting, from mid-1975 until last fall. He was leader of the budget analysis group in President's Carter's transition organization.

Prior to joining the Post, Mr. Cutter had been Executive Director of the Cable Television Information Center and Special Assistant to the President of Northwest Industries in Chicago. He was staff and research director in the 1970 campaign of Senator Adlai Stevenson (D-Illinois). He also was a speech writer and campaign adviser for former Governor Dan Walker of Illinois.

Mr. Cutter is a 1964 graduate of Harvard and subsequently received master's degrees in economics from Oxford University, Balliol College, and in public administration from the Woodrow Wilson School at Princeton. Mr. Cutter attended Oxford University as a Rhodes Scholar.

For six years he lectured in economics and public policy at the University of Chicago.

Mr. Cutter lives in Waterford, Virginia, with his two children, Ann Grier and W. Bowman IV.

Mr. MAHON. I wish to note that Dr. Schultze is here, the Chairman of the Council of Economic Advisers. We will not have a statement from him at this time, but he is open for questions at this point as we go along.

Mr. Conte.

Mr. CONTE. Mr. McIntyre, the President has been heard to say that some day he would like to be remembered as the Southern President who did more for the urban Northeast than a Yankee President named Roosevelt did for the rural South in his childhood. This would seem to mean that the President favors public investment in the Northeast infrastructure; that is, in the railroads and in energy production capability, et cetera.

NORTHEAST CORRIDOR RAILROAD PROJECT

A review of the proposed 1978 budget contains a little indication that these words have not been translated into economic policy. In fact the administration has sliced $181 million from the Northeast corridor railroad project, a move that will cost New England hundreds of jobs and will slow down rehabilitation of the roadbeds in the Northeast.

What I want to know is why, in spite of the President's pledge to help the Northeast, does the budget basically ignore the public revenue needs of this particular region of the country?

Mr. MCINTYRE. Mr. Conte, the Administration is committed to the continuation of the Northeast corridor project. In fact, I personally have met with the Secretary of Transportation to discuss our progress on that project. We understand that it is very important that this project proceed. In fact, we emphasized the fact last year that it created a number of jobs in that area and was vital to the health and economy of the Northeast.

My impression is—and I will get the exact figures for you—that we have continued that project at the expected level. There may have been some reduction in the rapidity with which the department can spend the money, and it might be that there is some reduction in outlays.

I will have to check and verify that figure for you.

Mr. CONTE. I think you will find there is a $181 million cut.

Mr. MCINTYRE. If that is the case, it would only reflect the fact that the department has revised the estimate of its ability to spend the money that has been appropriated by the Congress. We are committed to the project and I have worked very carefully with the Secretary of Transportation to insure that that project continues as originally planned.

[Additional information provided by the Office of Management and Budget follows:]

In order to achieve substantial completion of the Northeast Corridor program by February 1981, the original planning was carried out under the assumption that project funding would peak at $636 million in obligations for fiscal year

1979, with the remainder of the total authorization to be budgeted for 1980. In developing a detailed program plan for 1979, however, it became evident that selected project elements, such as vehicle maintenance facilities, signaling, train control, and electrification, would substantially benefit from further coordination with user agencies, including Amtrak, ConRail, and commuter operators. Accordingly, these elements will be delayed, with fiscal year 1979 track, bridge, and tunnel work proceeding on schedule, and gradecrossing eliminations accelerating within the $455 million called for in President Carter's 1979 budget. The difference between the $636 million figure and the $455 million figure is the $181 million "cut" to which you refer. As you will note, this "cut" merely reflects our best estimates of the pace at which work can proceed on the project. The Administration is fully committed to the project's completion.

NORTHEAST CORRIDOR FUNDING

Mr. CONTE. Mr. McIntyre, in the same vein, AMTRAK's innercity rail passenger service provides an energy-efficient transportation alternative to travel by automobile, and maintenance of this nationwide system which enjoys, I think, increasing public patronage, provides a practical hedge against a possible national transportation catastrophe which could result from another oil embargo or another oil shortfall. The question is, is it not inconsistent budget-making to increase on the one hand funding for the energy Independence project through DOE and, on the other hand, underfund energy-efficient AMTRAK to the point where cut-backs in capital improvements and geographical scope of services might result?

Mr. MCINTYRE. I think that you have to look at our overall recommendations in the railroad area, particularly the fact that we have encouraged and are working with the Department of Transportation, along with AMTRAK, in conducting a review of AMTRAK's route system.

We are expecting a report on the route system to be completed and presented to the Congress by March 1 of this year. In accordance with that posture we have, as I recall, recommended the same level of funding for 1979 as in 1978.

Let me verify that.

Mr. CONTE. $500 million.

Mr. MCINTYRE. My staff informs me that those figures are the same in 1979 as for 1978. We do expect to have the study completed and will submit it to the Congress around March 1.

Mr. CONTE. I guess my 5 minutes are up, Mr. Chairman.

Thank you, Mr. Director.

[Questions submitted for the record by Congressman Silvio O. Conte and answers provided by the Department of the Treasury follow:]

Question. The Administration proposes, among other things, better management by government as a means to improve the effectiveness of our fiscal policy. Yet the Budget Summary discussion in this area nowhere discusses economic deregulation as a means of limiting government spending and providing economic stimulus. Is it fair to conclude that you do not view economic deregulation in transportation and other economy sectors as an important policy goal?

Answer. No, it is not correct to conclude that economic deregulation in transportation and other sectors of the economy is not an important policy goal of this Administration. In this January 28, 1978 economic message to the Congress, President Carter stated that he intends to put a high priority on minimizing the adverse effects of government regulations on the economy. He further said that where regulation of economic activity is no longer appropriate for present economic conditions and substantial overhaul is called for, he will pursue effective legislation. As evidence of this, he has supported actively congressional efforts to reform regulation of the airline industry and hopes that a bill will be enacted this session of the Congress. The President has also proposed changes in the regulatory programs governing agriculture and energy and is considering proposals to reform the regulation of other industries, including the motor carrier industry.

Question. Business Week states that most economists are uncomfortably aware of the maturity of the business expansion—now 32 months old—is only a few months away from the end of average periods of recovery of most cycles. Does the Administration fear that business expansion may peter out before its business stimulus program will become effective?

Answer. It is true that the present economic expansion is now beginning to approach the average recovery period of previous cycles. However, that average covers such a wide range as to have little meaning. The 1958–59 expansion lasted only 24 months, for example, while the subsequent expansion lasted 106 months. Expansions come to an end not through the passage of time, but because the economy bumps into capacity or financial constraints, because of lagging aggregate demand, or perhaps because of some outside shocks. Currently the economy is still a substantial distance from full utilization of resources, and there is little evidence of financial strains.

Tax reductions for households and businesses will be needed later in the year, in our opinion, to offset the recent changes made in social security taxation and the effects of inflation. Under our progressive income tax system, inflation pushes individual incomes up the tax rate schedule and into higher tax brackets, resulting in a higher tax toll even though real purchasing power of incomes may remain constant.

Currently, however, the economy is exhibiting considerable forward momentum which should carry well into this year. Real final demand rose by a 6.8 percent annual rate in the final quarter of 1977, the strongest since early 1973. This caused the rate of inventory accumulation to slow below that which businesses desired, setting the stage for stepped up production early this year.

Also favorable to continued strong growth of activity well into 1978 is the recent resurgence of many leading indicators of production activity. Housing starts increased sharply throughout 1977 and ended the year at a high 2.3 million annual rate, portending further gains in actual home construction in coming months. New orders placed with durable goods manufactured rebounded late in the year. Among indicators of future business investment, orders for nondefense capital goods recorded a notable 14 percent increase in real terms in the fourth quarter from a year earlier.

Other indicators, including contracts for future commercial and industrial construction activity, capital appropriations of the largest manufacturers, as well as starts of plant and equipment projects in manufacturing, all have strengthened after a spell during the spring and summer of 1977 when they were giving off mixed signals. Resolution of uncertainties surrounding energy legislation should be accompanied by additional placement of orders and contracts for capital goods.

Question. If the rate of unemployment among whites continues to drop, while unemployment among minorities continues to remain at double-digit levels, is there any chance that the Administration will propose trimming the size of the tax cut and use additional revenues in programs specifically targeted to reduce minority unemployment?

Answer. The Carter Administration's resolve to alleviate the hardships of unemployment remains unabated. The overall rate of unemployment has receded smartly over the past year, but the rate of unemployment for youth and minorities remains sticky and largely unresponsive to improved overall economic conditions.

A strong and growing economy is a necessary condition for reducing unemployment among the disadvantaged, and our fiscal program is directed toward that end. We recognize, however, that economic expansion alone will not be sufficient to bring down rates of unemployment among those disadvantaged workers. Rather, structural problems must be addressed directly. The President's budget for Fiscal Year 1979 requests funds for specific programs targeted on these major pockets of structural unemployment. These include extension of the public service employment program, more sharply focused on the long-term unemployed and the disadvantaged, and expansion of programs directed at youth. The President's proposed welfare program would eventually provide work for 1.2 to 1.4 million persons. Importantly, a new initiative is being launched to encourage the involvement of the business sector in local employment and training programs. Overall, budget requests for employment and training programs total almost $12 billion, 18 percent higher than in 1978 and almost double those of 1977.

For the long run, however, the Administration recognizes that private sector job creation is the right answer to our unemployment problems. And the President's economic and tax proposals have been designed to sustain the present economic recovery as well as lay the foundations of future noninflationary growth. We will continuously monitor economic conditions and requirements. Should there be changes in the economic environment in directions now unforeseen, we stand ready to alter the policy mix so that continued progress can be made in alleviating the underlying causes of structural unemployment.

[Questions submitted for the record by Congressman Silvio O. Conte and answers provided by the Council of Economic Advisers follow:]

Question. Isn't it incongruous that the President is talking about helping people with modest incomes while he sponsored raises in Social Security taxes, which are regressive and proposes to cut income taxes which are progressive?

Answer. The President originally proposed a social security financing package that would have relied partly on general revenues and more heavily on payroll taxes levied on employers only to finance the Social Security System. That proposal was not enacted by the Congress.

The President's tax package is designed to more than offset upcoming social security tax increases in 1979. Under the proposals, 4-person families with earnings up to $30,000 will receive net tax reductions in 1979, even after taking into account the increases in employee social security taxes. Overall, the tax revisions proposed by the Administration are progressive, however, and the income tax changes in particular emphasize tax reduction for low- and middle-income individuals.

Question. It is apparent that the proposed $25 million fiscal year 1979 tax cut will more than absorb the first stages of the new increases in Social Security taxes. However, as the level of this regressive tax rises over the years, without additional tax cuts, the overall federal taxation of middle income wage earners will increase.

In the long run, is the Administration willing to allow higher levels of taxation for middle income taxpayers to take effect, or are proposals for annual income tax cuts going to become a fixture in the Carter tax program?

Answer. We have proposed a program to provide tax reductions that we believe will be necessary through the 1979 fiscal year. As we prepare our budget in each succeeding year, we will consider carefully whether further tax reductions are necessary to assure continued economic growth. There are circumstances, as the economy approaches high employment, when an increase in effective tax rates is not only desirable—in order to provide a brake to the growth of domestic demand—but necessary if we are to balance the budget. We recognize the importance of the question raised by Mr. Conte, however. If we recommend further tax reductions in later years, we will consider carefully the impact on middle-income Americans.

Mr. MAHON. The gentleman from Maryland, Mr. Long.

FOREIGN ASSISTANCE APPROPRIATIONS

Mr. LONG. Mr. Secretary, the major issue regarding the foreign assistance appropriation bill is the very large increase requested for fiscal 1979. The total bill contains a request for new budget authority of $8.4 billion, which is a 24-percent increase over the $6.8 billion appropriated this last year, which was, I might point out, the largest foreign aid bill in 22 years. When you compare the fiscal 1979 request with fiscal 1977, you have a 50-percent increase over the 2-year period.

By far the major part of this $1.6 billion increase over fiscal 1978 is in the international financial institutions, World Bank, IMF, et cetera, where you are asking $3.5 billion compared to the $1.9 billion appropriated in fiscal 1978, or a 28-percent increase over last year, and a 207-percent increase over a 2-year period.

APPROPRIATIONS TO FUND DOMESTIC PROGRAMS

These increases are very shocking when we consider the increases requested in the domestic budget; a 4 percent increase in the food stamp program, a 13-percent decrease in the domestic child nutrition program. Department of HEW is asking for a 4 percent increase for Medicaid; 6 percent increase for elementary and secondary education, a 5 percent increase in the impact aid program.

No construction starts in your budget have been requested for valuable water projects and construction of other projects is being delayed. Project planning is either delayed or discontinued.

How can I, as a member of the House, chairman of the Foreign Operations Subcommittee, ask my constituents and the Congress to support a 24-percent increase in the total request for foreign aid, an 82-percent increase in the international banks compared with last year, 200-percent increase over the year before, in view of your very, either small increases or decreases in your domestic programs? I find that impossible to explain to my constituents. Maybe you can help me.

Secretary BLUMENTHAL. I think, Mr. Long, we have to look at this problem in perspective.

APPROPRIATIONS TO FUND INTERNATIONAL FINANCIAL INSTITUTIONS

For example, out of the $3.5 billion that is being requested for the international financial institutions for the development banks, there is an amount of $835 million, I believe, which represents arrearages of amounts previously authorized by the Congress, and an amount of well over $1 billion——

Mr. LONG. What do you mean, arrearages, when we gave you the largest budget last year in 22 years and when the increase that you have now, properly considered over 2 years ago, is a 200-percent increase in the international financial institutions? How can you call this an arrearage?

Secretary BLUMENTHAL. I believe these were amounts that had been previously authorized but that had not yet been appropriated.

Mr. LONG. Yes, but you are asking for it, just the same; whether they have been authorized or not is another question. We are dealing here with an appropriation request which is way out of line with anything domestically.

Secretary BLUMENTHAL. The Congress previously authorized them and we are now asking for the appropriations so that we can——

Mr. LONG. Do not blame it on the Congress, Mr. Secretary. You asked for those authorizations.

Secretary BLUMENTHAL. I understand.

Mr. LONG. The point is, we, the Appropriations Committee, do not feel bound to appropriate funds merely because they are authorized.

Secretary BLUMENTHAL. That is the reason for the $835 million that is in there. There is also $1.4 billion in callable capital, which is really only a backing for the borrowing authority of these institutions. It has never been utilized but would be utilized only in case of default. That default has never happened. So I think this is a somewhat different than the normal request for authority to actually spend money.

Mr. LONG. If you do not need it, why do you ask for it?

Secretary BLUMENTHAL. Because the banks are organized in a way that involves a certain amount of callable capital to which everyone contributes. I think it is important to note that we are committed to providing foreign assistance, to working with other countries, countries to whom we export, countries in whom we have a great deal of interest. It is, I think, in our national interest to provide that kind of backing, and I believe there is considerable public support for a proper level of assistance, well-administered and carefully controlled.

Mr. LONG. I wonder where you see that support. I do not see it anywhere. I see a tremendous concern on the part of the people, dealing with domestic programs. If it were doing some good abroad, I think you might argue to the average American, all right, we are not giving you very much but we have to help the rest of the world.

IMPACT OF FOREIGN ASSISTANCE

I have traveled to several countries as a Member of Congress in 14 years. I can tell you this, and I measure my words, when you get outside of the cities you can see virtually no impact of the one-third of a trillion dollars that we have put into foreign aid in the history of this program. The benefit has been confirmed to the bureaucracy, the military, the elite, the business people, and so on. The peasants, whom we are supposed to be helping, show no evidence of it at all.

I have seen virtually no disagreement in that judgement which I have given and I think you people are finally tumbling to the fact that we have to do something for the poor people; is that not right?

Secretary BLUMENTHAL. Certainly. We want to emphasize helping those who need it most, Mr. Long.

I think it also needs to be remembered that there is contained in these numbers the funding of commitments that have been made in previous years, by previous administrations.

I would further say that in my 25 years of traveling around the world as a business executive, working in many countries, I have certainly seen evidence of the positive impact of international economic assistance. I think that the development banks are doing a very important job.

Mr. LONG. I get an embrazo among the well-to-do in every country in the world, you can see the impact there, but where is the impact on the poor?

Secretary BLUMENTHAL. I think if you look at many of the countries of Latin America, which previously were aid recipients to an important degree, from not only the United States but other countries, you will see the kind of progress that has been made.

Mr. LONG. Where?

Secretary BLUMENTHAL. Well, I would say Brazil is a very good example.

Mr. LONG. I have been to Brazil. They have had great oil discoveries and so on which helped their well-to-do, but you show me impact of any aid on the flavelos in any city in Brazil?

Why is it that when this Appropriation Committee cuts the international banks by a certain amount, the Administration feels that it has the right to come back here the next year and ask for a restoration of that cut? When we make a cut do you not think we are entitled to assume that it is a permanent cut and not something that you can demand to be restored next year?

Secretary BLUMENTHAL. We are demanding nothing, Mr. Long. It is our responsibility to make the best judgment about what should be recommended. We are recommending. We recognize this is a partnership between the executive and the legislative branches of our Government. It is not in the form of a demand. It is in the form of a respectful request, a subject for discussion.

Mr. LONG. Right. Do you really feel you are arguing for something you are entitled to?

Secretary BLUMENTHAL. It is not a question of entitlement, it is a question of responsibility, sir.

Mr. LONG. I yield back the balance of my time.

Mr. MAHON. Mr. Secretary, I am somewhat alarmed by some of the references which have been made by the chairman of the subcommittee handling foreign operations. I expect you to examine this transcript very carefully. I would hope that if there is any adequate response to what Dr. Long has said, he himself being an economist, I would like for you to spread it on the record so we can evaluate the colloquy between you and the gentleman. Would you do that for us?

Secretary BLUMENTHAL. I will be happy to extend my remarks, Mr. Chairman, to include examples of progress that has been made in individual countries who have been the recipients over the years of international economic assistance.

[The response received from the Department of the Treasury follows:]

EXAMPLES OF PROGRESS IN INDIVIDUAL RECIPIENTS OF INTERNATIONAL ECONOMIC ASSISTANCE

In considering these examples of progress in foreign assistance recipients, it is important to keep two points in mind. First, development is the responsibility of the government of the country itself. Foreign assistance can accelerate progress and influence its direction somewhat, but it cannot single-handedly do the job. Neither can it claim sole credit for the success stories which follow.

Second, foreign aid can be counted a success in a particular country if individual projects accomplished their objectives even though overall economic growth did not leap forward.

Brazil provides excellent examples of the contributions foreign assistance can make in developing countries. Brazil's main source of rapidly disbursing development assistance in the mid-1960's was the Agency for International Development. This large-scale bilateral macro-economic assistance was needed to revitalize the economy, but even so it did not ignore equity considerations. During this time education expansion and reform projects, land reform, nutrition, water and health projects were being planned or implemented.

No new AID loans have been made to Brazil since FY 1973. Most U.S. bilateral aid to Brazil came before the "new directions" focused attention on basic human needs. Also, urgent political and economic concerns in Brazil had strong influence over the bilateral assistance program. Nevertheless, growth with equity was always one objective.

World Bank lending did not become important in Brazil until after 1967, and IDB lending has increased gradually since the late 1960s. In the late sixties and early seventies the IFIs focused largely on infrastructure projects. More recently they have devoted increasing attention to addressing the needs of Brazil's poorest citizens.

Until recent years the strategy in Brazil of bilateral and multilateral aid was to assist the Government of Brazil to create a vital, growing economy, with strong indigenous institutions, which could, with its own resources create and carry out the policies and programs necessary to expand employment and income. This strategy has been successful as Brazil has achieved consistent high rates of growth, overcome political and social instability, attained financial viability and vastly strengthened its institutional capacity.

During a recent meeting with a U.S. Congressional delegation, high-level Brazilian officials commented very positively on the significance of foreign assistance to Brazil. They pointed out that much of AID assistance came during a critical time for Brazil—1965–1968—when Brazil had had difficulty obtaining assistance elsewhere. Furthermore, the training and experience resulting from the preparation of project proposals and reports for AID and the IFIs had honed both conceptual and procedural methodology among Brazilians. One of the officials suggested that the Government of Brazil's present ability to manage its economy was in part attributable to the experience and stimulation gained from the GOB's interchange with the IFIs.

As I said, growth with equity has always been one of the goals of foreign assistance to Brazil. One must look at the impact of specific loans. For example, U.S. AID made two loans totalling $16.6 million in 1964 and 1968 to support Brazil's goal of nationwide malaria eradication. Project activities were carried out predominately in rural areas, including all the states of the Northeast where the poorest Brazilians live. 1973 data indicate that 18.2 million people lived in areas where an advanced stage of malaria eradication had been achieved (incidence rate down to 0.1 per 1,000 population tested). 13.9 million lived in areas where eradication campaigns brought the incidence rate down to 1.7 cases per 1,000, and 8.4 million in areas where long-term campaigns were being carried out and the incidence rate was 12.7 per 1,000. The number of households from which regular spraying could be withdrawn increased from 5.5 million in 1968 to 18.8 million in 1974.

I agree with Mr. Long that this kind of progress is difficult to see—but it is not difficult to measure. Millions of Brazilians are healthier and leading more productive lives because of these projects.

Two AID loans to Brazil totaling $82 million, authorized in 1968 and 1970 respectively, improved the fundamental and secondary education system through emphasis on planning, teacher training, instructional material development, research, construction, and management improvement.

The program benefited middle to lower income groups by increasing educational opportunities and standards at the fundamental and secondary public school levels. Two hundred-sixty-six multi-purpose school buildings were constructed and fully equipped providing new educational opportunities for about 500,000 students. 35,000 teachers, administrators and technical personnel were trained in Brazil and 140 school supervisors and administrators receiving training in the U.S. Of the 11 states participating in the two loans, three were in the poorer Northeast region of Brazil.

The loans assisted in strengthening capabilities in the Ministry of Education, State Secretariats of Education, national education agencies, colleges of education and other training institutions, especially in terms of educational planning, research, management, monitoring and evaluation of education programs and projects. The program financed by the loans greatly contributed to the concepts and formulation of the Brazilian education reform law passed on August 11, 1971, as well as its implementation. Within the Ministry of Education, a permanent organization for the expansion and improvement of education (PREMEN) has been firmly established to work with the Department of Fundamental, Secondary and University Education.

The loans helped bring about an increase of 60% in real terms in the level of domestic financial resources allocated to education by the Government of Brazil between 1963 and 1974. As a result of the loans, three follow-on loans, two from the World Bank for $8.4 and $23.5 million and the other with the IDB for $16 million were signed in 1971, 1974 and 1976. The World Bank is continuing the same activities carried on under the AID loans. The second World Bank loan is focused specifically on the northeastern and northern states.

Education cannot be seen. A child who can read does not look too different than one who cannot. Nevertheless, these AID, IBRD and IDB projects are enriching the lives of hundreds of thousands of Brazilians.

I indicated that the development banks are devoting increased attention to directly improving the lives of the poorest Brazilians. The education projects I just mentioned are examples. Many other recent projects illustrate this point.

In December 1975 the World Bank approved a US $12 million loan for a rural development project located in the Northeastern State of Rio Grande do Norte. It is addressed to the needs of small farmers in one of the poorest areas of the country. The project was among the first initiatives under the Government's new POLONORDESTE program for the Northeast. The project was designed to strengthen the institutional capability to conceive, plan and implement in a coordinated manner a variety of actions to increase, at reasonable costs, the incomes and welfare of the target group of farmers. These actions include (a) an expansion and improvement of extension services through the provision of logistical support and an increase in the number of agricultural advisors and social extension workers; (b) the provision of additional credit to small farmers for on-farm investment and seasonal production purposes, the testing of alternative, simplified lending procedures for small loans, and the application of experimentation and farm trials to improve technical packages for specific crops; (c) an expansion of rural health services and strengthening of supervision and referral systems; (d) the provision of organization support for project administration, monitoring and evaluation, and a special fund for miscellaneous project activities, and (e) the preparation of future rural development projects in other areas of the state.

In February 1976, a US $55 million loan for a rural roads program was approved. The loan was to help road communication from rural areas and communities to the rest of the country, thus contributing to agricultural development by providing year-round access to markets, storage and processing facilities. The operation was also designed to facilitate transport of essential inputs to farms, such as seeds, fertilizer, insecticides, and to enable the Government to incorporate those areas in its credit and extension programs. Once the program is completed in the early 1980s, isolated communities will benefit from federal or state social, health and education services.

In June 1976 the Bank made its first loan for a nutrition project in any of its (then) 127 member countries. The loan of US $19 million helps finance a project undertaken in Brazil to strengthen the country's capability to upgrade the nutritional standards of the population. The beneficiaries include pregnant and lactating women from low-income families, among them families of 3,000 small farmers in Northeast Brazil.

Bolivia also provides excellent examples of the contributions foreign assistance can make in developing countries. Bolivia is the poorest country in South America. During the three decades since the late 1940's, Bolivia has received extensive economic foreign assistance from various donors, both bilateral and multilateral. Estimates on the total amount of aid given to the country between 1945 and 1973 run as high as $1.1 billion. The U.S. alone has provided over $500 million of economic aid since World War II.

When AID's predecessor agency began assistance in Bolivia in 1959, two major obstacles to the development of the country were overwhelmingly apparent: The lack of an internal transportation system, except for railroads serving the mining interests, and the lack of institutional capacity within the Bolivian Government to design and implement development programs. Although "growth with equity" has always been an underlying aim of AID programs in Bolivia, the institutional mechanism for reaching the target groups were either nonexistent or totally inadequate for the task. Hence, AID's program concentration until 1971 was on transportation systems and institutional development. It was not until the 1970's that the U.S. AID program shifted its direct emphasis to a program of assistance to the rural poor. Because of the institutional improvements of the 60's and 70's, "growth with equity" because a more realistic goal of foreign assistance programs in Bolivia.

This is not to say that the problems of infrastructure, institutional capability and industrial and agricultural capacity have been resolved. They have not. Fortunately, other international donors continue to place major emphasis in their lending programs on transportation, hydrocarbons, communications and power. Many of the donors are also initiating programs with the poor and are anxious to do more in the social sectors.

These efforts are fully complementary to the AID activities which now focus exclusively on assistance to, and services for the rural poor, e.g., cooperative development, small farmer credit, improved agricultural research and extension services, non-formal rural education, low-cost rural health delivery systems and village potable water and sanitation programs. AID's efforts to improve the organizational and financial base of the most deprived segments in rural Bolivia should provide the foundation for subsequent efforts in this area by other donors.

Even though Bolivia is still a poor country with many economic problems and marked by a particularly turbulent social and political history, its economy has improved considerably over the last three decades. Since 1972 the rate of growth of Gross Domestic Product has been high, (about 6 percent to 7 percent annually) and sustained.

This recent growth has been helped immeasurably by the relative political calm which the country has experienced since 1971. President Hugo Banzer, who took control through a military coup in that year has been in power longer than any previous Bolivian leader and Bolivia is currently as well-off economically as it has ever been.

Equally important have been the current government's commitment to development, its apparently sincere desire to incorporate the Indian population into the society and its willingness to seek substantial funding from international financial institutions for future investment in development projects.

The GOB's Development Plan for 1976–1980, which includes an investment plan of some $3.5 billion, was reviewed by the World Bank Consultative Group in the Spring of 1977. Many international donors, including AID, expressed strong reservations as to Bolivia's financial, administrative and technical ability to carry out such a large program and the principal three—IDB, IBRD and AID also expressed concern over the relative scarcity of social sector programs compared to industrial, hydrocarbon, mining and major infrastructure programs. The GOB frankly recognized the inadequacy of social sector activities and development projects in the Altiplano and invited foreign donors to aid in the preparation of projects in these key areas.

To summarize, in the sixties AID and the multilateral development banks concentrated on remedying the lack of infrastructure and institutions which were inhibiting development in Bolivia. In the seventies AID has devoted its attention exclusively to the rural poor. Other donors are continuing to lend for infrastructure but are increasing projects targeted for the poorest Bolivians. AID, IDB and IBRD have all been using their policy influence to encourage "new directions" programs.

It is again helpful to look at specific projects. AID has provided $4.8 million to Bolivia to spur community development. The project was designed to stimulate self-help activities and leadership qualities in rural communities in order to develop community organizations capable of solving local problems. All of the more than 2,000 community projects executed under this project were carried out in rural communities with populations of less than 2,000 people and an estimated one and a half million rural dwellers benefitted from the community activities.

The project literally brought into being the National Community Development Service. The Service has received funding for an expanded staff and increased financing for the central unit and sixteen field units. Additionally, numerous community action units have been organized and their personnel trained. At the request of the GOB, AID has financed two subsequent projects based upon the model used in the Community Development loan. There has been an overwhelming response by the communities to the assistance given and a rising demand for the continuation of project assistance. Community inputs to the projects have averaged 65 percent of total resource contributions, such as labor and materials.

Although the project was overly ambitious in terms of the number of physical projects targeted, it reached far more people (1½ million) than anticipated and has had a very significant multiplier effect in terms of follow-on loans, additional GOB allocations for similar projects and enthusiastic community participation and demand.

The IDB's loan for potable water for rural areas is implementing the first phase of a Bolivian Government program to provide sources of potable water to the rural population. IDB provided $1.8 million and the Government of Bolivia contributed $1.7 million.

Potable water is available to only slightly more than 9% of the rural population or 290,000 people out of 3,000,000. The GOB has identified 600 centers with populations between 150 and 10,000 inhabitants which need potable water systems. This project has reached 125,000 people through sixty-seven new potable water systems.

The GOB plans to use the model developed in this effort to achieve its goal of providing potable water to 17 percent of the rural population by 1980. I would like to emphasize this point: because of replication by the Bolivian Government, this project will have effects which extend far beyond the rural inhabitants directly reached.

The purpose of a $15 million World Bank loan to Bolivia for rural education is to provide basic education infrastructure on the Altiplano. Elements include construction of schools and educational training centers, bilingual curriculum for primary and community education and vocational training designed to meet the needs of small farmers and rural workers.

Per capita income in the target area is between $70 and $145 annually. The curriculum revision proposes to make the educational program more relevant to rural needs and to revise the school calendar to better harmonize with the requirements of the agricultural cropping cycle. Partly as a result of this kind of project, the attitudes of primary and secondary school officials and teachers are undergoing a fundamental change. The academic curriculum long used in all schools is being dropped in favor of a more practical course of studies oriented to the needs of farmers and rural workers.

The GOB, with a number of other donors, is either implementing or has planned additional rural education projects which use the concept of curriculum adaptation to localized conditions in order to achieve a direct impact on the poor in the project area. IBRD and the Bolivian Government have closely coordinated this activity with AID, which has similar projects in other parts of the country, to insure no overlap of project effort.

Other communities have requested similar programs for their schools and have offered to finance them, in part, with local contributions. The Government now officially endorses bilingual education geared to the requirements of farmers and the Ministry of Education is soliciting the interest of other international donors in financing programs of this type.

The Philippines also illustrates the manner in which foreign assistance can contribute to development progress. There are four major donors in the Philippines: the U.S., IBRD, ADB, and Japan. U.S. bilateral assistance in recent years has been focused on rural development. The development banks have continued lending for infrastructure but are increasing the resources targeted at the poor. The Japanese program is largely in the form of yen package credit.

AID support for rural electrification began in 1968 and terminates this year. U.S. contributions total some $90 million. The program goal is to extend electricity to all of the rural areas of the country by 1990.

A recent nationwide survey showed that almost one-third of the recipients fall below the subsistence level of income for the Philippines at the time electricity reaches them. About 90 percent have annual per capita income less than $150. About one-third own neither their house nor their lot. Roughly one-fifth live in houses of light or salvaged material—bamboo, scrap wood, sheet metal, packing crates. Approximately one-fifth have no education beyond the fourth grade. Average household consumption in the Philippines is 35 kw per month compared to 1800 in the U.S. With rural electrification, productivity increases are demonstrable and income also tends to rise.

The program has created substantial employment opportunities. The rural electric cooperatives already employ about 10,000 persons. This should increase to 15,000 as the program expands. There has been a rapid expansion of labor-intensive, small and medium scale industries in electrified areas although no national data are available. The national electrification administration which manages the program has become possibly the strongest and best-managed public service institution in the Philippines.

The GOP has provided one-half of the financial cost of the program from budget funds. Individual farmer/land owners have donated the land needed for rights of way, consented to the removal of income-producing coconut and fruit trees, and even in some cases relocated their homesteads to gain access to electric service. The investment by beneficiaries reflects resource mobilization on a impressive scale. Within a year or two of energizing a community, rural banks begin to appear. Public and private investments in irrigation, and potable water systems are accelerated.

This is probably the most successful foreign assistance project in the Philippines in terms of institution building, for which it has become a model throughout the developing world, and more importantly, in terms of directly benefiting the rural poor and expanding their prospects for still further upward economic and social mobility. It has had a major impact on GOP policies in terms of heightened priorities and resource allocation for rural development projects on a national scale. The importance of ancillary benefits has exceeded expectations.

Funding for the International Rice Research Institute is currently being provided by AID, more than a dozen other countries, the International Development Association of the World Bank, UNDP, and numerous private foundations and corporations.

In terms of beneficial economic impact on hundreds of millions of poor rice producers and consumers throughout the developing world, this project stands in a class by itself. It represents the ideal of a regional research project making current technology effectively available to the millions of small farmers producing Asia's rice crop, while pushing research frontiers still further forward. Macroeconomic indicators demonstrate that in countries like the Philippines, its contributions to strengthening national economies where rice is the basic cereal, are as significant as its impact on individual small producers.

The new disease and insect-resistant, high-yielding rice varieties (HYV) developed at IRRI have resulted in significantly higher production in a number of countries where these varieties have been successfully adapted. Nearly all rice growers in Asia operate small farms. They have benefited because of the higher productivity achieved, and increased margin of profit. The HYV technology requires about 35 percent more labor on the average than the traditional methods creating employment for landless laborers. In the Philippines alone, HYVs account for more than 70 percent of the 3.6 million hectares currently planted to rice. Some 90 percent of these new varieties were developed by IRRI. Thus, IRRI research has directly benefited at least 9 million rural Filipinos.

Although national statistical data are not available, there are clear indications that, in addition to the increased needs for labor to tend the new varieties, substantial numbers of off-farm jobs have been created as a result of the increased demands for production credit, supply of production inputs, marketing, handling, storage and small-scale mechanization that have been induced by the new HYV production technology.

IRRI must be considered one of the most successful institutions established to promote development. It has already brought substantial direct benefits to hundreds of millions of poor rice producers and consumers throughout the developing world.

The Asian Development Bank is a major contributor to the Catabato Irrigation Project on Mindanao. The farmers in Mindanao are poor even by Philippine standards. The lack of feeder roads and difficult access to marketing services and irrigation works are disincentives to farmers. Despite its remoteness, however, Mindanao's population in the period 1960–1970 increased at a rate of about 4.8 percent annually due primarily to in-migration, mainly poor farmers from subsistence agricultural lands in other parts of the Philippines. This project is one of the more successful of its type to date. The project has exceeded original targets both in terms of the number of beneficiaries, which almost doubled, and the extent of their economic benefits. Total net annual farm income in the project area, projected to rise in 7 years from $106 per family to $427, actually increased to about $830.

With a population density about half that of the country as a whole, the Catabato area has considerable scope for further population expansion, provided that appropriate infrastructure is established to meet basic needs. This project, together with ABD road and power loans and the Japanese highway loan constitute a significant element in upgrading the lives of people in the area.

In 1976 the World Bank committed $32 million to a 4-year Urban Development Project in Manila. The project has six basic components.

1. Upgrading a 180 hectare area in the Tondo Foreshore, by providing basic urban infrastructure and services, materials for house improvement, and cottage industry loans, and including land for industrial and commercial use.
2. Development of a new residential community for about 20,000.
3. Construction and rehabilitation of water and sewerage facilities.
4. Construction in the area of major traffic arteries totalling about 7.5 kms.
5. Traffic improvement measurements.
6. Technical assistance to four government agencies involved in various aspects of project execution.

The project clearly benefits the poor. The 180,000 persons now residing in the Tondo foreshore area are among the poorest in Manila; median family income is about $576 per year and per capita income $87 a year. The project aims to provide the inhabitants of this major slum and squatter area with secure land tenure and adequate urban services, shelter, and sanitation. In addition, it should stimulate creation by the private sector of about 800 jobs through the cottage industry loan program. It will also create the opportunity for private investment on the 18.5 ha. of industrial estate included in the project, thereby providing additional job opportunities.

This project is too new to assess its ultimate success or failure, but from all indications, it is a good project. It represents a new direction in tackling some of the major problems facing metropolitan Manila, and if successful, should demonstrate the viability of this approach for upgrading the standards of living of the 3.2 million persons now estimated to be living at or below the minimum subsistence level in Manila and in other fast-growing urban areas.

I have extended my testimony by describing a dozen projects in three major foreign assistance recipients. These projects illustrate the effectiveness of foreign aid in contributing to progress in the developing countries. I believe further support for our foreign assistance programs is definitely warranted.

FOREIGN AID

Mr. MAHON. Is it true that our present Administration is emphasizing the fact that we are increasing our aid to other countries?

Secretary BLUMENTHAL. To take the example of the single most important component, the actual increase in requests for appropriations for international financial institutions for this next fiscal year over last in real terms is something like 1 to 2 percent.

Mr. MAHON. I am speaking of the entire foreign aid program. I wish you would relate it to that as well as to the international financial institutions.

Mr. WHITTEN. I would like to have the gentleman reply to this: You are asking for increases of 1 to 2 percent, you say, but in those things that are domestic, such as flood prevention and protection, you are cutting those way back. So we need two justifications. First, you have to justify if you can, why you cut down on the domestic programs which are so essential to maintaining the basic resources of the country to support the financial demands. Second you must explain why you increase the part of the budget which goes to foreign countries. It is a two-pronged thing which you should respond to.

Mr. MAHON. Would you please respond for the record?

Secretary BLUMENTHAL. Yes.

[The information referred to follows:]

DOMESTIC SPENDING AND FOREIGN AID

In recent years there has been a remarkable increase in domestic social spending in education, health, income security, etc., which has tripled, even after adjustment for inflation. In 1966, the budget provided for about seven dollars of domestic social expenditures for every dollar of economic assistance. A decade later this ratio had risen dramatically, to over $30.

Domestic spending and foreign aid are, in any event, complementary uses of U.S. resources. Spending on foreign aid is not at the expense of American citizens. In fact, our aid to other countries finances increases in their expenditures on U.S. goods and services—creating jobs and raising incomes in this country. In the case of the multilateral development banks, other countries in fact contribute $3 for every $1 contributed by the United States.

In addition, it is incorrect to assure that foreign aid appropriations lead to commensurate budget outlays. Increasingly, U.S. contributions to the development banks take the form of callable capital. For example, over one-third of the total budget request for fiscal year 1979 is in this category. Callable capital is essentially a contingency fund which guarantees repayment to the purchaser of the development banks' own bonds. Only if the bank experienced defaults on its own loans so large that its creditworthiness was damaged would the capital be called. None of the banks have ever been in a situation in which this was remotely necessary. The bill to the taxpayer is thereby much exaggerated.

[Clerk's note: The answer provided for the record does not respond to the first part of the question.]

Mr. MAHON. The gentleman from Illinois, Mr. Yates, is recognized.

COOPERATION FROM OMB

Mr. YATES. Mr. McIntyre, you have received so many brickbats from various people I think you are entitled to a bouquet.

When you were before us last year I was critical of the then Director of OMB because the efforts by our subcommittee to try to find out why OMB had cut back on certain appropriations and had refused to extend personnel ceilings. We were rebuffed and were just never able to obtain the cooperation of OMB.

This year OMB did cooperate. Mr. Bowman Cutter came to my office and sat down with the members of our subcommittee to discuss the needs of the Forest Service. We reviewed the needs of the Forest Service in view of the increased appropriations under the Humphrey-Rarick bill and OMB did provide for an increased personnel ceiling. As I recall, 1,000 permanent positions and something in the nature of 6,000 temporary positions were added to perform the work of the Forest Service.

I want to commend you for that. I know of no other instance in which OMB has worked with a congressional committee in this respect. I do not know whether it is your fault or the committee's fault. I think it is a salutary innovation.

I would hope in the future, if our committee or any subcommittee sees fit to ask for your cooperation, that you continue this kind of initiative.

Mr. MCINTYRE. Mr. Yates, I certainly appreciate that remark. We have tried to work carefully with the Congress and we will continue to do that. I think if there is one thing of which I am the proudest—and there are many things of which I am proud—it is that we have really opened up a dialog and a communication with Congress which I think has been long overdue. We will continue that dialog.

Mr. YATES. Thank you, Mr. McIntyre.

Mr. MAHON. Please excuse this interruption, but I would like to say that the Director of the Bureau of the Budget, Office of Management and Budget, and his staff people have been most cooperative with the staff of the Appropriations Committee, and with members of the Appropriations Committee. It is very heartening to have this type of relationship between the Director and our committee.

Mr. YATES. I am glad to have that, Mr. Chairman. I think it is a good sign.

The energy conference is caught up with several questions—a primary question is the deregulation of the price of natural gas. Have you taken into consideration what the impact on the Federal budget is likely to be in the event that the conference, and later the Congress, agrees upon deregulation?

Mr. McIntyre. Mr. Yates, when we were putting the budget together, the only assumptions that we felt we could reasonably make were those based upon the proposals that the administration submitted to the Congress. Therefore, the assumptions in the budget are based upon the administration's proposals for the national energy plan. We have not reconstituted the budget based on any specific action that might have occurred in the conference committee.

Charlie, you might want to speak a little further to that.

Mr. Schultze. I do not think I have much to add.

Obviously at this stage, Mr. Yates, there are so many alternative possibilities that one could find through the budget that we would spend all of our time doing that.

Mr. Yates. Let's take a look. What would the cost of deregulation be upon the economy? There have been various estimates, ranging between $35 billion and $70 billion. Can you give us any more concrete estimate than that?

What is your impression, Mr. Schultze, of the effect of deregulation on our economy? Would this not be an inflationary thrust?

Mr. Schultze. Break it into parts. I do not know what the numbers would be but, clearly, if you just deregulated natural gas, they would be very, very sizable in terms of increased prices and increased transfer of income from consumers to energy or gas producers.

Second, if you just deregulated new natural gas, which goes well beyond the President's proposals, you would have a similar effect, but it would be smaller, since it is only natural gas. I do not have a number for that.

In a period of emergency or very cold weather, that very thin market that you would have for completely deregulated new natural gas could get you lord knows what kind of prices.

Mr. Yates. Did you make an estimate of what the cost of deregulating all natural gas would be for new and old gas?

Mr. Schultze. I am sure the Department of Energy has such a number. I do not. Everything I have heard would indicate to me that the possibility of completely deregulated all natural gas is very low, but if it were done the costs would be very huge. I cannot give you an absolute number.

Mr. Yates. Have you seen any numbers?

Do not the numbers vary between $40 billion and $50 billion in increased prices throughout the economy?

Mr. Schultze. If you completely deregulated natural gas. I am sure they would be up clearly in the scores and scores of billions. However. you cannot pin it down at this stage to a particular number.

