

HIGHWAY REVENUE ACT OF 1959

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HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 8678

AN ACT TO AMEND THE FEDERAL-AID HIGHWAY ACTS
OF 1956 AND 1958 TO MAKE CERTAIN ADJUSTMENTS
IN THE FEDERAL-AID HIGHWAY PROGRAM, AND FOR
OTHER PURPOSES

SEPTEMBER 4, 1959

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HIGHWAY REVENUE ACT OF 1959

FRIDAY, SEPTEMBER 4, 1959

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to call, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Long (Louisiana), Smathers, Anderson, Douglas, Gore, Talmadge, McCarthy, Williams, Carlson, Bennett, Butler, Cotton, and Curtis.

Also present: Hon. Hiram Fong and Hon. Oren Long, U.S. Senators from Hawaii.

Clifton W. Enfield, General Counsel, Bureau of Public Roads.

The CHAIRMAN. The committee will come to order.

We have for consideration title II of H.R. 8678 which I submit for the record.

(The matter referred to is as follows:)

TITLE II OF H.R. 8678

AN ACT To amend the Federal-Aid Highway Acts of 1956 and 1958 to make certain adjustments in the Federal-aid highway program, and for other purposes

TITLE II—INTERNAL REVENUE CODE AND HIGHWAY TRUST FUND AMENDMENTS

SEC. 201. TEMPORARY INCREASE IN MOTOR FUEL TAXES, ETC.

(a) GASOLINE.—Section 4081 of the Internal Revenue Code of 1954 (relating to imposition of tax on gasoline) is amended by adding at the end thereof the following new subsection:

“(c) TEMPORARY INCREASE IN TAX.—On and after September 1, 1959, and before July 1, 1961, the tax imposed by this section shall be 4 cents a gallon.”

(b) DIESEL FUEL AND SPECIAL MOTOR FUELS.—

(1) IMPOSITION OF TAX.—Section 4041 of such Code (relating to imposition of tax on diesel fuel and special motor fuels) is amended by adding at the end thereof the following new subsection:

“(f) TEMPORARY INCREASES IN TAX.—On and after September 1, 1959, and before July 1, 1961—

“(1) if (without regard to this subsection) the tax imposed by subsection (a) or (b) is 3 cents a gallon, the tax imposed by such subsection shall be 4 cents a gallon, and

“(2) if (without regard to this subsection) the tax imposed under paragraph (2) of subsection (a) or (b) is 1 cent a gallon, the tax imposed under such paragraph shall be 2 cents a gallon.”

(2) TECHNICAL AMENDMENTS.—The second sentences of subsections (a) and (b) of such section 4041 are each amended by striking out “in lieu of 3 cents a gallon”.

(c) FLOOR STOCKS TAX AND REFUNDS ON GASOLINE.—

(1) TAX.—Section 4226(a) of such Code (relating to floor stocks taxes) is amended by adding at the end thereof the following new paragraph:

“(5) 1959 TAX ON GASOLINE.—On gasoline subject to tax under section 4081 which, on September 1, 1959, is held by a dealer for sale, there is hereby

imposed a floor stocks tax at the rate of 1 cent a gallon. The tax imposed by this paragraph shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by a producer or importer of gasoline."

(2) DATE FOR PAYMENT OF TAX.—Section 4226 (d) of such Code (relating to due date of taxes) is amended by inserting before the period at the end thereof the following: "except that the tax imposed by paragraph (5) shall be paid at such time after November 30, 1959, as may be prescribed by the Secretary or his delegate".

(3) TECHNICAL AMENDMENT.—Section 4226(c) of such Code (relating to definition of dealer, etc.) is amended by striking out "section 6412(a)(3)" and inserting in lieu thereof "section 6412(a)(4)".

(4) REFUNDS.—Section 6412(a) of such Code (relating to floor stocks refunds) is amended by renumbering paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) GASOLINE HELD ON JULY 1, 1961.—Where before July 1, 1951, any gasoline subject to the tax imposed by section 4081 has been sold by the producer or importer and on such date is held by a dealer and is intended for sale, there shall be credited or refunded (without interest) to the producer or importer an amount equal to the difference between the tax paid by such producer or importer on his sale of the gasoline and the amount of tax made applicable to such gasoline on and after July 1, 1961, if claim for such credit or refund is filed with the Secretary or his delegate on or before November 10, 1961, based upon a request submitted to the producer or importer before October 1, 1961, by the dealer who held the gasoline in respect of which the credit or refund is claimed, and, on or before November 10, 1961, reimbursement has been made to such dealer by such producer or importer for the tax reduction on such gasoline or written consent has been obtained from such dealer to allowance of such credit or refund. No credit or refund shall be allowable under this paragraph with respect to gasoline in retail stocks held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline."