Mr. Yates. Thank you, Mr. Chairman.

Mr. Mahon. The gentleman from Virginia, Mr. Robinson.

Mr. Robinson. Thank you, Mr. Chairman.

FEDERAL PAPERWORK

Mr. Secretary, Mr. Director, first 2 questions arising out of comments made here today, the first one the President mentioned in his State of the Union message, that paperwork has been reduced 12 percent, that is, paperwork pertaining to the Federal establishment.

My constituents do not seem to find that they are being favored with a corresponding reduction. Where can I find the evidence of a 12 percent reduction in the paperwork?

Mr. McIntyre. Mr. Robinson, we are continuously at war against paperwork. I will try to get the figures for you and show you how we arrived at them.

Mr. Robinson. You do not have a presentation that has already been prepared on that subject?

Mr. McIntyre. Not with me, I do not. No, sir.

(Refer to OMB response to a similar question by Mr. Sikes on pages 31–34.)

TERMINATIONS OF COMMISSIONS

Mr. Robinson. You mentioned earlier today that over 400 boards, study commissions and so forth have been abolished, and this of course is a step in the direction of less bureaucracy in our Federal Government. Have these boards been summarily terminated, and is there a list of them anyplace that we can look at?

Mr. McIntyre. Yes, sir, I have a list of the names of the boards and commissions that have been recommended for abolishment and will be happy to supply it for the record.

[The information follows:]

Advisory Committees Recommended for Termination or Consolidation

Terminations

COUNCIL ON ENVIRONMENTAL QUALITY

Citizens Advisory Committee on Environmental Quality.

OFFICE OF MANAGEMENT AND BUDGET

American Statistical Association Advisory Committee on Statistical Policy.
Business Advisory Council on Federal Reports.
Labor Advisory Committee on Statistics.

COUNCIL ON INTERNATIONAL ECONOMIC POLICY

President's Advisory Board on International Investment.

DEPARTMENT OF AGRICULTURE

Advisory Committee for the U.S. Meat Animal Research Center.
Advisory Committee on Grains—Wheat, Feed Grains and Soybeans.
Advisory Committee on Hog Cholera Eradication.
Advisory Committee on Nutrition Evaluation.
Advisory Committee on Poultry Health.
Advisory Committee on Regulatory Programs.
Advisory Committee on Salmonella.
Advisory Committee to the Forest Service, California Region.
Apache National Forest Grazing Advisory Board.
APHIS Consumer Advisory Committee.
Bighorn National Forest Grazing Advisory Board.
Boise National Forest Grazing Advisory Board.
Caddo National Grasslands Grazing Advisory Board.

Caribou National Forest Grazing Advisory Board.
Carrizo Grazing Advisory Board.
Cattle Industry Advisory Committee.
Challis National Forest Grazing Advisory Board.
Cibola National Forest Grazing Advisory Board.
Citizens Advisory Committee on Civil Rights.
Coconino National Forest Grazing Advisory Board.
Combined Forest Pest R&D Program Board.
Commodity Credit Corporation Advisory Board.
Condor Advisory Committee.
Deschutes National Forest Multiple Use Advisory Committee.
Deschutes National Forest Cattlemen's and Woolgrowers Advisory Board.
Forest Research Advisory Committee.
Fremont National Forest Grazing Advisory Board.
Gila National Forest Grazing Advisory Board.
Gunnison Valley Forest Grazing Advisory Board.
Humboldt National Forest Grazing Advisory Board.
Joint American Statistical Association—American Agricultural Economics Association Advisory Committee on Agricultural Statistics.
Klamath National Forest Grazing Advisory Board.
Lyndon B. Johnson National Grasslands Advisory Board.
Malheur National Forest Grazing Advisory Board.
Manti-LaSal National Forest—Manti Division Grazing Advisory Board.
Medicine Bow National Forest Grazing Advisory Board.
Miguel District National Forest Grazing Advisory Board.
Modoc National Forest Grazing Advisory Board.
Montezuma Section, San Juan Grazing Advisory Board.
National Advisory Committee on Safety in Agriculture.
National Consumer Advisory Committee.
National Cotton Advisory Committee.
National Peanut Advisory Committee.
National Rice Advisory Committee.
National Tobacco Advisory Committee.
Nebraska National Forest Grazing Advisory Board.
North Kaibab Grazing Advisory Board.
Northeastern Forest Research Advisory Committee.
Ochoco National Forest Grazing Advisory Board.
Oregon Dunes National Recreation Area Advisory Council.
Ottawa National Forest Multiple Use Advisory Committee.
Ouray District Grazing Advisory Board.
Perishable Agricultural Commodities Act—Industry Advisory Committee.
Prescott National Forest Grazing Advisory Board.
Public Advisory Committee on Soil and Water Conservation.
Rio Grande National Forest Grazing Advisory Board.
Rouett National Forest Grazing Advisory Board.
Samuel R. McKelvie National Forest Grazing Advisory Board.
San Isabel National Forest Grazing Advisory Board.
San Juan Section, San Juan Grazing Advisory Board.
Santa Fe National Forest Grazing Livestock Advisory Board.
Sawtooth National Forest Multiple Use Advisory Committee.
Shoshone National Forest Livestock Advisory Board.
Sitgreaves National Forest Grazing Advisory Board.
South Kaibab Forest Grazing Advisory Board.
Spearfish District Grazing Advisory Board.
Stanislaus Forestwide Livestock Advisory Board.
Superior National Forest Advisory Committee.
Taos-Penasco-Questa Division Grazing Advisory Board.
Tierra Amarilla Division Grazing Advisory Board.
Timpas Unit Grazing Advisory Board.
Tonto National Forest Grazing Advisory Board.
Uinta National Forest Grazing Advisory Board.
Umatilla National Forest Grazing Advisory Board.
Union County Grazing Advisory Board.
Willowa-Whitman National Forest Grazing Advisory Board.
White Mountain National Forest Grazing Advisory Board.
Winema National Forest Grazing Advisory Board.

DEPARTMENT OF COMMERCE

Advisory Council for Minority Enterprise.
Census Advisory Committee on State and Local Area Statistics.
CTAB Panel on Energy Policy.
FIPS Task Group 15—Computer Systems Security.
Industry Advisory Committee on Metal Scrap Problems.
National Industrial Energy Council.
Secretary's Advisory Council.
Semiconductor Manufacturing and Test Equipment Technical Advisory Committee.

DEPARTMENT OF DEFENSE

Terminations

Advisory Committee on the Design and Construction of Shelters.
Advisory Group on the Utilization of Gravimetric Data.
Advisory Panel on DOD Educational Programs.
Chemical Propulsion Advisory Committee.
Chief of Naval Operations Command and Control and Communications (C3) Advisory Committee.
Commandant's Advisory Committee on Marine Corps History.
Defense Industry Advisory Group Europe.
High Energy Laser Review Group.
Junior Science and Humanities Symposia Advisory Committee.
Naval Weapons Center Advisory Committee.
Secretary of Defense Design Awards Jury.
Secretary of Defense Natural Resources Conservation Award Selection Committee.
Secretary of the Navy's Oceanographic Advisory Committee.
Special Commission on the U.S. Military Academy.
Underwater Sound Advisory Committee.
U.S. Army Tank Automotive Command Scientific Advisory Group.

Consolidations

Academic Advisory Board to the Superintendent U.S. Naval Academy; Board of Advisors to the Superintendent, Naval Postgraduate School; Board of Advisors to the President, Naval War College; Secretary of the Navy's Advisory Board on Education and Training (Consolidate into one committee).

Advisory Committee on the Air Force Historical Program; Department of the Army Historical Advisory Committee; Secretary of the Navy's Advisory Committee on Naval History (Consolidate into one DOD Historical Advisory Panel).

Air Force ROTC Advisory Panel; Air University Board of Visitors (Consolidate into one new committee).

Ballistic Missile Defense Technology Advisory Panel; Scientific Advisory Committee of the Ballistic Research Laboratories; Scientific Advisory Group of the U.S. Army Missile Command (Consolidate into Army Scientific Advisory Panel).

Board of Visitors, National Defense University; Board of Visitors, Defense Intelligence School (Consolidate into one committee).

U.S. Army Military History Research Collection Advisory Committee (Consolidate into Department of the Army Historical Advisory Committee).

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Terminations

Ad Hoc Committee on Reserpine and Breast Cancer.
Advisory Council on Environmental Education.
Board of Tea Experts.
Carcinogenesis Scientific Advisory Committee.
Commission for the Control of Epilepsy and its Consequences.
Commission for the Control of Huntington's Disease and its Consequences.
Committee on Mental Health and Illness of the Elderly.
Comprehensive Sickle Cell Centers Ad Hoc Review Commitee.
Computer and Biomathematical Sciences Study Section.
Consulting Group on Welfare Reform.

Consumer Advisory Council.
Cooperative Health Statistics Advisory Committee.
Diagnostic Products Advisory Committee.
Diet, Nutrition and Cancer Program Advisory Committee.
Drinking Water Disinfection Ad Hoc Advisory Committee.
Federal Hospital Council.
Health Insurance Benefits Advisory Council.
Interagency Committee on Federal Activities for Alcohol Abuse and Alcoholism,
Long-term Care Advisory Committee.
Medical Laboratory Sciences Review Committee.
National Advisory Committee on the Handicapped.
National Advisory Council on Health Manpower Shortage Areas.
National Advisory Council on Nurse Training.
National Advisory Food and Drug Committee.
National Advisory Health Council.
National Advisory Public Health Training Council.
Nursing Research and Education Advisory Committee.
Panel on Review of Cold, Cough, Allergy, Bronchodilator and Antiasthmatic Drugs.
Panel on Review of Laxative, Antidiarrheal, Antiemetic, and Emetic Drugs.
Panel on Review of Sedative, Tranquilizer, and Sleep Aid Drugs.
Panel on Review of Skin Test Antigens.
Panel on Review of Topical Analgesic Including Antirheumatic, Otic, Burn, and Sunburn Treatment and Prevention Drugs.
President's Commission on Olympic Sports.
Program Review Team for the State of Arkansas.
Program Review Team for the State of California.
Program Review Team for the State of Florida.
Program Review Team for the State of Kansas.
Program Review Team for the State of Massachusetts.
Program Review Team for the State of Michigan.
Program Review Team for the State of New York.
Program Review Team for the State of Pennsylvania.
Program Review Team for the State of Utah.
Program Review Team for the State of Washington.
Rape Prevention and Control Advisory Committee.
Rehabilitation Services National Advisory Committee.
Review Panel on New Drug Regulation.
Science Advisory Board to the National Center for Toxicological Research.
Student Financial Assistance Study Group.
Temporary Cancer Institutional Fellowship Review Committee.
Temporary Review Committee for Frederick Cancer Research Center.
Tobacco Working Group.
Toxicology Advisory Committee.
Tuberculosis Control Advisory Committee.
Virus Cancer Program Advisory Committee.

Consolidations

Panel on Basic Skills; Panel on Education and Work; Panel on School Capacity for Problem Solving (Consolidate into one committee).

Anesthesiology Advisory Committee; Anesthesiology Advisory Device Classification Panel (Consolidate into one committee).

Animal Resources Advisory Committee; Primate Research Centers Advisory Committee (Consolidate into one committee).

Biological Sciences Training Review Committee; Psychological Sciences Training Review Committee; Psychological Sciences Fellowship Committee; Social Sciences Training Review Committee (Consolidate into one committee).

Breast Cancer Diagnosis Committee; Breast Cancer Epidemiology Committee; Breast Cancer Experimental Biology Committee; Breast Cancer Treatment Committee (Consolidate into one committee).

Cancer and Nutrition Scientific Review Committee; Diet and Cancer Scientific Review Committee (Consolidate into one Committee).

Carcinogensis Program Scientific Review Committee A; Carcinogensis Program Scientific Review Committee B (Consolidate into one committee).

Cardiovascular and Renal Advisory Committee; Cardiovascular Device Classification Panel (Consolidate into one committee).

Clinical Chemistry Device Classification Panel; Clinical Toxicology Device Classification Panel; Pathology Device Classification Panel (Consolidate into one committee).

Clinical Program—Projects Research Review Committee; Clinical Projects Research Review Committee (Consolidate into one committee).

Clinical Psychopharmacology Research Review Committee; Preclinical Psychopharmacology Research Review Committee (Consolidate into one committee).

Community Education Advisory Council; National Advisory Council on Adult Education (Consolidate into National Advisory Council on Vocational Education).

Continuing Education Review Committee; Experimental and Special Training Review Committee (Consolidate into one committee).

Controlled Substances Advisory Committee; FDA/NIDA Drug Abuse Research Advisory Committee (Consolidate into one committee).

Dental Device Classification Panel; Dental Drug Products Advisory Committee (Consolidate into one committee).

Developmental Therapeutics Committee; Ear, Nose, and Throat Device Classification panel (Consolidate into one committee).

Diagnostic Products Advisory Committee; Diagnostic Research Advisory Group (Consolidate into one committee).

Drug Abuse Demonstration Review Committee; Drug Abuse Prevention Review Committee (Consolidate into one committee).

Gastroenterological and Urological Device Classification Panel; Gastrointestinel Drugs Advisory Committee (Consolidate into one committee).

General and Plastic Surgery Device Classification Panel; Surgical Drugs Advisory Committee (Consolidate into one committee).

Juvenile Problems Research Review Committee; Social Problems Research Review Committee; Epidemiologic Studies Review Committee (Consolidate into one committee).

Medical Radiation Advisory Committee; Radiological Device Classification Panel (Consolidate into one committee).

National Advisory Council on Bilingual Education; National Advisory Council on the Education of Disdavantaged Children; National Advisory Council on Equality of Educational Opportunity (Consolidate into one committee).

National Bladder Cancer Project Working Cadre; National Prostatic Cancer Project Working Cadre (Consolidate into one committee).

National Large Bowl Cancer Project Working Cadre; National Pancreatic Cancer Project working project (Consolidate into one committee).

Neurologic Drugs Advisory Committee; Neurological Device Classification Panel; Psychopharmacological Agents Advisory Committee (Consolidate into one committee).

Experimental Psychology Research Review Committee; Neuropsychology Research Review Committee (Consolidate into one committee).

Obstetrical and Gynecological Device Classification Panel: Obstetrics and Gynecology Advisory Committee (Consolidate into one committee).

Ophthalmic Device Classification Panel; Ophthalmic Drugs Classification Panel (Consolidate into one committee).

Paraprofessional Manpower Development Review Committee; Psychiatric Nursing Education Review Committee; Psychiatry Education Review Committee; Psychology Education Review Committee; Social Work Education Review Committee (Consolidate into one committee).

Personality and Cognition Research Review Committee; Social Sciences Research Review Committee (Consolidate into one committee).

President's Committee on Mental Retardation; National Advisory Council on Services and Facilities for the Developmentally Disabled (Consolidate into one committee).

Virus Cancer Program Scientific Review Committee A; Virus Cancer Program Scientific Review Committee B (Consolidate into one committee).

Terminations

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

National Insurance Development Program Advisory Board.

DEPARTMENT OF THE INTERIOR

Advisory Board on National Parks, Historic Sites, Buildings, and Monuments.
Advisory Board on the San Jose Mission National Historical Site.
Advisory Committee on Coal Mine Safety Research.
Committee on Minority Participation in Earth Science and Mineral Engineering.
Federal Metal and Nonmetal Mine Safety Advisory Committee.
Hot Springs National Park Examining Board for Technicians.
Hot Springs National Park Registration Board.
Industry Advisory Committee to the Defense Electric Power Administration.
National Advisory Board for Wild Free-Roaming Horses and Burros.

Consolidations

Committee for the Recovery of Archeological Remains; Consulting Committee for the National Survey of Historic Sites and Buildings; Historic American Buildings Survey Advisory Board; Historic American Engineering Record Advisory Committee (To be consolidated into one new committee).

Office of Water Research and Technology Advisory Panel; Water Research and Education Advisory Committee (Consolidate into one committee).

Terminations

DEPARTMENT OF JUSTICE

Committee on the Selection of the Director of the Federal Bureau of Investigation.
National Advisory Committee on Criminal Justice Standards and Goals.
Private Security Advisory Council.
Security and Confidentiality Committee (NCIC Advisory Policy Board).

DEPARTMENT OF LABOR

Advisory Committee on Longshoring Safety and Health.
Advisory Committee on Sheltered Workshops.
Advisory Committee on Women to the Secretary of Labor.
Citizen's Advisory Council on the Status of Women.
Federal Advisory Committee on Affirmative Action in Employment at Institutions of Higher Education.
Federal Advisory Council on Employment Service.
Standards Advisory Committee on Agriculture.

DEPARTMENT OF STATE

Advisory Panel on International Law.
Government Advisory Committee on International Book and Library Programs.
Northwest Atlantic Fisheries Advisory Committee.
U.S. CCIR Study Group 3.
U.S. CCITT Study Group 2.

Consolidations

Advisory Panel on Academic Music; Advisory Panel on Folk Music and Jazz; Advisory Committee on Music (To be consolidated into one committee).

United States CCIR National Committee (International Radio Consultative Committee), Study Groups 1 through 11 except 3, and Study Group CMTT (Television and Sound Transmission) (To be consolidated into one committee).

United States CCITT National Committee (International Telegraph and Telephone Consultative Committee), Study Groups 1 through 5 except 2, (To be consolidated into one committee).

Terminations

DEPARTMENT OF TRANSPORTATION

Advisory Committee on Transportation Related Signs and Symbols.
Citizen's Advisory Committee on Aviation.
Citizens Advisory Committee on Transportation Quality.
Civil Reserve Air Fleet Advisory Committee.

Flight Information Advisory Committee.
Microwave Landing System (MLS) Advisory Committee.
National Motor Vehicle Safety Advisory Council.
National Offshore Operations Industry Advisory Committee.
Obstacle Clearance Requirements Advisory Committee for the U.S.
St. Lawrence Seaway Development Corporation Advisory Board.
Southern Region Air Traffic Control Advisory Committee.
Technical Pipeline Safety Standards Committee.
Towing Industry Advisory Committee.
U.S. Advisory Committee on Visual Aids to Approach and Landing.
U.S. Terminal Instrument Procedures Advisory Committee.
Youth Highway Safety Advisory Committee.

Terminations

DEPARTMENT OF THE TREASURY

Advisory Committee on Distilled Spirits Plant Supervision.
Advisory Committee on Private Philanthropy and Public Needs.
Regional Advisory Committees on Banking Policies and Practices, First through Fourteenth National Bank Regions.

Consolidations

Small Business Advisory Committee on Economic Policy; Small Business Advisory Committee to the Commissioner of Internal Revenue (consolidate into one committee).

Terminations

AGENCY FOR INTERNATIONAL DEVELOPMENT

Engineering, Architectural and Construction Industry Advisory Commitee.
Agricultural and Rural Sector Planning Advisory Committee.

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

Advisory Panel for Review of the Laser Isotope Separation Program.
Historical Advisory Committee.
Procurement Policy Advisory Committee.
Task Force on Demonstration Projects as a Commercialization Incentive.
Liquid Metal Fast Breeder Reactor (LMFBR) Steering Committee.

Terminations

ENVIRONMENTAL PROTECTION AGENCY

Environmental Radiation Exposure Advisory Committee.

Consolidations

Ecology Advisory Committee; Environmental Health Advisory Committee; Environmental Measurements Advisory Committee; Environmental Pollutant Movement and Transformation Advisory Committee; Technology Assessment and Pollution Control Advisory Committee (Consolidate with Science Advisory Board).

Terminations

EXPORT-IMPORT BANK OF THE UNITED STATES

Advisory Committee to the Export-Import Bank of the United States.

FEDERAL COMMUNICATIONS COMMISSION

WARC Advisory Committee for High Frequency Fixed.

Consolidations

Advisory Committee for Maritime Mobile Service (Consolidate into Radio Technical Commission for Marine Services).

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Terminations

FEDERAL ENERGY ADMINISTRATION

Transportation Advisory Committee.

FEDERAL HOME LOAN BANK BOARD

Advisory Committee on the Alternative Mortgage Instruments Research Study.

FEDERAL MEDIATION AND CONCILIATION SERVICE

Health Care Industry Labor-Management Advisory Committee.

GENERAL SERVICES ADMINISTRATION

Regional Archives Advisory Councils, Regions 2, 3, 4, 7, and 9.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Ad Hoc Advisory Subcommittee for Evaluation of Applications; Explorer Mission-B/Stratospheric Experiment Proposals.

Atmospheric Cloud Physics Laboratory Advisory Subcommittee.

Earth Dynamics Advisory Subcommittee.

Ocean Dynamics Advisory Subcommittee.

Space Systems Committee (SPAC).

Ad Hoc Advisory Subcommittee to Review Proposals for a Payload for the Terrestrial Bodies Orbiter (Lunar).

Space Technology Steering Committee and Research and Technical Advisory Council LDEF Experiment Review, Ad Hoc Advisory Subcommittee.

Consolidations

Research and Technology Advisory Council (RTAC); Panel on Research; Space Program Advisory Council (Consolidate into NASA Advisory Council).

Committee on Aerodynamics and Configurations; Committee on Aeronautical Propulsion; Committee on Guidance, Control and Information Systems; Committee on Materials and Structures; Panel on Aviation Safety and Operating Systems; Ad Hoc Panel on Terminal Configurated Vehicles; Panel on General Aviation Technology (Consolidate into Aeronautics Advisory Committee).

Committee on Space Propulsion and Power; Panel on Space Vehicles (Consolidate into Space Systems and Technology Advisory Committee).

NATIONAL ENDOWMENT FOR THE HUMANITIES

Education Panel; Fellowships Panel; Planning Office Panel; Public Programs Panel; Research Panel (Consolidate into one Humanities Review Committee).

Terminations

NATIONAL SCIENCE FOUNDATION

Ad Hoc Applications Panel for the Very Large Array.

Advisory Committee for Research.

Advisory Committee on Ethical and Human Value Implications in Science and Technology.

Advisory Panel for Atmospheric Sciences.

Advisory Panel for Weather Modification.

Science Applications Task Force.

Science Information Activities Task Force.

Special Advisory Committee on the Sacramento Peak Observatory.

Utility Advisory Panel.

Consolidations

NATIONAL SCIENCE FOUNDATION

Advisory Panel for Anthropology; Advisory Panel for Developmental Biology; Advisory Panel for Ecological Sciences; Advisory Panel for Economics; Advisory Panel for Genetic Biology; Advisory Panel for History and Philosophy of Science; Advisory Panel for Human Cell Biology; Advisory Panel for Human Geography and Regional Science Program; Advisory Panel for Law and Social Sciences; Advisory Panel for Linguistics; Advisory Panel for Memory and Cognitive Processes; Advisory Panel for Metabolic Biology; Advisory Panel for Molecular Biology; Advisory Panel for Neurobiology; Advisory Panel for Political Science; Advisory Panel for Psychobiology; Advisory Panel for Population Biology and Physiological Ecology; Advisory Panel for Regulatory Biology; Advisory Panel for Sensory Physiology and Perception; Advisory Panel for Social and Developmental Psychology; Advisory Panel for Sociology; Advisory Panel for Systematic Biology (Consolidate into four new committees).

Advisory Panel for Oceanography Project Support; International Decade of Ocean Exploration Proposal Review Panel (Consolidate into one new committee).

Advisory Panel for Computer Science and Engineering; Advisory Panel for Electrical Sciences and Analyses; Advisory Panel for Engineering Chemistry and Energetics; Advisory Panel for Engineering Mechanics; Advisory Panel for Mathematical Sciences; Advisory Panel for Metallurgy and Materials; Advisory Panel for Materials Research Laboratories; National Magnet Laboratory Visiting Committee (Consolidate into three new committees).

Advisory Panel on Public Understanding of Science; Science for Citizens Advisory Committee (Consolidate into one new committee).

Terminations

SECURITIES AND EXCHANGE COMMISSION

Advisory Committee on Corporate Disclosure.

SMALL BUSINESS ADMINISTRATION

Marshall District Advisory Council.
Task Force on Equity and Venture Capital for Small Business.

Consolidations

Albuquerque District Advisory Council; Anchorage District Advisory Council; Atlanta District Advisory Council; August District Advisory Council; Baltimore District Advisory Council; Birmingham District Advisory Council; Boise District Advisory Council; Boston District Advisory Council; Casper District Advisory Council; Charlotte District Advisory Council; Chicago District Advisory Council; Clarksburg District Advisory Council; Cleveland District Advisory Council; Columbia District Advisory Council; Columbus District Advisory Council; Concord District Advisory Council.

Dallas District Advisory Council; Denver District Advisory Council; Des Moines District Advisory Council; Detroit District Advisory Council; Fargo District Advisory Council; Hartford District Advisory Council; Hato Rey District Advisory Council; Helena District Advisory Council; Honolulu District Advisory Council; Houston District Advisory Council; Indianapolis District Advisory Council; Jackson District Advisory Council; Jacksonville District Advisory Council; Kansas City District Advisory Council.

Las Vegas District Advisory Council; Little Rock District Advisory Council; Los Angeles District Advisory Council; Louisville District Advisory Council; Lower Rio Grande Valley District Advisory Committee; Lubbock District Advisory Council; Madison District Advisory Council; Marshall District Advisory Council; Miami District Advisory Council; Minneapolis District Advisory Council; Montpelier District Advisory Council; Nashville District Advisory Council; New Orleans District Advisory Council; New York District Advisory Council; Newark District Advisory Council.

Oklahoma City District Advisory Council; Philadelphila District Advisory Council; Phoenix District Council; Pittsburgh District Advisory Council; Portland District Advisory Council; Providence District Advisory Council; Richmond District Advisory Council; Salt Lake City District Advisory Committee; San Antonio District Advisory Council; San Diego District Advisory Council; San Francisco District Advisory Council; Seattle District Advisory Council; Sioux Falls District Advisory Council; Spokane District Advisory Council; St. Louis District Advisory Council; Syracuse District Advisory Council; Washington District Advisory Council; Wichita District Advisory Council (Consolidate into 10 regional committees).

Terminations

U.S. CIVIL SERVICE COMMISSION

Advisory Committee on Administrative Law Judges.

Consolidations

U.S. COMMISSION ON CIVIL RIGHTS

Alabama State Advisory Committee; Alaska State Advisory Committee; Arizona State Advisory Committee; Arkansas State Advisory Committee; California State Advisory Committee; Colorado State Advisory Committee; Connecticut State Advisory Committee; Delaware State Advisory Committee; District of Columbia State Advisory Committee; Florida State Advisory Committee; Georgia State Advisory Committee; Hawaii State Advisory Committee; Idaho State Advisory Committee; Illinois State Advisory Committee; Indiana State Advisory Committee; Iowa State Advisory Committee; Kansas State Advisory Committee; Kentucky State Advisory Committee.

Louisiana State Advisory Committee; Maine State Advisory Committee; Maryland State Advisory Committee; Massachusetts State Advisory Committee; Michigan State Advisory Committee; Minnesota State Advisory Committee; Mississippi State Advisory Committee; Missouri State Advisory Committee; Montana State Advisory Committee; Nebraska State Advisory Committee; Nevada State Advisory Committee; New Hampshire State Advisory Committee; New Jersey State Advisory Committee; New Mexico State Advisory Committee; New York State Advisory Committee; North Carolina State Advisory Committee; North Dakota State Advisory Committee.

Ohio State Advisory Committee; Oklahoma State Advisory Committee; Oregon State Advisory Committee; Pennsylvania State Advisory Committee; Rhode Island State Advisory Committee; South Carolina State Advisory Committee; South Dakota State Advisory Committee; Tennessee State Advisory Committee; Texas State Advisory Committee; Utah State Advisory Committee; Vermont State Advisory Committee; Virginia State Advisory Committee; Washington State Advisory Committee; West Virginia State Advisory Committee; Wisconsin State Advisory Committee; Wyoming State Advisory Committee (Consolidated into 10 Regional Committees).

Terminations

VETERANS ADMINISTRATION

Advisory Committee on Cemeteries and Memorials.

Career Development Committee.

Chief Medical Director's Ad Hoc Advisory Committee on Spinal Cord Injury.

Consolidations

Geriatric Research and Clinical Centers Advisory Committee (Consolidate into VA Special Medical Advisory Group).

Health Manpower Training Assistance Review Committee; Medical School Assistance Review Committee (Consolidate into one new committee).

Terminations

U.S. WATER RESOURCES COUNCIL

Standing State Advisory Committee.

Mr. ROBINSON. Recommended, you say?

Mr. MCINTYRE. Those that could be abolished by administrative action are being abolished. In the case of those that are required by statute, we have recommended to the Congress that they be abolished.

OMB is compiling a current report on the disposition of the recommendations on each committee and board. I will be glad to provide you with a copy of that report as soon as it is reviewed by the President. I should be able to send you the report around March 31.

Mr. ROBINSON. I think it would be useful in replying to our constituents with regard to inquiries on that subject as well.

FOOD STAMP PROGRAM

I am on the Agriculture Subcommittee and represent a rural district. My farmers, and the farmers of the country as a whole that have been here in Washington representing the American agriculture movement, continue to be disturbed by the fact that the food stamp program is a part of the Department of Agriculture budget. They feel that it should be transferred to HEW, where the rest of the welfare programs are.

Was this given any consideration in the budget when it was being put together for 1979?

Mr. McINTYRE. Mr. Robinson, when we analyzed the income maintenance type programs, we analyzed the food stamp program in conjunction with other income maintenance programs in HEW. We tried to look at all of the income maintenance programs together to determine the budget levels that we would be recommending for those programs.

Mr. ROBINSON. There is no question in your mind that the food stamp program is an income maintenance program, is there?

Mr. McINTYRE. No, there is not.

Mr. SCHULTZE. My colleagues from OMB may correct me, but if you look at the budget document, which lists programs by function, agriculture, income maintenance, education, and the food stamp programs are in the income maintenance section of this budget.

Mr. McINTYRE. That is correct.

Mr. SCHULTZE. They are run by the Department of Agriculture and thereby necessarily are in the Department of Agriculture's budget as an agency. But the breakdown in this budget shows them where you suggest they should be, in income maintenance.

Mr. ROBINSON. But it still is a part of the Department of Agriculture's budget, which is a reflection on the Department in an unreal fashion, and reflects on it to a degree that the public does not understand.

Mr. SCHULTZE. I would urge that the Congress move speedily towards enacting the President's welfare reform proposal which will transfer those food stamps into cash and put it in the budget of HEW.

Mr. ROBINSON. It is already in cash; that is one of the budget problems.

OUTLAY ESTIMATES

Now to get back to the budget as a whole and to review briefly an area that was explored by Mr. Michel and Mr. Steed.

We acknowledged that the administration is requesting $568.2 billion in new budget authority. In addition, mention has been made that $614 billion is available from prior years. This adds up to $1.18 trillion to meet this nation's needs as defined by previous laws in the proposed budget.

We know as well that this is over half the gross national product forecast for 1979, and exceeds the GNP of every country in the world.

Now the Carter outlay estimate is $500.2 billion, or 42.3 percent of the $1.182 trillion that is available for total budget authority. Surprisingly, outlays on total budget authority have over the past 10 years averaged 44 percent. Now Mr. McIntyre indicated that he thought that this $500.2 billion in terms of outlays was just about the middle of the road.

As a matter of fact, over the last 10 years it is lower than the average to a degree that would reflect a possible deficit of $520 billion, or an increase of $20 billion in the national deficit.

When we acknowledge that some of the big areas of outlay shortfalls have been trimmed, we are talking about no increase in stimulus for public works proposals, no new water resources projects, and you have reduced by one-third the Navy shipbuilding program which is historically the biggest shortfall in the defense budget.

I wish for the record, since my time is up, Mr. McIntyre, that you would react to how you have projected that decrease in shortfall on a percentage basis.

Mr. McIntyre. Let me react just a moment about that right now, because I want everyone in the room to hear my answer to those points.

First of all, our figures differ a little bit on the average. My computations show that the ratio of outlays to obligational authority since 1970 through 1979 is 41.6 percent on the average.

Mr. Robinson. The average I have based on computations that I think are reliable is 44.38. So we will have to see where the difference lies.

Mr. McIntyre. We will be glad to compare that information.

[The information follows:]

Perhaps our figures differ because you have included the transition quarter in your analysis. I do not believe this unique accounting period should be included in a comparison of fiscal years. Also, the percentages I have used are based on the final figures reported by Treasury where available. Your percentages may be based on the original budget estimates, rather than the final figures.

Mr. McIntyre. Mine shows 41.6 percent for an average. In 1977 the ratio of outlays to obligational authority was only 39.9 percent. In 1978 we estimate the ratio to be 42.3 percent, and in 1979, 42.3 percent, which is higher than the most recent previous years, in terms of the ratio of outlays to total obligational authority.

So I think that is a pretty good record, myself.

[Additional information provided by the Office of Management and Budget follows:]

RATIO OF OUTLAYS TO OBLIGATIONAL AUTHORITY

[Dollar amounts in millions] [1]

	Outlays	Budget authority and balances brought forward from prior years	Ratio of outlays to obligational authority (percent)	Ratio of outlays to obligational authority (excluding HUD) (percent)
1979 estimate	$500, 174	$1, 182, 166	42. 3	52. 6
1978 estimate	462, 234	1, 093, 456	42. 3	53. 1
1977 actual	401, 902	1, 006, 779	39. 9	49. 6
1976 actual	366, 466	928, 429	39. 5	49. 0
1975 actual	324, 601	836, 048	38. 8	48. 0
1974 actual	268, 392	702, 535	[2] 38. 2	45. 7
1973 actual	246, 526	546, 174	45. 1	46. 8
1972 actual	231, 876	509, 220	45. 5	47. 3
1971 actual	211, 425	474, 558	44. 6	46. 5
1970 actual	196, 588	438, 458	44. 8	47. 1
10-yr total	3, 210, 184	7, 717, 823	41. 6	49. 1

[1] Source: Federal budget documents from 1972 to 1979. Data from the budgets 1972 through 1978 exclude later minor adjustments to historical data in table 21 of the 1979 budget for treatment of off-budget Federal agencies.

[2] The large decrease in ratios from 1973 to 1974 reflects the change in treatment of budget authority from multiyear subsidized housing contracts. The next column provides a more comparable trend by eliminating HUD totals from the ratio.

Mr. ROBINSON. Mr. McIntyre, we happen to have a difference of opinion with regard to the percentages involved and we will simply have to compare them and see where the differences are, because they are substantial.

Thank you, Mr. Chairman.

Mr. MAHON. The gentleman from Colorado, like the gentleman from Texas, is listening to these overview hearings as a member of the committee for the last time.

I now yield to the gentleman from Colorado.

Mr. EVANS. Thank you, Mr. Chairman.

AGRICULTURE PROGRAMS

Mr. EVANS. Thank you, Mr. Chairman.

Gentlemen, reference was made a little while ago to the presence in Washington of the movement known as the American Agriculture Movement. I am told, and I think there is a great deal of truth in it, that this movement started in my congressional district. I say this just simply by way of illustration of the extent to which I am aware of the unhappiness of vast numbers of farmers in the United States.

Now, as I understand the administration's position, they will not support a system of 100 percent of parity with legislated market prices for agricultural products. I believe that position is in the form of a general policy.

I understand the administration also feels that the present farm law is adequate. I am one who disagrees strongly. I feel American agriculture is in a crisis, which is immediate. I think it is here.

My question is, do you anticipate any supplementals or any different points of view, any changes that the administration may recommend to policy, to recognize this?

Anyone of you may wish to comment on that.

Mr. SCHULTZE. Let me start, if I might, Mr. Evans.

Basically the answer to that is we do not.

Mr. EVANS. Do not what?

Mr. SCHULTZE. Contempate at the present time submitting any major revisions. That isn't to say we won't be studying the situation, but we do not contemplate any changes at the moment.

Let me also note that the Congress in 1977 passed a farm bill which made major improvements in the structure of the governmental farm programs dealing with agriculture, and I think the first thing we need to do is to give that bill a chance to work.

If you look at what has been happening to farm prices and to farm income, they did indeed fall dramatically and it is a depressed section of the economy. Since about August or September, if you look at the monthly data prepared by the Department of Commerce and the Department of Agriculture, farm income has been rising. In the months of December and January, there were about $1,600,000,000 worth of checks mailed under the wheat, barley, and sorghum programs. The feed grain reserves of 30 million to 35 million tons, which this administration has proposed and which are in the bill, make it possible to build up farmer owned—or at least all but 6 million tons of the 30 to 35 are farmer owned—grains. These reserves will help strengthen the market. They are locked in and cannot depress the market because they can't be released until prices get substantially above the loan rate.

Moving to 100 percent of parity, A, would add about 20 to 25 percent to food prices; B, would begin to price our agricultural products substantially out of world markets. It means a $5 and some cent price of wheat and a $3.50 price of feed grains.

What the 1977 farm bill does, however, is set support prices which are competitive in the world market and target prices which cover costs of production, including 7 percent allowance for management, 3 percent return on farmland. Eighty to 90 percent of crops are covered by the target. The Federal budget makes up those differential payments rather than pricing ourselves out of the world market.

Mr. EVANS. I certainly hope there is a dramatic turnaround because I think it is going to make a dramatic turnaround to get the farmers out of the pickle they find themselves in and I think that is a fact.

REVENUE SHARING

My last question. You are required in your budget to crank in the $6.8 billion for continuation of general revenue sharing. However, that expires, as I recall, in 1980. If I am not correct, please tell me.

Has the administration taken a position on this, in terms of cutting out general revenue sharing, particularly in view of the fact that, as we we have talked about this morning, we have control of about 23, 24, 25, maybe 26 percent annually of our budget?

Anyone of you might answer.

Mr. MCINTYRE. We have not taken a position on that since the Act does not expire until, I believe you are correct, 1980.

Mr. EVANS. It is $6.8 billion a year now, and I suppose if we are going to work toward a balanced budget, you will have to have a judgment made on that before too long, I would imagine. This is not currently an item of discussion among you.

Mr. MCINTYRE. Let me clarify one thing, Mr. Evans. We have included that amount in the projections in the out-years, but that still does not mean that we have taken a position on that Act.

Mr. EVANS. I see.

Thank you very much, Mr. Chairman.

CRISIS IN AGRICULTURE

Mr. MAHON. I would like to say to our witnesses that I am a bit dismayed and very much disappointed, that there seems to be no agreement on the part of the Executive branch, as represented in this hearing, that we have a genuine crisis in agriculture. It is not something that is synthetic. It is a genuine crisis in agriculture, and I think myself that it is imperative that the Legislative and especially the Executive branch take some kind of steps that would tend to alleviate the situation and keep people on the farm, insofar as it is reasonably possible to do so.

I don't want to take the time to discuss this at great length now, but I just felt I didn't want the statement to go unchallenged that we are not going to do anything about the crisis in agriculture.

Mr. Chairman?

Mr. SCHULTZE. I simply underscore the point I made earlier, that I think the Congress passed a good bill last year. The effects of that bill, however, are taking some time, but during the current crop year and the coming year they will be of significant help.

Mr. MAHON. But there is a demand for immediate action of some sort to enable agriculture to proceed with the 1978 crop year. We could get into that later, but I don't want to take this time of other members.

Mr. WHITTEN. Will the chairman yield?

Mr. MAHON. I yield to the gentleman from Mississippi.

Mr. MCINTYRE. Mr. Chairman, may I make one point about that farm bill before we move on, just very briefly?

We recognize the fact that under the farm legislation we would be obligated to fund the amount necessary to comply with that law, and the estimates that you see in the budget are estimates based on what we term most likely weather occurrences. Thus, so if the situation called for additional funding, then under the Act that was passed, we would be obliged to provide that.

Mr. WHITTEN. Mr. Chairman, that definitely is true. But if you read history, you will recognize that argriculture is going broke, going into bankruptcy. You can't find many farms that are not mortgaged. As I pointed out earlier, these American dollars abroad are coming back over here and fixing the price of land.

The present farm bill bases price increases upon proving increased production costs. I introduced a bill recently on which we are going to have a hearing, along with other bills, in the next week or so. My bill would have the target and the loan rate go up as the general cost-of-living index goes up or as we raise minimum wages.

What I am asking you to look at is that, when the purchasing power of agriculture was ignored before, we had a tremendous depression. Now if agriculture continues down the road to bankruptcy again, may I tell you our banks and other institutions are going to feel it very quickly. This is a matter of recorded history. Mr. Schultze knows this. He and I have reviewed this before.

I would just like to say here and now that it is time for you to be thinking about the present plight of agriculture. It is your country that will fail if agriculture fails.

Mr. MAHON. You may respond for the record.

[The information follows:]

The administration does recognize the serious nature of farmers' problems and has taken action under the new farm bill to deal with surplus production and to strengthen and stabilize farm prices and income. These steps include imposition of acreage set-asides to reduce production, initiation of grain reserves to isolate substantial surplus stocks from the market, intensification of international trade negotiations and an increase in short-term export credit to expand export markets.

Mr. MCINTYRE. Thank you.

Mr. MAHON. This is a serious situation which confronts us. There has been a bombshell cast into the picture by the crisis in agriculture. There is a great deal of concern among people who understand the agriculture problem, and we hope that the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Chairman of the Council of Economic Advisers would be fully cognizant of the problem, and work with us in an effort to be helpful.

The gentleman from Utah, Mr. McKay.

Mr. McKay. Thank you, Mr. Chairman.

I have just one comment as far as agriculture is concerned.

I note in my State that aside from the price factor, farmers have mortgaged their equity in their farm operations to try and stay alive over a number of years. That can't continue. When their equity is gone, there is no borrowing power.

Our farm population has been declining. What have we lost, 75 percent since 1951? So the little fellows are on their way out. We have got the same trouble with small business.

BASE CLOSURES

From my perspective as chairman of the Military Construction Subcommittee, Mr. McIntyre, I would like to direct this question to you.

The administration has had underway now a review of defense installation requirements for more than a year. One of the principal concerns of many Members of Congress now is that the President will propose a major package of military base closures and realignments in the near future.

What can you tell the committee regarding any pending proposals for military base closures or realignments, and when can the Congress expect to receive such a proposal?

You have increased the defense budget by some $10 billion over last year. There is about a $2 billion increase in the military construction end of it, which relates directly to my charge as chairman. If in fact there are going to be some realignments, the dollars that we do have to spend shouldn't be spent on a facility that is going to be closed.

Was this taken into account?

Mr. McIntyre. Mr. McKay, I think that I would just like to clarify one point. The President would not announce any base closings in any event. There are certain efficiencies built into the Defense Department's budget, and it really is up to the Secretary of Defense to determine what is the best procedure to effectuate those kinds of efficiencies.

I would think that the Defense Department and our office would cooperate and work very closely with you and your committee to insure that we do not put any construction into any sites that might have some efficiencies connected with them.

Mr. McKay. Were any of those things discussed as the Defense Department presented its case to you for the budget?

Mr. McIntyre. The Defense Department argued its cases very eloquently.

Mr. McKay. Obviously. They got $10 billion where a lot of others got a reduction.

Mr. McIntyre. I would not want to leave the impression that $10 billion was all that they requested.

Mr. McKay. I am sure that that is true, noting what comes before our committee continually. That is probably a very accurate statement and it may be understated. I would hope that the Office of Management and Budget would consider those things because there is an increase of 40 percent in military construction, 25 percent of which is recommended for Europe. Last year we withheld some funding pending the resolution of long-term basing requirements. In fact, we had the lowest budget out of this committee in many years for that same reason. We didn't want to put out money where we are going to wind up with a building we didn't need, so I hope you will consider it.

Mr. McIntyre. I would think that the Secretary of Defense and I need to work very closely with you in going over those issues very carefully, as you get into the details of the budget with your committee's work. We will be glad to do that.

Mr. McKay. I would hope you would deal with those things as we talk about total budget figures. Maybe these expenditures are not necessary, if we are going to reduce our force or consolidate missions. Maybe that increase wasn't necessary. Maybe it is just for refurbishing existing assets, but we ought to deal with all the facts regarding long-term needs.

DISTRIBUTION OF DEFENSE EXPENDITURES

One final question, which follows up what Mr. Conte was talking about regarding economic impact on the country.

There has been a great deal of controversy lately over where the Defense Department expenditures ought to be made. We are always fighting that one. Some contend the defense dollars ought to be distributed equally among all regions of the country.

Do you believe that determination on the distribution of defense expenditures and the location of military installations should take into consideration the question of equal regional spending throughout the country? That is a major part of the budget, about $110 billion.

Mr. McIntyre. I think obviously any type of expenditure that the Federal Government makes ought to be, first of all, carefully considered and based on need. If you use that as the guiding principle, then I think you would have to look at where the needs are, and would have to make the determination of allocating your resources based on those demonstrated needs. That is what I think we have tried to do in making recommendations for funding levels for the departments.

Mr. McKay. But in that process of determining need, obviously you have to determine the defense needs for the country, but we all know there are pressures to consider geographic location, prior base closures, and other economic factors.

Was the economic factor, as far as the Nation is concerned, discussed between the Bureau of the Budget and the Pentagon?

Mr. McIntyre. I don't want to seem to be avoiding your question, but as a matter of fact the types of things that we look at are the Defense Department's needs, and where those needs are, of course, depend on——

Mr. McKay. Of course my question goes beyond the Department's need, which you have to deal with in every department's budget, but because of the scope of defense spending in the budget, don't you give serious consideration to the dislocating effect of defense expenditures on local economies?

Mr. McIntyre. I would like to, except I would like to make this one point. We are certainly aware that the defense expenditures have an effect on our economy, particularly in the procurement areas. In looking at that, you sometimes have to determine the ability of various locations, need schedules and so forth. I will be glad to add to that.

Mr. McKay. Expand on that for the record.

Mr. McIntyre. Yes, I will expand on that in the record for you.

[The information follows:]

The criterion for defense programs is whether they are essential for national defense. While defense programs result in employment and have other economic impacts, no defense funds are designated for economic or employment stimulus. In order to achieve essential levels of modernization and readiness within the proposed budget total, reductions in personnel and support costs are proposed. Regional considerations may have a bearing on the deployment of forces or the conduct of activities because of unique geographic, climatic, environmental proximity or other characteristics that make one location more suitable than another for a particular activity.

In total, Defense purchases are proposed to increase, and as a consequence, direct defense-related employment in industry will increase from 1,810 thousand in 1977 to 1,930 thousand in 1978 and 2,050 thousand in 1979—a total two-year employment increase of 240 thousand (13%). The budget does not stipulate, however, just which contractors and subcontractors will ultimately perform the work that is awarded in the contracts that will carry out the budget programs.

Mr. Mahon. The gentleman from Ohio, Mr. Miller.

Mr. Miller. Thank you, Mr. Chairman.

Chairman Schultze, Secretary Blumenthal, and Director McIntyre, we are happy that you are here to answer some of the questions we have on the budget and that have disturbed this committee.

REVENUES AND REFUNDS

One of the items that I have in mind is that the FY 1979 budget is to be 2 percent higher, and yet if we look at this in traditional terms, especially when we include the energy refund, the budget would be some 9.5 percent over 1978, and my figures show about 24.8 percent over the 1977 fiscal year. Some of this is due to the energy refund which goes back to the person who paid it, but here we have most of the $7.2 billion that would be refund, shown as revenue but not as expenditures. These payments are called "now" refunds by the Administration.

Can you tell me for what purpose the President shows outlays as refunds, and are other expenditures or outlays hidden somewhere in the budget by various agencies? What is the difference between refunds as OMB uses the term, and rebates, as IRS uses that term, when referring to these outlays? Can you give us some information on where we stand on that part of the budget?

Mr. Schultze. With respect to one part of your question, Mr. Miller, insofar as the Federal Government under the energy program is going to be collecting taxes, the wellhead tax, and to the extent that those are not going to be used for other expenditures, they will be returned to taxpayers in the form quite literally of reduced Federal income taxes. Those are not expenditures. Those are literally reductions in tax rates and/or increases in tax credits, and are part of the Internal Revenue Code, and would be so treated.

Insofar, however——

Mr. Miller. Before we move away from that point that seems to be a three-pronged problem, where the taxes would be collected from the wellhead in this case that you are speaking of, and credit given to someone who would be paying income taxes, but it shows as income but not an outlay.

Mr. SCHULTZE. What it would do, is net out, to the extent of that transaction, so that you would not get any net increase in revenues. You got an increase on the one hand in excise taxes, if you will, which is the way they would be classified, and you reduce, literally reduce, income tax rates, and/or changed income tax credits. That is a perfectly normal year-after-year kind of transaction. When you cut income taxes, it is a reduction in revenues. It is not an outlay, any more than the President's $25 billion tax cut this year would be considered an outlay. It is a reduction in revenues.

What the President has said is that these funds would be principally rebated to consumers through a reduction in taxes.

Now to the extent that they go to nontaxpayers through an increase in Social Security benefits or other measures, they would show as an expenditure. The normal forms of budget accounting will continuously be followed, and that is perfectly normal.

Mr. MILLER. I did not find in the budget where there was a reduction in income tax shown as a payment from a refund or where the person would be able to declare this a tax credit because they received the payment.

Mr. SCHULTZE. It would simply not be declaring a tax credit because they received the payment. It would simply be a change in the tax laws like any change in the tax laws which reduces income tax liability, as in normal procedures.

Mr. MILLER. That did not seem to decrease the amount of dollars that would be paid in income. The amount of revenue from income tax would still be up in the budget today.

Mr. SCHULTZE. There is on page 56 of the budget an estimate showing it as a negative revenue item, a reduction in revenues for the refunds of those wellhead taxes, and that is what it would be. It would be along with other reductions in revenues from other tax reductions.

Mr. MILLER. But it is still added in the total of revenue shown.

Mr. SCHULTZE. No, sir, it is taken out. The total of revenues shown excludes those amounts, because you have repaid them by a tax cut, and therefore we don't count them.

Mr. MILLER. It is in the dollar amount shown as revenue.

Mr. SCHULTZE. It is not in the total dollar amount, if I understand your question, Mr. Miller. The total amount of revenues which the Federal Government is estimated to collect in the fiscal year 1979, that total already excludes the amounts we propose to pay back by tax cuts in order to offset the wellhead tax.

Mr. MILLER. I would prefer, and not take the time at this time, but prefer to put this in writing to clarify it a little more so that we can see exactly what we have in the problem of energy refund. It appears not to be clear, and this does not seem to clear it up. I will present that in writing, if I may.

INTEREST ON NATIONAL DEBT

Secretary Blumenthal, we had a question this morning concerning the national debt and the interest on the national debt. I recall at that time that it was stated when Mr. Myers said that he did a little arithmetic, that we had a total deficit or total debt of $874 billion. That is for fiscal year 1979. I did some calculating and it comes out to about 5.9 percent that would be debt maintenance. In other words, interest paid on that debt, about 5.9, if we calculate there is $49 billion in the budget for interest payment on that $874 billion.

Now you stated at the time that we are not talking about apples and apples.

Could you clarify it a little, as to why we would not be paying interest on that total amount?

Secretary BLUMENTHAL. That is the gross amount of the debt, and it includes the debt owed by various agencies of government. It is not the amount of the public debt issued by Treasury, which is about $866 billion. The gross Federal debt is $874 billion. The Treasury issued public debt is $866.4 billion estimated for the end of 1979, but you would have to relate the $55 billion of public debt interest payments to the average amount of debt outstanding during the year, and not to the $866 billion year-end figure.

Mr. MILLER. We would still have interest paid to the trust funds. I will clear this one up with a question too. My time is just about up. I have one short question.

FUNDING FOR PROPOSED NEW URBAN ASSISTANCE PROGRAM

You stated at several places that it is in the budget, and it was stated today that later, later in the spring, the President would present a program for the urban areas. Specific proposals will be submitted, and it says at that time that it will deal with new programs and resources.

In other words, that would be dollars that will be asked for but are not in the budget now; is that correct?

Mr. MCINTYRE. No, sir, not necessarily. We have a contingency allowance in the budget with budget authority of $3 billion and outlays of $1.7 billion.

Mr. MAHON. Will you supply that for the record, please?

Mr. MCINTYRE. Yes, sir.

[Please refer to OMB response to a similar question by Mr. Michel on page 36.]

Mr. MILLER. Very good.

I thank you, Mr. Chairman.

[The following question was submitted by Congressman Miller and the response provided by the Office of Management and Budget:]

Question. On page 56 of the budget is listed under "Energy Tax proposals: Excise tax collections", the total of $7.3 billion in receipts for 1979. On page 59 under "Energy proposals: rebates of crude oil taxes and other", is a total of —$5.6 billion.

Since the $7.3 billion is listed on the receipt side of the budget, the —$5.6 billion should be listed on the outlay side instead of being termed a rebate. Thus it would seem that the $5.6 billion would be added to the budget total making it $505.8 billion.

What happened to the $1.7 billion difference? Is this covered on page 749 of the Appendix which lists $1.8 billion in outlays under "auto efficiency, crude oil tax"? If the $1.8 billion is an "outlay" why is not the —$5.6 an outlay also? Will you clarify these issues, please?

Answer. Budget conventions require that direct Federal payments, even though they may be derived from specific taxes, be shown as outlays, and refunds of taxes as offsets to tax receipts.

Excise tax collections for the energy program in FY 1979, as listed on page 56 of the Budget, are in fact $8.2 billion, not $7.3 billion. This figure is shown on page 56, subdivided as follows: $7.2 billion for the crude oil equalization tax (COET), $0.5 billion each for the automobile fuel-efficiency tax and the oil and natural gas consumption tax, and a small amount for miscellaneous taxes.

Of the $8.2 billion in excise taxes, $7.7 billion will be refunded to the public, either in the form of reduced tax liabilities or direct Federal payments (outlays). All funds collected ($0.5 billion in FY 1979) under the proposed automobile fuel-efficiency tax from purchasers of inefficient cars will be refunded to purchasers of efficient cars. Since these payments are not refunds of taxes, they are treated as outlays. The entire crude oil equalization tax ($7.2 billion in FY 1979) will also be refunded. Most of the COET revenues will go to individuals on a per capita basis in the form of reduced income tax liabilities ($4.7 billion). However, those not paying income taxes will also receive per capita payments ($1.3 billion, part of the $1.8 billion on page 749 of the Budget Appendix) to help offset the higher energy costs caused by this tax. Since these are direct Federal payments, not refunds of taxes, they too are treated as outlays. Finally, reduced tax liabilities of $1.2 billion are expected for heating oil dealers (who must reduce prices to their customers by the same amount) and oil producers. The latter will have lower taxes since it is anticipated that they will absorb some of the tax (and thus reduce their profits) rather than passing on the entire tax to consumers.

Thus the $8.2 billion in excise tax collections, after refunds of taxes through the tax system, will total $2.3 billion in 1979 (subtracting refunds to individuals of $4.7 billion, and to heating oil dealers and oil producers of $1.2 billion). Of the $2.3 billion remaining, $1.8 billion will be paid out as direct payments ($0.5 billion to efficient car purchasers; $1.3 billion to those not paying income taxes), leaving only $0.5 billion (primarily from the oil and natural gas consumption tax) as a net gain to the Treasury.

Mr. MAHON. Thank you very much, Mr. Miller.

The gentleman from Alabama.

Mr. BEVILL. Thank you, Mr. Chairman.

Gentlemen, I would like to commend you for the very outstanding job you have done in putting this budget together. There are two areas that I wish to explore.

WATER RESOURCE PROJECTS

One is the energy area. The other is the water resources projects.

Mr. Secretary, as I understood you, when Congressman Long was talking to you about the foreign aid program he said of course it increased 24 percent over last year, I believe $8.48 billion compared to the year before it was only $6.8 billion, and your response was it increased only 1 or 2 percent or whatever.

Anyhow, we are definitely increasing the foreign aid program apparently. There is no question about that, and of course included in that I know last year, in the 1977 budget or the 1978 budget was, as I recall, $1 billion for public works projects in foreign countries. Yet we get this budget last week, and we look at it, and there is 183 or 184 projects either deleted or slowed down. To be more specific, 56 ongoing studies deleted, 15 advanced engineering and design projects deleted, 59 studies and advanced engineering and design projects and 46 construction projects that have been stretched out, and no new starts. So is it fair to say that we are going to increase public works projects that the taxpayers are paying for in foreign countries, but we are going to eliminate the water resource projects in this country?

Secretary BLUMENTHAL. I can talk about the foreign area but I think Mr. McIntyre should talk about the water resource projects.

Let me just clarify, sir, for the record my comments on foreign assistance. I was talking about assistance for the international financial institutions, which represent the single largest component of the total, There are, of course, in the total, other areas. For example, bilateral assistance through AID, Food for Peace, and Securities Supporting Assistance.

Mr. BEVILL. I understand that they have all increased. Your request has increased this year over the last one.

Secretary BLUMENTHAL. That is right. When I referred to a 1 or 2 percent real increase, I was referring to——

Mr. BEVILL. Yes, and the water resource projects no new starts. In other words, they are eliminated.

Secretary BLUMENTHAL. Mr. McIntyre will speak to those.

Mr. MCINTYRE. Mr. Bevill, you are correct in that the budget does not reflect new starts at this time.

Mr. BEVILL. Nor last year.

Mr. MCINTYRE. Well, not for the last several years, as I understand it. But it was our decision that we would withhold or defer making any recommendations for new starts until such time as our water resource policy study was completed, which we expect to be done by early spring. At that time any new starts would be evaluated against those policies and a determination made at that time as to whether any new starts will be recommended. So it is not a matter of our stating that there would absolutely be no new starts. It is a case of where we have deferred that decision until such time as the study has been completed.

However, we have recommended the continuation of projects that deal with flood control, that deal with irrigation and water conservation, and other such items. Some of those have been slowed down because of further safety studies that are required. In one specific case we have an international issue with which we are having to deal. The President did not recommend the deletion of any of the projects that were in question last year, that this Congress had made a point on.

We will carefully consider all of these, any new starts, in light of the policy study that is developed this spring.

Mr. BEVILL. Mr. Chairman, I will submit some questions for the record.

[Questions submitted by Congressman Bevill and the responses provided by the Department of the Treasury follow:]

ECONOMIC CONSIDERATIONS IN IFI PROJECTS

Question. Mr. Secretary, in your opening remarks you commented on the high priority the Administration places on the request for funds for the international banks. As you know, we place a great deal of emphasis on the economic justification of our water resource projects when we authorize and appropriate funds for them. I wonder if you could tell the Committee how these economic factors are considered in the funds we make available to the international banks.

Answer. The IFIs consider the chief measure of a project's contribution to economic growth to be its ability to generate more value than it uses over its estimated life; and the tests used are primarily concerned with measuring the size of the surplus in relation to the cost of producing it. The IFIs most widely used test for selecting between projects is the internal rate of return. Nevertheless, the selection of projects does not rely exclusively on quantitative comparisons of projects but also includes a general assessment of the economy for each country and a definition of goals and the establishment of priorities. Moreover, while the IFIs regard projects as precisely defined investments, they are usually combined with other actions, e.g., changes in economic policies, designed to increase the rate of economic growth.

In addition to the tests utilized by the IFIs, the U.S. Government also reviews IFI loans before instructing its Director on each proposal. The mechanism used is the National Advisory Council of International Monetary and Financial Policies (NAC) which coordinates the views of its five member agencies—Treasury, State, Commerce, the Export-Import Bank, and the Federal Reserve Board—and those of other interested agencies, e.g. Agriculture.

The criteria used by the U.S. Government in approving the IFI projects focuses on the technical feasibility and quality of the project and its priorities in the government's investment program. Additionally, the U.S. Government also considers whether alternative sources of financing are available for the project, the investment climate prevailing in the borrower, and whether the project is able to attract additional sources of capital for further investment. Finally, in its review of IFI projects for financing, the U.S. Government, through the NAC questions among other things whether the project's output will contribute to world surplus conditions for a particular commodity; and whether the additional supply will depress prices below a level at which most current suppliers can earn a reasonable return. In such cases, the United States recommends that alternative projects be financed.

Budget and Energy Policy

The 1979 budget shows a significant increase in new budget authority for the Department of Energy, from $10.6 billion to $11.6 billion (including the effect of proprietary receipts). Outlays increase from $8.2 billion to $10.1 billion (also including the effect of proprietary receipts).

At first glance, this increase appears consistent with the President's emphasis on energy. But underneath we find that while increases are provided for Conservation, Regulation and Information and the Strategic Petroleum Reserve, the new budget authority for energy supply and environmental programs decreases by more than $242 million year to year.

Question. With the President's emphasis on reducing dependence on foreign oil for the future, why should the Administration decrease spending for energy supply and environmental programs? How does one reconcile decreases in solar energy development, enhanced gas recovery, nuclear fuel cycle activities, breeder reactor and hydroelectric power development with the budget statements as to the need to develop renewable and inexhaustible resources, advanced nuclear systems and protect the environment while achieving energy goals?

Answer. In general, reductions in recommended budget authority reflect reductions in federally sponsored demonstration efforts as these activities become commercially viable. Further, in several cases direct federal support for commercialization is being replaced by tax credits. When the estimated tax expenditures are added to federal supports, there is an increase.

Recommended FY 1979 budget authorities are increased for longer term research on solar energy development, and alternative nuclear fuel cycles. Expenditures for research on the breeder reactor program were reduced as a result of the decision to discontinue the Clinch River reactor project and to expand research on projects other than the liquid metal fast breeder reactor. Proposed authorization for further development of enhanced recovery was reduced because the National Energy Plan proposes to increase the prices for production using enhanced gas recovery. Since these programs are now in the demonstration phase, a lower appropriation is justified.

Nuclear Power Development

Both nationally and internationally, I find almost no responsible technical officials (outside the Administration of course) who agree with the Administration's proposal to defer nuclear fuel reprocessing and development of a liquid metal fast breeder reactor because of proliferation or safeguards concern. Responsible officials in the IAEA, in fact everywhere I went overseas, believe that with appropriate national and international agreements, these programs could be adequately safeguarded and that world needs for energy dictate aggressive development and use of nuclear energy capabilities, particularly a viable breeder reactor. As a result, other nations, notably Britain, France, W. Germany, Japan and Russia are proceeding aggressively with nuclear fuel reprocessing and breeder reactor programs.

Partly because of concern over U.S. policies, Spain, for example, is buying four large nuclear power plants, nuclear fuel and reprocessing services from non-U.S. suppliers. These contracts are probably worth several billion over the next several years.

Question. Has anyone in the Administration examined the effect of the Administration's nuclear policies on our international trade balances?

Answer. Several agencies of the Executive Branch have considered the effect on trade of the Administration's nuclear policies. It is nonetheless difficult to make any systematic estimate of the balance of trade implications of U.S. nonpoliferation policy because the nature of nuclear exports is quite complex.

A country's refusal to adhere to the system of international safeguards could result in a reduction of U.S. nuclear exports and perhaps adversely affect the balance of trade. Such situations are, however, examined on a case-by-case basis, taking into account the analyses of different agencies.

Question. What does the Administration propose to do to overcome our huge trade deficit because of oil imports?

Answer. It is important to recognize that imports of oil were not the only cause of our large 1977 trade deficit.

Another important cause of our large 1977 trade deficit is the slow economic growth of our major trading partners. The United States has achieved a vigorous recovery since the recession while other developed countries have, for various reasons, been unable to stimulate growth in their economies. As a result, demand for imports in the U.S. has increased more rapidly than demand for imports in other countries, limiting the rate of growth of U.S. exports.

Oil imports do, however, represent a special problem. As you know, the Administration has proposed a comprehensive energy program to reduce these imports by 1985. Some of the elements would have an immediate effect. For instance, the crude oil equalization tax if enacted by January 1, 1978, would have reduced consumption (and imports) by approximately 200 thousand barrels a day in 1978. By 1979 the coal conversion program would also contribute to a reduction in imports.

The Administration is taking other actions designed to increase domestic production, from conservation of energy, and hence to reduce oil imports. Efficiency standards for light trucks and vans which would reduce gasoline consumption have been proposed by the Department of Transportation. Also, the Department of Interior is trying to increase oil and gas exploration and production in offshore areas where environmental conditions permit.

Question. What impact on the economy will the Administration's energy taxes have?

Answer. The Administration has projected that the energy taxes would slightly increase the rate of inflation while having little or no effect on economic growth. In its statement on the economic impact, issues on May 16, 1977, the Administration estimated that the rate of inflation would be increased by 0.3 to 0.4 percent in 1978 and 1979 and by less than 0.2 percent thereafter. The statement also indicates that no discernable impact on economic growth could be determined. The energy taxes were the primary contributors to these impacts. In fact, if all non tax effects were excluded, the results would show roughly the same impact. It should be noted that the Administration analysis assumes that the full proceeds of the crude oil excise tax are paid back to consumers.

Question. Are the energy taxes regressive?

Answer. As far as we can determine they are not regressive. The Administration's program calls for the proceeds of the crude oil excise tax to be paid back on a per taxpayer basis. Thus, every taxpayer will receive the same dollar rebate (married taxpayers filing joint returns would each receive a rebate). Our analyses indicate that the rebate payment would be greater than the increased expenses for fuels and related products for those taxpayers earning less than $25,000/year. This does not mean, however, that every taxpayer who earned less than $25,000 would come out ahead. Those individuals who spent a much higher percentage of their budgets on fuels would be hurt. But, based on the information available to us, very few consumers fall into this category.

The other major energy tax is the industrial oil and gas use tax which is imposed on industry. We do not believe that the full amount of this tax will be passed on to consumers due to competitive conditions in the industries affected. Even if it were, however, we do not believe the price increases would be so large as to exceed the rebate.

Question. When will the Administration submit its rebate proposals and how will these offset the drag on the economy?

Answer. The Administration originally proposed that the energy legislation require the net proceeds of the crude oil tax to be paid back to taxpayers through a per capita rebate. The House bill, H.R. 8444 incorporates that provision for only calendar year 1978. The proceeds of the crude oil tax for 1979 and thereafter were to be dealt with in connection with the President's tax reform proposal. The Administration would still prefer to see the original tax credit proposal adopted for each year. However, if the proposal embodied on H.R. 8444 is adopted, supplemental recommendations will be sent to Congress as soon as possible.

Question. Is it realistic to assume that the domestic oil industry will absorb any part of these taxes, or will these taxes simply pass through to the consumers?

Answer. Domestic refineries will probably have to absorb between one half and one quarter of the crude oil tax, although there may be short periods when the tax will be fully passed on to consumers. This estimate is in accordance with the recent experience of refineries in European markets since 1973 and with the experience of U.S. refineries between 1960 and 1970 when availability of excess refining capacity resulted in gasoline price wars.

U.S. refiners have enjoyed protection from these types of problems since 1973 because the oil price controls system has given them access to crude oil at prices below the world market levels. When the crude oil equalization tax is fully imposed, they will no longer have access to crude oil at prices below those in world markets. As a result, they will be forced to compete on an equal competitive footing with foreign refiners.

Question. Do the energy taxes represent a significant inflationary threat.

Answer. No! The taxes are phased in gradually to minimize the inflationary effect. Most studies indicate that the rate of inflation will be increased by no more than 0.3 to 0.4 percent. After 1980 it is generally agreed that the inflationary effect will be less than 0.2 percent per year.

These estimates are based upon a base case which assumes that the world price of oil increases only at the rate of U.S. inflation. This asumption would be more realistic if the United States adopts the strong energy policy President Carter has recommended. Most of the reductions in imports achieved by the program are a result of the taxes. Thus it can be argued that the small increases in inflation estimated for the program overstate the true inflationary impact because, in the absence of the taxes, world oil prices would be more likely to increase at a rate in excess of inflation.

[Mr. Bevill submitted the following question which was responded to by the Office of Management and Budget:]

Question. Mr. Director, in the budget request for the Corps of Engineers Water Resources Program there are 183 projects either deleted from the budget or slowed down. I believe there are 56 on-going studies deleted and 15 advanced engineering and design projects and 46 construction projects that have been stretched out and no new starts. Could you tell us what the Administration plans to do with this Nation's Water Resources Program?

Answer. The Administration intends to support and to improve the nation's water resources program. This intention is manifested by the President's instructions to the Water Resources Council, the Council on Environmental Quality, and the Office of Management and Budget in his message of last May on the environment to review water policy and to report to him with concrete recommendations for policy coordination and reform. This review is nearing completion and the Administration anticipates that some new project starts may be recommended in conjunction with the water resources policy recommendations. In addition, other program and project recommendations in the 1979 Budget may be amended at that time.

Mr. MAHON. We will now have a brief recess and when we return, the gentleman from Mississippi will preside.

Mr. WHITTEN. The committee will come to order.
The Chair yields to Mr. Burlison of Missouri.
Mr. BURLISON. Thank you, Mr. Chairman.
I would like to join my colleagues in welcoming our distinguished witnesses.

FARM PROGRAMS

I think that I may have missed some of the important discussion on farm programs and farm problems that may have transpired earlier.

Incidentally, the House Agriculture Committee is on the floor that my office is on. The Secretary of Agriculture is there this afternoon, and it is a pretty large hearing room, but not near enough room for all the farmers to get in there. Nor enough room in the additional room hooked up for audio. There are, of course, not any here this week compared to what have been here the last 2 weeks.

I just say that in an introductory fashion to try to emhasize that if this administration is set to ignore the present agricultural climate, the feel and view of farmers in this country, this administration is in for a great reawakening in 2 years, this year and in 1980.

As Mr. Andrews reminded us at these oversight hearings last year, on August 25, 1976, Mr. Carter said, and I quote: "If I am elected, we will make sure that our support prices are at least equal to cost of production. That will not guarantee a profit. No real farmer wants that, but it will give the determined farmer a chance to stay in business."

Has the President kept that promise in his first year of this administration?

Mr. SCHULTZE. If you will recall, Mr. Burlison, the 1977 farm bill basically does that. Now it doesn't do it through support prices. It does it through target prices. Those target prices, and I see Mr. Whitten is going to make sure I am right, but those target prices fundamentally are set on cost of production plus a 7 percent allowance for management plus a 3 percent return on land.

Now the 3 percent return on land is not very much, but it wasn't meant to cover everything. It did cover cost of production plus those two items. In turn, depending on the nature of the crop, something like 80 to 90 percent of the crop, depending on the situation, will be eligible for Federal payments to make up the difference between that cost of production related price, and whatever the market price is.

In order to make sure that we don't price ourselves out of world markets we have a market price which has a support level and then a target price to make up income whenever market prices fall substantially below that target. It does not cover the full kind of return on land in the sense of an 8 or 10 percent return on land, no, but the government does provide those targets.

Mr. BURLISON. And at the same time it does not cover all the farmer produces either. It covers only his allotment. It also doesn't pay him for the set-aside or the land that is taken out of production in order to qualify for whatever target or loan prices do prevail. So, in essence it lacks a great deal providing the costs of production.

What does the President propose to do this year toward keeping that promise?

Mr. SCHULTZE. I think the main point this year is to let that bill work, that it was just enacted. In the months of December and January the first checks were sent out, $1,600,000,000, for three crops. The farm reserve program in which we are shooting for a 30 million to 35 million ton grain reserve will be operating to strengthen markets. The target price system will be providing income. Farm income has already begun to pick up.

Now it is only the last few months it has done so, but it has already begun to pick up. I say the major thing is to give a very good bill a chance to work.

Mr. BURLISON. I hope that the President won't be too inflexible in this thought that this 4-year farm bill is the be all and the end all for the farmers. I hope he will stay flexible, and I hope the Secretary of Agriculture will encourage such flexibility that will be necessary to make adjustments, and perhaps modifications in this farm program where it falls short of keeping the promise and the commitment that the President made last year and the year before.

OFF BUDGET AGENCIES

Last year, Mr. Director, your predecessor at these oversight hearings stated: "I think the sooner we can get the off-budget items back into the normal budget, the better we are."

What off-budget items have been put back into the budget for this fiscal year, 1979?

Mr. MCINTYRE. The off-budget items are displayed in the budget this year as they were last year. I might ask Bo or Dale to explain technically the way these are handled in the budget.

Mr. Cutter will do so.

Mr. BURLISON. As I understand your remarks, there really hasn't been anything done. None of those off-budget items have been put into the 1979 budget.

Mr. CUTTER. Sir, I would like to make two points. The first is that one item has been put into the 1979 budget. It is housing for the elderly. It has been moved from the off-budget accounts to the on-budget accounts. If I can make a broader point, it is that the principal off-budget agency is the Federal Financing Bank.

Mr. BURLISON. I didn't hear that.

Mr. CUTTER. The principal off-budget agency in financial terms is the Federal Financing Bank, and the difficulty with the Federal Financing Bank is not so much that it is off budget. Moving it on budget would wind up with us comparing apples and oranges in financial terms.

Mr. WHITTEN. Could you extend your remarks?

Mr. CUTTER. Surely, sir.

[The information follows:]

The outlays of the Federal Financing Bank (FFB) arise out of its purchase of guaranteed loans. Budget outlays, in contrast, generally do not arise from loan guarantees except in the case of default. The most important issue with regard to loan guarantees is how to exercise proper control. An effective procedure must include controls at the place and time that program decisions are made. Putting the Federal Financing Bank on budget would not be a means toward this end. To be effective in controlling overall credit activities, the FFB would need to make credit allocations and therefore program decisions—not a function that it can now, nor should in the future, undertake. An effective alternative procedure should also include overall ceilings on a much wider range of credit activity than is encompassed by the Federal Financing Bank. In this year's Budget we stated that the Administration would propose to the Congress a set of budget-type control procedures over Federal credit activity, including loan guarantees. These proposed controls are likely to include limitations in annual appropriation acts on the amounts of new direct loans and loan guarantees for each program. They are also likely to include overall ceilings on credit activities as part of the budget process in the executive branch, which may precipitate a request that the Congress adopt complementary procedures.

Mr. Burlison. And may I, Mr. Chairman, in conclusion ask one other question which could be answered for the record?

BACKDOOR SPENDING

Last year, in response to Chairman Mahon's expressed concern about back-door spending, the OMB Director stated: "I share your concern about back-door spending, and it is something we will look at to make every effort to deal with that problem as we go forward with the legislative situation."

The question is what progress on this issue is reflected in the 1979 budget, particularly in view of the fact that I have heard stated today that 74 percent of our budget is uncontrollable and only 67 percent of the budget, or two-thirds was the terminology used, will be acted upon by this committee.

From those facts, it necessarily follows that there is an awful lot of entitlement authority and contract authority and other back-door spending mechanisms in this budget, and I would be interested in your response to that question for the record.

Mr. McIntyre. All right, sir.

[The information referred to follows:]

The following table identifies those components of the 1979 budget authority estimate of $568.2 billion that will not require the action of the Appropriation Committees. These amounts will become available automatically through previous authorizations provided by the Congress or through the actions requested of authorizing committees in this session of Congress.

[In billions of dollars]

	Budget authority
1979 request	568.2
Less:	
Backdoor authority:	
Contract authority requested in 1979	—25.4
Authority to spend debt receipts requested in 1979	—2.5
Permanent authority (other than permanent contract authority and permanent authority to spend debt receipts included above)	—241.3
Proposed legislation not reviewed by Appropriations Committees	—4.2
Offsetting receipts	+59.8
Total requiring action by the Appropriations Committees	354.5

Mr. Whitten. In connection with the agriculture problem, when the agriculture bill was passed last October its weakness is that it targets and loan levels are based on production cost, which is argumentative. So I introduced a bill to tie the targeting of the loan level to the cost of living or the price index. As it goes up, the farmer's price level would go up with it. On this basis the income levels of farmers and others would not get wider apart but would get together.

I have met with the Secretary 2 or 3 times on this. It might not fully solve the problem, but it would be working in the right direction. I will be in communication with you.

The Chair yields to the gentleman from Pennsylvania, Mr. Coughlin.

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Chairman, Mr. Director, I am certainly very concerned, because no matter how you juggle the figures and no matter how you use the mirrors the President's programs adds up to the increasing taxes on everybody at and above the median level of income. That does not even take into account the cost of the energy program.

These are people already hard-pressed by being escalated into higher tax brackets, and I am concerned about this further increase and load on them.

I also really regret the Administration's opposition to a tuition tax credit. I understand they prefer a grant program under which the administration could decide who gets the benefit of an education, and under what circumstances. But we do grant tax treatment interest to encourage home ownership. We grant charitable deductions to encourage charity and it seems to me education is an equally laudable end. I would hope that at least we could consider giving that little bit of relief to people in the middle income area at the time of greatest financial stress.

URBAN DEVELOPMENT PROGRAMS

There are two questions I want to pose as the ranking minority member of the HUD Subcommittee, one is a follow-up on Mr. Miller's question concerning the urban policy statement, and the cost of that.

The State of the Union message, as well as the new fiscal 1979 budget, have no money in there as far as I know, except for a $3 billion contingency.

Am I correct, Mr. Director?

Mr. McINTYRE. That is not entirely correct. Let me see if I can explain that very briefly.

The urban policy statement has not been completed. It will be completed and forwarded to the Congress by the middle of March. We have, however, some recommendations in the budget for additional expenditures that we feel would be a part of any type of urban initiative that we would recommend.

Mr. COUGHLIN. Is that out of the $3 billion?

Mr. McINTYRE. No, that is not correct. That is part of it.

Mr. COUGHLIN. What is it?

Mr. McINTYRE. Let me name 1 or 2 items that we would consider.

First of all, we have increased the funding for the community development block grant program, which obviously is a program that is important to urban areas. We have also established a $400 million private jobs initiative, which will be targeted to minority and youth unemployed persons, which are primarily located in urban areas.

We have increased the EDA funding, so that it can provide some specific assistance in distressed cities.

Mr. COUGHLIN. Let me ask this——

Mr. McINTYRE. We do have to fund any additional proposals that might come forward. The contingency allowance would cover a number of items, a portion of which could be the urban policy recommendations that will be submitted in March.

Mr. COUGHLIN. Let me ask specifically, would you expect a supplemental appropriation request to come up in connection with the urban policy statement?

Mr. MCINTYRE. It would depend on whether the amount in the contingency was sufficient to cover any additional recommendations over and above amounts that would be used for other purposes.

For example, in some of the education programs we may have to use some of the contingency fund to do some of the followup recommendations in that area. But a portion of that certainly could be and would be used for the urban initiative. If that is not available and if we feel like there are additional recommendations, there is always that possibility.

Mr. COUGHLIN. My time is limited, so could I address a question, Mr. Secretary, to you?

There has been a great deal of speculation that part of the new urban policy will include some Federal guarantees of long-term bonds in the cities, and cities particularly in New York want to sell.

Can I get your thinking on this? Is this a good idea, and particularly in view of the fact that the cities are really the creatures of the States and not the Federal Government?

Secretary BLUMENTHAL. We have not yet determined what our position is on the New York City problem and proposals, including in particular the proposal that has been made by the city for a Federal guarantee of long-term debt.

My own personal view would be that the responsibility for cities rests with the cities themselves and with the States in which they are located, and only residually, in extreme circumstances and where there are grave emergencies, with the Federal Government.

I don't really favor tying them on a long-term basis to the Federal Government, and I get the impression there is considerable opposition to that in the Congress as well.

Mr. COUGHLIN. You feel it will be a dangerous precedent to set to have long term guarantees for and on city obligations?

Secretary BLUMENTHAL. I think there would have to be very special circumstances that would make that a desirable way to deal with the problems. We need to provide assistance where we can, but I don't think a 20-year program, for example, is the way to do it.

Mr. COUGHLIN. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. WHITTEN. The Chair yields to the gentlelady from California, Mrs. Burke.

Mrs. BURKE. Thank you very much.

I would like to join my colleagues in welcoming you before the committee.

I would like to ask one additional question on this whole issue of the cities.

COUNTERCYCLICAL REVENUE SHARING

In response to Mr. Addabbo asking about the application of resources for the city, I think you said countercyclical assistance was being continued. However, I noticed that in the budget request countercyclical assistance is down from $1.6 billion to a little bit over $1 billion. What is the Administration's policy on the countercyclical assistance program?

Moving over to another aspect of the jobs related issue, the 1978 supplemental which provided the moneys for the youth jobs program there is no provision for an increase for minimum wage, which would mean it would bring down the job slots from approximately 1 million to 820,000. What are the Administration's intentions concerning this problem?

Secretary BLUMENTHAL. Perhaps I should respond to the question on countercyclical aid and policy in this regard.

The reduction to about a billion dollars represents our estimate of the cost, given the fact that there is an improvement in the employment situation, and therefore fewer localities that will be eligible for it, since countercyclical revenue sharing is tied to the rate of unemployment in particular areas. I did mention earlier and that needs to be underlined, that we are taking a look at this program in order to see how it has been functioning, how we can target it better and how it might be changed or improved. We have not yet developed a position on that, but we will do so.

We have included in the budget, however, the continuation based on the existing formula, but we are studying that formula.

YOUTH EMPLOYMENT

Mrs. BURKE. I see. On the youth jobs, will they be funded at a full rate of 1 million jobs or will it be reduced?

Mr. MCINTYRE. Yes, they will be continued at a level of a million jobs. Let me try to go over the youth employment program briefly, in some general terms.

First, we are recommending major increases in the programs stressing employment of unemployed youth. Specifically the summer youth programs, Job Corps, and the Youth Employment and Demonstration Projects. I will give you about a 3 year spread—from $800 million in 1977 to $1.6 billion in 1978, and increasing to $2.3 billion in 1979. Summer youth employment would be continued at 1 million jobs. The Job Corps expansion will continue with an average enrollment double that of 1977, by the middle of 1979. So, we are increasing the jobs programs and if you desire any further elaboration we will give you a breakout.

[The information follows:]

EMPLOYMENT PROGRAMS FOR UNEMPLOYED YOUTH

[Dollar amounts in millions]

	Outlays			New enrollees		
	1977	1978	1979	1977	1978	1979
Summer youth	$575.0	$672.0	$740.2	1,000	1,020	1,000
Job Corps	201.6	274.0	375.5	46	36	48
Youth Employment and Demonstration Projects Act		619.6	1,186.2		342	256
Total	776.6	1,565.6	2,301.9	1,046	1,398	1,304

Mrs. BURKE. I see. There will probably be a supplemental to bring that up to the 1 million jobs; is that right, in the youth program?

Mr. MCINTYRE. I am referring to the 1979 budget.

Mrs. BURKE. All right. And for 1978 it will also be 1 million jobs?

Mr. MCINTYRE. I don't recall exactly where we stand. We did recommend an additional $500 million in the supplemental sent up in the fall to supplement the youth employment programs.

[Additional information follows:]

This $500 million 1978 supplemental was all requested for the Youth Employment and Demonstration Projects Act programs, but the Congress denied the request. No further funds were requested for 1978 in the President's 1979 budget because, by the time it could be passed, it could not be easily or effectively spent in 1978.

The President's budget does contain enough funding for a million summer jobs in 1978 and 1979 without an additional 1978 supplemental. Outlay estimates do reflect minimum wage increases.

Mr. MCINTYRE. I would have to find out the exact number of jobs.

Mrs. BURKE. But your goal is 1 million jobs for fiscal year 1979 and fiscal year 1978?

Mr. MCINTYRE. Fiscal year 1979, that is correct.

COMMUNITY SERVICES ADMINISTRATION

Mrs. BURKE. One other thing. I noticed that the Community Services Administration budget request has been cut substantially. In view of the emphasis on providing resources for areas of high unemployment, and this includes certainly many of those poverty kinds of programs, what were the reasons for cutting CSA so drastically?

Mr. MCINTYRE. Let me ask Ms. Woolsey, who is responsible for that agency, to speak to that question, please.

Ms. WOOLSEY. There are several changes in the budget for the Community Services Administration. There are two major decreases which are apparent but not real. One is $200 million, which had been in the budget in 1977 to meet fuel emergencies and for which the Administration has also proposed funding in 1978. It is in the supplemental now pending before the Congress.

Second, we have proposed new permanent authority in HEW under Emergency Assistance for energy and other crises, and, therefore, it is not showing up in the CSA budget for 1979. In addition, weatherization activities have been transferred to the Department of Energy, although they will still be operated through local community action projects. That also does not show up in the CSA budget.

Finally, there is a small decrease in the CSA budget resulting from a reduction in the community economic development portion, from about $48 million to about $26 million. The reason for this is that we are attempting to tighten up the management of that particular program, which has not had an appreciable impact on employment, attraction of private capital, or promotion of profitable private businesses, although I think we will agree the concept on which it is based can be a promising one.

We are also attempting to look at that as a possible foundation for some more work in the urban policy. But the history of that program, as a number of studies have shown, has been very spotty, and we are trying to tighten down so only the best of the community development corporations operate.

Mrs. BURKE. Economic development was really the area I was questioning.

CIVIL RIGHTS ENFORCEMENT

One final question: I notice an increase in the budget of 37 percent in civil rights activities and enforcement. I also notice there is an OMB task force on civil rights reorganization. Do you anticipate this reorganization will be completed in the near future? Is this 37 percent increase to carry out that reorganization? I notice that the reorganization will come in segments. Could you give us some information on that?

Mr. McINTYRE. Yes, I will be glad to.

Mr. MAHON. Supply that for the record.

Mr. McINTYRE. I'll be glad to do that.

[The information follows:]

Much of the 37 percent increase in civil rights enforcement is connected with an internal reorganization now underway in the Equal Employment Opportunity Commission to speed up settlement of charges of discrimination and to attack the problem of discrimination in employment much more effectively. The task force on civil rights organization is primarily concerned with the appropriate assignment of responsibility between agencies. The reorganization they recommend will transfer activities from one agency to another, but would not themselves require additional appropriations.

Mr. MAHON. We will begin the hearing tomorrow with a statement by Dr. Schultze on the economic situation. I hope we can complete the interrogation, complete recognizing all Members present before we adjourn for the evening.

Is that all right with you, Mr. Secretary?

Secretary BLUMENTHAL. I can certainly stay until 4:30 or 5:00 o'clock.

Mr. MAHON. The gentleman from Pennsylvania, Mr. Murtha.

Mr. MURTHA. Thank you, Mr. Chairman.

OIL IMPORTS

Mr. Secretary, when the Deputy Secretary of Energy was before the Interior Subcommittee he said that there was a hemorrhage of money flowing out of this country due to the import of oil, and attributed the words using, the "hemorrhage" to you. He also went into a long explanation of the problem and that fact it was going to get worse, it wasn't going to get better, and he believes in five years when the Russians get into the market, the increase in competition, that the lines will close, and we won't be able to bear the economic burden of the imported oil at that time.