(d) CREDITS AND REFUNDS.—

(1) TAX PAYMENTS CONSIDERED OVERPAYMENTS.—Section 6416(b)(2) of such Code (relating to special cases in which tax payments are considered overpayments) is amended—

(A) by striking out "at the rate of 3 cents a gallon" each place it appears in subparagraphs (H), (I), and (J) and inserting in lieu thereof "at the rate of 3 cents or 4 cents a gallon";

(B) by striking out "1 cent for each gallon" in subparagraph (H) and inserting in lieu thereof "1 cent (where tax was paid at the 3-cent rate) or 2 cents (where tax was paid at the 4-cent rate) for each gallon"; and

(C) by striking out "at the rate of 1 cent a gallon;" at the end of subparagraphs (I) and (J) and inserting in lieu thereof the following: "at the rate of 1 cent a gallon where tax was paid at the 3-cent rate or at the rate of 2 cents a gallon where tax was paid at the 4-cent rate;"

(2) GASOLINE USED FOR CERTAIN NONHIGHWAY PURPOSES OR BY LOCAL TRANSIT SYSTEMS.—Subsections (a) and (b)(1)(A) of section 6421 of such Code (relating to gasoline used for certain nonhighway purposes or by local transit systems) are each amended by striking out "1 cent for each gallon of gasoline so used" and inserting in lieu thereof "1 cent for each gallon of gasoline so used on which tax was paid at the rate of 3 cents a gallon and 2 cents for each gallon of gasoline so used on which tax was paid at the rate of 4 cents a gallon".

(e) COLLECTION OF GASOLINE TAX AT WHOLESALE DISTRIBUTOR LEVEL.—

(1) TREATMENT OF WHOLESALE DISTRIBUTOR AS PRODUCER.—The first sentence of section 4082(a) of the Internal Revenue Code of 1954 (relating to definition of "producer" for purposes of tax on gasoline) is amended to read as follows: "As used in this subpart, the term 'producer' includes a refiner, compounder, blender, or wholesale distributor, as well as a producer."

(2) WHOLESALE DISTRIBUTOR DEFINED.—Section 4082 of such Code is amended by adding at the end thereof the following new subsection:

"(d) WHOLESALE DISTRIBUTOR.—As used in subsection (a), the term 'wholesale distributor' includes any person who—

"(1) sells gasoline to producers, to retailers, or to users who purchase in bulk quantities for delivery into bulk storage tanks, and

"(2) is registered and bonded with respect to the tax imposed by section 4081.

Such term does not include any person who (excluding the term 'wholesale distributor' from subsection (a)) is a producer or importer."

(3) EFFECTIVE DATE.—The amendments made by paragraphs (1) and (2) shall take effect on January 1, 1960.

SEC. 202. TRANSFERS TO HIGHWAY TRUST FUND.

(a) TRANSFER.—Section 209(c) of the Highway Revenue Act of 1956 (relating to transfer to Highway Trust Fund of amounts equivalent to certain taxes) is amended by renumbering paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

"(2) EXCISE TAX ON AUTOMOBILES, PARTS AND ACCESSORIES, ETC.—There is hereby appropriated to the Trust Fund, out of money in the Treasury not otherwise appropriated, amounts equivalent to that portion of the taxes received in the Treasury after June 30, 1961, and before July 1, 1964, under subsection (a)(2) (tax on passenger automobiles, etc.) and (b) (tax on parts and accessories) of section 4061 of the Internal Revenue Code of 1954 which is equal to the amount which would have been so received if the tax rate under each such subsection had been 5 percent in lieu of the applicable rate."

(b) CONFORMING AMENDMENTS.—

(1) CLERICAL AMENDMENT.—Paragraph (4) (as renumbered by subsection (a)) of such section 209(c) is amended by striking out "paragraphs (1) and (2)" each place it appears and inserting in lieu thereof "paragraphs (1), (2), and (3)".

(2) FLOOR STOCKS REFUNDS.—Section 209(f) of the Highway Revenue Act of 1956 (relating to expenditures from Highway Trust Fund) is amended—

(A) by striking out the heading to paragraph (4) and inserting in lieu thereof the following:

"(4) 1972 FLOOR STOCKS REFUNDS.—"; and

(B) by adding at the end thereof the following new paragraph:

"(5) 1961 FLOOR STOCKS REFUNDS ON GASOLINE.—The Secretary of the Treasury shall pay from time to time from the Trust Fund into the general fund of the Treasury amounts equivalent to the floor stocks refunds made before July 1, 1962, under section 6412(a)(3)."

The CHAIRMAN. Mr. Bertram Tallamy, Federal Highway Administrator, Bureau of Public Roads, Department of Commerce, will be the first witness.

You may proceed, sir.

STATEMENT OF BERTRAM D. TALLAMY, FEDERAL HIGHWAY ADMINISTRATOR, BUREAU OF PUBLIC ROADS, DEPARTMENT OF COMMERCE

Mr. TALLAMY. Mr. Chairman, and gentlemen of the committee, in your consideration of H.R. 8678, I thought it might be helpful to present briefly the current status of the Federal-aid highway construction program, then its relationship to the highway trust fund and the possible rate of advancement of construction under existing legislation; followed by a review of the program which could go forward under the pending legislation.

Since July 1, 1956, 90,500 miles of highways have been advanced to construction contracts. This total includes 82,000 miles of highways on the so-called ABC systems, and 8,500 miles on the Interstate System.