Do you agree with that statement, Mr. Secretary?

Secretary BLUMENTHAL. I certainly agree fully with the statement that the $45 billion cost to the United States of importing oil is far too high, in particular because it has increased very rapidly in the last two or three years. I agree with the Deputy Secretary that it, therefore, is very important, to do all we can through the energy legislation and by all other means to try to keep that number down in the future so that it is reduced, or at any rate doesn't increase, from the present level.

I further understand from the studies to which you refer, that the situation is going to get worse in the early or middle 1980's unless we take care of ourselves, because at that point demand and supply conditions in the world generally will again turn unfavorable.

At the moment they are relatively less unfavorable. That is, demand has not been increasing rapidly, and supply is relatively good, but that will change again after 1980 by virtue of what may happen in the Soviet Union and elsewhere. As a matter of fact, down the road there would be a problem really of whether or not the oil exporting countries have the capacity to keep up with this demand, and that may simply mean prices will begin to rise substantially beginning in 1979 and 1980. So it is urgent we take some action.

COSTS OF IMPORTED OIL

Mr. MURTHA. The figure he used was a 5 million barrel a day surplus at the present time; that is, capacity is not necessarily production, and he feels by 1982 in five or six years from now there will be no surplus; there will be a substantial increase in price, and it could go to $30 a barrel in today's dollars.

Do you agree with that assessment of the situation?

Secretary BLUMENTHAL. I would not be quite so bold as to speculate exactly what the price would be in 1982. But certainly it would be a substantial increase, I agree with that.

Mr. MURTHA. What if it went to $30 a barrel? What would happen and if we continue to increase use, well, even if it stayed at the level it is today, what would that mean to our economy?

Secretary BLUMENTHAL. Since the price right now is more like $11 a barrel, it would, in fact mean a tripling if we import at the same volume. It would mean in today's dollars the cost of imports would be not $45 billion but well over $100 billion, and that would be just a very, very difficult problem.

I would say it would be a difficult problem for us, but an intolerable problem as well for many other countries, including developing countries around the world.

Mr. MURTHA. You are saying it would not be intolerable for the United States?

Secretary BLUMENTHAL. Oh, I think if the price were truly to go to that level, it would be an intolerable situation for everybody. I don't really think we can assess accurately whether or not the price increase is going to be that substantial by the early 1980's.

Mr. MURTHA. Listening to what I feel is one of the foremost experts in the country on energy and taking his prediction as a good possibility if it goes to $30 a barrel, would you say the condition would be disastrous to our economy?

Secretary BLUMENTHAL. It would be very serious.

Mr. MURTHA. And we don't seem to reduce energy use, that's what concerns me, Mr. Secretary. I know the President has stressed energy conservation and we have stressed increased production, and nothing seems to be happening. Yet when I hear a prediction it would be disastrous to increase the price of oil to $30 a barrel, it's possible, or our foremost expert suggest this, and yet we don't seem to be able to cope with it.

Do you have any suggestions about what more can be done?

Secretary BLUMENTHAL. I think that it's clearly on the record that the President feels as strongly about this as you seem to. I think there is no doubt the first step that has to be taken is for the Congress to pass the legislation that he has proposed, and then to go on from there. I would think that should be the first and not the last step. Additional measures will have to be taken thereafter to produce more in this country, to conserve more in this country, and to reduce our reliance on imported oil, and we will have to do so quickly.

Mr. MURTHA. Thank you.

Mr. MAHON. The gentleman from Florida, Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman.

FOREIGN TRADE DEFICITS

Mr. Secretary, you talked about the concern over the balance of trade deficit and the President in his state of the Union made a rather direct comment on the problem that it would cause us.

One of the people who works for you and is really the main witness for your agency before the subcommittee that I serve on, Foreign Operations, had a little different view of it, and I would like to read his comment to you and ask if you would respond to the question that I have as to who is right, you or he.

This is in May of 1977, and the story starts out by saying: "U.S. imports may exceed exports by more than 20 billion this year"—of course, that was a very low estimate at that time, "a record trade deficit, but there is nothing to worry about, a key official of the Administration said today. Indeed, the huge U.S. deficit is helping to stabilize the world economy. C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs said."

Later on in the story he is quoted as saying:

> The United States is strong in both areas, so it can easily absorb big trade deficits, Bergsten said, and the deficits are making a major contribution to the stability of the international monetary system.

I don't think this statement is consistent with the position you have taken and that the President has stated. But, the question I have is his:

If the deficit is really brought about by the importation of huge amounts of oil, and I think you said earlier today that without the oil imports we would actually have a trade surplus, so then, in fact, the deficit is going to OPEC countries. Now, if the deficit is to help stabilize the world economy, my question is, why in the world are we having to stabilize the economy of Saudi Arabia and Venezuela, two of the large producers of oil who supply the United States?

Secretary BLUMENTHAL. In the first place, Mr. Young, I believe that if Mr. Bergsten were here now he would tell you that he agrees that what has been happening with our trade deficit is, indeed serious, that it does require serious attention, and that we must make every effort to correct it.

I don't know exactly what the date was of that statement, but from the numbers that you use I suspect it was very early in the year when very few people realized the direction and the speed with which that situation was deteriorating. Clearly, if he were to hold those views today he would be in conflict with mine, and I would have to have a serious word with him. But, I know from talking to him that those are not his views today, because we know more in January of 1978 than we did in the early months of 1977.

As to the deficit that exists at the present time, it is true that a good portion of the surplus is accounted for by the OPEC countries. It is equally true that there are some other countries, for example, Japan, that have been runnning a rather large surplus, and even some of the European countries have been in a surplus position. That really makes matters worse.

The reason is that there has been a slack in economic growth in those countries. Really, our deficit to some extent is the result of our economic success, believe it or not. We are running a larger deficit because we have grown faster than our customer countries, if I can call them that. As they catch up in Europe and in the developing countries, they will buy more from us.

That is why economic assistance, for example, and joint efforts to help these countries carry out their stabilization programs, are very important. These efforts translate themselves into more purchases of goods and services from the United States down the road.

The surplus that exists in the world is not just in the OPEC countries; it is in many of the countries to whom we sell, in whom we have a vital interest, and who are our friends. It is therefore important that we work with them.

Clearly we are not there to stabilize; we don't need to stabilize the economies of Saudi Arabia, for example.

Mr. YOUNG. That was exactly my point. And I am happy to hear that your position prevailed over that which Mr. Bergsten held on May 26.

Secretary BLUMENTHAL. I would feel rather badly if that weren't the case.

INTERNATIONAL FINANCIAL INSTITUTIONS

Mr. YOUNG. Another subject that my subcommittee discusses with your agency is the question of the International Financial Institutions, and the Chairman of that subcommittee, Dr. Long, discussed at length with you today some of his concerns. I almost thought he was trying to get my job from the way he was attacking this year's budget on the IFI's.

Could you tell me what we in the Congress can do, or what you as the Secretary of the Treasury will be willing to do to help us get some answers to some questions about what happens to our money in the IFI's?

Why in the world do they have to be so secretive, why do they have to cover information under the classification of confidential and strictly confidently for things like even salaries of employees? Why is it we have such a hard time getting information from these international financial institutions?

Secretary BLUMENTHAL. Mr. Young, in my judgment there is no reason in the world why 99 percent of the information, certainly information on the administration and on the salaries of these organizations, should not be in the public domain. I am careful there because there may occasionally be some particular matter, given the fact it is an international organization, that cannot be made public. As a matter of fact, Congress is pressing on this point, and it is not only well taken but very necessary. I assure you that the President and I share the view on the need for getting publicity on this issue.

As a matter of fact, my colleagues had a meeting yesterday with the president of one of the major lending banks to cover just this point on the availability of information. I think we can insist on it. I think we can make considerable progress, and working with you as we have, I think we will.

Mr. YOUNG. Mr. Secretary, it's your agency that deals directly on the part of our Government with the international financial institutions. A high ranking official in the State Department said last year that it was his belief, and I assume he was speaking for the Administration, that the World Bank should become the catalyst for all international finance. Do you agree with that?

Secretary BLUMENTHAL. I wouldn't go so far as say it is the catalyst for all international finance. Recognizing that there are particular decisions that we don't agree with, that we vote against or that we lobby against—but that is the way an international organization necessarily has to work—I do believe that on balance the World Bank is making a very valuable contribution in many parts of the world.

I think the policy of this Government ought to be to work both through the multilateral organizations and bilaterally. We do have important interests in certain countries, in certain parts of the world, that are better handled bilaterally.

Importantly, however, we get more leverage if we work through the multilateral organizations. As far as I am concerned we should go on both tracks at the same time, but not cut out the other way of providing assistance where it seems best.

Mr. YOUNG. Mr. Secretary, thank you.

Mr. MAHON. Thank you.

The gentleman from Massachusetts, Mr. Early.

Mr. EARLY. Thank you, Mr. Chairman.

I welcome both the Secretary and the Chairman.

MEDICAL CARE COSTS

Mr. Schultze, the medical care price index for the past several years has been running considerably higher than the consumer price index, somewhere in the area of 12 to 14 percent. I would like to know what inflation rate your budget assumes for the medicaid and medicare programs in 1979, and what plans you have to bring the Medicare price index closer in line with the consumer price index?

Mr. SCHULTZE. The first thing is the President's Hospital Cost Containment program, which is before the Congress. It would make the first step towards taking hospitals costs, which have been a very, very large part of inflation in the medical care price index, and bringing them down. You cannot do it overnight. Therefore the objective in the first year is not to get it down to the consumer price index rate, but to get it down, I believe, to 9 percent. That is now before the Congress, and I would urge the Congress' favorable action on it.

With respect to the specific numbers used in the budget for projecting medicare, medicaid and the other programs, Ms. Woosley?

Ms. WOOSLEY. I can only add that all of the numbers in the budget assume passage of the hospital cost containment bill, which would increasingly narrow the gap between the CPI and the health inflation index, and it would, I believe, be very close to the regular CPI, in the out years. But I don't have the figures. We can get them.

Mr. EARLY. I thought that in earlier testimony numbers weren't projected for pending legislation?

Ms. WOOSLEY. In a number of cases the numbers are projected on the basis of the President's policy, if there has been no absolute definition in the Congress of what is going to be done.

Mr. EARLY. Will you supply for the record what you think the inflation rate for those programs will be?

Ms. WOOSLEY. Certainly.

[The information follows:]

The table below displays the inflation rate in the Medicare and Medicaid programs with and without hospital cost containment.

	1979	1980	1981	1982	1983
Medicare and medicaid:					
Percentage increases under current law	15.5	15.0	14.0	13.1	12.8
Percentage increases with hospital cost containment	13.6	12.0	10.9	9.8	9.7
Federal savings from hospital cost containment (millions)	$730	$2,031	$3,760	$5,995	$8,535

Mr. EARLY. I would like to direct another question to you, if I may.

ZBB AND HEALTH PROGRAMS

When I look at the budget request for discretionary health programs at HEW, I see only small increases in comparison to other discretionary programs in the Government. My specific question is such: is this health budget the result of the zero base budgeting system, and if so, what conclusion can we draw from that ZBB?

Ms. WOOSLEY. All of our budget also is a result of the zero based system, which we initiated this year. There are several things happening in the discretionary health services budget.

One is that there was very close constraint kept because we are planning on proposing national health insurance this year. We feel we want any major changes in the health budget to complement the national health insurance policy which we are developing and will propose to the Congress later this year.

Secondly, there are some decreases and some increase in these discretionary funds which add up to a smaller increase than if one looks at the specific items. The decreases include some of the health manpower increases, including things like the National Health Service Corps and Community Health Centers.

Mr. EARLY. So this is happening in connection with national health insurance? It's not that ZBB suggests that the health progams are inefficient or unproductive, and therefore not deserving of additional funds?

Ms. WOOSLEY. We believe some of the health programs are less efficient than others, and thus you will see drops in those; some are better than others, and you will see corresponding increases in those.

CETA PROGRAMS

Mr. EARLY. The President, in his message also suggested a substantial increase in basic research programs.

My final question is, does the Administration have any plans to phase out public-service CETA programs, or will that be an ongoing program?

Secretary BLUMENTHAL. That is an ongoing program. There are no plans to phase it out.

Ms. WOOSLEY. Maybe I could clarify that a bit. As you know, the CETA bill is up for reauthorization this year, and we are planning to present new legislation in the early spring. That will include a trigger which will bring down the number of CETA public service jobs as the unemployment rate goes down, and also allow triggering them back up if unemployment goes back up.

Mr. EARLY. Thank you. I have other questions, Mr. Chairman, but will supply them for the record.

Mr. MAHON. All right.

The gentleman from Washington, Mr. Dicks.

ENERGY POLICY

Mr. DICKS. One of the things I am concerned about is the energy problem and the serious issues we have discussed. But there doesn't seem to be very much in this budget in terms of energy production. There are, as I understand it, substantial cuts in the solar program, there are substantial cuts in alternatives to the nuclear fuel cycle. We see there is a cut in the nuclear waste management program, and it just seems to me that is the wrong direction at a time when we have serious energy problems in this country.

We ought to be aggressively addressing those questions. I just would like to ask what the policy is. Are we going to try to do the whole thing on the basis of conservation?

Mr. CUTTER. No, sir. As a matter of fact, the energy R&D portion of energy supply—I think you were looking perhaps at the numbers on page 104—shows a very slight decline. But the reason for that is——

Mr. DICKS. That is exactly what I was trying to get to.

BUDGET INCREASES FOR ENERGY SUPPLY

Mr. CUTTER. I am going to try to respond. There are really two reasons:

One, we show some increases in planned receipts, and the second is the President's reduction in certain specific nuclear areas—the Clinch River Breeder Reactor and the general breeder reactor areas where there are serious proliferation concerns. Except for those two areas, there are increases throughout the rest of the energy supply budget.

With respect to a specific that you named, the solar areas, we have thought quite carefully about that area, and have increased significantly the overall solar development budget. The only decrease in the solar budget was for solar heating demonstrations. Since the Federal Government has financed some 19,000 demonstrations of that technology and the technology seems to be working and commercially feasible, we believe that what is needed for that technology is the proposed incentives, not more demonstrations.

[The information follows:]

The Research and Development (R&D) program for solar development is increased above what has been appropriated to date for fiscal year 1978, and we expect the proposed solar tax credits to provide a major thrust to help get solar going now. The R&D effort we expect will be further aided by the pending 1978 supplemental for the National Energy Plan (NEP) solar program, especially for photovoltaics.

The incentives for development of solar technology proposed by the Administration represent an important part of an overall solar development package, to get solar going now, rather than just relying on bigger R&D budgets to work on refining and demonstrating solar for use "someday."

ALTERNATIVE ENERGY SOURCES

Mr. DICKS. We also see problems in coal liquifaction and other areas where we could try to develop alternatives to the use of liquid energy sources. What I am trying to get at, and not in the specific sence but the general sense, is that it seems to me the budget doesn't do very much on the production side, which I think with the problems of dependence on foreign oil, that we ought to be doing a heck of a lot more in trying to stimulate alternative energy sources and more production out of these alternative energy sources.

I just don't see that in the budget, and I just hope maybe the Congress is going to have to take a look at those areas, working with the Office of Management and Budget, and see if we haven't overlooked that.

IMPOUNDMENT CONTROL ACT

The second issue I want to raise quickly, something I am very concerned about, and that is the integrity of the Budget Control and Impoundment Act. I was concerned last year and I want to raise this issue, that on a number of issues, we can get into them later on, that after rescission bills were sent to the Congress and they were not acted on affirmatively within 45 days, that we saw that the Administration did not go ahead and start spending money.

I have noted a number of areas throughout the Defense Departmen particularly, where there has been, I think, an abuse of the Impoundment Control Act. I just want to know is it the policy of the Carter Administration to try and uphold that Act and if so, are you going to try to deal with it a little more straightforwardly this year?

I can understand some problems in the first year dealing with the rescission bills, but it seems to me after the 45-day run, unless you send up another rescission bill, you have to go ahead and spend that money, and there were a number of abuses of that this year that I am quite concerned about.

Mr. CUTTER. I am not aware of specific circumstances that you name, but the general policy is fully to obey the law, to follow the dictates of the law.

Mr. DICKS. Good, I am glad we have that on the record.

I have no further questions, Mr. Chairman.

TOTAL ENERGY R. & D.

Mr. MAHON. With respect to questions involving energy, I have the figure at the top of my head that maybe we provided last year about $3 billion for research and development in all phases of energy.

I am not sure that this figure is correct or what it covers. Now, are you saying that the present budget for 1979 is less than the $3 billion I am talking about, or am I presenting an improper figure? I am talking about all of the energy research, nuclear, solar, coal, all of that.

Mr. CUTTER. Sir, with the exception of the nuclear area, where there are the two concerns that I named, every other area of energy research and development has increased.

Mr. MAHON. What is the total amount in the current budget for energy research and development? You can supply that for the record.

Mr. CUTTER. Yes, sir. I can't add up the total at the moment.

[The information follows:]

Total energy research and development outlays for 1979 are estimated at $3,341 million, compared with $3,049 million in 1978. This funding includes energy supply research, development and demonstration activities and energy conservation technology development activities.

Mr. MAHON. All right.

The gentleman from Ohio, Mr. Regula.

Mr. REGULA. Thank you, Mr. Chairman.

STATE AND LOCAL FINANCES

Chairman Schultze, a couple of questions. I notice in your testimony you mention surpluses carried by State and local governments as being a drag on economic activity. Would you, therefore, favor a phasing out of revenue sharing, since they seem to be having surpluses and we seem to be having deficits?

Mr. SCHULTZE. Not necessarily, Mr. Regula. Obviously, when it comes around to being renewed we will want to look at the fiscal situation of States and local governments. The $30 billion odd surplus runs in the aggregate by State and local governments. About $16 or $17 billion of that was the accumulation of pension funds for State and local employees; there are 13 million of them.

Mr. REGULA. Doesn't that get pumped into capital formation, meaning, in effect, that it really wouldn't be a drag on the economy?

Mr. SCHULTZE. Yes, sir, it would, in the sense that what it means is taxes are levied and expenditures are not put back in.

Mr. REGULA. What do they do with the money?

Mr. SCHULTZE. Eventually invest it in Treasury securities very heavily, but some others also.

Mr. REGULA. Somebody ultimately spends it then, the investees? Would it not be spent?

Mr. SCHULTZE. In the sense that it means that funds are financed there rather than from other places, that is true. If they weren't doing it, it would have to be financed elsewhere. However, in terms of the overall economy, it has the same impact as a Federal surplus would in the sense that your taxes are substantially higher than what you are pumping back by way of expenditures.

Also, it is likely, Mr. Regula, that as the next two or three years go by, the operating part of that surplus will decline.

Mr. REGULA. You mention progress against inflation is absolutely essential to reducing unemployment. I agree with that.

Do you feel the budget presented achieves that objective?

Mr. SCHULTZE. I do, sir. That budget has an increase in real terms between one and two percent. It is growing significantly less than the national economy, reducing the share of Federal expenditures in the national economy. I think that works in the right direction, yes, sir.

TAX STRUCTURE

Mr. REGULA. You have made many statements about the tax reduction plan, and I agree with much of what you said. Would you favor an indexing of the tax structure?

Mr. SCHULTZE. No, sir, I wouldn't for two reasons. The first reason is, in an era on inflation, the fact that when you do get more inflation the Federal budget automatically tends to generate more revenues may not be a bad thing. It gives the Congress and Administration a chance to see whether they want to let that happen in order to damp down excessive demands without having actually to pass a tax increase.

That may be useful, not at the moment, but in later years that might bo very useful.

Number two is you begin without saying that it isn't something you would ever want to consider, but as you begin to go through the complexities of really indexing the system, it's easy to do the simple things. You can index exemptions, you can index the bracket rates, but when you get around to the incredible complexity of indexing everything in the business tax area, all of the various kinds of deductions and exemptions, it really becomes a mess. This is not to say it might not be ultimately possible, but it's a lot easier to talk about than to do. You can end up indexing improperly by having some major inequities in the systems where some people in some circumstances get indexed and others do not.

Mr. REGULA. The chart prepared by the administration indicates that even with a tax cut, there wil be a growing share of the Gross National Product committed to taxes.

I do have one question. It's my understanding that this year for the first time, in order to make the numbers look better, you included untaxed transfer payments, such as welfare, as being part of personal income. By including those, as contrasted to the omission of them in the past, it appears that the amount taken out for taxes would be a lesser share of the total personal income.

That would be a substantial difference if this were true.

Mr. SCHULTZE. No, sir. The term, the number concepts, statistics on personal income——

Mr. REGULA. You are saying identical?

Mr. SCHULTZE. Are identical. They are essentially taken from Department of Commerce and are consistent all the way back. If you will notice on the chart where that takes off and starts to increase again is after 1979. Obviously, when we get out to 1979 and 1980 and you look at the situation again, you may want to do something about it.

Mr. REGULA. You index by tax cuts, in effect.

Mr. Secretary, I applaud your statement in your testimony where you mention that the strength and vitality of our private sector must be freed from the burden of excessive taxation and unnecessary regulation. I couldn't agree more.

In light of that, would you favor the establishment of a whole new agency, namely, the Consumer Protection Agency, recognizing we have this in many other agencies, and it's a proliferation of bureaucracy and regulations?

Secretary BLUMENTHAL. I would look carefully at any new agency or any new bureaucracy that is proposed. As a matter of fact, I think we ought to look as carefully as we can at all existing organizations and regulations. We are committed to doing more in that area as part of the anti-inflation program. That can do a great deal to hold down inflation and provide the opportunity for the private sector to do its job.

Mr. REGULA. You go on to say the rise in Government spending must be restrained, and, of course, I couldn't agree more. With that, restraint, though, you say total Government spending must be redirected to focus on the major social and economic problems of our society.

What exactly does this mean, and how do you envision it taking place?

Secretary BLUMENTHAL. That means, for example, that we don't use the tax system indiscriminately to give out credits to anyone who happens to fall in a broad category, but that we try to direct our resources as specifically as possible to those sectors of the economy where there is a real need.

Mr. REGULA. Do you plan to examine existing programs to see if they are cost efficient as part of this?

Secretary BLUMENTHAL. We do that, and we resist the many requests and ideas that frequently emanate from the Congress for more tax credits directed at broad groups such as tuition credits, for example.

Mr. MAHON. The gentleman from Illinois, Mr. O'Brien.

SIZE OF BUDGET DEFICIT

Mr. O'BRIEN. Mr. Secretary and gentlemen, I have an interest in the deficit itself, Mr. Secretary. If the deficit you presented here were not $60 billion but were 90 or 10, I would assume that money would go out of savings and loans, banks, and into short term Treasury notes, and housing would be hurt. Would you subscribe to that type of deficit?

Secretary BLUMENTHAL. I certainly prefer a $60 billion to a $90 billion, and I prefer a $30 billion to a $60 billion. I think it's always important to look at a particular deficit number in relation to the other major economic statistics in the economy. Obviously, if we had a rate of unemployment at 8 percent or 9 percent and if we had real GNP growth that was more like 2 or 3 percent rather than the 4½ to 5 percent to which we are aspiring, you would have to look to Government programs to get the economy moving somewhat differently than when resources are being utilized more fully.

But I think the President's goal of eliminating the deficit as we reach a high level of economic performance is the one that we have to focus on, and evaluate deficits in that light.

Mr. O'BRIEN. If I understand what you are saying, you think it should be a $60 billion deficit now and under present conditions?

Secretary BLUMENTHAL. I think under present conditions the $60 billion deficit entailed in a $500 billion budget, and a $24.5 billion tax cut is proper. It will not be inflationary and it will allow the economy to move forward and allow us to reduce the deficit in the succeeding two years.

Mr. O'BRIEN. Let me make the assumption that the $90 billion would not suit you now, and also taking into consideration something Mr. McIntyre said about making basic assumptions that I assume are not just guesses, and your comment about best judgment in your recommendations and also taking into consideration what Miss Woolsey said, that I think you are taking into consideration the passage of the Cost Containment Act in some of your considerations.

The Budget Committee has indicated to me that Congress has increased budgets 6 percent each year for the past 10 years. Does it not seem to you that that ought to be something that you would be taking into consideration in this particular budget?

Secretary BLUMENTHAL. We can't make a budget on the assumption that Congress will do unacceptable things. We have to present the budget based on the best possible assumptions and on the President's best judgment, and then to fight to have the Congress accept it. That is really what we are doing. This is not a budget that is based on the assumption that there will be a 6 percent increase. It is based on the assumption that it is the best budget we can develop and that we can defend that judgment before the Congress.

Mr. O'BRIEN. With all due respect, Mr. Secretary, I think you are betting on the corn with regard to your agricultural program where you are assuming normal weather; with regard to your forest management you are assuming fewer fires, and I think if you are willing to bet on acts of God, you ought to be able to bet on acts of Congress after a ten-year history of 6 percent increases.

That is all I have.

Mr. MAHON. The gentlelady from Nebraska, Mrs. Smith.

Mrs. SMITH. Thank you, Mr. Chairman.

Mr. Secretary, I have questions in four areas, and I would like to put all of them to you, so if my time runs out perhaps you will answer them in the record.

FARM PROGRAMS

I, too, come from an agricultural district, and I know how desperate the plight of agriculture is, so I am very much concerned when I find on page 130 in the budget book the nice words, "National need and improved agriculture", and I sure agree with that. And then I look down and see where you have cut the budget for next year by 40 percent, and I hear comment that this is on weather predictions.

I have been a farmer all of my life, and I would say that is a very debatable ground.

I also would like to know if this indicates that you have no intention of using the options that are available to the Administration under the current law to improve the situation of agriculture. Many of us have urged the President to use these options, and a 40 percent cut in the budget concerns me very much.

Also, in regard to agriculture, I am concerned about the fact that you have deleted 1.8 billion from farm related disaster appropriations, and I wonder on what basis you could predict the fact that we would not be needing the disaster money next year?

Now, the second area, I note on page 472, I believe I count correctly, the beginning of 22 new social welfare programs, largely, and the costs are not totalled up for these programs, and I wonder if you could give me the information first, how much all of these programs would cost the first year, and secondly, what would be the cost of these programs for the next five years.

Then, my third point, could you explain for me why when the President has kind words to say about business in his State of the Union Message and points out that this is a key place to reduce unemployment, that you reduce the Small Business Administration loan program by $771 million. That is one of the most effective programs to encourage business, as it operates in my area.

The fourth point I have, I am very much concerned about the fact that you are recommending reducing the Veterans benefits by $983 million.

Now, just one more thought. I am hoping that if you do not get to answer the first point in regard to agriculture today, that I may do, Mr. Chairman, what my good colleague, Mr. Whitten, did, and ask we have an answer in ten days, because our farmers are very anxious to know why the Government appropriation is being reduced by 40 percent for next year for agriculture.

Thank you very much. That is all I had. If there is time to answer, fine, and if there is not, that will be fine.

FISCAL DRAG

Mr. MAHON. I would like a further response Mr. Schultze, to the proposition that it was undesirable for the States to have a surplus, and this was a drag on the economy, and that this was to be deplored. Did I understand any one to say that?

Mr. SCHULTZE. No, sir. What I said was that in determining what the Federal budgetary position ought to be, we had to take into account what the State and local budgets were. We couldn't ignore the fact they were running a large surplus, which does offset in terms of its economic impact, the Federal deficit. That is my only point, not that for any given State or localities it is undesirable. That is their business.

Mr. MAHON. Would the economic community feel that it would be very damaging to the country for it to try to move toward balancing the budget and perhaps toward paying off some of the national debt?

Would that be more or less a national disaster? I don't think we are confronted with that possibility, but would that be a dangerous and serious thing?

Mr. SCHULTZE. Under the proper economic circumstances, it surely would not be. I think, Mr. Chairman, that the budgetary philosophy that the President has expressed advocates moving to a balanced budget as the economy develops, and as we move towards high unemployment. I have been asked about this year's 60 some billion deficit. There is a clear choice. We could have had it a lot lower by not reducing taxes, at the cost of significantly slower growth, significantly less income for consumers, workers and farmers. This year the decision was made in the economic circumstances to carry that deficit.

If the economy picks up in 1980 and 1981 and 1982, we will be wanting to cut the deficit and balance the budget, but how fast you do that and what the magnitude is depends on what is happening to our farmers, to our workers, to our consumers, to business and the like.

Mr. MAHON. Mr. Director, Mr. Chairman, in the earlier part or history of our Nation we had an agricultural economy more or less, and people tended to be very frugal and tried to live within their means, and they didn't spends a dollar in many instances unless they just had to, and the economy was an important word in every household. But we seemed to have moved away from that, and I assume that your position is that we need to create wealth, and we need to spend the money we make and keep the economy going, is that more or less the philosophy that you think we need to follow?

Mr. SCHULTZE. Mr. Chairman, I guess, if I can add, all within reason. That is, yes, sir, you are right, but it surely is something that has to be controlled and moderated in terms of where our economy stands.

Mr. MAHON. You have been most helpful to us today. You have been very responsive and we appreciate it.

As I said earlier, we would like to get this hearing printed as soon as reasonably possible. We will try to get the transcript to you as soon as possible, and tomorrow we will convene at ten o'clock.

Dr. Schultze, we will have an opening statement from you as we begin, and I understand the Director of the budget will be back with us again.

Tomorrow afternoon at 2:30 we will discuss the International Monetary Fund and related subjects.

Thank you very much.

THURSDAY, FEBRUARY 2, 1978.

WITNESSES

HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY
CHARLES L. SCHULTZE, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
JAMES T. McINTYRE, JR., ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
W. BOWMAN CUTTER, EXECUTIVE ASSOCIATE DIRECTOR FOR BUDGET, OFFICE OF MANAGEMENT AND BUDGET
DALE R. McOMBER, ASSISTANT DIRECTOR FOR BUDGET REVIEW, OFFICE OF MANAGEMENT AND BUDGET
SUZANNE H. WOOLSEY, ASSOCIATE DIRECTOR FOR HUMAN AND COMMUNITY AFFAIRS, OFFICE OF MANAGEMENT AND BUDGET
ANTHONY M. SOLOMON, UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. MAHON. The committee will come to order.

As you know, we began our hearing yesterday, and had a lively exchange of views with Members of the committe and our distinguished witnesses.

Dr. Schultze, you participated in the hearing yesterday afternoon, but we postponed your opening statement until this morning.

We would like you to talk to us about the economy, the problems which confront us in dealing with the budget, and give us any views which you think might be helpful to us in making determinations as to the requests of the President with respect to many budgetary matters.

I wish you would, for the record, give us a little background of your experience in the economic field. You are a man of great experience and wisdom, and I would like you to give us a little background.

I have known you in Washington for many years. I couldn't recount the various posts which you have held. I would be pleased if you would refresh our minds a little so we can have this in mind as we go along with this hearing.

Mr. SCHULTZE. Yes, sir. Would you like me to do that now or shall I submit it for the record?

Mr. MAHON. Give us a little background now and you can submit any thing for the record you would like.

Mr. SCHULTZE. Yes, sir.

I have one fairly rare distinction from all of the colleagues with whom I work. I think I am the only one who was born and raised in this area, although, given the birthplace of the Chairman, I hasten to point out that while it was in this area, it was Virginia. I grew up in a southern family, went to school in Washington, ultimately earned a Ph.D. in economics from the University of Maryland, and was a staff member at the Council of Economic Advisers during the 1950's.

I was Assistant Budget Director and then Budget Director under Presidents Kennedy and Johnson, did research at the Brookings Institution during the late 1960's and early 1970's, and returned to the Government as Chairman of the Council of Economic Advisers last January.

Mr. MAHON. Who are the members of the Council of Economic Advisers?

COUNCIL MEMBERS AND STAFF

Mr. SCHULTZE. I am the Chairman. There are two other members, Mr. Lyle Gramley, who was until recently Director of Research and Statistics for the Board of Governors of the Federal Research System, and Mr. William Nordhaus, who was a professor at Yale University until he took the job at the Council. Those are the two other members. We have a staff of approximately 12 senior economists, six junior economists, and the normal complement of clerical, statistical and secretarial help.

It is a relatively small staff which we believe gives us flexibility.

FUNCTIONS OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. MAHON. Those of us who serve in the Congress spend our time dealing with innumerable issues, and our days are quite hectic. What do you do in the peaceful atmosphere of the Council from day to day?

Mr. SCHULTZE. In the peaceful atmosphere of the Council, Mr. Chairman, which would probably be Saturday afternoon between two and five, I attempt to think, but not terribly successfully, I am sorry to say. Otherwise, we are dealing with the normal range of longer range policies, plus trying to put, hopefully, water, not gasoline, or rather foam, not gasoline, on fires. It is a fairly busy occupation, covering both overall economic policy and the economic content of particular policies dealing with energy, regulation and the like.

We also become involved in the economic mix of those things as well as overall policy.

Mr. MAHON. Do members of the Council go their own way, or do you huddle frequently and discuss issues which are before you?

Mr. SCHULTZE. We basically huddle and discuss, although each of the members has areas of his own responsibility.

Mr. MAHON. For example?

Mr. SCHULTZE. Mr. Gramley is principally in charge of the overall economic outlook, forecasting, evaluating current economic conditions.

Mr. Brinner of my staff works very closely with Mr. Gramley in the forecasting area.

Mr. Brinner is sitting behind me and to my left.

Mr. Nordhaus, on the other hand, deals in a number of different areas, international economics, regulation, energy, trade, matters not of the overall economy but of particular economic problems. And I sit on top and referee. I don't know what else I can say.

Each year, as you know, we turn out an economic report which includes a report of the President to Congress, and then a much thicker volume which is the Council's own economic report to the President.

Mr. MAHON. Do you have any way to exercise a major impact on the Federal Reserve and on the departments and agencies of the Government and on the President? How do you exert influence in respect to the direction of the Administration?

Mr. SCHULTZE. Unlike being Director of OMB, where one does have a modicum of control because of that budget power, the Council principally operates, how shall I best say it, through the force of sweet reason. We have no operating authority; we are fundamentally advisers to the President. Presumably, our influence comes, to the extent we have influence, through that role as advisers to the President, an ability to talk to the President, an ability presumably to get the President's ear, and hopefully through that general ambience, if you will, to influence policy, not make it at all, but to influence it.

Mr. MAHON. Do you explore issues and express views and communicate with the Executive Branch in regard to such things as inflation, in regard to such things as the increased taxes or tax reduction?

Mr. SCHULTZE. Yes, sir.

Mr. MAHON. In regard to energy and all such issues?

Mr. SCHULTZE. Yes, sir. There is in existence what we call a steering committee of our economic policy group—and I will just tell you who is on it in a moment—which meets frequently, literally to identify where economic problems are coming, to try to lay out assignments as to who ought to do what to try to bring together a common economic approach within the Executive Branch.

That economic policy group with its steering committee has the following members: The Secretary of the Treasury, who is Chairman; the Director of OMB; the Chairman of the Council of Economic Advisers; the Assistant to the President for Domestic Affairs, Stuart Eisenstat; the Under Secretary of State for Economic Affairs; and a representative, the number two Deputy, Mr. Brzezinski, of the National Security Council. We meet every Thursday morning to bring together the main economic principles in the Government.

We then augment that group very often with the Secretaries of Labor and Commerce. This is the body through which we attempt to formulate and make consistent governmental economic policy.

Mr. MAHON. We would like you to amplify any of your remarks, if necessary, in order to make clear what your views are in regard to the matters we will be discussing with you.

We talk about the recovering economy and some conditions are better. They never have been perfect at any time under any Administration, and I think it would be helpful if you would give us a general overall statement in regard to the situation.

What does your crystal ball show and where do we go from here? Is a tax cut desirable, and if so, how much? What does the future look like? What about the first quarter, second quarter, third quarter and fourth quarter, and so forth?

If you will proceed in your own way I will yield to the various Members for questions.

Mr. ANDREWS. Mr. Chairman?

Mr. MAHON. Mr. Andrews?

CRISIS IN AGRICULTURE

Mr. ANDREWS. Could I interject?

You just made a statement that the economy is good. I don't know about your district in Texas, but my district in North Dakota has a lot of farmers up there saying the economy is anything but good. I have been in Europe, when you do the overview, and that is the reason for the comment now; when I have been in Europe and talked to the people over there, they say they support their farm prices at about $5 a bushel for wheat, $4 for barley, in effect, about full parity, not so much to help the farmers but to help the overall economy, because it is a stimulus to the general economy of the Nation.

Is there validity in that concept, and if there is, are we short-changing the overall economy by ignoring the economic plight that the farmers of this country are in today? I would just like to have him cover that, Mr. Chairman, when he does the general overview you just asked him to do.

Mr. MAHON. We will get into that in some depth, I hope.

Speaking of the recovering economy, I was certainly not speaking in terms of the agricultural crisis.

Mr. ANDREWS. I didn't think you were, because you have been a great friend of the farmer and very knowledgeable on the plight of farmers.

Mr. MAHON. It is true that the economy generally of the State of Texas, aside from agriculture, is excellent, and has been for quite some time. It is out in front of most of the Nation. But there are many farmers throughout the Nation who are just holding on by their fingernails and are threatened with disaster. The Secretary of Agriculture yesterday said, just be patient, but to tell a drowning man to be patient, of course, is not exactly the medicine that he is asking for. But let's get into those questions later.

Mr. CONTE. Would you yield, Mr. Chairman?

Mr. MAHON. Yes.

Mr. CONTE. I have been sitting here two days listening about the farmer plight.

Mr. MAHON. I understand you are a great supporter of agriculture, and we will be glad to have your contribution.

Mr. CONTE. Thank you, Mr. Chairman.

I think if we are going to do this for the farmers, we might as well do it for General Electric which produces heavy transformers in my district at Pittsfield, Massachusetts. They have been depressed now for about a decade, ever since the oil embargo, and the electric companies are not buying transformers and generators, so our employment is down at the lowest point in the history of Pittsfield. I think the Federal Government ought to come in and start subsidizing those transformers so we can keep the economy going up there in the Berkshires. Just a plug for my transformers.

Mr. MAHON. I see.

Mr. WHITTEN. I just want to make one brief statement on that point. My approach to this matter is that it's the farmer who is the producer of the raw materials which are the base of our economy. In 1929 we let the farmers go broke and the roof went down with the foundation.

In my opinion, history clearly shows the break in 1929 came because the break in purchasing power of agriculture led us down. I put the data in the record and I think I gave you a copy, Doctor Schultze, showing the facts. It's when we restored the farmers purchasing power that we fought our way back out of the great depression.

One reason I have felt so strongly about this is that I started practicing law when we were fighting our way back. I could drive 100 miles from where I live and wouldn't find three people that owned their own land. I recently took the old Reconstruction Finance Act, brought it up to date and introduced it again the year before last. Because the present picture is so typical of what happened before the crash, it's frightening.

Mr. MAHON. All right, you can comment for the record with respect to these issues we have raised here. But I think you ought to go on now with your overall statement as the House meets at eleven o'clock, and we have some problems, so we will just do the best we can, Dr. Schultze.

Mr. SCHULTZE. Thank you. Mr. Chairman.

SUMMARY STATEMENT OF CHARLES L. SCHULTZE, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

I have a statement which I will submit for the record, and would proceed now to go through selectively giving that statement, but only selectively, to try to do it in a short period of time.

I would like to make the point in advance that as I go through the statement there will be large parts of it which I will not read. I would like to make it clear, however, I don't give the parts I don't read low priority. It's simply in order to save the committee's time.

Let me start with the fact that it does not flow very easily out of discussion of the last several minutes, but nevertheless I think it's correct, starting with the fact that the American economy today is basically healthy.

We are making good progress in recovering from what hit us several years ago when the Nation was struck in quick succession by double digit inflation and severe recession.

Last year this economy created a record number of new jobs, reducing the ranks of the unemployed by over one million people, and the pace of economic activitiy is moving well as we enter 1978.

Because the inflation we had then was so great and the recession so deep, the progress we have made still leaves us short of full recovery. Therefore, substantial further progress is needed. Steps have to be taken if we expect to achieve reasonable long range economic goals.

Economic growth will slow down late this year and in 1979 unless we act now to relieve the growing tax burden on consumers. Payroll taxes are rising sharply and inflation is pushing individuals into higher tax brackets. Other sectors of our economy aren't growing sufficiently to counterbalance this depressing effect on consumer spending. Se we need tax cuts for individuals to maintain consumer purchasing power.

Business investment isn't rising fast enough. We are going to need more investment for two reasons, to create additional jobs for those who build the machines in the plants, and at the same time, to increase industrial capacity for the future. So we need business tax reduction as well as individual tax reductions to provide the incentives for a faster expansion of investment.

The Federal tax system is too complex and, in many respects, unfair. So reform of our tax laws can and should be combined with tax reduction this year.

Structural unemployment remains a major unsolved problem. Overall economic progress will help to reduce the very high unemployment rates among young people and minorities, but these and other groups will not enjoy their fair share of economic expansion unless their jobs opportunities are increased substantially.

In addition to our overall economic measures, we have to improve and expand our employment and training programs to address the specific employment problems of these groups.

Inflation is too high, so we have to take steps to prevent a worsening of inflationary pressures as the economy moves up to higher employment, and we have to bend our efforts now toward reducing the inflation we are stuck with at the moment.

Let me talk a little about what has happened to the economy in the past year and where it looks like we are going as we enter 1978.

The economy grew strongly last year. In the fourth quarter of 1977 the Nation's real Gross National Product stood about 5¾ percent above a year earlier. More than 4 million jobs were created in 1977, the largest employment increase of any single year. By December the rate of unemployment had fallen to 6.4 percent, 1.4 percentage points lower than it was a year ago.

We are entering 1978 with good prospects for continued strong expansion in the near term. Economic growth will be spurred for a time by increased inventory investment as business firms catch up with the unanticipated surge in consumer spending late last year. The 1977 stimulus program which the Congress enacted last year is still gathering strength, and will encourage recovery through the first half of this year.

As we look further ahead it is clear that, unless steps are taken now to maintain economic growth, expansion is going to slow down, and our efforts to reduce unemployment and provide real living gains for the American people are going to be frustrated.

The most important development which threatens sustained economic recovery is the increasing burden of taxes borne by the average taxpayer. Under present law, large increases in payroll taxes are coming into effect to finance the Social Security system. Some of these added taxes were scheduled by law in the 1973 Social Security amendments. Additional increases were enacted by the Congress last year. They are essential to the continued health of the Social Security system, but the economic impact of these higher taxes cannot be ignored.

Payroll taxes will rise about 7 billion to 7½ billion dollars in 1978 and by a similar amount in 1979. There will be an additional drag on consumer purchasing power because inflation and economic growth pushes taxpayers into higher brackets and raises the average tax rates paid by consumers as a whole.

Unless steps are taken to lower individual income taxes, Federal revenues over the next two years will be absorbing a significantly rising share of personal income and putting a damper on the rate of growth in our economy.

Another area that gives us some problem is business investment. Over the past several years the labor force in our country has grown very rapidly, but growth of the capital stock of business firms hasn't kept up. Therefore, productivity is increasing very slowly. Though we currently have substantial idle capacity in our plants and factories, a faster growth of capacity is going to be needed to avoid inflationary bottlenecks in later years, as we approach a high employment economy.