The total cost of this work, including engineering and right-of-way acquisition, is \$12.4 billion, of which \$8.7 billion represents the Federal share.

During this same 3-year period, 80,900 project miles have been completed, including 4,200 miles on the Interstate System.

The 1956 act contemplated the award of contracts at a rate the trust fund could liquidate without creating a deficit. The 1958 act, however, directed that the program be advanced at a faster rate during the fiscal years 1959 and 1960 than the fund could support with present revenues.

This act, being in part an antirecession measure, directed apportionments for fiscal years 1959 and 1960 which totaled \$1.6 billion more than the trust fund could liquidate. Consequently, under present legislation, a \$500 million deficit would develop in the trust fund in the fiscal year 1960, accumulating to \$1 billion in fiscal 1961 even though no apportionment is made for the advancement of the Interstate System this year for fiscal 1961 and only a maximum of \$500 million next year for fiscal 1962.

As a result of that situation, if no action should be taken by the Congress this year to supplement the trust fund revenue, it will be necessary to halt all further contracts for both ABC and interstate highway construction for a period of about 9 months. And even so, there still would be a deficit of \$150 million at the end of fiscal year 1960.

In contrast to such a drastic cutback in the program, H.R. 8678 would permit continuing advancement of both ABC and interstate highway construction in an orderly manner but with some reduction for the Interstate System compared to the prior fiscal year.

The bill would supplement the trust fund by providing a temporary increase in the Federal motor fuel tax at 1 percent per gallon effective September 1, 1959, through June 30, 1961. It also provides for a transfer to the highway trust fund of half the receipts from the 10 percent excise tax on passenger cars and five-eighths of the 8 percent tax on parts and accessories both effective July 1, 1961, and continuing through June 30, 1964. Of course, the September 1 date for enactment of the motor-fuel tax would have to be altered to a little later date.

Under H.R. 8678 an apportionment of \$1.8 billion could be made this year for fiscal 1961, and \$2 billion could be apportioned next year for fiscal 1962 for the Interstate Highway System. Also, \$925 million could be apportioned this year for the ABC system for fiscal 1961, and a similar amount next year for the fiscal year 1962 if authorized.

It should be pointed out, however, that it will be necessary for the Bureau of Public Roads to exercise control of obligations so that contracts in the current fiscal year and for fiscal 1961 do not exceed the amounts apportioned in those years for both programs.

To summarize, H.R. 8678 would permit the advancement of the ABC program at the authorized rate and allow construction to proceed on the Interstate System at a substantial though reduced rate until calendar year 1961 when Congress will have the opportunity to consider a long-range financing program for completion of the system. At that time a new estimate of cost will be presented to the Congress based upon the preceding 4 years of actual construction cost experience and with much advance detail planning.

Also, there will be presented a fundamental report on direct user and indirect highway benefits based upon 4 years of intense study of these subjects and the results of an extremely important test road

project now being conducted by the joint efforts of the Federal Government, the States, and private industry.

These reports should be of enormous assistance to the Congress in considering at that time the legislation regarding the rate of completion of the Interstate System and continuation of the ABC program.

Mr. Chairman, that is the end of my direct statement.

The CHAIRMAN. The Chair desires to welcome to the committee this morning the attendance of the two Senators from Hawaii, Senator Fong and Senator Long.

Mr. Tallamy, to what extent is the situation now confronting us due to the existence of the——

Mr. TALLAMY. The entire deficit with which we are confronted now and the need for halting contracts unless action is taken at this session of Congress results from the fact that in 1958 we were directed to proceed with apportionments in excess of the amount of the trust fund to liquidate them.

The CHAIRMAN. Does that mean that you made 2 years' apportionment with only 1 year's fund?

Mr. TALLAMY. Not exactly.

The entire State apportionment, for example, for 1959 was increased \$200 million over the previous authorization. The apportionment for 1960 was increased \$300 million over prior authorizations, and the ABC program was increased about \$400 million, and in addition to that, there was a loan provision to the extent of \$115 million, which provision stipulated that the Federal Government could advance to the States the \$115 million loan which subsequently would have to be repaid.

Under the section 209(g), instead of making those apportionments which were directed by the 1958 act, we would only have been able to apportion \$1.6 billion for fiscal 1960 rather than the directed amount of \$2.5 billion, and these other increased amounts.

The CHAIRMAN. Had the amendment not been suspended, this dilemma would not confront us and there would be no occasion now to request 100 percent increase in the gasoline tax.

Mr. TALLAMY. That is correct.

Senator GORE. Mr. Chairman, I know Mr. Tallamy wants to be factual. I am sure he will want to amend that statement, because that is not a factual statement.

Mr. TALLAMY. Maybe I misinterpreted the question.

Senator GORE. It would be only partially true.

Excuse me, Mr. Chairman.

The CHAIRMAN. My question was, and I think you have answered it twice, had the pay-as-you-go amendment not been suspended, this dilemma and crisis in the road program, whatever you may call it, would not now exist.

Mr. TALLAMY. That is correct, as I see it, Mr. Chairman.

The CHAIRMAN. And therefore, if it did not exist, there would be no reason for the pending legislation to increase the gasoline tax by 1 percent.

Mr. TALLAMY. That is as I understand it; that is correct.

The CHAIRMAN. This is resisted all over the country, according to the mail I received.

Mr. TALLAMY. I understand it that way.

The CHAIRMAN. Are there any other questions?

Senator DOUGLAS. Mr. Chairman, are we going around in sequence?

The CHAIRMAN. Senator Kerr.

Senator KERR. That change in the program was directed by the Congress and signed by the President, was it not, Mr. Tallamy?

Mr. TALLAMY. It was.

Senator KERR. And it is just as much the law of the land as the other provisions had been prior to that change by the Congress?

Mr. TALLAMY. That is correct.

The CHAIRMAN. Did the President approve of the suspension of the pay-as-you-go amendment?

Mr. TALLAMY. The President signed the legislation. At the time he signed it, he pointed out that there would be a necessity this year to face up to the problem of securing the additional money that this legislation required.

Senator KERR. He didn't indicate that he thought—is the Government in the position to pay the maturing claims for the next 6 months out of current funds or revenues that are coming in for completed contracts which have been made, authorized, and performed without this legislation?

Mr. TALLAMY. No, sir.

Senator KERR. Does that situation prevail with reference both to the interstate commitments and obligations and the ABC commitments and obligations?

Mr. TALLAMY. Yes, sir.

Senator KERR. Is there a provision in the law as to priority between the apportionments for the ABC system and the Interstate System?

Mr. TALLAMY. Yes, Senator, there is so far as apportionments are concerned. But once a contractual obligation is created, then those contracted are all considered with equal effect.

Senator KERR. But what is the provision under the law with reference to priority for the ABC system?

Mr. TALLAMY. The provision of the law states that the apportionments for the ABC system shall be made first within the limitations, of course, of the ability of the trust fund to liquidate them. But they have the first draw on the trust fund for apportionment.

Senator KERR. So that actually while the present situation is one where there would be maturing claims, unless we provide additional funds or revenues in both programs, it cannot be paid unless additional action is taken by the Congress. It will work out so that as money comes in, outstanding lawful claims will be paid, but after that, and as of now actually, no further apportionments will be paid for the Interstate until the provisions of the law recognizing the priority of the ABC apportionments and therefore its claim on the fund has again been reestablished and effective.

Mr. TALLAMY. That is correct.

Senator KERR. What are the authorized amounts for the ABC system?

Mr. TALLAMY. At the present time the amount authorized for fiscal 1960 is \$925 million. No authorization exists for 19—I am sorry, I should have said for 1961.

Senator KERR. Yes.

Mr. TALLAMY. And no authorization exists for 1962.

Senator KERR. Now, has the 1961 apportionment been made?

Mr. TALLAMY. The 1961 apportionments have not been made.

Senator KERR. Against either fund?

Mr. TALLAMY. Against either fund.

Senator KERR. What was the authorization apportionment for 1960 on the ABC fund?

Mr. TALLAMY. \$900 million.

Senator KERR. Now, the bill before us would make an additional 1-cent levy on gasoline sales effective, I believe actually in the bill, September 1, but for all intents and purposes, what date does the bill carry for the transfer of the excise taxes?

Mr. TALLAMY. July 1, 1961, calendar year.

Senator KERR. Does that mean that there would be none of the excise taxes referred to in the bill transferred to the Trust Fund for another 2 years from now?

Mr. TALLAMY. That is correct.

Senator KERR. So that the moneys in the fund would not be augmented under this bill in any amount except the 1 penny on gasoline for the next 2 years?

Mr. TALLAMY. That's correct.

Senator KERR. Is there a study now being made by anyone that you know of for new sources of revenue to finance the trust fund under existing law?

Mr. TALLAMY. Yes; in a way. The Department of Commerce has been conducting since 1956 and will have ready for presentation to the Congress in January of 1961——

Senator KERR. 1961?

Mr. TALLAMY. 1961, calendar 1961, the results of an intense study on the direct highway user benefits, and also of the indirect benefits of the highway system, and this study is not only predicated upon existing information, but is also dependent and predicated upon the results of a test road which is now under construction and under operation in Illinois, and for which the Federal Government and the State governments and private industry are cooperating, and that test will give us a wealth of information to determine the direct user benefits of the highway system as they relate to commercial use and passenger car use.

Senator KERR. Is it your understanding of that directive that the Commerce Department will come forward to the Congress with recommendations, with data and information as to the benefits and also recommendations as to what additional taxes would be the most equitable source of revenue for the trust fund for the future?

Mr. TALLAMY. I can't answer that, Senator.

I know the law requires them to submit the factual information which will present the basis for consideration of the equitableness of various types of taxes, but it does not require——

Senator KERR. Is the study limited to the justification for existing taxes or is the directive broad enough to have them bring here facts with reference to other possible taxes?

Mr. TALLAMY. It is broad enough so that the facts will be there for consideration of other types of taxes.

Senator KERR. And will your report consist only of data and detailed fact, or will conclusions be attempted to be drawn in the form of recommendations?