Normally, in an economic recovery business plans for investment spending typically strengthen as capacity utilization increases. Profits improve and the outlook for the long term future brightens. There has been a significant improvement in the rate of investment over the past two years but it hasn't been sufficient.

Business investment in the final quarter of last year, the last quarter for which we have numbers, business investment in that quarter was still 3 percent below its peak in 1974, and surveys of business plans for investment in 1978 suggest a rise this year that is going to fall somewhat short of last year's performance. That simply isn't good enough.

Given the absence of growing strength in the business sector, it would clearly be unwise to impose a major increase in the tax burden on the economy. That is what would automatically happen without the President's tax program. As a consequence economic growth would slow down.

We estimate that if the President's tax program were not enacted economic growth in 1979 would slow down to somewhere in the 3¼ to 3¾ percentage range. That isn't fast enough to keep unemployment going down, so unemployment would level out, or possibly rise even again.

We are still too far from full recovery in our economy to accept this kind of a result. The Administration's program for 1979 is designed to assure we don't have to accept that result, that we can do better.

As you know, the centerpiece of that economic program is a proposal for substantial tax reduction integrated with recommendations for reform of the system. Let me just tick off for you very briefly, because I know you have been through it, the major elements of that program.

Tax reductions of $24 billion for individuals combined with revenue raising reforms of $7 billion, giving a net reduction to individuals of $17 billion. Business taxes would be reduced by $8 billion, offset by $2 billion of reforms giving a net reduction of $6 billion. The Federal telephone excise tax, which under current law is gradually being phased out, would be cut out immediately.

The Federal Unemployment Insurance Tax rate would be reduced from its present 1977 level.

These proposals don't include any provision relating to the energy legislation now pending before the Congress, but if and when finally enacted, the energy program does not include a full rebate to consumers of the net proceeds of the wellhead tax on oil, then the President has indicated he will seek additional personal tax reductions to return those funds to consumers.

In total, the President's program calls for tax reduction of $34 billion, partially offset by $9 billion in revenue raising reforms, for a $25 billion net tax reduction.

The two elements of reduction and reform go together. Without the tax reforms the size of the tax reduction components of the program should be scaled back. The net package of the President, $25 billion, is, we calculate, the right size for this economy. We think it is desirable, and we don't think substantially larger amounts would be.

The amount of net tax reduction has been scaled to the needs of the current economy. It is designed to promote what we think is a sustainable rate of economic growth of about 4.5 to 5 percent a year. That tax reduction will amount to 1.1 percent of our Gross National Product.

That is about half of the size of the 1964–65 cuts, but 60 percent larger, relative to the size of the economy, than the tax cuts which went into effect in 1970 and 1972. So, it's not the largest tax cut in our recent history. But it isn't the smallest, either.

In the absence of the President's proposed tax cuts, the share of personal income absorbed by Federal personal income taxes, plus individual payroll taxes—that is if you look at the combined amount that individuals pay through payroll taxes and Federal income taxes as a share of their personal income—would rise from 14.3 percent in 1977 to a little over 15 percent in 1978.

But, with the President's tax proposals, the share of personal income absorbed by these taxes will stay essentially level. Looked at from another perspective, the President's tax proposals will mean the total Federal tax revenues from all sources will not rise significantly as a share of our national economy between 1977 and 1979, whereas without the President's tax proposals, the share of national income taken by taxes would increase significantly over those two years.

The table on page 13 of my testimony indicates what share of personal income and what share of total national product would be taken by taxes, with and without the President's tax program.

The size of that tax program wasn't designed to achieve any particular ratio of tax revenues to income. It was formulated together with the President's expenditure recommendations to keep the economy on a path of growth to assure significant further progress in reducing unemployment in 1978 and 1979.

As I said, if the President's program is enacted we expect the Nation's real output to rise by somewhere between 4½ and 5 percent in each of the next two years, a rate that would make it possible to reduce the unemployment rate from 6.6 percent in the final quarter of 1977 to somewhere in the 5½ to 6 percent range by the end of 1979.

We estimate that the tax package will create nearly one million additional jobs by the end of 1979.

What about the effects of this tax proposal on the deficit? Achieving the economic results for which we are aiming through tax reduction means that the 1979 Federal deficit will be larger than it otherwise would have been.

The President's fiscal 1979 budget carries a deficit of $61 billion, only slightly below that in 1978. Had the proposed tax reductions been foregone, the deficit could have been $15 billion to $20 billion less. However the price would have been a weaker economy, almost a million fewer jobs, a substantially higher unemployment rate, and less growth of investment and industrial capacity. That is far too high a price to pay.

The 1979 budget deficit is large, but it is not inflationary.

We recognize fully that deficits in the Federal budget do cause inflation if they create excessive demands in our economy. We see no danger of that during the next two years since unemployment is still high and there is ample slack capacity in the manufacturing sector to permit further increases in real output without encouraging or endangering ourselves with bottlenecks.

We know, however, that the Federal budget must be brought into balance as rapidly as the developing strength of our economy permits. That is an essential principle of the President's long range budgetary strategy. Our recommendations for fiscal 1979 are entirely consistent with that strategy.

The President has stated on numerous occasions his intentions to keep a tight rein on the growth of total Federal expenditures. The Administration's 1979 budget reflects this commitment. After adjusting for inflation, Federal outlays increase by less than 2 percent. We intend to reduce gradually the share of the Nation's output devoted to Federal expenditures by keeping the rate of growth in the Federal budget less than the rate of growth in the economy.

Budgetary restraint does not mean neglect of important social problems. The Federal Government should, and under this Administration will, continue to meet the pressing needs of the Nation. We can improve efficiency and select priorities carefully, thereby channeling budgetary resources to meet important social and other national needs in a total budget which grows less rapidly than our economy grows.

In the years ahead, with that kind of expenditure policy, sustainable economic growth can be promoted, when and as needed, with tax reductions.

At each step along the way the benefits of tax reduction will have to be weighed against the costs of a deficit. We intend to move toward a Federal balanced budget. In a high employment economy with strong growth in the private sectors, deficits have to be avoided, since under those conditions they would create excessive demands, generate an overheated economy and renewed inflationary pressure.

If the private economy grows very strongly between now and 1981, we can and will balance the budget by then, and no decisions have been made in the 1979 budget that foreclose that possibility.

On the other hand, if private economic growth appears to be insufficient in the future to achieve high employment, we are prepared to undertake additional fiscal measures, principally additional tax reduction, if needed, to ensure that our economic objectives are realized. In that event, the date for achieving a balanced budget would have to be deferred beyond 1981. So, proper budgeting policy depends upon the strength of the economy and what the needs of the economy are.

Mr. Chairman, I think, if I may, I would submit the rest of my statement for the record. It covers a number of other matters including special employment programs, the international economy, and problems of inflation, but I would put that in the record and respond with my colleagues to questions.

Mr. Whitten. We will be glad to have you do that.

[Mr. Schultze's full statement follows:]

STATEMENT OF CHARLES L. SCHULTZE, CHAIRMAN COUNCIL OF ECONOMIC ADVISERS

I am pleased to appear before the House Appropriations Committee today to discuss the President's budgetary, tax, and other economic proposals. The economic program of the Administration is designed to maintain a healthy rate of economic growth over the next several years and to lay the groundwork for sustained economic Progress over the longer term.

I would like to concentrate in my testimony on the economic background against which the President's economic proposals were formulated and indicate the reasons for the particular tax and budgetary measures which he is recommending to the Congress.

THE MAJOR TASKS OF ECONOMIC POLICY

The American economy today is basically healthy. We are making good progress in recovering from the trauma of earlier years, when the nation was hit, in quick succession, by double-digit inflation and severe recession. Last year, our economy created a record number of new jobs and reduced the ranks of the unemployed by over one million people. The pace of activity, moreover, is moving well as we enter 1978.

Because the inflation was so great and the recession so deep, the progress we have made still leaves us short of full recovery. Substantial further progress is needed, and steps must be taken now if we expect to achieve our long-range economic goals.

Economic growth will slow in late 1978 and in 1979 unless we act to relieve the growing tax burden on consumers. Payroll taxes are rising sharply, and inflation is pushing individuals into higher tax brackets. Other sectors of the economy are not growing sufficiently to counterbalance this depressing effect on consumer spending. Tax reductions for individuals are therefore needed to maintain growth of consumer purchasing power and spending.

Business investment is not rising fast enough. More investment will create additional jobs for a growing labor force and increase our industrial capacity for the future. Business tax reductions are needed to provide the incentives for a faster expansion of investment and the capital stock.

The Federal tax system is too complex and in many respects unfair. Reform of our tax laws is needed and should be combined with tax reduction this year.

Structural unemployment remains a major unsolved problem. Overall economic progress will help reduce the very high unemployment rates among youth and minorities. But these and other groups will not enjoy their fair share of the fruits of economic expansion unless their job opportunities are increased substantially. In addition to overall economic measures, we need to improve and expand our employment and training programs to address their specific employment problems.

Inflation is too high. We must take steps to prevent a worsening of inflationary pressures as the economy moves to higher levels of employment and production. And we must bend our efforts now toward reducing the present inflation.

These problems cannot be dealt with in a piecemeal fashion. Only with a coordinated effort to deal with all of them will we realize the potential that our national resources and the energy of the American people make possible.

THE ECONOMIC SETTING

Let me set the stage for an explanation of the President's proposals by reviewing briefly the major economic developments of the past year and the situation of the economy as we enter 1978.

The economy grew strongly last year. In the fourth quarter of 1977, the nation's real Gross National Product stood 5¾ percent above its year-earlier level. More than 4 million jobs were created in 1977—the largest employment increase of any single year. By December, the rate of unemployment had fallen to 6.4 percent, 1.4 percentage below its level 12 months earlier.

The benefits of growth were impressive. On a per capita basis the real after-tax income of Americans rose almost 5 percent over the four quarters of 1977. The rate of capacity utilization in manufacturing increased, and corporate profits rose by 9½ percent for the year.

The course of the expansion during 1977 was uneven. Output rose strongly early in the year, as businesses sought to rebuild depleted inventories, and unemployment declined sharply. When consumer spending slowed in the spring and summer months, retailers reduced their orders and manufacturers cut back on the rate of production and also their hiring. By year end, however, the pace of activity had begun to pick up again, led by a vigorous rise in consumer spending, and the economic stimulus program proposed by the President and enacted by the Congress earlier in the year.

We are entering 1978 with good prospects for continued strong expansion for the near term. Growth will be spurred for a time by increased inventory investment, as businesses catch up with the unanticipated surge in consumer spending late last year. Moreover, the 1977 stimulus programs are still gathering strength and will encourage recovery through the first half of 1978.

As we look further ahead, however, it is clear that unless steps are taken now to maintain economic growth, expansion will slow to an unacceptable pace and our efforts to reduce unemployment will be frustrated.

The most important development threatening sustained recovery is the increasing burden of taxes borne by the average taxpayer. Under present law, large increases in payroll taxes are coming into effect to finance the social security programs. Some of these added taxes were scheduled by law in the 1973 social security amendments. Additional increases were enacted last year and are essential to the continued health of the social security system, since without them the trust funds would soon be depleted. But the economic impact of these higher taxes cannot be ignored. Payroll taxes will rise by $7 to $7½ billion in 1978 and again in 1979. An additional drag on consumer purchasing power will occur because inflation and real economic growth push taxpayers into higher brackets. Unless steps are taken to lower individual income taxes, Federal revenues over the next two years will be absorbing a significantly rising share of personal income.

There are times, of course, when increased effective tax rates are needed to restrain an overheated economy. But that is not the case at present. On the contrary, growth in the private sector is not likely to be strong enough to overcome a substantial increase in the degree of fiscal restraint that would be emanating from the Federal budget.

For example, consumer spending will probably rise in 1978 and 1979 by somewhat less than the increase in after-tax incomes. Americans are now saving about 5¾ percent of their income after taxes—a lower rate than has prevailed for most of the past decade. The saving rate could easily increase somewhat in the near future. Consumer purchases cannot be expected to serve as the driving force for economic expansion, as they did early in the recovery.

Similarly, housing construction, which has risen very strongly since early 1975, will not continue to provide a major source of thrust to economic expansion. Backlogs of demand have been reduced, and financial markets have tightened somewhat. We do not expect housing construction to decline significantly over the next two years, but it is unlikely to show a substantial increase.

The foreign sector has been a major dampening factor on growth in our economy over the past two years. Last year, the U.S. current account deficit increased dramatically—to about $18 billion—due largely to a surge in oil imports. Other imports also rose strongly, but our exports showed little growth. Economic expansion abroad is likely to improve somewhat in 1978, increasing the demand for U.S. exports, and the dollar volume of our oil imports will probably remain about unchanged this year. Our overall current account deficit, therefore, should not increase significantly further. But we cannot, unfortunately, expect it to diminish materially either.

The source of growth that would be most welcome in 1978 and 1979 would be a strong rise of business fixed investment. Over the past several years, the labor force in our country has grown very rapidly. Growth of the capital stock has not kept up. Productivity is therefore increasing very slowly. And although there is, at present, substantial idle capacity in our plants and factories, a faster growth of capacity will be needed to avoid inflationary bottlenecks in later years as we approach a high employment economy.[1]

AVERAGE ANNUAL GROWTH IN THE STOCK OF BUSINESS FIXED CAPITAL AND THE PRIVATE LABOR FORCE

[Percent per year]

	1965–73	1973–76
Business capital stock	4.4	1.9
Labor force	1.9	2.3

[1] Appendix 1 briefly discusses the problem of capacity utilization as the economy approaches high employment.

During the course of an economic recovery, business plans for investment spending typically strengthen—as capacity utilization increases, profits improve, and the outlook for the long-term future brightens. There *has* been a significant improvement in the rate of investment over the past two years, but it is not sufficient. In real terms, business fixed investment in the final quarter of 1977 was still 3 percent below its peak in 1974. Moreover, surveys of business plans for investment in new plant and equipment in 1978 suggest a rise this year that may fall somewhat short of last year's performance. This is simply not good enough.

Given the absence of growing strength in these major sectors of the private economy, it would clearly be unwise to impose a major increase in the tax burden on the economy—but that is what would happen without the President's tax program. As a consequence, economic growth would slow. We estimate that if the President's tax program were not enacted, growth in 1979 would be in a range of about 3¼ to 3¾ percent. That rate of unemployment would therefore stop declining, and it might begin rising again. We are still too far from full recovery to accept such a result, and the President's fiscal program for 1979 is designed to assure that it does not happen.

THE ADMINISTRATION'S FISCAL PROGRAM

The centerpiece of the Administration's economic program for fiscal 1979 is the proposal for substantial tax reductions, integrated with recommendations for meaningful reform of the tax system. The elements of the program include:

1. Tax reductions of $24 billion for *individuals* combined with revenue-raising reforms of $7 billion. Tax reduction is achieved by substituting a $240 per capita credit for the existing $750 personal exemption and the general tax credit and by reducing personal tax rates. The reduction in tax burden is greatest for low and middle-income taxpayers.

2. *Business* taxes are reduced by $8 billion. Tax reforms affecting businesses will raise $2 billion in revenue, for a net business tax cut of about $6 billion. Tax cuts are provided through a substantial reduction in the corporate tax rate—the first since 1964—and through liberalization of the investment tax credit (ITC). The ITC is made permanent at 10 percent, and for the first time is extended to include industrial and utility structures, as well as equipment. Furthermore, businesses will be permitted to use the ITC to offset up to 90 percent of their tax liability, compared with the current 50 percent limit.

3. The Federal *telephone excise tax*, which under current law is now being gradually phased out, will be eliminated this year and the *Federal unemployment insurance tax* rate will be reduced to its pre-1977 level. The net tax reduction from these two provisions is $2 billion, which will be realized by consumers principally through lower prices.

These proposals do not include any provision relating to the energy legislation now pending before the Congress. If, when finally enacted, the energy program does not include a full rebate to consumers of the net proceeds of the wellhead tax on oil, the President has indicated that he will seek additional personal tax reductions to return those funds to consumers.

In total the President's program calls for tax reduction of $34 billion, partially offset by $9 billion in revenue-raising reforms. The two elements of reduction and reform go together. Without the tax reforms, the size of the tax reduction components of the program should be scaled back.

The reforms included in this package are achievable and desirable. They will make our tax system much more equitable by eliminating a variety of business deductions that have been greatly abused, by sharply curtailing tax shelters, and by strengthening the minimum tax. They also eliminate tax subsidies in the area of international business transactions whose public benefits do not justify the costs. And they will make the tax system simpler and easier to understand.

The amount of net tax reduction called for in the President's program has been scaled to the needs of our current economy, and designed to promote a sustainable economic growth rate of 4½ to 5 percent in 1978 and 1979. It will amount to 1.1 percent of the 1979 GNP. This is about half the size of the 1964–65 tax cut, but 60 percent larger than the tax cuts which went into effect in 1970 and 1972.

In the absence of the tax cuts, the share of personal income absorbed by Federal personal income taxes and the contribution of employees and the self-employed to social security would rise from 14.3 percent in 1977 to about 15.1 percent in 1979. Under the President's proposals, however, the share of personal income absorbed by these taxes will not increase between 1977 and 1979. Looked at from a different perspective, the President's tax proposal will mean that total Federal tax revenues as a share of GNP will rise only slightly between 1977 and 1979. Thus, by reducing taxes, we will counterbalance the prospective drag on the economy from the rising tax burdens which would otherwise occur.

RATIO OF TAXES TO PERSONAL INCOME AND GNP, CALENDAR YEARS 1977–79

[In percent]

	1977	1978	1979
Ratio of personal taxes plus employee and self-employed social security taxes to personal income:			
With tax cut	14.3	14.3	14.1
Without tax cut	14.3	14.5	15.1
Ratio of total Federal revenues to GNP:			
With tax cut	19.8	20.1	20.0
Without tax cut	19.8	20.4	21.2

The size of the tax proposal was not designed to achieve any particular ratio of tax revenues to income, however. Rather, it was formulated in concert with the President's expenditure recommendations, to keep the economy on a path of growth that will ensure significant further progress in reducing unemployment during 1978 and 1979.

A full appraisal of the contribution of the Administration's proposals to the performance of the economy must take into account both the expenditure and revenue sides of the budget. One simple, but useful, measure of the overall degree of fiscal impact is the deficit in the high-employment budget. In this budget, the estimates of spending and revenues are those that would occur if the economy were at high employment. This budget thus abstracts from the increased spending and reduced tax revenues that result automatically when the economy is not at high employment. As a result, the discretionary elements in the budget stand out clearly. The movements in the high-employment budget, as measured in the national income and product accounts are shown below for calendar years 1977 through 1979.

High employment deficit:	*Billions*
1977	—$18
1978	—27
1979	—23

With the President's program, the high employment budget deficit would increase significantly in 1978. In 1979, it would decline somewhat, but remain $5 billion higher than in 1978. Thus, the Administration's overall budgetary program adds modestly to the degree of fiscal stimulus between 1977 and 1979.

If the President's program is enacted, we expect both 1978 and 1979 to be years of good economic growth. The nation's real output should increase each year by 4½ to 5 percent—a rate that would make it possible to reduce the unemployment rate from 6.6 percent in the final quarter of 1977 to a range of 6 to 6¼ percent by the end of 1978, and to somewhere in the 5½ to 6 percent range by the fourth quarter of 1979. We estimate that the tax package will create nearly one million additional jobs by the end of 1979.

The economic effects of this tax proposal, if enacted, will begin to show up in the latter part of 1978. Some additional stimulus to consumption should occur promptly in the last quarter of the year, as tax reductions are reflected in take-home pay. From the final quarter of 1978 to the same period in 1979, real personal consumption expenditures should rise at close to a 5 percent annual rate.

This strong and sustained growth in consumer markets should encourage businesses to augment investment plans in 1978 and 1979. The tax incentives proposed by the President should also encourage a step up of investment plans. The extension of the ITC to investment in structures will be made retroactive to January 1, 1978, and some effects may begin to be felt before final enactment of the tax proposals. Prospective reductions in the corporate tax rate, meanwhile, will increase the expected returns on investment and, once enacted, help to finance needed investments through greater cash flow. We expect business investment in real terms to strengthen during the course of 1978 and to rise by about 8 to 9 percent in 1979 if this program is put in place.

EFFECTS ON THE DEFICIT

Achieving these results through tax reduction means, of course, that the 1979 Federal deficit will be larger than it otherwise could have been. The President's fiscal 1979 budget carries a deficit of $61 billion in that fiscal year, only slightly below that in 1978. Had the proposed tax reductions been foregone, however, the deficit would have been $15 to $20 billion less. But the price would have been a weaker economy, almost a million fewer jobs, a substantially higher unemployment rate, and less growth of investment and industrial capacity. That is far too high a price to pay.

The 1979 budget deficit is large, but it is not inflationary. We recognize fully that deficits in the Federal budget do cause inflation if they create excess demand. We see no danger of that during the next two years, since unemployment is still high and there is ample slack capacity in the manufacturing sector to permit further increases in real output without encountering bottlenecks.

We know, however, that the Federal budget must be brought into balance as rapidly as the developing strength of the economy permits. That is an essential principle of the President's long-range budgetary strategy, and our recommendations for fiscal 1979 are entirely consistent with it.

LONG-RANGE BUDGET STRATEGY

The President has stated on numerous occasions his intention to keep a tight rein on the growth of total Federal expenditures. The Administration's 1979 budget reflects this commitment—Federal expenditures increase in real terms by less than 2 percent. Similar restraint will be shown in succeeding budgets. We intend to reduce gradually the share of the Nation's output devoted to Federal expenditures.

Budgetary restraint does not mean neglect of important social problems. The Federal Government should, and under this Administration will, continue to meet the pressing needs of the Nation. Through careful budgetary management—using zero-based budgeting and multi-year planning—we can improve efficiency and select priorities more carefully, thereby channeling budgetary resources to meet important social and other national needs. In the years ahead, sustainable economic growth can be promoted by such an expenditure policy, coupled—when and as the need arises—with tax reductions.

At each step along the way, the benefits of tax reduction will have to be weighed against the costs of a larger deficit. We intend to move toward a balanced Federal budget. In a high employment economy, with strong growth in private demand, deficits must be avoided, since under those conditions they would create excess demand and generate inflationary pressures.

If the private economy grows very strongly between now and 1981, we can and will balance the budget by then. No decisions have been made in the 1979 budget that foreclose this possibility. If private economic growth appears to be insufficient in the future to achieve high employment, however, we are prepared to undertake additional fiscal measures to ensure that our economic objectives are realized. In that event, the date for achieving a balanced budget would have to be deferred.

One obvious question comes immediately to mind in relating these budgetary principles to the 1979 budget. Why is it necessary so far into economic recovery to have a budget deficit of $61 billion? Under the economic conditions which prevailed in the 1960s or the early 1970s this would not have been the case. But there are several characteristics of our present economy which make it very difficult to balance the Federal budget without sharply slowing economic growth. The difficulty stems, in the main, from developments affecting the budgets of State and local governments and from the drain of income associated with our foreign trade in goods and services.

In the past, State and local governments in the aggregate typically ran small budgetary deficits. More recently, however, the aggregate budgets of State and local governments have been in sizeable surplus. Last year, that surplus was nearly $30 billion, up from $18 billion in 1976 and $3 billion in 1970. Part of this growing surplus stems from the accumulation of monies in pension funds for the 13 million employees of State and local governments ; another part stems from efforts by some of these governmental units to put their financial houses in better order after the recession of 1974–75. Within the aggregate, of course, there are some governments whose fiscal positions are quite difficult.

However pleasant the overall surplus may be from the standpoint of many State and municipal governments, they tend to restrain economic activity—because they draw more out of the income stream in tax revenues than are put back by way of expenditures.

The current account deficit in our international transactions—nearly $18 billion in 1977—poses a similar problem. It also represents a drain on the stream of national income; it means that we are sending more dollars abroad through purchases of goods and services than are returning to our country to buy goods and services here.

The table below shows the current size of these drains on income, and how large they are compared with earlier years of high employment:[1]

[In billions of dollars]

	1955–56	1965–66	1972–73	1977
State and local surplus	−1.1	0.2	13.4	29.2
Foreign sector	−.7	−2.9	5.2	19.1
Total	−1.8	−2.8	18.5	48.3
Federal surplus or deficit (−)	5.2	−.6	−12.0	−49.6

The aggregate surplus of State and local governments is likely to diminish somewhat in the next few years but it will probably remain large for many years to come. Adjustment of our trade deficit will also take time. That deficit can be traced to two major factors: we are importing large amounts of oil at high prices, and our exports have been depressed by slow rates of economic growth abroad. Enactment of an effective energy program, and improvement in the economic growth rates of other nations, will contribute to a gradual reduction in our foreign deficit; it can only occur gradually.

The State and local foreign sectors are, of course not the only economic forces which determine the appropriate fiscal stance for the Federal Government. But the size and recent growth of the income drain from these two areas are large and they must be taken into account in the formulation of Federal fiscal policy.

We cannot realistically expect that the unprecedented size of the income drain in the State and local and foreign sectors will automatically be counterbalanced by extremely strong spending propensities on the part of American businesses or consumers. Therefore, the Federal budget must stand ready to provide a counterbalance, in order to maintain a healthy economy.

STRUCTURAL UNEMPLOYMENT

Fiscal and monetary policies are the basic tools at our command for promoting healthy growth in the overall economy and reductions in unemployment. But even in periods of relative prosperity some groups of American workers continue to suffer high unemployment rates. The current recovery has bypassed some Americans. Blacks and members of other minority groups particularly face disproportionately high rates of unemployment; the 40 percent rate of unemployment among black youth is simply not tolerable. Unless the government takes steps to bring all groups of citizens into the economic mainstream, we will be frustrated in our efforts to achieve tolerable levels of unemployment.

A nation that prides itself on human rights cannot ignore a structural unemployment problem of the magnitude we face in the United States. The human and social costs are much too large. The economic costs are also substantial. If we can give those individuals who otherwise would be unemployed the training and experience they need to become productive workers, and open up job opportunities for them, the nation's potential to produce would be greatly enhanced. Millions of Americans out of work amount to an enormous waste of valuable resources.

In the longer run, dealing with structural unemployment successfully also has important implications for controlling inflation. Typically, as our economy approaches high levels of employment, some labor markets tighten up much more than others. Unemployment rates for experienced adult workers drop to

[1] Data are from the Department of Commerce national income accounts.

very low levels, while large unemployment still exists for other groups. Employers, however, still tend to expand their work force by trying to fill vacancies with workers from the groups with low unemployment, rather than turing to those with higher unemployment rates. As a consequence, inflationary pressures on wages and prices ensue, even though unemployment among some segments of the labor force is still very high. Employment and training programs that provide skills and open up job opportunities for disadvantaged groups of workers tend to reduce these inflationary pressures, and are essential if we are to achieve both our objective of price stability and our goal of high employment.

The task we face is a difficult one. We have already taken some important first steps, but much remains to be done.

In the 1977–78 stimulus package, the level of jobs under the Public Service Employment program was increased from 310,000 to 725,000. PSE employment has grown substantially since last spring, and now totals about 600,000. The remaining increase to 725,000 will occur over the next few months. The program was also modified to target it more carefully on the longer-term and low-income unemployed. The President is proposing to continue this program at the 725,000 job level in 1979.

The current public service jobs program is principally countercyclical in nature, and will be stepped down gradually after 1979 as the overall unemployment rate declines. A more permanent program, designed to provide work for 1.2 to 1.4 million persons, is part of the President's proposed overhaul of the nation's tangled welfare system. This program is aimed at offering work, rather than cash welfare, to those of the nation's poor who are able to work. The 1979 budget includes a request for a 50,000-job program to demonstrate the feasibility of the Program for Better Jobs and Incomes proposals.

Special programs for young people were authorized under the Youth Employment and Demonstration Projects Act enacted by the Congress in 1977. These projects are aimed at testing a number of alternative approaches to combine work experience and training for young people. In the 1979 budget, we are requesting funding for 166,000 slots in the YEDPA programs, and to increase the Job Corps.

For most workers, the long-term answer to job opportunities must be in the private sector. Five out of six new jobs will come from that sector. It is in the private sector that the greatest opportunities exist for job training, for advancement, and for meaningful life-time careers. It is important, therefore, that we find effective ways to channel those who ordinarily would go jobless into private sector employment. Later this year, the Administration will send to the Congress proposals to encourage the creation in the private sector of jobs for the structurally unemployed, and particularly for the young. Details of this program are under active development at the present time and will be sent to the Congress shortly. The 1979 budget includes $400 million for this new initiative.

REDUCING THE RATE OF INFLATION

Another critical problem with which we must deal more effectively is inflation. During the period immediately ahead, there will still be some slack in the economy, and the likelihood of an increase in the rate of inflation is low. As the economy approaches higher levels of employment in 1980 and 1981, however, the risks increase that the rate of inflation will begin to move up. A significant worsening of inflation would undermine the confidence of consumers and businesses, causing them to cut back on purchases and investments. Moreover, we would be inhibited from taking the fiscal and monetary steps necessary to reduce the rate of unemployment. Progress against inflation is thus absolutely essential to reducing unemployment.

The inflation problem that we face today has two distinct aspects. We need, on the one hand, to pursue policies that will avoid a worsening of inflation as we regain high employment. And we must take steps now to begin unwinding from the high rate of inflation that we have inherited from the past.

The government can, by following prudent fiscal and monetary policies, ensure that inflationary pressures are not increased due to excess aggregate demand when the economy returns to high employment. During the period from 1965 to 1969, inflationary pressures were intensified by continuation of deficit spending in a high-employment economy. Overly expansive monetary and fiscal policies also contributed to inflation during 1972, when a worldwide boom developed that put serious pressures on the basic resources of industrialized economies. With sound management of the budget and the economy, we can avoid such excesses in the future.

A second important step is to ensure that industrial capacity expands rapidly enough to prevent shortages and bottlenecks in individual industries as overall demand reaches higher levels. The President's economic program for 1979 recognizes this fact. It will encourage investment by promoting continued expansion of markets for the output of new plant and equipment, and by offering specific incentives to increased investment.

Third, a successful attack on the structural sources of unemployment also is essential to reduce the chances of higher inflation rates in the future. That fact, too, is recognized in the Administration's budget proposals for fiscal 1979.

Efforts to reduce the current inflation rate will encounter difficult problems. There is much that government can do to contribute to lower inflation. A modest step—the proposed reduction in excise and unemployment insurance taxes that will contribute directly to lower prices and costs—is incorporated in the President's tax program.

The government also can bring into line its own actions that raise costs and prices. A top priority of this Administration is to reduce the adverse impact on costs and prices of government regulatory actions. We have moved already to cut back significantly the sheer number of regulations, and to pare the paperwork burden imposed by regulatory agencies. We are establishing new procedures that will encourage regulatory agencies to seek out and apply the most cost-effective approach to accomplishing our regulatory objectives. The President has established under my chairmanship an interagency committee to review the adequacy of economic analysis of major regulations. Government can in this way make a direct contribution to reducing the cost-rising effects of its own actions.

However, such actions alone will not be sufficient to make dramatic progress against inflation. For the past three years, the rate of inflation has persisted in the general range of 6 to 6½ percent. There have been temporary fluctuations in the inflation rate, due to movements in food prices and fuel prices, but the underlying rate of price increase has neither accelerated nor slowed throughout the recovery. Recent experience suggests that the rate of inflation is increasingly unresponsive to widespread unemployment and idle capacity.

The inflation we have inherited from the past is built-in to the process of setting wages and prices. Businesses raise prices to compensate for past and expected wage increases, because they expect consumers to pay the higher prices they charge. Workers, seeing prices rising and expecting more inflation in the future, push for higher wage settlements. This process cannot be brought to a halt by government decree, nor can it be eliminated through the action of any one group of workers or businesses. If the rate of inflation is to be brought down from its current plateau, we must all work at the job together.

Over the past several months, the Administration has examined closely a wide array of alternatives for dealing with the inflation problem.

Several approaches were rejected virtually from the outset. We cannot, for example, sit back and do nothing. Inaction could mean the eventual reemergence of bottlenecks and wage pressures that could lead to a worsening of inflation. Mandatory wage and price controls are not the answer. They do not effectively stop inflation, and the severe distortions, inefficiencies and inequities they cause are unacceptable.

We also have rejected policies of slow growth. We cannot wring the inflation out of the economy through high unemployment and economic slack. Such policies have only a limited impact on the kind of inflation we face, and then only at unacceptably high cost in human suffering and lost output. Moreover, by discouraging businesses from commitments to increase capacity, slow rates of growth may lead to inflationary problems later on, when high employlment finally is approached.

A number of innovative ideas to reduce inflation through the tax system were given serious consideration. Some of these proposals would give tax reductions to workers in return for restraint in annual wage increases. Others would tax wage increases above a specified level, or use general revenue sharing as a means of encouraging State and local governments to reduce sales taxes.

All of these plans, however, are subject to major questions with regard to administrative feasibility, economic impact and political acceptability. It would therefore be highly imprudent to propose introducing any of them before subjecting them to a much wider discussion and a more complete evaluation with respect to their economic effectiveness, administrative feasibility, and social equity. On the other hand, the momentum of inflation is so great and the consequences of either allowing it to continue or trying to wring it out with excessively slow growth are so large that they should not be dismissed out of hand. Further economic evaluation and a much broader public debate would be very healthy, whatever its outcome.

After reviewing a long list of policy options, the President has concluded that the most appropriate step we can take at this time is to embark on a program of voluntary restraint in the setting of wages and prices. He has set forth a reasonable standard of behavior for gradually reducing inflation. Over the next year, labor and management in each industry have been asked to reduce rates of increase in wages and prices to below what they were on average in the prior two years.

This is a flexible and fair proposal. It recognizes that there will be some cases in which the profit margins have been badly lagging, and that there are some groups whose wages have not risen as rapidly as others. In those cases, deceleration may be more difficult to achieve, and in some circumstances, may not be possible at all. By the same token, those businesses and groups of workers that have done better than average recently should contribute more to the overall deceleration of inflation.

To implement this program, the Administration will initiate discussions with officials and representatives of firms and unions well in advance of decisions on price increases or the opening of wage negotiations. This is *not* a program that requires prenotification of wage or price decisions, now will the government attempt to interfere with the normal process of collective bargaining. But we will seek, through discussions that focus on conditions in each industry, to impress upon both workers and businesses the public's interest in wage and price restraint.

We fully recognize that this program will meet some skepticism. Given the nature of the current inflation, it is clear that no individual business or group of workers can afford to take steps to solve the inflation problem unless he is convinced that others will go along. Inflation poses a problem in which the interests of individuals coincide in the long run with the public interest. If the program succeeds in accomplishing a gradual reduction in inflation, we will all be better off. Money wages will grow less rapidly—but real wages will continue to expand because prices will also rise more slowly. Profits will continue to rise and to provide adequate incentives. Our chances of sustaining economic growth will be improved, and the risk of new inflation reduced.

THE INTERNATIONAL ECONOMY

The problems which the American economy faces, and toward which the resolution of which the President's economic program is addressed, are not unique to our nation.

Throughout the world, in both industrial and developing countries, governments are struggling with the existence of inflation side-by-side with widespread unemployment.

Outside the United States economic recovery faltered in 1977. Unemployment is high and rising in most industrial countries abroad. The quadrupling of world oil prices in 1973–74, that contributed so much to the world-wide acceleration of inflation and the global recession, is still troubling the world economy through its effect on the balance of payments of oil-importing countries. And because they were so severe, the economic disruptions of several years ago still cast a shadow over current economic events, as their memory affects the attitudes of businessmen and consumers.

Continued economic recovery is critical to the health of the world economy. Growth in the U.S. economy—the largest and strongest in the world—is essential to that recovery. It is also important that other strong nations join wih us to promote growth in their own economies. World recovery cannot proceed if nations rely upon exports as the principal source of economic expansion.

The problem of imbalances in international payments will also require concerted action. Because of the surpluses of oil-exporting countries, many nations have sizeable deficits. Some industrial countries are also running large and persistent surpluses, thus increasing the pressures on countries in deficit.

Reduction of these imbalances will demand several parallel steps. To begin with each individual country must ensure that its own policies help relieve the strains. The United States must do its part. In 1977 we had a current account deficit of $18 billion. The large rise in oil imports was a major factor in producing this result. We can take a most constructive step toward correcting this deficit by moving quickly to put a National Energy Plan in place.

Our 1977 trade deficit also stemmed from our better economic performance. Slow growth abroad held down our exports while expansion at home raised the demand for imports. The appropriate response to these developments is not a halt in U.S. recovery—that would seriously worsen the economic problems of the world. It is important, however, that in our recovery we encourage a faster growth in business investment, to improve productivity growth, provide adequate industrial capacity, and combat inflation, thereby enhancing our competitive position in world trade.

Countries in surplus should also do their part. Balance of payments surpluses in some countries have contributed to the economic stagnation among their trading partners. Where their own economies have slack, it is appropriate for nations in surplus to stimulate the growth of domestic demand—thereby inceasing their imports and improving the prospects for growth in deficit countries. In some countries, lifting restraint on imports from abroad and reducing excessive government efforts to promote exports would be useful. After consultations with the United States, the Japanese have indicated they will take a series of steps toward reducing their large surplus.

During 1977 the U.S. dollar fell in value against several key currencies. The decline in the dollar's value has occurred primarily against the currencies of those nations that have large trade and payments surpluses, and was not surprising in view of our large payments deficit and their surpluses. Late in 1977, however, movements in our exchange rate became both disorderly and excessively rapid. The United States reaffirmed its intention to step in when conditions in exchange markets become disorderly and to work in close cooperation with our friends abroad in this effort.

Under the flexible exchange rate system basic economic forces must continue to be the fundamental determinant of the value of currencies. However, we will not permit speculative activities in currency markets to disrupt our economy or those of our trading partners. We recognize fully our obligation in this regard, and we have taken steps to fulfill it.

Although substantial progress can be made toward a balanced world economy, some imbalances will persist for a substantial period of time. Financing requirements will remain large while adjustments occur. The private markets can and will continue to channel the bulk of the financing from surplus to deficit countries. But it is essential that adequate official financing also be available, in case of need, to encourage countries with severe payments problems to adopt orderly and responsible corrective measures. To meet this critical need the United States has strongly supported a proposal to strengthen the International Monetary Fund by the establishment of a new Supplementary Financing Facility.

Along with other nations, we are dealing with some stubborn problems. They will not be solved overnight. But ours is a remarkably resilient economy. It will respond to carefully designed economic policies that address both short-run and long-run needs. The President's economic program meets that criterion. I believe it is essential to the continued healthy growth of the American economy, and I urge your favorable consideration and prompt action upon the President's proposals.

Appendix 1

CAPACITY UTILIZATION THROUGH 1981

To reach an unemployment rate of approximately 5 percent by the end of 1981, GNP would have to grow by about 4.8 percent a year. A rough indication of the rise in manufacturing capacity utilization that may accompany the projected real GNP growth of 4.8 percent per year between 1977 and 1981 can be obtained by observing the capacity utilization growth experienced in 1962–68, when real output grew steadily at above-trend rates, and real investment grew more rapidly than real output. If the relation between real GNP growth and capacity utilization in 1962–68 is matched in 1977–81, an annual 4.8 percent growth in real GNP would raise the manufacturing capacity utilization rate by 1.5 percentage points a year. By 1981 the utilization rate would reach 89 percent, slightly above 1973 but less than the 1966 level. In view of the current capacity utilization differences among industries and particularly the current large unused capacity in materials industries, such an outcome should be consistent with the avoidance of inflation stemming from capacity shortages. If, on the other hand, investment and capacity growth proceed at a significantly lower rate, capacity utilization would rise to levels previously associated with inflation.

Mr. Whitten. I yield to the gentleman from Michigan, Mr. Cederberg.

Mr. Cederberg. Mr. Chairman, it's always good to see our old friend here again.

You must have the same writer you had about fifteen years ago, because I read all of these statements from people downtown, and really it doesn't seem to make too much difference who is in the Administration, we can almost take these same statements and put a few different figures in them and come out with almost the same kind of predictions.

You know we have a lean budget, inflation is too high, unemployment is too high. But that is very understandable. Of course, economics is a very inexact science, and I suppose that is why you don't have to have malpractice insurance, because you know we can't really predict what is going to happen.

I was reading in the paper, your former colleague at Brookings, Alice Rivlin, said your predictions were on the optimistic side, and, of course, that is a legitimate and honest difference of opinion. She also said that even if we didn't write abudget this year and took the old budget, it wouldn't make that much difference, maybe $\frac{4}{10}$ of 1 percent one way or another.

PERFORMANCE OF STOCK MARKET

I just have a couple of questions. What is wrong with the stock market?

Mr. Schultze. Mr. Cederberg, if I really knew that I would have been making so much money in the last five years that I couldn't have afforded to have taken this job.

I literally do not know. I can suggest some of the things, but literally, I have to confess I am not an expert in the stock market.

Several things obviously are affecting investors. In my own judgment, the biggest single thing is the fact that, there is a little bit of history behind this, but for maybe 30 years not only in the United States but throughout the world, essentially, people got used to pretty steady, continued economic progress, interrupted only by very mild recessions and by bouts of mild inflation.

Starting in the late 1960's we got hit by double digit inflation and the worst recession in 40 years.

Quite apart from what it did to profits, to unemployment, to income, it chipped people's faith. I think it's gradually recovering but it's got a long way to go. Hence investors are, I think, very nervous, very sensitive to any kind of uncertainties. There are uncertainties about the energy bill, and I think that is particularly affecting this.

Mr. Cederberg. Could it be that institutional investors are moving out of the market into other things that look more attractive, and individuals are just not moving into the market? Could there be a good case for an incentive for individual investors to move into that market? It seems to me that would be helpful.

Mr. SCHULTZE. As a matter of fact, we have, in this particular tax program, the first cut in corporate tax rates since 1964. That is going to improve incentives and in a sense it's going to improve after tax profits.

STRUCTURAL UNEMPLOYMENT

Mr. CEDERBERG. One other question. You refer in your statement to structural unemployment, and I think it is one of our major concerns. I doubt very much that you are going to get unemployment down significantly in this country unless something is done about structural unemployment. You can pick up the Washington Post on Sunday and you have got about 25 pages of help wanted ads. The problem is, as I see it, there are jobs available, but the skills of people to accept those jobs, some of them not requiring great skills, just don't seem to be there.

It would seem to me what we need to do is place more emphasis on training of people, and probably we ought to take a good look at the product we are turning out of our schools, because there is an indication that too many of our young people are coming out of high school today and really lack the basic fundamental skills of reading, writing and arithmetic. We send them to college today and they have to have remedial reading when they get into college.

Do you think there is sufficient emphasis on this in the budget that is presented?

Mr. SCHULTZE. Given the state of our knowledge about what needs to be done, yes, sir. I emphasize, with qualification, several things. First, in the 1979 budget, which people can quarrel about, it basically doesn't increase substantially over 1978. Nevertheless, between 1977 and 1979, one area that does grow a lot is the Government programs for employment and training.