Mr. TALLAMY. I'm sure that conclusions will be drawn so far as the facts are concerned, but I couldn't say, I don't know about

recommendations as to further taxes. I have no further information on that.

Senator KERR. The direction for legislation is silent in that regard?

Mr. TALLAMY. That's correct.

Senator KERR. Thank you very much, Mr. Tallamy.

Senator BYRD. The Chair will recognize Senator Butler who must go to the floor.

Senator BUTLER. I thank you, Mr. Chairman and members of the committee.

There is a live quorum call, and then they are going to immediately take up the extension of Public Law 480 and I must go to the floor. I have been requested by the two Senators from Hawaii to bring to the attention of Mr. Tallamy a letter that they have addressed to the chairman of this committee and the members of this committee which, Mr. Chairman, I would like to offer for the purposes of the record, and then direct two questions to Mr. Tallamy.

(The letter referred to follows:)

MEMORANDUM

SEPTEMBER 4, 1959.

To: Chairman and members, Senate Finance Committee.

From: Senators Hiram L. Fong and Owen E. Long.

Re the Federal-aid highway program and Hawaii.

The Federal-Aid Highway Acts of 1944 and 1956 provided for the construction of a national system of highways within the continental United States limited as to total mileage. For all practical purposes, the entire authorized mileage of the Interstate System now has been used. Since the enactment of the 1944 and 1956 acts, and since the designation of routes on the Interstate System, Hawaii has become a State.

Prior to Hawaii's admission to the Union, the inequity of Hawaii's citizens paying tax dollars from which no return was received by way of a highway program, was recognized. Legislation was introduced in the 84th Congress which provided for a separate defense highway system for Hawaii.

Later, a concrete proposal for the development of a highway system was developed by Territorial officials and presented to a subcommittee of the House Public Works Committee which visited Hawaii late in 1957. Gov. William F. Quinn has submitted a draft of that proposal to the Bureau of Public Roads and the Departments of Interior and Defense.

At the present time, the Federal Government is contributing 90 percent of the cost of constructing an Interstate System, no part of which is located in Hawaii. Federal aid to highways in Hawaii is limited to the Federal-aid primary and secondary systems, including their extensions in urban areas (ordinarily referred to as the ABC program). It has been estimated that the total amount of Federal-aid highway funds to be apportioned to Hawaii for the ABC program for fiscal year 1961 will be \$4.3 million. The difference between this amount and the amounts it is estimated will be apportioned to other comparable States is revealing, as shown by table C which appears on page 4 of House Report No. 1120, the report of the House Committee on Public Works which accompanies H.R. 8678.

The State of Hawaii should be given the same treatment as all other States. The importance of adequate highways to the economy and to the national defense is no less in Hawaii than any other State. In fact, it is greater, as Hawaii is one of our greatest bastions of defense. This equal treatment can be afforded in either of two ways:

1. Amendment of the existing law to provide for the designation in Hawaii of routes on the National System of Interstate and Defense Highways.

2. Designation of a separate system of highways for Hawaii with the Federal Government contributing 90 percent of the cost of constructing the system as is done in the case of the Interstate System within the continental limits of the United States.

While the interstate program is presently facing serious financial difficulties, the program is well underway on a nationwide basis. It is urged that the State of Hawaii should join the accelerated highway construction program immediately.

Legislation to provide at least a temporary solution to the financial difficulties of the Federal-aid highway program is or soon will be before the Senate Finance Committee for consideration. It is respectfully recommended that provisions extending equitable treatment to Hawaii be added to the pending legislation.

HIRAM L. FONG, *U.S. Senator.*

ORIN E. LONG, *U.S. Senator.*

Senator BUTLER. Have you any plans in the Department of Public Roads to ask for an amendment that would bring Hawaii into the Interstate System or to suggest that they have a system of their own with the same 90-10 matching ratio?

Mr. TALLAMY. We have nothing definite at the moment, but a number of studies have been underway in connection with the highway system in Hawaii, and consideration has been given in connection with that study to the defense needs of Hawaii, not the Interstate System as such.

Senator BUTLER. I bring this question up at this time because I believe this is the only time that you will appear in a public hearing in connection with this matter before the close of the session, and you can understand the natural desire of the two Senators from Hawaii to have some information on the subject.

Mr. TALLAMY. Yes, sir.

Senator BUTLER. We are about to levy a tax of 1 cent a gallon that will be paid by the people of Hawaii along with all other citizens of the United States, and they have no part whatever in the program.

I wanted the committee to be cognizant of that fact. I wanted to be sure that the Department was giving some thought to a highway system separate from the Interstate System to apply to Hawaii, or that they would be allocated mileage in the Interstate System.

Mr. TALLAMY. Yes, sir.

Senator BUTLER. And that is being ---

Mr. TALLAMY. We have conducted studies of that situation in the past year, and no doubt they will be continued now that Hawaii is a State.

Senator BUTLER. And the Department will make definite recommendations to this committee in connection with that study.

Mr. TALLAMY. I can't answer that. That would have to—I report to the Secretary of Commerce and he, of course, will have to determine in the light of that report as to whether he would care to make a recommendation or not.

Senator BUTLER. And that would be the proper time I assume for the Senators from Hawaii to further advance this subject.

Mr. TALLAMY. That's correct.

Senator BUTLER. I thank you, Mr. Chairman.

Senator BYRD. Senator Frear?

Senator FREAR. Might I pass?

Senator BYRD. Senator Williams?

Senator WILLIAMS. No questions.

Senator BYRD. Senator Smathers?

Senator Bennett?

Senator Douglas?

Senator DOUGLAS. Mr. Tallamy, what was the annual rate of expenditure on the Interstate System prior to the acceleration bill of 1958?

Mr. TALLAMY. It was a variable rate. I will give you just a very few figures. In 1957, we spent \$208 million.

Senator DOUGLAS. You were just getting underway then?

Mr. TALLAMY. Just getting underway, and I am speaking of fiscal years. The 1958 fiscal year, that increased to \$675 million. In fiscal 1959 to \$1,501 million.

Senator DOUGLAS. Would that be about the normal rate of expenditure that was contemplated under the 1956 act?

Mr. TALLAMY. Oh, no. It was still increased further than that. In 1960—

Senator DOUGLAS. No, no, then we had the 1958 act. What I'm trying to get at is at about what rate of expenditure did the 1956 act contemplate?

Mr. TALLAMY. Yes. Well, it would go up to about \$2.2 billion ultimately.

Senator DOUGLAS. When?

Mr. TALLAMY. And it would reach there in about 1961 or 1962.

Senator DOUGLAS. \$2.2 billion. Now the 1958 act speeded this up, accelerated it, did it not, because of the recession?

Mr. TALLAMY. Yes, it did.

Senator DOUGLAS. By how much?

Mr. TALLAMY. By a total of \$1.1 billion.

Senator DOUGLAS. Or 50 percent roughly.

Mr. TALLAMY. Yes.

Senator KERR. That is not annually.

Mr. TALLAMY. No, the total.

Senator DOUGLAS. What would be the annual rate of increase?

Mr. TALLAMY. It increased the rate for fiscal 1959 authorization by \$200 million, and it increased the rate over what the section 209(g) would permit for fiscal 1960 by \$900 million.

Senator DOUGLAS. Then that is roughly a 40 percent increase in the rate of expenditure or authorization?

Mr. TALLAMY. Yes, in that one year.

Senator DOUGLAS. They may not be synonymous of course.

Now may I ask this question. Was the system financially in balance prior to 1958? Would it have been financially in balance?

Mr. TALLAMY. It would have had to have been financially in balance.

Senator DOUGLAS. I understand, but I mean would your receipts have been sufficient to meet the \$2.2 billion of expenditures?

Mr. TALLAMY. No, sir. We would have had to cut down the amount of apportionments that we made to the States.

Senator DOUGLAS. What was the annual rate of receipts under the taxes levied in the 1956 act?

Mr. TALLAMY. About \$2 billion a year.

Senator DOUGLAS. So that the surpluses which you had accumulated in the earlier years would have carried you for some years over into the future and you would have had an approximate balance.

Mr. TALLAMY. Exactly.

Senator DOUGLAS. But then this \$900 million increase or 40 percent increase has thrown you out of balance?

Mr. TALLAMY. That's right.

Senator DOUGLAS. Or will throw you out of balance?

Mr. TALLAMY. That's right.

Senator DOUGLAS. Now this is the problem that puzzles me.

If the previous receipts financed roughly 100 percent of the program, why is it that when you increase your rate of expenditures only to 140 percent that you say that continuation of the present system will, as on page 2 I think you say—it will be necessary to halt all further contracts for both ABC and interstate highway construction for a period of about 9 months. I can see how you would taper off, but I have been puzzled by this claim that it means complete cessation.

Mr. TALLAMY. The reason for it is that the expenditures which result from contracts entered into last year and in previous years are coming due this year, at such a rate that the balance that presently exists in the trust fund will be used up, and that a deficit will result during the course of the year.

Senator DOUGLAS. Is this caused by the fact that the mileage cost of construction is greater than you originally believed it to be?

Mr. TALLAMY. No, sir; it has no relation.

Senator DOUGLAS. What I can't understand is how, if you had receipts say equivalent to a ratio of expenditure of \$2.2 billion, then if you increase them to \$3.1 billion that you have to stop the whole \$3.1 billion. Why can't you stop the \$900 million but continue with the previous base of \$2.2 billion?

Mr. TALLAMY. I think possibly I should bring out, in order to clarify your problem, that under the existing legislation, the 1956 legislation, we would not have been able to apportion the \$2.2 billion which was authorized for fiscal 1960. We could only have been able to apportion \$1.6 billion without overdrawing the trust fund.

Senator DOUGLAS. Why is that?

Mr. TALLAMY. Because the trust fund would not have supported the full authorized amount of \$2.2 billion, not authorized by the 1956 act.

Senator DOUGLAS. Then instead of cutting everything completely off, why couldn't you go from \$3.1 billion to \$1.6 billion and go at half speed, which incidentally would be 80 percent roughly of the speed that you contemplated prior to the recession?