They go from $6 billion in 1977 to $12 billion in 1979. I am not suggesting every penny of that is spent perfectly, but there are good programs.

Secondly, one of the things we have not yet perfected but have an allowance for in the budget is something that I think is very important. How do we get private business to draw more heavily from those large pools of unemployed rather than exclusively going over those groups whose unemployment rate is already relatively low. That is, how do we attract more people into the private sector, because in the long run that is where the jobs are going to have to come from.

Public jobs help to some extent, but it's going to have to be in the private sector. So we are trying to emphasize in this budget, even though the details haven't been fully worked out yet, the beginnings of an effort to provide incentives for business firms to begin to dip into the pools of unemployed, train people, keep them on the job, and move in that direction.

We don't pretend we have all of the answers. We are putting heavy emphasis in this budget on both governmental and cooperative private and governmental programs to do what you are talking about.

We also have a significant additional sum, I forget the percentage, but significant additional sums for Title I of the Elementary and what used to be Elementary and Secondary Education Act, targeted—over 15 percent increase—explicitly to low income, disadvantaged groups, for education.

Mr. CEDERBERG. We have had substantial increases in all these areas over the years. I am just wondering if we should have some requirement that we get a product at the end of the educational line that justifies that expenditure.

Maybe we ought to have a Federal requirement that says before you can graduate from high school you ought to be able to read and write. That seems to be fairly reasonable if you are going to expect the taxpayers to ante up this extra money. Would you think that would be reasonable?

Mr. SCHULTZE. Yes, sir.

Mr. CEDERBERG. You do?

Mr. SCHULTZE. I really think——

Mr. CEDERBERG. I do not like Federal intervention but it just seems to me if we are going to add these Federal dollars it should not be unreasonable to expect.

Mr. SCHULTZE. I think we can encourage it, but in terms of requiring it, I do not know.

Mr. WHITTEN. Doctor, I am glad to see you on that side of the table. I think that the questions I submitted for the record yesterday and the ones I raised in the hearing, many of them will end up with you. It is a pleasure to have you back here. I have enjoyed working with you through the years.

I remember when Dr. Stein was on your side of the table with President Nixon. After he had given his views I asked him how long it took him before he could get his own economist to let him try out his views. He said 25 years. I said, Doctor, if it took 25 years for you to convince your own crowd, does that not raise a doubt as to whether you can be sure of your view?

It is a pleasure to have you here. I think over the years you have been more practical and down-to-earth than any person I have ever dealt with. It is a comfort to have you there.

There are two things I see in many statements by Members of the Congress, by the Executive Branch, and by others that get too little attention, from my viewpoint. One of them is that we do not draw a distinction between the productive jobs, where the jobs produce something of benefit to the American people, and those which merely provide employment.

You can have a job where the product goes into foreign aid. That is a give-away. You can have a job that gives a man a check just before he votes. That is 100 percent inflationary, it adds nothing.

The other point is that it is essential to the economy that you keep a proper balance. I am not talking about putting one segment of our economy ahead of the other; i.e. agriculture, industry, and labor. History proves that all three must either prosper or starve together.

I am not going to belabor the point here. I know all of these things will have your attention. It is a comfort to know you are in the position you hold.

Mr. Sikes.

Mr. SIKES. Thank you, Mr. Chairman.

Mr. Chairman, I think it is obvious that members of the committee are happy to have you back with us. I do not know whether it is because they know what you are going to say or like the way you say it.

Mr. SCHULTZE. I will not attempt to draw that distinction.

AGRICULTURAL CRISIS

Mr. SIKES. Mr. Chairman and Mr. Director, continuing the line of questions that I followed yesterday, the problems of the American farmer have been portrayed in demonstrations throughout the nation, and particularly in Washington. I do not see much result in the actions of either the Administration or the Congress at this point.

These problems are much more serious than the public realizes. The farmer is the only American producer who buys at retail levels and sells at wholesale.

Now I am informed, and I think reliably informed, that the average farm family has an income lower than the poverty levels prescribed by the government for welfare recipients. It seems as though many farm families would fare better if they quit work and went on welfare.

Despite this unhappy picture—and it is an unhappy picture—the administration's proposed budget for agriculture has been reduced in many areas. As a result, major programs are going to be reduced if those recommendations are followed.

Does the government realize the serious nature of the farmers' problems? Are we not relying too much on overall income figures which do not take into effect costs, losses from weather and other factors that cut down on farm income?

Mr. SCHULTZE. Let me start with part of that and Director McIntyre can go to the other.

As I indicated to the committee yesterday, I think the Congress in 1977 passed a good farm bill.

Mr. SIKES. I agree that is a good farm bill, but it is not a cure-all for this problem and is not a comprehensive solution for the problems the farmer has been emphasizing in demonstrations this year.

Mr. SCHULTZE. The point I wanted to stress, Mr. Sikes, is, give it a chance to work. What that bill does, which I think is very interesting and has not been done before, is that through the target price system it has a support price which keeps our commodities competitive in the rest of the world but provides for payments to farmers which cover costs of production, plus cost of management, plus a bit of a return on land.

Mr. WHITTEN. Would you yield to me?

Mr. SIKES. Of course.

Mr. WHITTEN. May I point out that under the basic farm laws Commodity Credit Corporation always had authority to sell in world trade at competitive prices. For years Mr. Benson would not use it; he held off world markets up to $8 billion worth of goods. Congress finally insisted they offer them for sale and the Department sold them in a period of months.

So let's keep it straight that we have always had authority to sell as a matter of governmen policy and they refused to use it.

Mr. SCHULTZE. That may have been then, but this new bill goes in the direction you are talking about, in the sense that we have competitive prices and also target prices related to cost of production.

Mr. SIKES. I know it is the administration position that you have a new bill; therefore, give it a chance to work. I am saying that the bill is not going to produce the results that TRR needed, the farmers are demanding, and I think are entitled to.

I sincerely hope there will be a sympathetic restudy of this problem. I do not think that restudy is yet taking place, either in the Department of Agriculture or in the Administration. I hope you will restudy this problem because it is more serious than many realize.

I have some other questions, I am going to submit them for the record at this point.

Mr. WHITTEN. That will be fine.

[The questions of Congressman Sikes and the responses submitted by the Office of Management and Budget follow:]

Question. There has been a tremendous amount of publicity about an increase in Defense spending. Actually, the percentage of the budget that is devoted to Defense is down from last year. The increase in dollars is inadequate to cover increased cost of wages and inflation. The Defense budget shows cuts in needed ships and weapons systems that are extremely important to the security of our country. The only appreciative build-up appears to be in funds to strengthen the NATO allowance. I support a strong NATO, but the President's proposal for more funds is not, I am advised, accompanied by similar increases on the part of our European allies. It appears to be poor policy for the U.S. to spend more for the alliance if our allies are not willing to do so. We have no assurances from any real progress from the SALT TALKS that are in progress. The Defense funding picture is much gloomier than it should be.

Answer. The national defense budget for 1979 and the projections for future years meet President Carter's goal of insuring that U.S. military forces are fully adequate to their tasks, but at the same time lean and efficient. President Carter's projections for this and future years average about $7 billion a year less than President Ford's. The savings reflect continued emphasis on essential modernization and readiness, deferral or cancellation of marginal programs and further improvements in the efficiency and effectiveness of the defense establishment.

Within the budget totals, however, there is a significant reordering of military priorities. The budget provides substantial resources for modernizing our conventional forces and improving their capabilities within the NATO alliance. Initiatives include a wide range of measures to improve the readiness of our early deploying forces. The results of these initiatives, accompanied by companion efforts on the part of our allies, should lead to a further increase in NATO effectiveness.

On the other hand, a number of constraints have been applied to Department of Defense programs within the overall budget level. The Navy shipbuilding program has been restrained pending completion of studies on how best to carry out the sea control, power projection, and peacetime presence functions of the Navy. Moreover, this slower rate will enhance efforts to improve management of this important program and to ensure a quality to the estimates which will reverse the cost growth trends experienced over the past nine years. Military construction, while growing from the severely depressed 1978 budget level, has been restrained from the previous projections of the Ford administration pending further review of our long range domestic facilities requirements. Military and civilian strength levels have been reduced further reflecting the continuation of efforts to increase the efficiency of the Department of Defense support structure.

The adequacy of the defense budget cannot be assessed in terms of its own dollar level alone. The amount requested is large. However, since 1964 we have witnessed a sustained growth and modernization of the Soviet strategic and tactical forces, and the adequacy of the budget must be assessed in terms of trends in the world-wide military balance. Stated simply, the U.S. interests, international turbulence, and Soviet capabilities constitute the starting point for U.S. defense planning. While consideration of these points leads inevitably to the requirement for growth in the resources allocated to the national defense, appropriate restraint in our programs is still warranted. The budget is based upon such restraints.

Question. The problems of the American Farmer have been portrayed in demonstrations throughout the nation and particularly in Washington. These problems are much more serious than the public realizes. The farmer is the only American producer who buys at retail levels and sells at wholesale. He is plagued between twin problems of bad weather and poor markets. I am reliably informed that the average farm family today has an income lower than the poverty level prescribed by our government for welfare recipients. In other words, many farm families would fare better if they quit work and went on welfare. Despite this unhappy picture, the government's proposed budget for agriculture has been reduced, and a number of major programs will be cut back in scope if budget recommendations are followed. Surely, the government recognizes the serious nature of the farmers' problems.

Answer. Outlays for farm income stabilization are projected to decline from the extraordinarily high levels currently estimated for 1978. However, this $3.7 billion reduction does not represent any attempt to shortchange farmers or to reduce the level of price protection afforded producers of the supported commodities. Projected outlays for 1979 are based on a specific set of program assumptions that were developed for budget purposes. *These estimates do not constrain program outlays.* The Administration will take whatever actions are called for by our legislative mandate in the context of the actual weather/market conditions.

Major items accounting for the projected decline in outlays include (in billions of dollars):

1. Price support and related programs	—$3.0
Completion of grain reserves and imposition of set-asides are expected to reduce CCC net lending	(—$1.6)
Net outlays for the short term export credit will be down due to:	(—.7)
A lower program level (reduced from $1.7 to $1.5 billion due to lower Polish credit); and receipts rising by $0.5 billion.	
Lower purchases of certain commodities is expected due to:	(—.6)
The completion of the wheat reserve in 1978; and lower dairy purchases as a result of increased demand.	
2. Lower crop insurance outlays since 1978 was an unusual year	—.1
3. The sale in 1979 of FmHA loans made in fiscal year 1978	—.6

The Administration does recognize the serious nature of farmers' problems and has taken action under the new farm bill to deal with surplus production and to strengthen and stabilize farm prices and income. These steps include the imposition of acreage set-asides to reduce production, initiation of grain reserves to isolate substantial surplus stocks from the market, intensification of international trade negotiations and an increase in short-term export credit to expand export markets.

Question. The budget proposes that the U.S. provide 25 percent of the funding needed for international banking support programs. I can see no reason why a country that is as heavily in debt as ours and which is taxed as heavily as ours should be expected to put up 25 percent of the money needed in any worldwide program. We also provide 25 percent plus loans and grants to the United Nations—far more than any other country—and more than is reasonable for the U.S. to pay. To me, this means we are allowing ourselves to be taken advantage of by other countries whose financial stability is probably better than ours. Why should we not make decisive cuts in these areas?

Answer. The international banks were created by the developed industrial countries to provide an efficient and effective mechanism for providing development assistance to the less developed countries of the world, and to do so in a way which spreads the burden of this assistance among the developed countries in an equitable way. Among these countries, the United States is, by far, the largest economically and financially, with 40 percent of total donor country GNP, a larger share of long-term capital markets, and with one of the least burdensome of tax systems. The 25 percent that the U.S. now contributes is, therefore, less than a proportionate share of a multilateral development assistance system that we were instrumental in establishing to promote international economic cooperation.

Since 1974, the U.S. assessed contributions to UN organizations has been made at the rate of 25 percent. This rate has declined steadily from 39.89 percent in 1946 to 33⅓ percent in 1954 to 30 percent in 1957 and finally to 25 percent in 1974. Throughout this period, the U.S. has maintained that the UN should not have to depend on any one member for a disproportionate share of its financing. If comparative ability to pay of all UN members were the sole determinant of UN assessment rates, the State Department estimates the U.S. assessment would now be about 29 percent. Should present economic trends continue, however, the U.S. assessment rate, as determined by national income statistics, will in coming years fall below the 25 percent ceiling level. The U.S. also makes voluntary contributions to the UN Development Program, the UN Children's Fund and other UN programs in amounts that range between 20 and 30 percent. These contribution levels reflect, with some deviations, the capacity-to-pay principle used by the UN.

Mr. Whitten. The gentleman from Kentucky, Mr. Natcher.

Mr. Natcher. I have no questions.

Mr. Whitten. Mr. Flood.

PUBLIC SERVICE EMPLOYMENT

Mr. Flood. The President's budget proposal is to maintain public service employment at 725,000 jobs in 1979. Now that is the same number as this year. In your statement, Mr. Schultze, you indicate that one of your goals is high employment. Well, now, if that is so, then why is there not an increase in the budget for these public service jobs?

Mr. Schultze. There are three reasons for that.

First, public service employment currently on board is a little over 600,000. So it will go up to 725,000 and then level off.

Second, there are additional job programs in this budget, not that particular program, but there are additional jobs in the youth area, in doubling the Job Corps and in a $400 million program for putting people into private jobs, not public but private jobs.

Finally, Mr. Flood, in addition to all of this, with respect to governmental programs, our overall fiscal program is designed to insure increase of something like 2 and three-quarter million jobs, principally in the private sector.

So yes, it is true we are leveling off the public service employment in Titles II and VI. But we are increasing other governmental programs, and we are providing for substantial increase in the private sector.

INCREASED PAYROLL TAXES

Mr. Flood. Last year Congress enacted legislation which would greatly increase the payroll taxes. That was done as part of an effort to relieve the financial pressure on the Social Security program. Well, what effect do you think these increased taxes will have on economic expansion? Will the consumer spending be substantially cut back?

Mr. SCHULTZE. If we did nothing about it, you are exactly right, Mr. Flood, consumer purchasing power would be cut back. Therefore, one of the reasons we are proposing a reduction in individual income taxes is precisely to restore, more than restore as a matter of fact, the purchasing power to be lost through particular tax increases.

You are quite right, we do need to take action to offset that. We needed the increases to help finance Social Security. You could not avoid it. But the Administration's tax package this tends to offset it in the individual income tax system.

Mr. FLOOD. Thank you.

Mr. WHITTEN. The gentleman from Massachusetts.

Mr. CONTE. Thank you.

BALANCED NATIONAL GROWTH

Mr. McIntyre, continuing on with my questioning of yesterday, implicit in the Carter budget document is a complex set of policy assumptions about the fiscal growth of fiscal year 1979. Given the realities of regional growth disparities, there is not enough growth in the North and there is too much growth in the South.

Can you tell me if the fiscal year 1979 budgeted current capital expenditure patterns are targeted in such a way as to encourage a more balanced national growth?

Mr. McINTYRE. As I stated yesterday, the overall assessment of departmental needs is done on an individual basis. I have not gone back and made an analysis of what effects the recommendation for outlays would have on each specific region of the country.

Do you have anything in your analysis on that?

Mr. SCHULTZE. No. I am not sure I can fully answer it. I think if you look at the table on page 183 of the special analysis, which gives a regional distribution of Federal grant outlays on a per capita basis, you will find that for the United States as a whole the last year for which we have numbers is 1977, but it reflects the basic tendency per capita for the country as a whole.

For the 2 regions of the Northeast reaching down through New York and New Jersey, it runs significantly above that. That is not to suggest that you can simply make those comparisons and that gives you your answer.

On the other hand, it is also true that the Federal budget does roughly reflect the kind of situation you are talking about. I grant you it is not a full answer, but if you look at that table you will see those per capita grants are larger.

There is good reason for that. It is not arbitrary. I think that goes a little bit to your question.

Mr. CONTE. If you can find anything else in there, I would appreciate your putting it in the record for me.

Mr. McINTYRE. Yes, sir.

[Please refer to response to related question submitted by Mr. Conte on page 162.]

ZERO BASE BUDGETING

Mr. CONTE. I think the Administration should be commended for the institution of the zero base budgeting, given its emphasis on better coordination of planning, budgeting, and evaluation. In order to further these goals, wouldn't it be desirable for OMB to prepare regional budgetary impact statements that would be submitted to the Congress along with the President's budget?

Mr. McIntyre. To the extent we could put together such a document and provide meaningful information to the Congress, we would certainly endeavor to do that. I am not certain how that relates to zero base budgeting. It would be, in my opinion, just another way to display expenditure patterns. I guess to the extent that it reflected some degree of priority, you could say it is related to zero base budgeting. But let me reemphasize the point I made yesterday, that zero base budgeting is a management tool to help analyze and establish priorities in the allocation of resources. To the extent such a display would provide another way of looking at expenditure patterns, it probably would be useful.

[Representative Conte submitted the following questions which were responded to by the Office of Management and Budget:]

Question. In order for us to measure the utility of regional budgetary impact statements, it would be helpful if the OMB prepared such an analysis for FY 1979. Is it possible for such a statement to be prepared for this Committee by March 15, 1978?

Answer. The Federal government has not attempted to identify the distribution of total outlays by region for the current year or for the budget year in the 1979 budget. Programs are analyzed individually in the budget process, and are not evaluated by the particular region in which they take place. Rather, they are analyzed on the basis of whether they meet particular needs, wherever those needs occur. An example is social security. This program is designed to provide income to the elderly, wherever they choose to live. Therefore, if most of the elderly were to choose to live in the South, then most of the social security payments would go there.

There are approximate data showing the distribution of Federal funds for the most recently completed fiscal year, i.e., 1977, by region, state, county, and city of 25,000 population or more in the publication *Geographic Distribution of Federal Funds* (formerly entitled *Federal Outlays*). The volume for fiscal year 1977 is expected to be released in the middle of March. This publication deals primarily with obligations, and in the absence of exact data, uses a variety of proration techniques to distribute the estimates geographically. The Congressional Budget Office has reviewed the quality of the estimates in their publication. "Troubled Local Economies and the Distribution of Federal Dollars, August 1977". CBO has found that estimating techniques for 31% of the dollars—almost half of which concerns defense data—are open to serious question due to the fact that the data report the location of prime contractors, but not subcontractors and a large portion of the work in defense is subcontracted.

Much of the other data open to question concerns payments to States that are subsequently distributed to local governments. We do not have adequate data as to where the funds are finally spent, and therefore these data are also open to serious question.

Another source of regional data is "Federal Aid to States" published by the Treasury Department, which shows grant outlays by State for the most recent actual year.

Mr. Schultze already described the regional data shown on page 183 of the Special Analyses, which is based on preliminary data related to Federal aid to States.

The sources mentioned here, however, attempt to describe generally the effect of Federal spending by region for prior years. We do not attempt to estimate what the distribution would be for future years, although for the budget as a whole—as percent of the total—the distribution probably would not change substantially from year to year.

You had asked whether we could prepare a regional budgetary impact statement for the 1979 budget. Since we do not collect or analyze data on this basis, we are unable to provide such a statement.

Question. Mr. McIntyre, the budget summary indicates that the federal role in education, though limited, should assure, among other things, that persons with physical handicaps will have access to good education. Does this policy result in an increased availability of funds for the purpose of modifying physical structures to provide the physically handicapped with easier access to school buildings?

Answer. This policy did result in the decision to provide $30 million in loans in 1978 and $50 million in grants in 1979 for the purpose of assisting higher education institutions in meeting the most excessive costs of modifying physical structures to provide the physically handicapped with easier access to school buildings. The policy, however, does not mean that the Federal government will or should pay all of the costs of structure modification or that increasing funds will be provided.

Providing funds is not the only way the Federal government fulfills its educational role. For example, the Department of Health, Education, and Welfare is beginning to give much needed technical assistance to help educational institutions determine how they can comply with the regulations at the minimum cost. Further, we do not yet know the universe or need or even the exact nature of the structure modification problem. Under the 504 regulations, States are required to submit plans to HEW for meeting structural modification costs. When these plans are received, we should know whether there will be a need for greater Federal involvement.

Question. With regard to this program, is the Administration considering the establishment of a development bank for the cities that would make loans to support specific local development projects?

Answer. The Administration plans to announce its urban policy on March 15, 1978. In preparation for that announcement a large number of proposals designed to assist areas in need are being considered. A development bank that would make loans to support specific development projects is one of the proposals being given serious consideration at this time.

Question. Will the Carter program contain new proposals directly aimed at encouraging the return of people and businesses to the cities?

Answer. Many cities have suffered from an outflow of population and businesses. In certain cases those cities have potential to increase their desirability. The Administration, as I noted above, is considering a wide variety of proposals to assist cities in developing their potential as attractive places to live and work.

Mr. CONTE. Mr. McIntyre, in last year's House report which accompanied the transportation appropriation bill, our committee expressed concern over the duplication which exists in the areas of safety research, evaluation, oversight, promotion, standard promulgation, and accident investigation.

In your reorganization plans, do you intend to consolidate areas and responsibilities so that we can achieve a more coordinated and a more cost effective national transportation safety program?

Mr. MCINTYRE. The reorganization effort is a very broad-based effort. To the extent we would get into the transportation areas of overlap and duplicative functions—to the extent that there is overlap and duplication—I feel we would make recommendations accordingly. However, we are focusing on a number of specific studies at this time because we have to make some choices as to the reorganization plans that we will be submitting to the Congress. And our plans for this year do not include, at this, time any major analysis in the transportation areas.

After we get the airline deregulation issue resolved, then we have other transportation issues that we will specifically look at. I guess the point I would like to make is that we would have to get to the transportation issue through our order of priorities that are being addressed in the reorganization effort.

Mr. CONTE. My time is up but I hope that you will look into it. John McFall, the chairman, I am sure will agree with me, we have found just case after case of duplication here and waste of taxpayer's money.

Another area where there is a lack of coordination and duplication concerns alcoholism programs conducted by HEW and DOT.

Mr. McINTYRE. We have recommended some cooperation between EPA and the Department of Transportation in their planning programs for air quality control. That is in the budget this year.

Mr. CONTE. Thank you, Mr. Chairman.

My time is up.

Mr. WHITTEN. Mr. McFall.

TRANSIT PROGRAM

Mr. McFALL. Mr. Director, yesterday I asked some questions about the new transit program and I have some specific questions which perhaps we can put in the record at this point. I will give them to the reporter and when you receive the transcript, you can answer them.

[Mr. McFall submitted the following questions which were responded to by the Office of Management and Budget:]

The President's proposed surface transportation legislation will increase the Federal share for many highway programs from 70 percent to 80 percent. This means that a state will be able to receive 12 Federal dollars for each three State dollars as opposed to seven Federal dollars for each three State dollars under the current matching ratio.

Question. Do you have any projections of the impact this will have on future highway spending?

Answer. We do not have estimates on the impact that the change in the Federal matching share will have on future highway spending. This issue is very complicated. The Administration's proposal includes a series of program reforms, including consolidation of programs, new planning requirements, and the means for expediting completion of the Interstate highway system. The overall impact of all of these changes is not easily predictable, although we suspect that it will tend to increase usage of available Federal highway dollars. However, in the aggregate, when Federal, state and local expenditures are considered, there may be no net change in the national level of expenditures on highways. Since many states allocate their gas tax revenues to highway purposes, state dollars "saved" through a higher Federal matching share may simply be diverted to other highway projects. This appeared to be the case when the Federal matching share was raised from 50 percent to 70 percent in 1970.

The Department of Transportation will be monitoring the situation very closely to ensure that the "peaks and valleys" of highway expenditures are avoided in 1979 and future years. Of course, we hope that the appropriation committees of Congress will provide further assistance in controlling the total level of Federal highway expenditures by continuing to enact yearly obligation limitations on the Federal-aid highway program.

Question. To what extent, if any, do you feel this will require an increase in the Federal gas tax to provide additional revenues for the highway Trust Fund?

Answer. The Administration's proposal extends highway trust revenues for four years, from 1980 through 1983. No increase in Federal gas taxes or highway excise taxes is requested. In fact the Administration has requested a small decrease in trust fund tax revenue collections in the form of a proposed repeal of excise taxes on buses and on bus parts. The total estimated reductions in revenues are estimated to be $29 million in 1978 and $21 million in 1979.

Question. Would you provide a breakdown of your estimated Highway Trust Fund receipts and expenditures for the next five fiscal years?

Answer. A breakdown of estimated highway trust fund authorizations and receipts, per the requirements of the Byrd Amendment, follows:

Projected Highway Trust Fund Revenues [1]

(Dollars in billions)

Balance September 30, 1977	$10.2
Fiscal year 1978 estimate	7.1
Fiscal year 1979 estimate	7.4
Interest	1.3
Cash on hand at end of fiscal year 1979	26.0
Commitments through fiscal year 1979 (Interstate) and fiscal year 1978 (non-Interstate)	−24.9
Uncommitted balance based on current law	1.1

Projected Income, fiscal year 1980–83

Fiscal year:	
1980	$7.1
1981	7.3
1982	7.3
1983	7.4
Total	29.1
Interest	2.3
Uncommitted funds	1.1
Closeout funds	.4
Total revenue	32.9

Projected authorizations, fiscal year 1979–83

Fiscal year:	
1979 (Noninterstate only)	$4.3
1980	7.8
1981	8.2
1982	8.2
1983 (interstate only)	3.5
Total	32.0

[1] Trust fund revenues are assured through 1979. Trust fund authorizations are provided through 1978 (except for Interstates which are provided through 1990). Interstate apportionments are made available to the states one year prior to their fiscal year authorization dates—e.g., 1979 Interstate authorizations may be obligated by the states in 1978.

Mr. WHITTEN. We will recess and go vote.

May I urge my colleagues to please come back immediately. I am advised that some of these gentlemen may not be here this afternoon. Mr. Blumenthal will.

I urge everybody to come back immediately.

Off the record.

[Discussion off the record.]

Mr. WHITTEN. The committee will come to order.

The gentleman from New Jersey, Mr. Patten, I believe.

Mr. PATTEN. Thank you, Mr. Chairman.

I think the President in his State of the Union speech tried to indicate it is going to take more than just the Government if we are going to tackle inflation, if we are going to tackle the jobless problem. I agree. But when I go home, I don't know why it is, everybody thinks I have the power down here to spend, to cut and solve our economic problems. I think we are only like a feather in the breeze in this world picture.

Now you are sitting here talking about creating a couple of jobs. In the New York metropolitan area in which I live, we lose 600,000 jobs. I can put my finger on them. They are over in Taiwan. I saw my Westinghouse plant move. Our General Electric plant moved—you know all about that.

Now that is the real force that I see. Other forces are at work, also. Energy, all the other factors are far above what we are sitting here talking about.

I got men out of work up there. You are talking about who they hire. I know who they hire. The follow over 35 is unemployable for the rest of his life in my district. They have to be high school graduates. We have people that came from other countries. They are not high school graduates. They don't come under CETA.

So that I sometimes think, Mr. Schultze, fellows like yourself put yourselves in the position where you are omnipotent, when the truth is otherwise.

Mr. SCHULTZE. I think that is sometimes true, yes. We are not helpless but we cannot do everything.

Mr. PATTEN. I think there is something bigger, beyond anything I can do here on the Hill, and bigger than you, too, on your part.

Mr. SCHULTZE. We can do somethings. We cannot do everything.

Mr. PATTEN. Time is up.

Mr. WHITTEN. The Chair yields to the gentleman from North Dakota.

AGRICULTURAL CRISIS

Mr. ANDREWS. Thank you, Mr. Chairman.

Before the gentleman made his opening remarks I asked the gentleman if he had mentioned something about agriculture. Of course he had a prepared text. The thrust of my question about agriculture is because you are the head of the Council on Economic Advisers, giving advice to the President, and because of comments that have been made in this hearing this morning already to the effect that we do have a farm bill. Granted; but the farm bill has a lot of discretionary powers that are up to the President.

I merely wanted to find out, if I could, what type of advice you are giving the President. Do you in fact feel that farm depreciations spread to other sectors of the economy; is the need to resolve the present low prices on the farms just to help farm families or does it have, in fact, a good deal of impact on the rest of our economy?

These are some rather basic questions. I find a startling difference of opinion among our neighbors in the European economic community and I wanted to get at, if I could, the gentleman's feelings on this subject.

Mr. SCHULTZE. There is no way I can answer that question very briefly.

First, you want to keep a balance in your economy. It is not a set rigid balance. So yes, you worry about the farm economy, not only for its own sake but what it does to the rest of the economy.

Second, I think it is very important—and this is why I like the basic principles in the 1977 farm bill—to be very careful that we do not try to deal with the farm economy by boosting market prices way up thus pricing ourselves out of the market.

Mr. ANDREWS. Does the gentleman realize there is not as much value in the wheat in a loaf of bread as the cost of wrap around that bread? There is only 2 cents wheat in the loaf of bread that sells for 60 cents or more. If you double the price of wheat, you would only increase the costs of bread by 2 or 3 percent.

Mr. SCHULTZE. On the other hand, if you double the price of wheat you have to keep it in line with feed grains. You double the price of feed grains, you double the price of soybeans. If you keep it in line with soybeans, you double the price of cattle, and if you do that you do it to meat and so on, and so on.

Mr. Andrews. Last summer a choice steer sold for the same amount in Omaha as it was pegged at under the OPA days of Harry Truman, and it was called a fair price. You could buy a Chevrolet for $1,500 and today it is over $3,000.

How do you expect the farm family, who is the biggest consumer of American products, to be able to buy and, in effect, stimulate the economy?

Mr. Schultze. But again, the point I come back to is, when you get at that problem you want to get at it through the target price system, not by jacking up market prices. That is what I am suggesting.

When you jack up the feed grain prices substantially, what do you do, for example, to the cattle feeder and the cattleman? I think it is very important to keep with the principles of that 1977 farm bill, where you improve incomes through target prices and deficiency payments rather than through market prices.

[Additional response from the Council of Economic Advisers follows:]

In the most recent *Economic Report of the President*, we have discussed at length the difficulties and issues surrounding farm income support programs, and I would refer you to that section of the *Report* for a rather comprehensive discussion. For your convenience, I am enclosing a copy of the *Report*, and I refer you to the section beginning on page 195.

Mr. Andrews. I recognize we are getting into a very technical and extremely complicated subject. I know under the 5-minute rule we cannot get into it thoroughly, but if the gentleman and his staff would expand on it, any amount of space you want to take in the record, I think it would help us very much when we go into our subcommittee hearings on agriculture. When we will examine the fact that one of the budget choices made by the Administration is to cut the farm income stabilization by half.

This flies in the face of what you are saying, that we do it through target prices, when your own budget indicates we are going to cut that spending roughly in half.

Mr. Schultze. The reason is not that we are cutting assistance to farmers. The reason for that is that this is an estimate of weather and the magnitude of the crops. This is not a congressional decision on the part of the government to cut it. If it should turn out, for example, that you get, instead of bad weather, a bumper year on crops, you will find that number going way up.

OUTLAYS FOR FARM INCOME STABILIZATION

Mr. Andrews. Let me read your language. You say outlays for farm income stabilization are estimated to decrease substantially from $7.9 billion in 1978 to $4.2 billion in 1979. Now this is the statement that I wanted to get at.

The trouble is, when we move into our subcommittees and when we examine the budget, we do not get anybody from OMB, we are not able to get anybody from the Council of Economic Advisers. When we talk to the Assistant Secretaries of Agriculture, they say, "Well, our hands are tied because we knew this had to be done but when it went to OMB,

OMB cut this out, the Council of Economic Advisers recommended something else."

This is why we would appreciate very much if you would expand as much as you could for the record to find out why; in the face of what we have been seeing the last 2 or 3 weeks, in the face of what you just said, the farm income stability payments part of the budget has been cut roughly in half.

Mr. SCHULTZE. We will do that.

[Information provided by the Council of Economic Advisers follows:]

Agriculture Secretary Bob Bergland recently wrote to the President of the Kansas State Senate, Ross O. Doyen, to discuss at length the questions you have raised. I am inserting in the record a copy of that letter, for your information.

Hon. ROSS O. DOYEN,
President, Senate of the State of Kansas,
State House,
Topeka, Kans.

DEAR SENATOR DOYEN: This is in further reply to your letter to the President concerning the decrease in outlays for agricultural programs in the 1979 budget.

Agricultural outlays in 1979 are currently estimated at $5.4 billion, a decrease of $3.7 million from the record high 1976 level. Most of this decrease, $3.018 billion, is related to the expenditures of the Commodity Credit Corporation for price support and related programs.

Outlays (expenditures) for price support and related programs are impossible to predict in advance. The 1979 fiscal year estimates relate primarily to 1978 crops, most of which have not yet been planted. The size of the crop and market prices, two factors which will ultimately determine CCC costs, can and will change throughout the growing period. Nevertheless, in order to prepare the President's budget it is necessary for us to provide a bench-mark estimate based on most likely weather trends and anticipated market prices.

Further, outlays are not a good measure of the Government's cost of operating farm programs. Outlays represent cash transactions. A major part of these outlays represents loans made to farmers to support the price of commodities and to build storage facilities and to exporters to finance the sale of agricultural commodities abroad. The storage facility and export credit loans will be repaid, with interest, in subsequent years as will some of the commodity loans. The receipts from these loan repayments will offset outlays in future years. Also, if commodity loans are not repaid, the Commodity Credit Corporation will acquire the grain which had been pledged as collateral for the loan. This grain will be sold at some future date and the receipts from such sales will also offset outlays in a future year.

To illustrate the impact of loan activity on outlays in fiscal year 1978, the Department expects to make $8.041 billion in loans in 1978 and receive $4.596 billion in repayments. This will result in net outlays in 1978 of $3.445 billion. In 1978 the Department plans to establish a grain reserve of 30 to 35 million metric tons (nearly a billion bushels). Most of this reserve will be held by farmers and will be grain which farmers have placed under the loan program in fiscal year 1978. These loans will not be repaid until the contract period (three years) is ended or release price is reached. Net outlays in 1978 for these loans which are to become a part of the reserve are about $2.248 billion.

In addition, $439 million in commodities will be purchased in 1978 for the international reserve part of the total reserve program. In total, therefore, at least $2.686 billion in 1978 outlays result from the establishment of the reserve program. These outlays are a one-time cost to be incurred only in 1978. At some future date, if world reserves become depleted, this grain will be put on the market and CCC will recover all or a major portion of its costs.

With the establishment of a reserve, which will be isolated from the market, a set-aside program for wheat and possibly a set-aside program for feed grains, 1978 crop year production should be down and market prices higher. With higher prices, fewer loans are expected to be made and those which will be made are likely to be repaid. Deficiency payments, i.e., the payment to farmers for the difference between the season average market price and the target price, will also be down in fiscal year 1979 if market prices improve. Disaster payments, i.e., payments to farmers whose production was less than two-thirds of normal yields, will also be down if we have normal weather. The decrease between fiscal year 1978 and 1979 in deficiency and disaster payments amounts to $465 million.

In summary, therefore, the decrease in CCC expenditures between 1978 and 1979 largely results from two factors:

The one-time cost of establishing the grain reserve in 1978, and the increase in market prices anticipated in fiscal year 1979 because of the establishment of the reserves and the set-aside programs.

Two other major reductions in agricultural costs in the 1979 budget should be mentioned. Outlays for the Agricultural Credit Insurance Fund of the Farmers Home Administration are expected to decrease by $572 million in 1979. This is strictly a financing adjustment. The Farmers Home Administration, in its loan programs, disburses funds as loans are approved. The notes are retained by the Farmers Home Administration for a period of time and then sold to the Federal Financing Bank. The Federal Financing Bank repays the Farmers Home Administration for the amount which FmHA has invested in the loans. The payments from the Federal Financing Bank offset the outlays which FmHA incurred from its loan disbursements. In 1978 it is expected that the inventory of notes held by FmHA will increase but will be sold in 1979. This increases outlays in 1978 and decreases them in 1979. Agricultural loans, with the exception of emergency loans, for which unlimited loan authority is available, and emergency livestock loans, for which legislation expires at the end of 1978, are projected at slightly higher levels in 1979 than in 1978.

One other program where outlays are estimated higher in 1978 than in 1979 is the Federal Crop Insurance program. Because of heavy losses in fiscal year 1978, the Federal Crop Insurance Corporation expects to pay out about $80 million more than in 1979. This assumes normal weather in fiscal year 1979. If weather is bad and substantial losses are incurred, these payments will increase.

In summary, these four changes account for the decreases in the President's budget for agriculture for 1979. They are subject to change as weather and market conditions change. The Department is asking Congress to increase the borrowing authority for the Commodity Credit Corporation by $5.5 billion for 1979. If crop and market conditions change and CCC expenses increase above the levels currently projected, the Department will be able to meet this increase with the additional borrowing authority requested.

We hope that this responds to your concern. I am enclosing a copy of the Summary of the Department's 1979 budget which explains all of the major changes between the two fiscal years. If you have any further questions, we will be happy to respond to them.

Sincerely,

Mr. Schultze. Let me again underline just one point. That is not—I underline the word "not"—an action by the administration to cut. It is simply an estimate of what———

Mr. Andrews. Whose action is it?

Mr. Schultze. It is an action of the market and it is the action of the weather in giving us the kind of crops that do that. If the market and the weather turn out differently, these figures will be different.

Mr. McIntyre. Absolutely. These figures are simply the outlay estimates of what are essentially entitlements under the farm entitlement programs of the farm bill.

Mr. Andrews. I appreciate your expanding on it for the record; I know our time is limited.

Thank you, Mr. Chairman.

[Please refer to OMB response to a similar question by Mr. Sikes, on page 159.]

Mr. Whitten. The gentleman from Maryland, Mr. Long.

Mr. Long. The special supplemental is coming before the Appropriations Committee for another couple hundred million dollars in connection with the International Monetary Fund, and I believe we are supposed to authorize $1.7 billion participation, but $200 million is what we are supposed to put up now; is that correct?

Mr. SCHULTZE. I don't know the exact number, but I will accept your figure.

BALANCE-OF-PAYMENTS DEFICIT

Mr. LONG. As you know, we are running what, about an $18 billion a year balance-of-payments deficit of our own?

Mr. SCHULTZE. Nearly $18 billion.

Mr. LONG. On balance of payments now?

Mr. SCHULTZE. The current account deficit this year is $18 billion, that is right.

Mr. LONG. It is far worse than I thought.

Is this an annual rate?

Mr. SCHULTZE. Annual rate, I see.

Mr. LONG. Now several things about this puzzle me very much. One is why the United States, with one of the more stable economies in the world and with a slower inflation than most other major economies, I believe, should be having difficulty selling its goods on the world market.

We are buying vast quantities of oil. Even when we do that, we put money in the hands of foreigners. The Arabs—wherever they are spending that money they are putting the dollar in the hands of somebody, and the only way those dollars ultimately are going to do them any good is to bring them here to the United States.

I am trying to understand this. Perhaps you can help me. I know a lot of the arguments which are given, but they don't satisfy me because, it seems to me, we ought to be the bargaining counter of the world.

Mr. SCHULTZE. Let me make a couple of points, Mr. Long. In the first place, worldwide, the oil producers, and it is mainly the Persian Gulf producers, are taking in oil revenues $40 billion more than they are buying goods with it throughout the world.

Mr. LONG Why aren't they buying our goods?

Mr. SHULTZE. They can't absorb it. The Saudi Arabians simply cannot develop their country fast enough, nor can the United Arab Emirates.

Mr. LONG. What are they doing with the money?

Mr. SCHULTZE. They are fundamentally putting it into securities. That does come back here.

Mr. LONG. That should solve our balance-of-payments problem.

Mr. SCHULTZE. That isn't in the balance of payments as such. That is a financing of the balance of payments. But, sure, the money is coming back.

Mr. LONG. When they buy securities in the United States, that is not part of the balance of payments.

Mr. SCHULTZE. Not as now defined, that is right. In other words, they are buying U.S. Treasury securities and that it not part of this current account balance. It is a way of financing that deficit, so the money is coming back. It isn't coming back to buy our goods and services.

Mr. Long. The degree of our balance-of-payments deficit is really largely a matter of definition. We are not defining it in such a way as to include a lot of the money which is actually coming back here.

Mr. Schultze. No. If we defined it that way, by definition it would always be balanced.

Mr. Long. That is what baffles me.

Is this a wise definition?

Mr. Schultze. Yes, sir, I think.

Mr. Long. You think we have a sound definition.

Mr. Schultze. There are a number of definitions. Let me talk about three of them. One of them is the balance of trade, simply how much do we export versus import. That will run something like $30 billion deficit this year.

Mr. Long. Yes.

Mr. Schultze. Second, you then take into account the income we get from our investments abroad, and a few other items. We get large amounts of income from investment abroad. That brings it down.

U.S. CORPORATE INVESTMENTS ABROAD

Mr. Long. Is that staying abroad to avoid taxes in the United States?

Mr. Schultze. Not principally.

Mr. Long. I noticed figures given the other day indicated 150 corporations, or something like that, were paying $19 billion in taxes to foreign countries, and only about $15 billion in taxes to the United States. I am wondering to what extend a lot of this money stays abroad to escape the U.S. tax collector.

Mr. Schultze. I am sure there is some of it, but basically, no.

Mr. Long. That is quite a bit, isn't it?

Mr. Schultze. No, I mean in terms of the reason. There may be some of it for that reason, but principally it is in terms of investment opportunities throughout the world. As you know, what has developed all over the world in the lasts 20 years is multinational operations. Sure, there is some for tax purposes, and the President's proposals want to neutralize that tax treatment. But I wouldn't suggest that the majority is that. There are opportunities all over.

Mr. Long. Are we under the 5-minute rule, Mr. Chairman?

Mr. Whitten. Yes. We are not being very tight with it, but we are trying to move along.

Mr. Long. We will have to take this up more when you come before the Subcommittee on Foreign Operations.

Mr. Whitten. We have a little flexibility on it, but not much.

ARMS SALES TO FOREIGN COUNTRIES

Mr. Long. I have another question on arms sale which I ask you to answer for the record. I don't know whether you consider that within your purview or not, do you, Mr. Director?

Mr. McIntyre. I will be glad to answer it if you will submit it.

Mr. Long. The increase in arms sales abroad is a great disappointment to me. After the President made a campaign pledge to cut back sales, fiscal 1979 reflects an increase. How is this consistent with his pledge? What negotiations are underway?

We are being asked to increase foreign aid and so forth abroad when basically some of this, directly or indirectly, is going to buy arms from the United States.

Would you comment on my observations? You can comment for the record.

[The information follows:]

Congressman Long, let me begin by reading part of President Carter's statement of May 19, 1977, in which he announced his intention to restrain United States arms transfers:

". . . I have concluded that the United States will henceforth view arms transfers as an exceptional foreign policy implement, to be used only in instances where it can be clearly demonstrated that the transfer contributes to our national security interests. We will continue to utilize arms transfers to promote our security and the security of our close friends. But, in the future, the burden of persuasion will be on those who favor a particular arms sales, rather than those who oppose it.