Mr. TALLAMY. Senator, we could have done that, but the 1958 act directed us to apportion the full amount authorized.

Senator DOUGLAS. Can't you direct the States to cut down on their rates of expenditure?

Mr. TALLAMY. Well, I could have then, but I can't now because they have already entered into these contracts. There are actual contracts with contractors, and the resulting construction is being undertaken, and the States are building and will be building.

Senator DOUGLAS. That is a very real problem there.

I have always believed in a period of recession one should accelerate construction of public works, and highways and housing I think are two of the best ways of doing this. But I also believe that in a period of prosperity that one should dampen down the rate of expenditure.

Why are we committed to an accelerated program designed for recession when those conditions no longer exist? Has this program got out of hand, so to speak?

Mr. TALLAMY. No, no.

Senator DOUGLAS. Are we running downhill with a loaded sled behind us and we can't stop without being knocked down?

Mr. TALLAMY. I don't think so, Senator. Let's look at it this way. We were in what appeared to be a developing recession in 1958, and the Congress passed legislation telling us, for instance, to put \$400 million worth of highway work under the contract, to do so by December 1 of that year.

Senator DOUGLAS. And the administration approved that?

Mr. TALLAMY. Yes, and we did it. Now those contracts, sir, are finishing and we have to pay them. Now if the recession had extended into this year, it would have been in conformance with the expenditure.

Senator DOUGLAS. Can you submit tables on all of these matters?

Mr. TALLAMY. Yes, sir.

Senator DOUGLAS. Because it is very puzzling, very puzzling.

Mr. TALLAMY. It is complicated. I will be very happy to. (The table referred to follows.)

Effect of 1958 act on Federal-aid highway expenditures

(Millions of dollars)

	Expenditures during fiscal year				Total
	1957	1958	1959	1960	
Regular ABC program	0.7	0.8	0.9	0.8	3.2
Interstate under sec. 200(g) per 1950 act	.2	.7	1.4	1.7	4.0
Subtotal	.9	1.5	2.3	2.5	7.2
1958 act increases, with suspension of sec. 200(c):					
ABC special funds (sec. 2(a) of 1958 act)			.2	.2	.4
ABC repayable advances (sec. 2(c) of 1958 act)				.1	.1
Interstate			.1	.3	.4
Subtotal, 1958 act increases			.3	.6	.9
Total expenditures under 1950 and 1958 acts	.9	1.5	2.6	3.1	8.1

Senator DOUGLAS. As to why you have got to call off these contracts unless you get further taxes. It seems to me that the prior taxes would enable at least a very large portion of the accelerated program to be carried out.

Do you frankly think that you should carry out an accelerated program in a period of—I hesitate as to what to call this; it is not a recession—in a period of relative prosperity, even though there is high unemployment?

It is a curious situation.

Mr. TALLAMY. Senator, this isn't an accelerated program; this is a cut program.

This would be a cut program because the present authorization is for \$2.5 billion for fiscal 1961.

Senator DOUGLAS. Does this mean you can speed up this program?

Mr. TALLAMY. No.

Senator DOUGLAS. But you never can slow it down?

Mr. TALLAMY. No. Actually this legislation you are considering will reduce the work from the authorized—the contemplated rate of \$2.5 billion to \$1.8 billion. This legislation actually cuts the 1958 act from \$2.5 to \$1.8 billion for fiscal 1961.

Senator DOUGLAS. That would be an advantage, if any tax is levied, that it should be a short-run tax.

Mr. TALLAMY. And that is what this proposes.

Senator DOUGLAS. You are not insisting on a 3-year tax?

Mr. TALLAMY. It is a 22-month tax.

Senator DOUGLAS. No, no; but I mean, originally, I think, you asked for 3 years.

Mr. TALLAMY. The reason for it -----

Senator DOUGLAS. Didn't you originally ask for an increase of 1.5 cents per gallon for 3 years?

Mr. TALLAMY. For 5 years.

Senator DOUGLAS. For 5 years?

Mr. TALLAMY. And the reason for that is that in order to make apportionments even for the \$1.8 billion and the \$2 billion for next year, we would have to certify that there will be enough money in the trust fund 3 and 4 years from now to pay the bills when they come due, and therefore the recommendation for a tax for that period.

But this covers the situation by giving immediate revenue and by the -----

Senator DOUGLAS. You are not contending now for 5 years?

Mr. TALLAMY. No. Well, the administration's position is that they would prefer that, but would hope and recognize that this bill is a bill which will enable us to go forward with the program, and in 1961 the administration, I think would hope that the long-range financing plan would make it unnecessary to divert funds from the general revenue.

Senator DOUGLAS. So you are for continuing this accelerated program even in a period of financial prosperity.

Mr. TALLAMY. I am definitely of the opinion we should continue this program.

Senator DOUGLAS. At the accelerated rate of 1956?

Mr. TALLAMY. No; at the rate that is established in the legislation. I personally think we should, because the traffic increases are terrific. Between now and 1975 when this system will be completed we are going to kill 700,000 people on our highways in the United States and it is getting worse every day, and we can cut that drastically by the development of this system.