To implement a policy of arms restraint, I am establishing . . . controls, applicable to all transfers except those to countries with which we have major defense treaties (NATO, Japan, Australia, and New Zealand). We will remain faithful to our treaty obligations, and will honor our historic responsibilities to assure the security of the State of Israel. These controls will be binding unless extraordinary circumstances necessitate a Presidential exception, or where I determine that countries friendly to the United States must depend on advanced weaponry to offset quantitative and other disadvantages in order to maintain a regional balance."

The controls are:

First, the dollar value of new commitments to transfer weapons and weapons-related items in Fiscal Year 1978 will be reduced from the 1977 level;

Second, the U.S. will not be the first supplier to introduce into a region newly-developed advanced weapons nor will we sell or permit coproduction of such weapons until they are operationally deployed with U.S. forces;

Third, we will not permit development of advanced weapons solely for export;

Fourth, we will not permit coproduction by other countries of significant weapons, equipment, or major components;

Fifth, we will not allow U.S. weapons or equipment to be transferred to third countries without our consent; and

Sixth, we will not permit our diplomatic and military officials to promote the sale of arms.

Concluding his statement, the President said:

"I am initiating this policy of restraint in the full understanding that actual reductions in the worldwide traffic in arms will require multilateral cooperation. Because we dominate the world market to such a degree, I believe the United States can, and should, take the first step. However, in the immediate future, the United States will meet with other arms suppliers, including the Soviet Union, to begin discussions of possible measures to multilateral action. In addition, we will do whatever we can to encourage regional agreements among purchasers to limit arms imports.

The Administration is effectively implementing this policy. Although we estimate that overall sales of goods and services by the Department of Defense will increase from $11.2 billion in 1977 to $13.2 billion in 1978, the dollar volume of sales of weapons and weapons-related items to non-exempt countries is being reduced by 8% in fiscal year 1978. On February 1, the President announced that:

". . . Arms transfer agreements covered by the ceiling which I have established will be reduced by $740 million in Fiscal Year 1978. This means that for the fiscal year which began on October 1, 1977, and which will end on September 30, 1978, new commitments under the Foreign Military Sales and Military Assistance programs for weapons and weapons-related items to all countries except NATO, Japan, Australia and New Zealand will not exceed $8.6 billion. The comparable figure for Fiscal Year 1977 was $9.3 billion."

In that statement, he reiterated the need for cooperation by others if the policy is to be effective, saying:

". . . genuine progress in this area will require multilateral efforts. But, we are committed to taking the first steps alone to stop the spiral of increasing arms transfers. I call upon suppliers and recipients alike to join us in a determined effort to make the world a safe place in which to live."

As for your concern about foreign aid resources being used, directly or indirectly, for the purchase of arms, I would say that the increases we are requesting are exclusively in the economic assistance area and will be directed primarily at meeting the basic human needs of the poorer people in developing countries. This is the Administration's policy, and such an approach has long been supported by the Congress. Although foreign aid program managers make every preventive effort possible, it is, of course, possible that economic assistance could release a recipient's foreign exchange to finance arms purchases. That is one of the major reasons why the President's arms policy focuses on the transfers of arms themselves, rather than financing methods, as the only effective means of control.

TRADE DEFICIT

Mr. WHITTEN. The gentleman from Illinois, Mr. Yates.

Mr. YATES. Mr. Schultze, we have a large deficit in our balance of trade, attributable principally to our purchases of oil. What is the other factor that contributes to this problem?

Mr. SCHULZE. Since about last April our economy has continued to grow, and the economies of most of our trading partners, the big ones, have just flattened out. This caused our exports to level off while our imports of raw materials and other things have continued to grow. Thus, the fact that we are growing faster than our major trading partners and our oil situation, are the two main reasons for our trade deficit.

Mr. YATES. Would we be better off if we adopted a more protectionist attitude?

Mr. SCHULZE. No, sir, I don't think we would, because what we would then do is two things: We would substantially, you know, if you really did it——

Mr. YATES. I am not talking about a bill like Smoot-Hawley, which was devastating.

Mr. SCHULTZE. My point is no matter how you did it, you would directly or indirectly significantly drive up prices. But, No. 1, what you then do is, in effect, stimulate protectionist influences all around the world, and then we would end up with the same—I exaggerate—the same trade balance but with lower output and higher inflation everywhere.

OIL IMPORTS

Mr. YATES. Would that be true if we cut back on our oil purchases from OPEC?

Mr. SCHULTZE. Basically it wouldn't, and the main reason it wouldn't is that what the oil countries are buying from us is not limited by the amount of revenues they get. It is limited by how fast they can develop. So even if we cut back our oil purchases, since their revenues are in excess of what they can buy anyway, it will cut back their revenues but have a much, much smaller effect on their purchases from us and the rest of the world.

Mr. YATES. What would be the effect upon our economy if we were to cut back on our purchases of oil? It depends on how much we cut back of course.

Mr. SCHULTZE. It depends on how you did it. If you did it gradually, with measures emphasizing more production here and reasonable conservation, it would be a net plus. You can't adjust to cutting back oil all at once.

Mr. YATES. As in the case of the embargo in 1973.

Mr. SCHULTZE. That is correct. you can do it gradually. You have got a very good economy for doing that but it is very bad for doing it overnight. You can't switch from oil to coal overnight. You can't change your automobiles to get more fuel efficiency overnight. So if you tried to do it overnight, it would be very bad. If you tried to do it gradually, it would be very good.

Mr. YATES. What about 3 or 4 years?

Mr. SHULTZE. That is essentially what we are trying to do with the energy bill.

Mr. YATES. That is what I am leading up to.

Mr. SCHULTZE. That is right.

DEREGULATION OF NATURAL GAS

Mr. YATES. I thought I heard you say yesterday that deregulation would have a harmful effect on our economy.

Mr. SCHULTZE. That is right.

Mr. YATES. But doesn't the energy bill achieve deregulation in 4 years?

Mr. SHULTZE. It achieves——

Mr. YATES. The same equivalent of deregulation in 4 years?

Mr. SCHULTZE. In oil, that is correct, not in gas.

Mr. YATES. I was under the impression that under the formula in the bill, the price of gas was tied to the price of oil, and that as the price of oil went up, the price of gas went up and was deregulated.

Are you sure of your position?

Mr. SCHULTZE. 99.8.

Mr. YATES. 99.8 what?

Mr. SCHULTZE. Sure. What you may be thinking of, however, is there have been some "compromises" talked about, which involve over a much longer period than 4 years I believe a gradual deregulation of new gas. That is, I think, what you are referring to, and I think it is over more than 4 years.

Mr. YATES. I thought it was 4 years, Mr. Schultze. I think old gas would remain under regulation.

Mr. SCHULTZE. To 1983, so that is 1978 to 1983, it is 5 years.

Mr. YATES. 1982 or 1981? My impression was 1981.

Mr. SCHULTZE. That may be compromised, too.

Mr. YATES. It was a 4-year period.

Mr. SCHULTZE. I thought it was 5, but just new gas, not old gas; all right. The proposal is to continue the regulation of old gas.

To modify it, but to continue it.

Mr. YATES. To modify it in terms of price allowances?

Mr. SCHULTZE. To modify it a number of ways.

First, regulating for the first time new gas in intrastate markets, and then allowing some price increases with old contracts that are rolled over. So there would be regulation but it would be modified.

Mr. YATES. But the price of new gas then would be deregulated. At the same time that the priceof oil is deregulated, the price of new gas would be deregulated as well; is that correct?

Mr. SCHULTZE. Under what I gather has been a compromise floating around, it would not be tied to oil. There would be a set escalation each year allowed.

Mr. YATES. Until?

Mr. SCHULTZE. A formula until 1982, I believe, and then you would deregulate, but with a Presidential intervention possibility.

Mr. YATES. Thank you, Mr. Chairman.

Mr. WHITTEN. The gentleman from Indiana, Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman.

INFLATION

Chairman Schultze, a moment ago in colloquy from the gentleman from Maryland, Mr. Long, I understood that with regard to inflation our country was in better a position inflation-wise than other major countries of the world.

Mr. SCHULTZE. Except about two.

Mr. MYERS. In the last few weeks I read an article which stated that while our inflation rate annually is better than most other major countries, the trend is just the opposite, that while most other major countries are bringing their inflation down ours is going up; is that correct?

Mr. SCHULTZE. No, sir. It is only partly correct. In the first place, with respect to our rate of inflation, we are not doing better than everybody. We are doing better than just about everybody except Germany and the Swiss, which are doing better.

Second, our rate of inflation has been stuck in a kind of 6 percent ranger for a couple of years.

Mr. MYERS. I saw in this report, that in 1976, the annual inflation rate was 4.8 percent; is that not correct?

Mr. SCHULTZE. It was.

Mr. MYERS. And this past year it was 6.5 percent.

Mr. SCHULTZE. That is right. What happened, however, is that in order to measure what is going on with inflation, to get some sense of what is really going on, you have to abstract from very volatile movements in food prices, and food prices actually went down in 1976. They went up more this year. They won't go up as much next year. If you look at the underlying trend around which they fluctuate, it is in the neighborhood of 6.

Mr. MYERS. You think that we have inflation by the tail, to use the vernacular?

Mr. SCHULTZE. Well——

Mr. MYERS. Let's hope so.

VALUE OF U.S. CURRENCY

My other question has to do with the value of the dollar, which is of deep concern to many of us, as I am sure it is you. I hear some economists say that the value of our dollar, which has been going down, is really a boost to our foreign sales. It makes our products abroad more desirable, makes our trade easier.

First off, my question: What has caused the value of the dollar to go down in the past several years? Is it a serious problem? And, if so, what do we do to correct it?

Mr. SCHULTZE. In the first place, since 1971, and then again we changed it in 1973, throughout the world, values of currencies have been determined by the market, not by a fixed amount. Up until 1971 it was fixed. Basically that has been an improvement, to let the market forces determine it.

Second, the value of the U.S. dollar has moved up and down since then. During 1976 it was stable and went up a little bit. It was stable through the first half of this year basically. Since then it has declined about 5 to 6 percent, measured against an average of other currencies.

The principal reason—there are a lot of reasons—is that, on the one hand, the Germans and the Swiss were running a big surplus in their balance of payments.

Mr. MYERS. Japan?

Mr. SCHULTZE. Japan, correct. I am sorry, you are quite right, in fact larger than any of the others. The U.S. was running a deficit. Even though our inflation rate on the average was doing well relative to others, the size of these deficits did cause a depression in the value of the dollar.

In early January that got rather hairy. The U.S. Government stepped in and did some intervention in the markets, buying up dollars. Since then the dollar has stabilized pretty well. We believe that in the long run it must be market forces that determine the value of the dollar. We shouldn't peg it.

On the other hand, the dollar is such an important currency we feel we also have an obligation to make sure that any of those movements are orderly, they are not generated by speculative excesses. Therefore, in effect, what the U.S. Government in cooperation with other countries has done is to move in, not to peg it at any one number, but to prevent disorder, to try to prevent speculative excesses, to make sure it reflects the long run trends in the economy.

Now given what we are trying to do, by way of stable economic growth and particularly trying to get some incentives for investment, we think the dollar is a good buy.

UNEMPLOYMENT

Mr. MYERS. May I ask one last question?

We are all concerned about jobs and reducing unemployment. I get mixed readings from the proposals by this Administration, as well as from the budget, whether you are interested and concerned and think the best stimuli is through the private sector or the public sector. I cannot detect that from what I have heard.

Would you expand in the record what the policy is, which is the better way?

Thank you.

[The information referred to follows:]

This Administration has been consistently committed to growth in employment in the private sector and steady reduction in unemployment. Last year over 4.1 million jobs were added to the economy while the unemployment rate declined 1.4 percentage points. In the coming year, the budget and tax package has been designed to provide for further progress. Under this plan, consumer and business spending as well as business investment should continue to grow at a rate sufficient to create more jobs without inflationary pressures. Furthermore, our analysis predicts that minorities and women will now benefit most from the growth in the economy as we move toward lower unemployment rates.

This does not mean, however, that we can rely solely on fiscal and monetary policy to reduce unemployment. As stressed in the Economic Report of the President, public policies designed to improve the skills of the structurally unemployed are necessary if the economy is to reach the unemployment rates associated with high employment in the 1950's. Without effective training programs, the skills of many of these workers will not match the needs of the private sector, thus creating supply bottlenecks and inflationary pressures at an unacceptably high rate of unemployment.

We must, therefore, continue our efforts in public training and employment programs. The programs in our budget will be targeted more efficiently to the structurally unemployed than they have been in the past; and, as we learn more about these policies, the program mix will be adjusted to provide the most effective package. Ultimately, however, jobs must come from the private industry. A new initiative to create jobs in the private businesses for the hard-to-employ will be started this year. This program, with its direct link to the private sector, reflects the commitment of this Administration to strong emphasis on expansion of private employment.

Mr. WHITTEN. The gentleman from Arkansas, Mr. Alexander.

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

BALANCE OF TRADE

Mr. Schultze, it is good to see you here today. I guess a lot of people have asked you about the balance-of-trade position.

I too will ask you a question on the balance-of-trade question and expanding exports along with one other, and if we don't have time, if you wish to expand upon the answer for the record, I would be pleased to receive it.

As you mentioned a minute ago, we have just experienced one of our largest trade deficits last year, and you estimated the current year, as I understand it, for our balance-of-trade deficit to be around $30 billion, assuming all the present factors.

Mr. SCHULTZE. That was 1977 but it will be in the neighborhood of that.

Mr. ALEXANDER. About $30 billion.

Now the need to expand and strengthen our export market development and sales is urgent for a myriad of reasons, not to take away from the balance-of-trade question itself, but the farm situation could be relieved extensively if we could expand our sales of food products, our surplus sales, into world commerce.

Upon examining the budget, I find that the President's proposals in both the Department of Commerce and the Department of Agriculture, where important export market development activities are centered, gives little serious commitment to the activity and attempt of expanding export sales. The situation appears to be "business as usual" in these two very important departments that are concerned about expanding export sales. And despite substantial estimated increases in credit assistance through the Export-Import Bank, and the Commodity Credit Corporation, there appears to be virtually no new initiatives taken in this vital effort, in his vital area.

I feel that more effort is needed, and I hope to work within this committee to change that effort.

I will go to one other matter and then I will ask you a couple of questions if time permits.

The other area that concerns me very greatly, and one that we have talked about before, before the election and since the election, is the problem of distribution of our social program resources for national development.

I realize and have worked with the problem of urban concentration. I have accommodated our friends from the large metropolitan areas in most every instance, but it appears to me that the administration, my administration, is still preoccupied with places of 50,000 or more and gives little attention to the needs of our nonmetropolitan regions when in fact our people in the nonmetropolitan regions per capita are worse off than our people in the urban areas. They have less education per capital. They are more poor. They have less income per capita in the poor areas. The problems of medicine are more severe. The problems of transportation are more critical. The problem of housing is just as critical, if not more critical, and I have not seen demonstrated in this budget the concern that I know is present within this administration.

I am sure that it is an oversight or that it is the aged old problem of greasing the wheel which squeaks the loudest, and the fact that all of the television stations are centered in the 50 metropolitan regions around this country I am sure gives a disproportionate amount of coverage to this problem, as distinguished from the problem in the nonmetropolitan regions.

The result is that we find ourselves in the Congress, from the lack of attention to the urban problems in nonmetropolitan regions, is a division among ourselves.

When the President comes up to Congress with a bill to help the large cities, and it doesn't include assistance proportionately for the small cities, this divides us among ourselves, and it causes a lot of unnecessary friction within our own ranks that I think could be eliminated if the proper attention were to be given this problem.

Now the question is, in view of the obvious need for expanded and more effective export market development in both manufacturing and agricultural sectors, why has the administration proposed so little investment in both commerce and agriculture for export market development programs?

Question No. 2. Why does the Administration continue to demonstrate in its actions, as evidenced by the budget, more importance in responding to the needs of the large cities, the metropolitan regions, than to all distressed cities and towns, wherever they may be located and whatever their size?

In fact, why does the Administration feel, as demonstrated in this budget, that it is more important to develop policies to aid the North east and the North Central States than to make those policies equally responsive to the problems of all States regardless of the region they may be located in?

Mr. WHITTEN. Could we have answers for the record? The gentleman's time is up.

[The information follows:]

A rising export trend is indeed important to the economic well-being of the country and the Administration is committed to doing its part to bring it about. Our effort to achieve a multilateral lowering of tariff and non-tariff barriers to trade in the trade negotiations now going on in General has a large potential payoff in expanding markets for U.S. products. Recently, we have also approached the Japanese to obtain a relaxation of some of their barriers to imports. The Administration has also supported and expanded export-related programs. Total Export-Import Bank authorizations will go to $12.1 billion in FY 1979, more than double authorizations will go to $12.1 billion in FY 1979, more than double authorizations in FY 1977. Proposed authorization for agricultural export financing by the Commodity Credit Corporation in FY 1979 are $1.5 billion, double the actual financing provided in FY 1977. Commerce Department export development program are not expended significantly in the proposed 1979 budget but are continued at a $20 million rate.

We should take those steps that have good promise of adding to exports, but we should not undertake programs with low payoff or expand programs that are effective at existing levels but have reached the point of diminishing returns. Government financing of exports that could be financed in the private market does not add to total exports, but does place the government in competition with private financial institutions. Moreover. some other programs that were intended to support exports, such as the DISC tax provision, have proved to have little effect in increasing exports when compared to their cost.

Mr. ALEXANDER. Did I use up my time, Mr. Chairman?

I would like to hear from the chairman this morning.

Mr. WHITTEN. The time is up.

Could you give us a short answer and expand on it for the record?

Mr. SCHULTZE. My short answer is, I am not aware, looking through this budget, there is that bias. I think that the problems of the different areas are different, and we do different things for different areas, depending on the nature of the problem.

Mr. WHITTEN. The gentleman can expand his answer, if that is agreeable.

EXPORT-IMPORT BANK ACTIVITIES

Mr. MCINTYRE. May I make one point on the Export-Import Bank, because that point has been brought up twice, Mr. Chairman.

Mr. WHITTEN. Can we do that for the record? We are trying to get through so you don't have to come back after lunch.

[The information follows:]

The Administration's proposals for Export-Import Bank activity levels in the budget—an increase in total loan, guarantee and insurance authorizations from $5.6 billion in 1977 to $9.6 billion in 1978 and to $12.1 billion in 1979—represent a major commitment of resources to the support of exports.

The gentleman from Massachusetts, Mr. Early.

TAX REDUCTION

Mr. EARLY. Mr. Schultze, from reading your statement on page 19, you fear the high surplus, roughly $30 billion. I find that all government levels, especially the Federal, are trying to do everything for all people.

Wouldn't we be better off to put that money back into circulation, as your statement implies, to give an increased tax cut, and to decrease some of the reimbursements to our States?

The point I want to make is that everyone talks about less government—all Congressmen, all elected officials, the President and everyone else—but all it is, is talk. No one wants to do anything about it. If we don't use the tax reduction as a vehicle to reduce our reimbursements, it is never going to happen.

Mr. SCHULTZE. In the first place, with respect to that state and local surplus, a little more than half of that is simply an accumulation of money in their pension funds, and the rest of it will gradually be reduced over time as State and local governments, as many of them are now doing, reduce taxes.

Mr. EARLY. But as far as improving the economy, take my State as an example. We have a surplus this year. Last year we added the highest tax bill we ever passed. That is not going to improve the economy in any way. Simply taking our budget and increasing it by a percentage each year, is no way to curb inflation.

Mr. SCHULTZE. I am not sure of what the Federal Government can do to dictate to your State government what they ought to do on that.

Mr. EARLY. No, I just suggest that we cut back and use the tax reduction. Take a hypothetical State (Massachusetts), and suppose you give them $10 million in revenue sharing. If, politically speaking, the only way we can remove revenue sharing is to give them an option on a $10 million tax reduction, then the public would support that. Thus, we are decreasing our budget.

I don't see how to decrease it, practically speaking, any other way.

Mr. SCHULTZE. I guess my first thought on that would be, using your hypothetical numbers, if you cut back on the revenue sharing, they are less likely to reduce taxes. That would be my guess.

Mr. EARLY. The point is, if you have an incentive, in the State of Massachusetts, and are going to get a $10 million tax reduction in personal income taxes, then you wouldn't get revenue sharing money. I can't see which way we are going. It is getting progressively worse. We are getting more and more government.

Now we take this and the previous administration of which I was very critical. You have to be critical of books that have projected increases for income taxes. I listened attentively to your statement, and it was a good statement, when you said that we should take less taxes from the public and get more money into the economy. Then you suggested that we are going to have a 19 percent increase in revenues in 1980, in income taxes alone. We know that this is just not going to happen.

Mr. SCHULTZE. Under the 19 percent, I am not sure. It may very well be true, as we get to 1980, we are going to have to give back more revenues with additional tax cuts.

Mr. EARLY. I would suggest that the estimate for individual income taxes is $191.1 billion this year, and our estimate for 1980 is $225 billion; a $34 billion increase in personal income taxes. Are you going to suggest to me that our economy could stand that in 1980?

Mr. SCHULTZE. I would say the likelihood is we may have to do something about it. However, I don't think we have to make up our minds now.

Mr. EARLY. No; I don't think there is any likelihood. There is no way we could do that in the way you outline in your statement.

Mr. Schultze. I think it is likely or it is possible. Let me put it that way—at this stage nobody can commit. What the President has asked is to give a tax reduction which will carry us through the next 2 years. Thereafter, I think we are going to have to look at the situation.

Mr. Early. I think we are going to have to do it year-by-year, Mr. Director. There is no way we can see 2 years ahead. I say there is no way we are going to have less government until we do something. There is no way we are going to reduce our reimbursements to States unless we somehow do it in conjunction with a tax reduction, because of the political problems.

Mr. Schultze. One point of course is that the tax reduction goes to individuals, and the decisions on what State and local governments do with taxes is not made here.

Mr. Early. One final question. Would you suggest that the only way to end revenue sharing would be if the people in the States that prosper from revenue sharing were given an option of taking revenue sharing moneys or reductions in their income taxes?

Mr. Schultze. I am not sure I would want to pronounce on that at the moment.

Mr. Early. Do you agree that this is the only way to do away with it? Is it wrong to say that we should do away with revenue sharing?

Mr. Schultze. I am not too sure we should. I just do not know.

Mr. Early. Thank you, Mr. Chairman.

[Questions submitted for the record by Mr. Early appear at p. 187.]

Mr. Whitten. The gentleman from Ohio, Mr. Miller.

URBAN REVITALIZATION

Mr. Miller. Thank you, Mr. Chairman.

Chairman Schultze, I asked a question yesterday and never received a clear answer. I would like to ask it rather hurriedly so I could have an answer if I may. It is about the urban revitalization in the budget. It says:

> During the coming months the administration will develop proposals to deal with the need for new programs and resources that assure more effective delivery of existing programs, and specific proposals will be submitted to the Congress in the early spring.

This would mean new programs. Yesterday I did get an answer that there was a $3 billion contingency fund, and it would not cover everything planned. Later when someone else asked the question, it was said the amount in the contingency fund would not be used for urban revitalization programs.

My question is this, will you be back to us later and request a supplemental? I am not opposing or tightening this proposal. I would just like to know?

Mr. Schultze. In the first place, there is $3 billion in contingency allowance in there.

Second, that would cover an urban initiative.

Third, at this stage we cannot tell you whether it would fully cover it or not.

Mr. Miller. So there is a possibility of a supplemental being requested on the 1979 budget for that purpose?

Mr. SCHULTZE. I have to distinguish, if you do not mind, two parts of an answer. By its very nature, a contingency fund is simply an allowance for which there is no appropriation request at the moment. Therefore, even if you stay within the $3 billion, and do not go over it, you would still need to send up an amendment specfiically to cover it, since the specific language is not in the budget. However, that does not break the budget total. It would simply be making explicit what is in the $3 billion.

Mr. MILLER. My question is this, would you be requesting additional dollars?

Mr. SCHULTZE. Over and above?

Mr. MILLER. Above the $3 billion contingency fund in a supplemental? Is there that possibility?

Mr. SCHULTZE. Over and above the $3 billion?

Mr. MILLER. That is correct.

Mr. SCHULTZE. Mr. McIntyre probably can answer this. My understanding is that at this stage we do not know. We do not think so but we do not know. Is that right?

Mr. MCINTYRE. That is correct. There is no way to make that determination until the decisions have been made on the urban policy.

Mr. MILLER. What we are saying then, is that we are very likely looking only at a part of the fiscal year 1979 budget at this point. There could be supplementals added during the year.

Mr. SCHULTZE. Except for the very likely part, that is right. We just do not know.

STATE AND LOCAL SURPLUSES

Mr. MILLER. One other question, and I notice you did stop on page 18 of your testimony, but I was looking on page 19 in following through. Mr. Early had mentioned about the States and the surplus, and you have said that more recently the aggregate budgets of States and local governments has been in sizable surplus.

"Last year the surplus was nearly $30 billion, up from $18 billion in 1976, and $3 billion in 1970."

I am looking at the total program, what we are spending at the Federal level and now we are coming up with a $500 billion budget. We are putting part of that back to the States and the States then have a surplus. I understood you to say that part of this also was in retirement funds—but a part of it is a surplus that could be used in place of some of the dollars that are sent back from the Federal level which are in part borrowed, and some of it borrowed from Saudi Arabia, from Japan. We paid Japan $800 million in 1976 interest on the $12 billion that they loaned us in order to pay our national debt, or roll it over. So we have a big problem here.

It seems that we are continuing to spend at the Federal level as well as send some back to the States. We are borrowing the money to do it. We are paying foreign nations interest on what money they loan us in order to make those expenditures. We have the balance of payment problem. We are tying it all together.

I know there are many, many subjects, but as we look at the big problem, should we slow down at the Federal level and let the States pick up some of this expenditure, or should we continue and expand the programs at the Federal level in order to help everyone?

Mr. SCHULTZE. My response to your question has three parts.

No. 1, of course, most of that State and local surplus is being reinvested in Federal securities. So it is coming back. In a sense, it is financing itself. In effect, we are not borrowing from Japan for that, even though pension funds are not solely invested in Federal securities. Second, in this budget, we are reducing the rate of growth in Federal expenditures, including overall expenditures in the grant area.

Third, the grants that the Federal Government makes are for very specific purposes—mass transit, highways, employment and training programs—and if you cut those, you do not just cut the surplus; you are cutting very particular programs that the Administration and the Congress have decided are in the national interest. We are slowing down the rate of growth in those programs.

Mr. WHITTEN. You may expand on those three points.

[Additional information provided by the Council of Economic Advisers follows:]

The budget document cites some data pertaining to Standard Statistical Metropolitan areas because that is the only way that these data could be retrieved at this time. However, the forthcoming urban policy will not be oriented solely to large cities or Metropolitan regions or to cities only in certain parts of the country. Different cities and regions have different needs and the Administration's policy is to respond to these specific needs with different specific policies allocating funds according to the incidence of the needs. The President, in approving guidelines and principles for urban policy, has specifically directed that (1) existing programs should be examined so as to improve their effectiveness and to target them more precisely to serve the needs they are intended to meet and (2) to assist all cities where needs exist.

Mr. MILLER. I have some questions that I would like to give our reporter. If you would answer those for the record I would appreciate it.

Thank you, Mr. Chairman.

[Representative Miller's questions and the responses submitted for the record from the Department of the Treasury follow:]

Question. What is the average interest rate expected to be paid on the national debt through 1979, and what is the interest rate to be paid on the money to cover the 1979 deficit?

Answer. In estimating Budget outlays, it is traditional not to forecast interest rates. The level of rates prevailing at the time the outlays are calculated is arbitrarily assumed to prevail throughout the projection period.

The rates used for budget outlay purposes for fiscal '79 were keyed to a Treasury three-month bill rate of 6.1 percent.

The interest payment numbers in the Budget are:

[In billions of dollars]

	Fiscal year— 1977	1978	1979
Interest on the public debt, gross	41.9	48.6	55.4
Less—			
Interest received	3.8	4.8	6.4
Interest paid to trust funds	8.1	8.6	9.1
Equals interest component of budget outlays	30.0	35.2	39.9
Deposits of Federal Reserve earnings included in budget receipts	5.1	6.2	6.3

Question. Will you provide us with information on the amount of foreign government holdings on the public debt as well as those calendar year interest payments for 1976 and 1977?

Answer. Foreign government holdings of Treasury obligations were $70.2 billion at the end of 1976 and $100.4 billion on December 31, 1977. Based on average interest rate on public debt, interest payments to foreigners were $4.4 billion for 1976 and $6.7 billion for 1977.

Mr. WHITTEN. The gentleman from Illinois, Mr. O'Brien.

Mr. O'BRIEN. Thank you, Mr. Chairman.

Dr. Schultze, my comments are not a question but I would like your view, particularly what the administration considers is proper in this area. It really should be directed, and maybe later I will put the question to the Secretary of Labor, Mr. Marshall.

EFFORTS TO EMPLOY THE HANDICAPPED

You made a comment earlier where you said you were pursuing incentives for business firms to dip into pools of the unemployed.

An appreciable portion of the unemployed, 10 or 15 percent I believe, are the handicapped. Only 3 percent I think are severely handicapped. Maybe as high as 15 are just slightly handicapped. All in all, their effort is directed at just the right to be average.

In my home community we have a sheltered workshop. Let's say an individual enrolls and he operates a saw. The average production of an able-bodied person in my community can do 100 boards in an hour, let's say. This individual is checked out, and he can put out 50 boards an hour, so they take him on at 50 percent of the regular wage, a perfectly logical, sensible point of view. Then they train him as best they can, and maybe they get him up to 75 boards an hour.

Then he goes downtown in Joliet, to the Lyons Lumber Company, and says to Mr. Collins, "I can only do 75 boards an hour," but Collins is faced with the proposition of having to take him on at a full-bodied rate or go through an incredible pile of legal I don't know what, to try and get that permission to hire him. Then he has to report on him regularly.

If you were in his position or I were in his position, I simply would not be able to do it. That is what I deem to be a disincentive dealing with an important segment of the community that probably is more anxious to have a job and maintain a degree of self-respect.

Candidly, I would like to find out where the incentive is there to get that man back into private enterprise after you have really trained him. That is my question.

Mr. SCHULTZE. As you indicated, it is the kind of a question I am not sure I can fully answer. I can indicate to you that we are aware of the dilemma. Let me tell you what the dilemma is.

You gentlemen and ladies sit here, and quite properly debate how Federal moneys ought to be spent. Are they being spent effectively or are they being abused? It is a real dilemma. It has nothing to do with partisan politics or anything, as to how you walk the line between providing the kind of incentives you are talking about in an easy usable way, on the one hand, and at the same time having enough constraints so as to make sure the Federal Government is not being ripped off.

Now to suggest that we have the perfect answer to that would be absurd. We do not. It is something that we are well aware of, particularly with respect to the point I am talking about.

How do you design a program to give that kind of incentive? I just want to suggest to you that it is a very difficult problem, and there is no nice neat answer to it.

You do have to balance them. You cannot just go all in one direction.

Mr. O'Brien. I recognize that we have some responsibility for that too, but I think it is an important thing for the administration to concern itself with.

Thank you.

Mr. Whitten. May I call on my colleague, Mrs. Smith?

STABILIZATION OF FARM INCOME

Mrs. Smith. Thank you, Mr. Chairman.

Dr. Schultze, I would like to repeat one of the questions I asked yesterday, and to which I did not get a response. I will be very brief.

You have heard the concern on the part of this committee about agricultural prices. Now your budget reduces farm stabilization moneys by 40 percent. Does this mean that the Administration does not have any intention of using the options that are available to the Administration under the law Congress has already passed, to help with agricultural income?

The Secretary of Agriculture, according to the news, told the governors from the Midwest the day before yesterday that he is studying possibilities for helping under this legislation, but with a 40 percent reduction in money, then there is no possibility.

Would you comment on that?

Mr. Schultze. The Administration has no intention of reducing the benefits provided in the farm bill of 1977. It intends to provide the funds fully.

Mrs. Smith. But does it not have to increase them under the options available?

Mr. Schultze. It does not intend to increase them in the sense of going beyond what has now been announced. It has no intention that I know of to do so. I have to add that qualification.

Mrs. Smith. That is all, Mr. Chairman.

Mr. Whitten. May I say we appreciate having you gentlemen before us and the presentation that has been made.

We have with us a real champion in the Appropriations Committee, Mr. Mahon, who may have a question at this time.

Mr. Mahon. I would like to suggest, as we said yesterday, we would like to get the transcript back as soon as reasonably possible, because this hearing will be the basis of some of our interrogation and study of the various requests that were made to us through the presentation of the budget to the various subcommittees. I know you and your people will work with us on that, and a lot of very important questions have been asked.

STOCK MARKET BEHAVIOR

I am not sure that this question has been asked of you, Dr. Schultze. How do you explain the behavior of the stock market, over a period of years? There was a time when many people in every little town were interested in the stock market. People were making a little money here, losing a little there. You do not hear that kind of conversation at the coffee shop any more. People are not involved in the rank and file areas of our country, as I said.

I suspect you have prepared some remarks or will prepare some remarks on that.

[Information provided by the Council of Economic Advisers follows:]

As you say in your query, there is today an absence of coffee shop banter by individual investors about making a little here and losing a little there in the stock market. The value of common stocks has declined since the late 1960's, and the fall has been even more severe in real terms. On the basis of average performance since the late 1960's, the stock market has not had the attractiveness to small investors that it had in earlier years.

The performance of stocks has primarily been affected by the severe dislocations in the economy in the first half of the 1970's and the uncertainty about economic prospects that has replaced the general confidence of the 1960's. Individuals as well as others have shifted their savings into other channels. Houses, pension funds, and a variety of fixed income financial assets have increasingly been outlets by which households build their savings.

A return to stock market strengths primarily requires a period of vigorous and steady economic expansion and growing earnings to alleviate the uncertainty generated by the economic performance of the first half of this decade. If we can generate such an expansion in a noninflationary manner, the resultant impact on the stock market would probably begin to attract the small investor again. And, in turn, an improving stock market would help support economic expansion. I think that the President's economic program, which aims at a sustainable rate of economic expansion, but not a short lived spectacular burst, and which provides additional tax incentives for business investment is a major step in this direction.

STATE AND LOCAL SURPLUS

Mr. MAHON. Yesterday we discussed State and local surpluses, and I would like to ask you that you provide for the record some historical material on State and local surpluses and deficits along with a dicussion of the effects of this surplus. Please give us some historical background.

[Information provided by the Council of Economic Advisers follows:]

STATE AND LOCAL SURPLUSES

One important thing to note about the State and local surplus is that it consists of two parts: (1) the surplus in pension fund accounts and (2) the surplus on operating accounts. The pension fund accounts have generally tended to be in surplus as growth of employment in this sector has meant that contributions have exceeded payments to beneficiaries. However, this surplus has grown rapidly since 1974.

The operating accounts have usually tended to be in slight deficit. These deficits tend to be most severe in periods of recession and to dwindle in periods of rapid growth in the economy. This pattern reflects the tendency for these units of government to adjust their tax rates and expenditures, with a lag, to the rate of change in their tax leases. In addition, with the implementation of general revenue sharing in 1972 and the countercyclical step-up in grants in 1976, we have seen a marketdly lagged response of localities in responding to this greater inflow of funds. The fact that the surplus declined sharply between the end of 1972 and the end of 1973 implies that States and local areas adjusted their spending and taxes to the imitation of revenue sharing. This pattern may reemerge, and the operating surpluses should begin to decline in 1978 or 1979.

Mr. WHITTEN. Thank you, gentlemen.

The committee will convene at 2:30, at which time we will hear from the Secretary of the Treasury, Mr. Blumenthal.

Mr. SCHULTZE. Mr. Chairman, you do not expect the Director and I back?

Mr. WHITTEN. It was announced earlier that you would not be here.

[Mr. Early submitted the following questions for the record. The responses were provided by the Office of Management and Budget.]

Question. In this budget, the total projected increase for the National Institute of Health is about $40 million (from $2.84 billion to $2.88 billion). With the exception of the National Institute of Cancer and the National Institute of Heart, Lung and Blood—the two largest Institutes to which you have given the largest increases for fiscal year 1979—you have held spending to about a 2.5-percent increase in every other Institute.

I would first like to know what you see as beneficial in providing across-the-board percentage increases at NIH?

And, I would also like to know if the administration plans to channel more NIH funds toward basic investigator initiated research and away from contracts? (Ten years ago (1967) 60 percent of all research at NIH was investigator initiated. By 1977 that emphasis had shifted to contracts and applied research efforts so that now only 44 percent of the extra-mural research supported by NIH goes to investigator initiated basic research.)

(For example: the National Institute of General Medical Science—the only Institute at NIH that is not diease oriented—was only given a $3.5 million increase over the fiscal year 1978 funding level—from $230,841,000 to $234,412,000.)

Answer. The increases proposed for the various Institutes at NIH represent, for the most part, a continuation in 1979 of the 1978 program levels. These 1979 levels provide for support of program activities in a way designed to continue current efforts. In addition, the allocation of funds for NIH was not the result of an "across-the-board percentage increase." For example, the increase of more than $32 million for the National Institute of Child Health and Human Development represents a decision to increase support for population research and research for mothers and children.

Thi administration is committed to increasing efforts to support investigator initiated research projects. In this regard, support for basic research will increase in 1979 by $93 million above the 1978 level of $763 million. This is an increase of more than 12 percent. We anticipate a continuation of this trend in future years.

Question. You have reduced health resources administration training from $555 million in fiscal year 1978 to $345 million in the fiscal year 1979 budget. Where were those cuts made?

What mechanisms are you providing to hold down the cost of medical school to the student—since a reduction in capitation of one-third will surely drive up tuition. (Georgetown—currently receiving no capitation funds—is charging $10,500 per year and is projecting an increase to $12,000 per year in this decade—while B.U., Tufts, and Harvard all have tuitions between $5,500 and $6,500 per year and each receives capitation currently.)

What incentives will be provided for middle-income and low-income students to enter medical school (when tuitions will clearly be out of their grasp should capitation be substantially reduced without considerable new emphasis on federally supported grant and loan programs).

Answer. Support for health professions training by the Health Research Administration (HRA) totals $544 million under the 1978 continuing resolution and $355 million in the President's 1979 Budget. The differences between the 1978 and 1979 amounts include:

[Dollars in millions]

Health professions capitation	−56
Health professions student loans	−20
Dental health education	−2
Health professions special institutional subsidies	−7
Public health training	−8
Allied health training	−11
Nurse training	−105

These reductions from the 1978 level reflect the fact that the supply of health professionals in this country is now adequate and that such Federal direct subsidies are no longer necessary to attract students to health professional schools. Congress recognized this in the Health Professions Educational Assistance Act of 1976. Over the last 15 years, the supply of health professionals has increased by nearly 50 percent. Moreover, the annual number of medical school graduates will nearly double during this decade—from over 8,000 to nearly 16,000.

We recognize that many of these professionals are not in the right location or trained in needed specialties, such as primary care. Therefore, the 1979 budget represents a shift of Federal support away from institutional subsidies and from programs designed solely to produce more health professionals to programs that directly address geographic and specialty distribution problems.

In response to your second and third concerns, the President's 1979 Budget focuses on service commitment scholarships as a means to assist students financially, while at the same time meeting Federal needs for health professionals in scarcity areas. The National Health Service Corps scholarship program will provide $60 million to support 5,400 students in 1979. In addition, a limited number of non-service related scholarships will be maintained for first-year students from disadvantaged backgrounds.

Moreover, middle-income and low-income students will also be eligible for the recently authorized health professions guaranteed loan program. Loan guarantees for the 1978–79 academic year for health profession students—primarily medical students—are estimated to total $120 million. This program represents a more equitable means for funding health training for students with a relatively high rate of return on an investment in their education.

Question. In lieu of a tax credit for higher education costs, you are proposing a $700 million "allowance for contingencies."

Dr. Ernest Boyer (Commissioner of Education) has been quoted as saying the administration is considering "targeting funds under existing aid programs to middle income families." And, Mary Berry (Assistant Secretary for Education) has said "we are exploring options that may be entirely new and different."

Can you explain a little what options you have in mind for this $700 million and how it will address the middle income group?

Answer. Initially, let us convey that the $700 million requested level has been increased to $1.2 billion to enhance our efforts to serve more middle income students.

This revised level of $1.2 billion includes $990 million for the Basic Opportunity Grant program (BOGs), $150 million for the Work Study program and $70 million for the Guaranteed Student Loan program.

This requested level provides several modifications to already existing student assistance programs. They are as follows:

—Raises the minimum grant award from $200 to $250 for student in the Basic Grant program.

—Allows increased benefits for students by excluding the first $750 of net income from computation in the expected family contribution as a criteria for determining BOGs eligibility.

—Extends BOGs benefits to independent students by raising the family size offset for single, independent students from $1,100 to $3,400.

—Raises the asset exclusion for independent students with dependents to $2,500 in home assets. This allows for a more equitable treatment of independent students under the BOGs program.

—Provides increased participation in the Work Study program which pays 80 percent of the salary for a student's part-time job with the institution or employer providing the balance. About $108 million of the $150 million increase will benefit 176,000 new students in the over $16,000 per year category. A total of about 350,000 students in this income category will be able to participate in this program.

—Increases the yield to banks on loans in repayment status by one-half percent in order to attract more capital to the Guaranteed Student Loan program.

—The Federal interest subsidy in the Guaranteed Student Loan program will be raised from $30,000 to $45,000. The Federal Government will therefore subsidize the interest payments of these students from families with income levels of up to $10,000. This subsidy is worth as much as $250 per year.

—Changes in the Guaranteed Student Loan program will support an additional 200,000 loans to students with incomes above $16,000.

Question. This budget provides an increase in the Basic Opportunities Grant program (BOGs) of $17 million—up from $2.16 billion. However, while you say that this level of support can provide grants to 2.2 million students, with a maximum grant of $1,800 you are also planning to increase the allowable deduction for assets from $17,000 to $25,000. Do you really think that by increasing BOGs by only $17 million that the program will even begin to touch a middle-income family?

Answer. In the administration's original budget there was only an increase of approximately $17 million for the Basic Grant program. However, this figure was changed when Secretary Califano announced the development of a middle income assistance package for college tuition. The correct amount now is $990 million.

Question. Again, on the matter for addressing the needs of middle-income families for higher education assistance programs for their children, the Administration has requested no increase in the Supplemental Education Opportunity Grant program—a campus based program, providing a greater percentage of assistance to students at independent colleges than BOGs. How is holding SEOGs at last year's level in keeping with your efforts to assist students from middle-income families?

Answer. The Supplemental Education Opportunity Grant program (SEOG) is administered by student financial aid officers at institutions of higher education. No increase has been proposed in SEOG because we cannot guarantee that the increase would benefit mostly middle-income students since the program is campus administered and the means tests are not a rigid and systematic as in the Basic Grant program.

[The following questions submitted by Mr. Whitten were responded to by the Department of the Treasury:]

Question. Mr. Secretary, you mentioned that we have created 1 million jobs. This is the customary way this is described by governmental officials, the press, and others. To me, what counts is whether these are productive jobs where we get value received for the Nation.

I know a place where two elevator operators were employed to operate a two-story elevator which was self-operating. This, of course, was beneficial to those employed but so far as the economy is concerned, you might as well have thrown it out the window. How many of these jobs have left things of value to the Nation to offset the cost?

Answer. Last year our economy generated employment for over 4 million people, a post-World War II record, and reduced the ranks of the unemployed by over 1 million people. Most of the employment gain in 1977 occurred in the private sector since government payrolls advanced less than 400,000. Almost all of the rise in public employment was at the State and local level and reflected primarily an increase of public service employment jobs under the 1977–78 stimulus package.

The administration's proposed economic program will generate nearly 1 million new jobs, most of which will be in the private sector where 5 of every 6 jobs are provided. It is in the private sector that the greatest opportunities exist for job training, for advancement and for meaningful lifetime careers. Later this year the administration will propose a program to encourage the creation in the private sector of meaningful jobs for the structurally unemployed and particularly the young.

Question. Mr. Secretary, this budget is predicated upon continuing inflation. I think you must protect our biggest market by providing for increases for Agriculture prices as the cost of living or minimum wage increases, and provide now for increases to catch up—If not, I am fearful that it will bring down the whole House.

Can you assure us of study of this situation before the meeting of the Legislative Committee on the 14th and 15th?

Answer. The Administration is seriously concerned as to the well-being of farm families and the effects that severely depressed farm prices can have on the long-term production capabilities of the agricultural sector. A number of steps have been taken to support prices and farm incomes. These include programs of acreage set-asides, establishment of a farmer owned grain reserve, increased crop loan rates, and deficiency payments where farm prices are below target prices. These payments are expected to reach $1.7 billion by this spring.

Farm prices and farm incomes tend to be highly volatile, but over the larger span of time, returns to farmers have been increasing quite favorably in comparison with the rest of the population, recognizing that the per capita income of the farm population has yet to catch up with the rest of the nation. The following tabulation presents the real net income per farm averaged over five year spans to even out some of the fluctuations.

Net income per farm (including inventory change)

1952 to 1956	$3,084
1957 to 1961	3,204
1962 to 1966	3,771
1967 to 1971	4,120
1972 to 1976	5,903

NOTE. Full-year 1977 data were not available.

The increase in real income per farm was at a 3.3 percent yearly rate between the 1952–56 and 1972–76 averages. Comparable statistics are not readily available for the nonfarm sector, but it is noted that real median income of all families in the country increased at about a 2.5 percent rate over the same span.

APPENDIX

FEDERAL FINANCES IN PERSPECTIVE, FISCAL YEARS 1962–79

[In billions, except as noted]

Fiscal year	Gross National product	Outlays: Total: Amount	Outlays: Total: Percent of GNP	Outlays: Federal funds: Amount	Outlays: Federal funds: Percent of GNP
1962	$546.9	$106.8	19.5	$86.6	15.8
1963	576.3	111.3	19.3	90.1	15.6
1964	616.2	118.6	19.2	95.8	15.5
1965	657.1	118.4	18.0	94.8	14.4
1966	721.1	134.7	18.7	106.5	14.8
1967	774.4	158.3	20.4	126.8	16.4
1968	829.9	178.8	21.5	143.1	17.2
1969	903.7	184.5	20.4	148.8	16.5
1970	959.0	196.6	20.5	156.3	16.3
1971	1,019.3	211.4	20.7	163.7	16.1
1972	1,110.5	232.0	20.9	178.1	16.0
1973	1,237.5	247.1	20.0	187.0	15.1
1974	1,359.2	271.1	19.9	199.9	14.7
1975	1,454.6	334.1	23.0	240.0	16.5
1976	1,625.4	372.9	22.9	270.0	16.6
1977	1,838.0	410.6	22.3	294.9	16.1
1978 estimated	2,043.2	473.7	23.2	340.0	16.6
1979 estimated	2,274.6	512.7	22.5	363.6	16.0

Fiscal year	Gross debt: Amount	Gross debt: Percent of GNP	Gross debt: Per capita (actual)	Interest paid: Amount	Interest paid: Percent of Federal funds outlays
1962	$303.3	55.5	$1,626	$9.1	10.5
1963	310.8	53.9	1,642	9.9	11.0
1964	316.8	51.4	1,651	10.7	11.2
1965	323.2	49.2	1,663	11.3	11.9
1966	329.5	45.7	1,676	12.0	11.3
1967	341.3	44.1	1,718	13.4	10.6
1968	369.8	44.6	1,842	14.6	10.2
1969	367.1	40.6	1,811	16.6	11.2
1970	382.6	39.9	1,867	19.3	12.3
1971	409.5	40.2	1,978	21.0	12.8
1972	437.3	39.4	2 094	21.8	12.2
1973	468.4	37.9	2,226	24.2	12.9
1974	486.2	35.7	2,294	29.3	14.6
1975	544.1	37.5	2,549	32.7	13.6
1976	631.9	38.9	2,938	37.1	13.7
1977	709.1	38.6	3,263	42.0	14.2
1978 estimated	785.6	38.4	3,586	48.6	13.1
1979 estimated	873.7	38.4	3,957	55.4	15.2

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VARIATIONS IN ORIGINAL BUDGET PROJECTIONS

[In billions of dollars]

Fiscal year	Budget receipts			Budget expenditures			Surplus or deficit		
	Estimate	Actual	Swing	Estimate	Actual	Swing	Estimate	Actual	Swing
Administrative budget:									
1955	62.5	60.2	−2.3	65.4	64.4	−1.0	−2.9	−4.2	−1.3
1956	59.7	67.8	+8.1	62.5	66.2	+3.7	−2.8	+1.6	+4.4
1957	65.0	70.6	+5.6	64.6	69.0	+4.4	+.4	+1.6	+1.2
1958	73.1	68.6	−4.5	71.2	71.4	+.2	+1.9	−2.8	−4.7
1959	74.0	67.9	−6.1	73.6	80.3	+6.7	+.4	−12.4	−12.8
1960	76.4	77.8	+1.4	76.3	76.5	+.2	+.1	+1.3	+1.2
1961	83.3	77.7	−5.6	79.1	81.5	+2.4	+4.2	−3.8	−8.0
1962	82.3	81.4	−.9	80.9	87.8	+6.9	+1.4	−6.4	−7.8
1963	93.0	86.4	−6.6	92.5	92.6	+.1	+.5	−6.2	−6.7
1964	86.9	89.5	+2.6	98.8	97.7	−1.1	−11.9	−8.2	+3.7
1965	93.0	93.1	+.1	97.9	96.5	−1.4	−4.9	−3.4	+1.5
1966	94.4	104.7	+10.3	99.7	107.0	+7.3	−5.3	−2.3	+3.0
1967	111.0	115.8	+4.8	112.8	125.7	+12.9	−1.8	−9.9	−8.1
1968	126.9	[1] 114.7	−12.2	135.0	[1] 143.1	+8.1	−8.1	[1] −28.4	−20.3
Unified budget:									
1969	178.1	187.8	+9.7	186.1	184.5	−1.6	−8.0	+3.3	+11.3
1970	198.7	193.7	−5.0	195.3	196.6	+1.3	+3.4	−2.9	−6.3
1971	202.1	188.4	−13.7	200.8	211.4	+10.6	+1.3	−23.0	−24.3
1972	217.6	208.6	−9.0	229.2	232.0	+2.8	−11.6	−23.4	−11.8
1973	220.8	232.2	+11.4	246.3	247.1	+.8	−25.5	−14.9	+10.6
1974	256.0	264.9	+8.9	268.7	269.6	+.9	−12.7	−4.7	+8.0
1975	295.0	281.0	−14.0	304.4	326.1	+21.7	−9.4	−45.1	−35.7
1976	297.5	300.0	+2.5	349.4	366.5	+17.1	−51.9	−66.5	−14.6
1977	351.3	356.9	+5.6	394.2	401.9	+7.7	−42.9	−45.0	−2.1
1978 estimate	393.0	[2] 400.4	+7.4	440.0	[2] 462.2	+22.2	−47.0	[2] −61.8	−14.8
1979 estimate	439.6			500.2			−60.6		

[1] Represents Federal funds portion of unified budget concept totals.
[2] Estimate in 1978 budget.

PERCENT DISTRIBUTION OF BUDGET OUTLAYS BY FUNCTION

	1955	1960	1965	1970	1975	1976	1977	1978 estimate	1979 estimate
National defense	58.2	49.0	41.0	39.9	26.2	24.5	24.2	23.3	23.6
Human resources	(21.3)	(27.6)	(29.8)	(37.3)	(51.5)	(54.0)	(53.4)	(51.5)	(51.9)
Education, training, employment and social services	.6	1.0	1.8	4.4	4.8	5.1	5.2	5.9	6.1
Health	.4	.9	1.5	6.6	8.4	9.2	9.6	9.6	9.9
Income security	13.4	19.8	21.7	21.9	33.3	34.6	34.1	31.9	32.0
Veterans benefits and services	6.9	5.9	4.8	4.4	5.0	5.1	4.5	4.1	3.9
Physical resources	(9.1)	(11.4)	(12.7)	(10.5)	(9.2)	(9.8)	(10.1)	(12.7)	(11.2)
Natural resources, environment, and energy	1.7	1.8	2.5	2.0	2.8	3.1	3.5	4.3	4.3
Agriculture	5.1	2.9	3.3	2.6	.5	.7	1.4	2.0	1.1
Commerce and transportation	2.0	6.2	5.8	4.7	4.8	4.7	3.6	4.3	4.1
Community and regional development	.3	.5	1.1	1.2	1.1	1.3	1.6	2.1	1.7
Revenue sharing and general purpose fiscal assistance	.1	.2	.2	.3	2.2	1.9	2.4	2.1	1.9
Interest	8.8	9.0	8.8	9.3	9.5	9.4	9.5	9.5	9.8
Other	(4.5)	(5.5)	(10.2)	(6.0)	(5.7)	(4.4)	(4.1)	(4.3)	(4.2)
International affairs	3.2	3.2	3.5	2.2	2.7	1.5	1.2	1.5	1.5
General science, space, and technology	.2	.7	5.0	2.3	1.2	1.2	1.2	1.0	1.0
Law enforcement and justice	.4	.4	.5	.5	.9	.9	.9	.9	.8
General government	.7	1.2	1.2	1.0	.9	.8	.8	.9	.9
Allowances [1]									.6
Undistributed offsetting receipts	−2.0	−2.7	−2.7	−3.3	−4.3	−4.0	−3.7	−3.4	−3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes allowances for civilian agency pay raises and contingencies.

TABLE 2.—BUDGET RECEIPTS, OUTLAYS, AND BUDGET AUTHORITY

[In millions of dollars]

Description	1977 actual	1978 estimate	1979 estimate
Budget receipts by source:			
Individual income taxes	156,725	178,828	190,077
Corporation income taxes	54,892	58,949	62,487
Social insurance taxes and contributions	108,688	124,122	141,889
Excise taxes	17,548	20,150	25,475
Estate and gift taxes	7,327	5,618	6,067
Customs duties	5,150	5,792	6,390
Miscellaneous receipts	6,531	6,928	7,203
Total budget receipts	356,861	400,387	439,588
Budget outlays by function:			
National defense [1]	97,501	107,626	117,779
International affairs	4,831	6,747	7,691
General science, space, and technology	4,677	4,757	5,077
Energy	4,172	7,837	9,634
Natural resources and environment	10,000	12,125	12,222
Agriculture	5,526	9,106	5,433
Commerce and housing credit	−31	3,523	2,969
Transportation	14,636	16,310	17,399
Community and regional development	6,283	9,694	8,669
Education, training, employment, and social services	20,985	27,471	30,421
Health	38,785	44,261	49,677
Income security	137,004	147,640	160,024
(Social security)	(83,861)	(93,048)	(103,171)
(Other)	(53,143)	(54,592)	(56,853)
Veterans benefits and services	18,038	18,916	19,257
Administration of justice	3,600	4,019	4,211
General government	3,357	4,119	4,304
General purpose fiscal assistance	9,499	9,860	9,636
Interest	38,092	43,841	48,991
Allowances [2]			2,800
Undistributed offsetting receipts	−15,053	−15,619	−16,021
Total budget outlays	401,902	462,234	500,174
Budget surplus or deficit (−)	−45,040	−61,847	−60,586
Budget authority by function:			
National defense [1]	110,432	117,813	128,439
International affairs	6,587	11,102	13,801
General science, space, and technology	4,576	4,889	5,216
Energy	4,978	8,539	9,544
National resources and environment	9,457	12,935	12,664
Agriculture	2,424	3,761	7,197
Commerce and housing credit	5,481	5,381	6,597
Transportation	10,363	15,150	18,573
Community and regional development	12,790	8,719	7,716
Education, training, employment, and social services	30,377	22,829	33,604
Health	40,368	46,469	52,604
Income security	168,566	180,381	190,885
(Social security)	(79,962)	(88,042)	(100,153)
(Other)	(88,604)	(92,340)	(90,732)
Veterans benefits and services	19,069	19,068	19,074
Administration of justice	3,601	3,904	4,144
General government	3,851	4,055	4,361
General purpose fiscal assistance	9,272	9,691	16,632
Interest	38,092	43,841	48,990
Allowances [2]			4,150
Undistributed offsetting receipts	−15,053	−15,619	−16,021
Total budget authority	465,231	502,907	568,172

[1] Includes allowances for civilian and military pay raises for Department of Defense.
[2] Includes allowances for civilian agency pay raises and contingencies.

REGULAR ANNUAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION BILLS, COMPARISON OF ESTIMATES AND AMOUNTS ENACTED

Calendar year	Estimates	Amounts enacted	Difference (plus or minus)
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, 529, 433, 294	9, 719, 258, 467	+189, 825, 173
1940	13, 878, 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, 527	+2, 812, 340, 595
1943	115, 041, 366, 395	110, 634, 660, 785	−4, 406, 705, 610
1944	63, 513, 471, 020	61, 257, 906, 152	−2, 255, 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, 699, 846, 731	−2, 709, 703, 792
1949	39, 545, 529, 108	37, 825, 026, 214	−1, 720, 502, 894
1950	54, 316, 658, 423	52, 427, 926, 629	−1, 388, 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, 491	−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, 859, 472, 045	72, 977, 957, 952	−1, 881, 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, 136	92, 432, 923, 132	−6, 471, 232, 004
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, 996	133, 339, 868, 734	−14, 568, 744, 262
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	177, 959, 504, 255	174, 901, 434, 304	−3, 058, 069, 951
1974	213, 667, 190, 007	204, 012, 311, 514	−9, 654, 878, 493
1975	[1] 267, 224, 774, 434	[2] 259, 852, 322, 212	−7, 372, 452, 222
1976	[3] 282, 142, 257, 093	[4] 282, 537, 694, 665	+395, 437, 572
1977	364, 867, 240, 174	354, 025, 780, 783	−10, 841, 459, 391

1 Does not include $39,627,807,914 requested for the transition period.
2 Does not include $37,795,209,899 enacted for the transition period.
3 Does not include $14,485,114,225 requested for the transition period.
4 Does not include $14,591,794,780 enacted for the transition period.

ACTION TAKEN ON FISCAL YEAR 1978 BUDGET AUTHORITY CONSIDERED IN APPROPRIATIONS BILLS[1]

Bill	Budget requests considered	Final action	Compared with budget requests
1. Agriculture and related agencies (Public Law 95–97)	$12, 917, 017, 000	$12, 749, 378, 000	−$167, 639, 000
2. Defense (Public Law 95–111)	113, 877, 280, 000	109, 752, 766, 000	−2, 658, 114, 000
3. District of Columbia (H.R. 9005)	491, 116, 000		
4. Foreign assistance (Public Law 95–148)	7, 598, 961, 136	6, 772, 654, 000	−828, 807, 136
5. HUD-independent agencies (Public Law 95–119)	70, 717, 712, 000	69, 370, 554, 000	−1, 403, 858, 000
6. Interior (Public Law 95–74)	10, 021, 396, 000	10, 026, 349, 000	+4, 037, 000
7. Labor-HEW (H.R. 7555)	60, 593, 970, 000	[2] 60, 168, 561, 000	−425, 409, 000
8. Legislative (Public Law 95–94)	959, 422, 100	990, 067, 800	−144, 653, 800
9. Military construction (Public Law 95-101)	3, 015, 600, 000	2, 977, 720, 000	−37, 880, 000
10. Public works (Public Law 95–96)	10, 358, 111, 000	10, 294, 414, 000	−73, 697, 000
11. State-Justice-Commerce-Judiciary (Public Law 95–86)	7, 432, 213, 500	7, 709, 432, 000	+231, 875, 500
12. Transportation (Public Law 95–85)	6, 169, 509, 023	6, 196, 609, 023	−86, 175, 000
13. Treasury-Postal Service-General government (Public Law 95–181)	7, 593, 496, 000	7, 478, 254, 000	−115, 242, 000
14. Supplemental appropriations bill, 1978 (H.R. 9375)	7, 835, 724, 000	([3])	
Total, bills for fiscal 1978	319, 581, 527, 759	304, 486, 758, 823	−5, 705, 562, 436

[1] Additionally, the Congress has taken action during this period to rescind budget authority as follows:

Bills	Proposed rescissions considered	Approved by House	Approved by Senate	Approved by Congress	Compared with proposed rescissions
Budget rescission bill, fiscal year 1977 (Public Law 95–10)	$47, 500, 000	$47, 500, 000	$47, 500, 000	$47, 500, 000	
2d budget rescission bill, fiscal year 1977 (Public Law 95–15)	941, 278, 000	664, 050, 000	664, 050, 000	664, 050, 000	−$277, 228, 000
3d budget rescission bill, fiscal year 1977 (Public Law 95–186)	96, 090, 000	96, 090, 000	96, 090, 000	96, 090, 000	
Total	1, 084, 868, 000	807, 640, 000	807, 640, 000	807, 640, 000	−277, 228, 000

[2] Conference agreement. Funding is provided in the continuing appropriations, 1978 (Public Law 95–205).
[3] Congress did not complete action on the conference report.

1979 BUDGET

CONTROLLABILITY OF BUDGET AUTHORITY—SUMMARY BACKUP TABLE I

[In millions of dollars]

Description	1977 actual	1978 estimate	1979 estimate	Change
Relatively uncontrollable under present law:				
Open-ended programs and fixed costs:				
Payments for individuals:				
Social security and railroad retirement	83, 559	92, 015	104, 040	12, 025
Federal employee's retirement and insurance	25, 381	27, 584	30, 035	2, 451
Military retired pay	(8, 238)	(9, 240)	(10, 149)	(909)
Other	(17, 143)	(18, 345)	(19, 886)	(1, 541)
Unemployment assistance	17, 404	16, 000	17, 950	1, 950
Veterans benefits: Pensions, compensation, education, and insurance	13, 438	12, 777	12, 313	−464
Medicare and Medicaid	32, 986	38, 181	43, 768	5, 587
Housing payments	28, 578	32, 232	25, 420	−6, 812
Public assistance and related programs	21, 753	21, 116	22, 231	1, 114
Subtotal, payments for individuals	223, 099	239, 905	255, 756	15, 851
Net interest	29, 960	35, 245	39, 931	4, 685
General revenue sharing	6, 652	6, 855	6, 855	
Farm price supports (CCC)	899	2, 071	5, 022	2, 951
Other open-ended programs and fixed costs:				
Postal Service	2, 266	1, 787	1, 830	42
Legislative and Judiciary	1, 473	1, 544	1, 647	103
All other open-ended programs fixed costs	7, 114	11, 176	14, 599	3, 423
Total, open-ended programs and fixed costs	271, 464	298, 583	325, 643	27, 060
Permanent authority in relatively controllable programs [1]	5, 278	9, 724	7, 678	−2, 046
Total, relatively uncontrollable budget authority	276, 742	308, 308	333, 321	25, 013
Relatively controllable budget authority:				
National defense	102, 101	108, 481	118, 192	9, 711
Civilian programs	90, 935	91, 139	121, 813	30, 674
Under current law [2]	(193, 156)	(199, 055)	(223, 010)	(23, 955)
Under proposed legislation in open-ended programs and fixed costs [2]		(538)	(610)	(72)
Under proposed legislation in relatively controllable and new programs [2]	(−120)	(28)	(16, 384)	(16, 356)
Total, relatively controllable budget authority	193, 036	199, 622	240, 006	40, 384
Undistributed employer share, employee retirement	−4, 547	−5, 022	−5, 155	−132
Total, budget authority	465, 231	502, 907	568, 172	65, 265

[1] Formerly included in relatively controllable budget authority. Congressional action, that is, current authority, required to increase or decrease this authority provided in prior years.

[2] See below:

Description	1977 actual	1978 estimate	1979 estimate	Change
National defense portion:				
Under current law	$102, 101	$108, 572	$118, 435	$9, 862
Under proposed legislation in open-ended programs and fixed costs			23	23
Under proposed legislation in relatively controllable and new programs		−91	−267	−176

ITEMS PROPOSED FOR LATER TRANSMITTAL UNDER EXISTING LEGISLATION

[In thousands of dollars]

	1978		1979	
	Budget authority	Outlays	Budget authority	Outlays
Legislative branch: Architect of the Capitol: Library of Congress: James Madison Memorial Bldg	5, 000			971
Department of Defense—Military: Allowances: Civilian and military pay raises			2, 371, 100	2, 353, 200
Department of Energy: Departmental operations: Energy	415, 016			415, 016
Department of the Interior: Office of Territorial Affairs: Administration of territories			1, 078	1, 078
Department of the Treasury: Bureau of Government Financial Operations: Claims, judgments, and relief acts	127, 000	127, 000	2, 000	2, 000
Allowances: Allowances for:				
Civilian agency pay raises			1, 197, 000	1, 145, 000
Contingencies for other requirements			3, 000, 000	1, 700, 000
Total	547, 016	127, 000	6, 571, 178	5, 617, 265
Memorandum: excluding allowances	547, 016	127, 000	3, 078	419, 065

CONTROLLABILITY OF BUDGET OUTLAYS

SUMMARY BACKUP TABLE A

[In millions of dollars]

Description	1977 actual	1978 estimate	1979 estimate	Change
Relatively uncontrollable under present law:				
Payments for individuals:				
Social security and railroad retirement	87, 660	97, 182	108, 005	10, 823
Federal employee's retirement and insurance	17, 846	20, 120	22, 306	2, 187
Military retired pay	(8, 216)	(9, 211)	(10, 122)	(911)
Other	(9, 630)	(10, 909)	(12, 184)	(1, 276)
Unemployment assistance	15, 832	13, 000	12, 550	−450
Veterans' benefits: Pensions, compensation, education, and insurance	12, 926	12, 888	12, 616	−272
Medicare and medicaid	31, 425	36, 462	42, 104	5, 641
Housing payments	2, 949	3, 655	4, 262	608
Public assistance and related programs	20, 881	22, 195	22, 043	−152
Subtotal, payments for individuals	198, 518	205, 502	223, 887	18, 385
Net interest [1]	29, 960	35, 245	39, 931	4, 686
General revenue sharing	6, 758	6, 827	6, 852	26
Farm price supports (CCC)	3, 490	4, 744	4, 539	−2, 906
Other open-ended programs and fixed costs	8, 570	10, 331	10, 136	−195
Postal Service	(2, 267)	(1, 787)	(1, 830)	(42)
Legislative and Judiciary	(1, 369)	(1, 516)	(1, 664)	(148)
All other	(4, 934)	(7, 028)	(6, 642)	(−385)
Total, open-ended programs and fixed costs	238, 296	265, 349	285, 345	19, 996
National defense	(8, 245)	(9, 302)	(10, 229)	(927)
Civilian programs	(230, 051)	(256, 047)	(275, 116)	(19, 069)
Outlays from prior-year contracts and obligations: [2]				
National defense	18, 491	29, 900	33, 770	3, 871
Civilian programs	36, 762	49, 427	55, 707	6, 280
Total, outlays from prior-year contracts and obligations	55, 254	79, 327	89, 477	10, 151
Total, relatively uncontrollable outlays	293, 550	344, 676	374, 822	30, 147
Relatively controllable outlays:				
National defense	70, 765	68, 424	73, 780	5, 355
Civilian programs	42, 136	54, 158	56, 729	2, 571
Under current law [3]	(112, 900)	(121, 896)	(129, 982)	(8, 086)
Under proposed legislation in:				
Open-ended programs and fixed costs [3]		(458)	(−986)	(−1, 444)
Relatively controllable and new programs [3]		(229)	(1, 514)	(1, 285)
Total, relatively controllable outlays	112, 900	122, 582	130, 509	7, 927
Undistributed employer share, employee retirement	−4, 548	−5, 024	−5, 157	−133
Total budget outlays	401, 902	462, 234	500, 174	37, 940

[1] Proposed legislation in open-ended programs and fixed costs includes −$3,000,000 in 1979 for net interest.
[2] Excluding prior year contracts and obligations for activities shown as open-ended programs and fixed costs.
[3] National defense portion includes $68,516,000,000 in 1978 and $74,022,000,000 in 1979 under current law, $23,000,000 in 1979 under proposed legislation in open-ended programs and fixed costs, and −$91,000,000 in 1978 and −$265,000,000 in 1979 under proposed legislation in relatively controllable and new programs.

RELATIVELY CONTROLLABLE—OTHER CIVILIAN PROGRAMS, SUMMARY BACKUP TABLE H

[In millions of dollars]

Description	1977 actual	1978 estimate	1979 estimate	Change
Under current law:				
Executive Office of the President	65	69	73	3
Funds appropriated to the President:				
Security supporting assistance	522	882	824	−58
Foreign military credit sales	508	502	502	
Functional development assistance programs	180	286	190	−96
AID operating expenses	155	178	215	37
International organizations and programs	205	194	233	39
Loan repayments (AID)	−281	−319	−339	−19
Naval petroleum reserves (net)	−160	119	−553	−672
Other FAP programs	−210	−202	−180	21
Subtotal, FAP	919	1, 640	892	−748
Agriculture:				
National forest fund (offsetting receipts)	−471	−90	−46	44
Agricultural research service	235	277	269	−8
Animal and plant inspection service	292	187	195	8
Expenses, Public Law 480, foreign assistance programs	1, 169	923	806	−117
Agricultural stabilization and conservation service (S. & E.)	149	219	219	
Rural housing and rural development insurance funds	257	459	5	−453
Farmers Home Administration (S. & E.)	158	191	199	8
Conservation operations	190	201	192	−9
Watershed and flood prevention	47	150	96	−54
Agricultural credit insurance fund	393	183	−388	−572
Funds for strengthening markets, income, and supply	16	299	281	−18
Food safety and quality service (S. & E.)	84	250	251	1
Special supplemental food program (WIC)	240	320	469	149
Forest protection and utilization	612	791	643	−147
Forest service permanent appropriations	89	324	329	5
Forest roads and trails	150	124	122	−2
Other Agriculture programs	588	400	−64	−463
Subtotal, Agriculture	4, 198	5, 208	3, 578	−1, 629
Commerce:				
Economic development assistance	75	76	113	37
Local public works program	585	4	10	7
Operations, research, facilities (NOAA)	384	428	454	27
Other Commerce programs	376	382	463	81
Subtotal, Commerce	1, 420	890	1, 040	150
DOD—Civil:				
Construction, general	952	914	749	−165
Operation and maintenance, general	552	586	557	−29
Other DOD—Civil programs	250	362	243	−118
Subtotal, DOD—Civil	1, 754	1, 862	1, 549	−312
Energy:				
Energy supply	1, 444	1, 816	1, 276	−540
Emergency energy preparedness	1	1, 173	1, 752	579
Energy information, policy and regulation	249	305	239	−66
Other	97	−141	416	557
Subtotal, Energy	1, 791	3, 153	3, 683	530
HEW:				
Health services	570	656	684	28
Indian health services	278	356	380	25
Biomedical research (NIH)	877	994	988	−7
Alcohol, drug abuse, and mental health	244	269	288	20
Health resources	681	209	127	83
Elementary and secondary education	250	264	250	−14
Impact aid	535	531	556	25
Occupational, vocational, and adult education	321	357	62	−294
Higher and continuing education	1, 199	58	46	−12
Student loan insurance fund	133	520	691	170
Student assistance		791	913	122
Work incentives	264	274	275	
Human development (education)	259	328	353	26
Other HEW programs	1, 354	1, 820	1, 732	−88
Subtotal, HEW programs	6, 965	7, 427	7, 345	−82

RELATIVELY CONTROLLABLE—OTHER CIVILIAN PROGRAMS, SUMMARY BACKUP TABLE H—Continued

[In millions of dollars]

Description	1977 actual	1978 estimate	1979 estimate	Change
Under current law—Continued				
HUD:				
Housing for the elderly or handicapped fund	2	255	190	−66
Special assistance functions fund	−1, 151	−414	−2, 019	−1, 606
Other	104	248	296	51
Subtotal, HUD programs	−1, 045	90	−1, 533	−1, 623
Interior:				
Construction and rehabilitation (special fund)	381	282	1	−281
Surveys, investigations, and research (GS)	271	325	346	21
Operation of Indian programs	488	556	600	43
Land and water conservation fund	164	182	111	−71
Management of lands and resources	217	218	218	
Operation of the National Park System	242	289	306	17
Other	444	674	509	−164
Subtotal, Interior programs	2, 207	2, 526	2, 091	−435
Justice:				
Federal Bureau of Investigation	469	505	508	3
Immigration and Naturalization Service	217	245	261	16
Other	827	949	974	25
Subtotal, Justice	1, 513	1, 699	1, 743	44
Labor:				
Employment and training assistance	2, 380	3, 205	3, 905	700
Temporary employment assistance	1, 387	1, 861	5, 241	3, 380
Other	484	551	628	77
Subtotal, Labor	4, 251	5, 617	9, 774	4, 157
State:				
Administration of foreign affairs, salaries and expenses	454	507	542	35
Other	99	159	159	
Subtotal, State	553	666	701	35
Transportation:				
Coast Guard operating expenses	717	792	818	26
FAA operations	1, 352	1, 487	1, 543	56
Federal aid-highways	1, 200	1, 200	1, 200	
Grants to AMTRAK	728	664	660	−4
Urban mass transportation fund	105	121	141	20
Other	854	1, 227	1, 152	−75
Subtotal, Transportation	4, 956	5, 491	5, 514	23
Treasury:				
Bureau of Customs, salaries and expenses	317	365	391	26
IRS accounts, collection and taxpayer service	765	836	873	48
IRS, compliance	827	924	954	33
Antirecession financial assistance	1, 699	1, 572	1, 050	−522
Other	200	400	461	46
Subtotal, Treasury	3, 808	4, 097	3, 729	−368
EPA:				
Construction grants	376	75	630	555
Research and development	106	113	138	25
Abatement and control	233	253	302	49
Other	109	129	157	28
Subtotal, EPA	824	570	1, 227	657
GSA	−186	−37	−106	−69
NASA	3, 157	3, 291	3, 284	−7
VA:				
Medical care	3, 844	4, 378	4, 730	352
General operating expenses	473	534	572	38
Other	83	199	211	12
Subtotal, VA	4, 400	5, 111	5, 513	402

RELATIVELY CONTROLLABLE—OTHER CIVILIAN PROGRAMS, SUMMARY BACKUP TABLE H—Continued

[In millions of dollars]

Description	1977 actual	1978 estimate	1979 estimate	Change
Under current law—Continued				
Other independent agencies:				
Government payment for annuitants, employees health benefits	437	506	606	100
Community services program	463	355	312	−43
Federal payment to District of Columbia	279	279	327	49
Loans to District of Columbia for capital outlay	100	114	120	6
Federal Home Loan Bank Board revolving fund	−1,492			
Federal Savings and Loan Insurance Corporation fund	−408	−334	−426	−91
International Communications Agency, salaries and expenses	257	281	302	20
NSF, research and related activities	214	297	332	35
Nuclear Regulatory Commission, salaries and expenses	166	189	211	22
SBA, business loan and investment fund	293	72	28	−44
SBA, disaster loan fund	20	1,053	19	−1,034
TVA fund	711	891	827	−64
Payment for the purchase of Conrail securities	723	599	395	−204
Other	1,197	1,711	1,765	55
Subtotal, other independent agencies	2,960	6,013	4,818	−1,194
Allowances			2,845	2,845
Rents and royalties on the Outer Continental Shelf lands	−2,374	−2,000	−1,800	200
Total, relatively controllable civilian programs, current law	42,136	53,380	55,960	2,579
Under proposed legislation in open-ended programs and fixed costs:				
Agriculture:				
Child nutrition and special milk programs			−200	−200
Other, DOA			−2	−2
HEW:				
Medicare		−40	−629	−589
Medicaid		−5	−113	−108
Social security		−40	−644	−604
Other HEW legislation			273	273
Transportation: Interest, airport and airways trust fund			11	11
Treasury: Social service claims and judgments		543		−543
Veterans' Administration:				
Compensation and pensions			395	395
Readjustment benefits			−100	−100
Total, proposed legislation in open-ended programs and fixed costs		458	−1,009	−1,467
Under proposed legislation in relatively controllable and new programs:				
Energy: Energy supply			−163	−163
Treasury: Fuel efficiency incentive		317	1,833	1,515
Veterans' Administration: Medical care			−142	−142
Wage board pay legislation			−45	−45
Other legislation		3	296	293
Total, proposed legislation in relatively controllable and new programs		320	1,779	1,459
Total, relatively controllable outlays, civilian programs	43,136	54,158	56,729	2,571

BACKDOOR AUTHORITY

[In thousands of dollars]

	1977	1978	1979
Contract authority:			
Funds appropriated to the President:			
Appalachian regional development programs:			
Current		21,000	221,000
Permanent		180,000	
International security assistance advances, foreign military sales (trust fund): Permanent	8,625,095	11,100,000	12,300,000
Total, funds appropriated to the President	8,625,095	11,301,000	12,521,000
Department of Agriculture:			
Agricultural Stabilization and Conservation Service:			
Agricultural conservation program: Current	190,000	190,000	
Commodity Credit Corporation:			
Price support and related programs: Permanent		1,529,240	4,031,342
Forest Service:			
Forest roads and trails: Current	−39,828		
Total, Department of Agriculture	150,172	1,719,240	4,031,342
Department of Commerce:			
Maritime Administration:			
Operating-differential subsidies: Permanent	320,022	309,145	305,504
Department of Housing and Urban Development:			
Housing programs:			
Subsidized housing programs: Permanent	15,378	39,158	38,700
Department of the Interior:			
Bureau of Land Management:			
Acquisition, construction, and maintenance: Current	−13,900		
Bureau of Outdoor Recreation:			
Land and water conservation funds: Permanent	30,000	30,000	30,000
National Park Service:			
Road construction: Current	−15,000		
Bureau of Mines:			
Helium fund: Permanent			47,500
Total, Department of the Interior	1,100	30,000	77,500
Department of Transportation:			
Federal Aviation Administration:			
Grants-in-aid for airports (airport and airway trust fund) (trust fund): Permanent	510,000	540,000	575,000
Federal Highway Administration:			
Highway-related safety grants: Permanent		24,756	
Territorial highways: Current	−14,464		
Federal-aid highways (trust fund):			
Current	−221,843		4,175,000
Permanent	3,538,239	6,842,778	3,625,000
Trust fund share of other highway programs (trust fund): Permanent		25,000	
Miscellaneous trust funds (trust fund): Permanent	119		
National Highway Traffic Safety Administration:			
Trust fund share of highway safety programs (trust fund):			
Current			173,285
Permanent	15,000	150,860	
Urban Mass Transportation Administration:			
Urban mass transportation fund: Current	−73,800	−90,000	−91,900
Total, Department of Transportation	3,763,215	7,493,394	8,456,385
Other independent agencies:			
Civil Aeronautics Board:			
Payments to air carriers: Permanent	8,250	9,940	
Total, contract authority	12,883,268	20,901,877	25,431,431

BACKDOOR AUTHORITY—Continued

[In thousands of dollars]

	1977	1978	1979
Authority to spend debt receipts:			
Department of Agriculture:			
Farmers Home Administration:			
Rural housing insurance fund: Permanent	330, 163	385, 155	23, 529
Rural development insurance fund: Permanent	411, 977	213, 894	214, 260
Total, Department of Agriculture	742, 140	599, 049	237, 789
Department of Housing and Urban Development:			
Housing programs:			
Federal Housing Administration fund: Permanent	203, 862	540, 200	98, 877
Government National Mortgage Association:			
Special assistance functions fund: Permanent			1, 500, 000
New Communities Administration:			
New communities fund: Permanent	89, 401	135, 148	48, 157
Total, Department of Housing and Urban Development	293, 263	675, 348	1, 647, 034
Department of Transportation:			
Federal Railroad Administration:			
Rail service assistance: Current	880		
Other independent agencies:			
District of Columbia:			
Loans to the stadium sinking fund: Permanent	832	832	832
Export-Import Bank of the United States: Permanent			659, 665
Total, other independent agencies	832	832	660, 497
Total, authority to spend debt receipts	1, 037, 115	1, 275, 229	2, 545, 320
Off budget Federal entities:			
Department of Agriculture:			
Rural electrification and telephone revolving fund: Permanent	(149, 367)	(43, 841)	
Rural Telephone Bank: Permanent	(111, 818)	(128, 651)	(168, 667)
Department of the Treasury:			
Federal Financing Bank: Permanent	(9, 533, 957)	(13, 842, 835)	(15, 864, 600)
U.S. Railway Association:			
Regional rail reorganization program:			
Current	(120, 000)		
Permanent	(5, 788)	(18, 359)	(23, 400)
Total, off budget Federal entities	(9, 920, 930)	(14, 033, 686)	(16, 056, 667)
General revenue sharing	1, 663, 695		
Total, backdoor authority	15, 584, 078	22, 177, 106	27, 976, 751

OUTLAYS, RECEIPTS AND SURPLUSES OR DEFICITS IN FEDERAL FUNDS, TRUST FUNDS, AND THE UNIFIED BUDGET, FISCAL YEARS 1960–79

[In millions of dollars]

Fiscal year	Federal funds			Trust funds			Intra-governmental trans-actions	Unified budget		
	Outlays	Receipts	Surplus or deficit (−)	Outlays	Receipts	Surplus or deficit (−)		Outlays	Receipts	Surplus or deficit (−)
1960	74, 863	75, 648	785	19, 743	19, 227	−516	−2, 383	92, 223	92, 492	269
1961	79, 333	75, 175	−4, 158	21, 048	21, 800	752	−2, 586	97, 795	94, 389	−3, 406
1962	86, 570	79, 699	−6, 871	22, 898	22, 652	−246	−2, 675	106, 793	99, 676	−7, 117
1963	90, 136	83, 544	−6, 592	23, 958	25, 789	1, 841	−2, 783	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, 942	−3, 865	26, 962	29, 230	2, 268	−3, 339	118, 430	116, 833	−1, 597
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, 245	149, 552	−8, 702
1968	143, 105	114, 726	−28, 379	41, 499	44, 716	3, 217	−5, 771	178, 833	153, 671	−25, 162
1969	148, 811	143, 322	−5, 489	43, 284	52, 009	8, 725	−7, 547	184, 548	187, 784	3, 236
1970	156, 301	143, 158	−13, 143	49, 065	59, 363	10, 298	−8, 778	196, 588	193, 743	−2, 845
1971	163, 651	133, 785	−29, 866	59, 360	66, 193	6, 833	−11, 586	211, 425	188, 392	−23, 033
1972	178, 104	148, 846	−29, 258	67, 073	72, 959	5, 886	−13, 156	232, 021	208, 649	−23, 372
1973	186, 951	161, 357	−25, 594	81, 448	92, 193	10, 745	−21, 325	247, 074	232, 225	−14, 849
1974	199, 920	181, 219	−18, 701	90, 833	104, 846	14, 013	−21, 133	269, 620	264, 932	−4, 688
1975	240, 031	187, 505	−52, 526	111, 172	118, 590	7, 418	−25, 098	326, 092	280, 997	−45, 095
1976	269, 146	200, 291	−68, 855	131, 286	133, 695	2, 409	−34, 789	365, 643	299, 197	−66, 446
1977	294, 948	240, 412	−54, 536	143, 267	152, 763	9, 496	−36, 313	401, 902	356, 861	−45, 041
1978	340, 036	267, 988	−72, 147	158, 190	168, 490	10, 300	−35, 992	462, 234	400, 387	−61, 847
1979	363, 580	289, 095	−74, 485	174, 092	187, 991	13, 899	−37, 497	500, 174	439, 588	−60, 586

Source: Budget documents.

Debt Subject to Statutory Limitation At End of Fiscal Years 1933–79 [1]

	Billions		Billions
1933	$22. 5	1959	284. 4
1938	36. 9	1960	286. 1
1939	40. 3	1961	288. 9
1940	43. 2	1962	298. 2
1941	49. 5	1963	306. 1
1942	74. 2	1964	312. 2
1943	140. 5	1965	317. 6
1944	208. 1	1966	320. 1
1945	268. 7	1967	326. 5
1946	268. 9	1968	350. 7
1947	257. 5	1969	356. 9
1948	251. 5	1970	373. 4
1949	252. 0	1971	399. 5
1950	256. 7	1972	428. 6
1951	254. 6	1973	459. 1
1952	258. 5	1974	476. 0
1953	265. 5	1975	534. 2
1954	270. 8	1976	[2] 635. 8
1955	273. 9	1977	670. 0
1956	272. 4	1978 (estimated)	777. 9
1957	270. 2	1979 (estimated)	867. 5
1958	276. 0		

[1] The statutory debt limit is permanently established at $400,000,000,000. Public Law 94–334 temporarily increased the statutory debt limit to $682,000,000,000 through Mar. 31, 1977, and to $700,000,000,000 through Sept. 30, 1977. Legislation is required to change the limitation.

[2] Includes $14,300,000,000 accrued during transition period. Actual June 30, 1976 figure was $621,500,000,000.

Sources: Annual Report of the Secretary of the Treasury on the State of Finances and Budget Documents (table 21).

PERCENTAGE INCREASES IN THE CONSUMER PRICE INDEX

	All items	Commodities	Commodities: Food	Commodities: Fuel and utilities [1]	Services
1963	1.2	0.9	1.4	0.9	2.0
1964	1.3	1.1	1.3	.2	1.9
1965	1.7	1.2	2.1	.1	2.2
1966	2.9	2.6	5.0	.5	3.9
1967	2.9	1.8	.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	8.1
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
1974	11.0	12.0	14.4	18.4	9.3
1975	9.1	8.4	8.5	11.7	9.5
1976	4.8	3.3	.6	9.0	7.3
1977	6.8	6.1	8.0	8.1	7.9

[1] This figure is a component of the Housing index and does not include gasoline.

Source: Bureau of Labor Statistics.

UNEMPLOYMENT RATES

	Total	Males	Females	Males: 16 to 19	Males: 20 to 24	Males: 25 and over	Females: 16 to 19	Females: 20 to 24	Females: 25 and 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	5.8
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	9.4	4.0
1974	5.6	4.8	6.7	15.5	8.7	3.0	16.5	9.5	4.6
1975	8.5	7.9	9.3	20.1	14.3	5.5	19.7	12.7	7.0
1976	7.7	7.0	8.6	19.2	12.0	4.8	18.7	11.9	6.4
1977	7.0	6.2	8.2	17.3	10.7	4.2	18.3	11.2	6.0

Source: Bureau of Labor Statistics.

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