And some 25 million people will be injured, and we have got to recognize this situation and develop the highways. Therefore I think that we should proceed at the authorized rate and not look upon it as a depression or recession versus prosperity type of thing.

I think we ought to look at it as something that is as absolutely necessary for the economy and the welfare of the United States.

Senator DOUGLAS. How much will a one-half-cent increase yield?

Mr. TALLAMY. One-half cent?

Senator DOUGLAS. One-half cent.

Mr. TALLAMY. One-half cent will help, but it will not do very much for continuing the program. We would have to have an actual halting of contracts for a period of 4 months this year.

Senator DOUGLAS. How much would one-half cent bring in?

Mr. TALLAMY. Oh, in revenue? It would bring in \$191 million for fiscal 1960 and \$289 million for 1961.

Senator DOUGLAS. In other words, about 1 cent would yield about \$600 million.

Mr. TALLAMY. Yes.

Senator DOUGLAS. You already have a 3-cent tax; do you not?

Mr. TALLAMY. Yes.

Senator DOUGLAS. So that is \$1.8 billion, and you say expenses would be tapered down to \$1.8 billion. Why aren't you in balance then?

Mr. TALLAMY. We mustn't lose sight of the fact that the ABC program, that \$900 million program, also has to be paid out of this general fund, and that is a big drain on it.

Senator DOUGLAS. One other question. Are you satisfied with this 90 percent-10 percent formula?

Mr. TALLAMY. I think personally that the States are having a difficult time to go ahead with their regular highway program on which the Federal Government contributes nothing, and on the ABC program.

Senator DOUGLAS. The Federal Government contributes 50 percent.

Mr. TALLAMY. Oh, yes; but the States are responsible for thousands of miles of highways which are not on any Federal aid system, and they have that 100 percent cost.

Senator DOUGLAS. I understand.

Mr. TALLAMY. So the States are having difficulty in financing their own program, the 50-percent program, and to increase the interstate program responsibility.

Senator DOUGLAS. Who exercises control over the Interstate System?

Mr. TALLAMY. We do. We will and will always have to.

Senator DOUGLAS. Don't the States lay out the routes subject to your approval?

Mr. TALLAMY. Yes, sir.

Senator DOUGLAS. Who lets the contracts?

Mr. TALLAMY. They do but subject to our approval.

Senator DOUGLAS. Did you approve the Indiana contracts?

Mr. TALLAMY. We approved the interstate contracts.

Senator DOUGLAS. The right-of-way contracts?

Mr. TALLAMY. Yes.

Senator DOUGLAS. Have you done that in Illinois?

Mr. TALLAMY. Yes; we will.

Senator DOUGLAS. Isn't it pretty easy, subject only to general control, if the States only have to put up 10 percent of the money and the Government puts up 90 percent, for them not to be very careful in the original letting of the contracts?

Mr. TALLAMY. I don't think so. We review very carefully the location of a highway. We review, before we approve these, these are the various steps we approve. We approve the location of the highway after public hearings, after presentation of detailed information to us by the State. Then we authorize the procedure of the development of detailed plans. Those detailed plans themselves are very carefully reviewed by our engineers.

Then we authorize the State at their request to advertise for bids. Before the contract can be awarded we review all of the bids that have been submitted to see that the unit prices are correct and then we authorize the State to award the contract. Then we also inspect the construction.

Senator DOUGLAS. May I say I think I was one of the earliest advocates of the system of Federal aid. I remember 40 years ago, when I was younger than I am now, I wrote some articles on the incipient

system of Federal aid. The criticism which was then advanced against the system was that if the State only put up \$1 for every Federal dollar, they would not be particularly careful about expenditures. I thought that the 50-percent State contribution would be a stabilizing force. I never dreamed we would get into a system where it would be 9 to 10, and where 1 State dollar would unlock 9 Federal dollars.

I am surprised if I may say so to find an administration which presumably is committed to local responsibility defending a 90-10 system. It seems to me it is a top-heavy system. How would you stand on changing the formula to 70 to 30 or 2 to 1?

Mr. TALLAMY. Of course, the administration has no position, at least —

Senator DOUGLAS. You would not oppose it?

Mr. TALLAMY. I don't know of any position the administration has on that in one way or another.

Senator DOUGLAS. Could that be done on this bill?

Mr. TALLAMY. I think personally that it should not be done. That is my personal opinion.

Senator DOUGLAS. Could it be done on this bill?

Mr. TALLAMY. Could it be?

Senator DOUGLAS. Yes.

Mr. TALLAMY. I don't know. You would have to ask someone else. I don't know.

Senator DOUGLAS. I don't mean whether politically it could be done, but procedurally could it be done?

Mr. TALLAMY. I would think that a matter of that nature would have to originate in the Public Works Committees.

Senator DOUGLAS. Could it be done on the floor?

Mr. TALLAMY. I don't know. I haven't been down here long enough to know.

Senator DOUGLAS. We might go into that question and not assume a purely negative attitude in advance.

One final question, this matter of taking care of Hawaii. What about the 49th State as well as the 50th State, Alaska?

Have you any plans to include Alaska?

Mr. TALLAMY. I didn't say that we had plans to include Hawaii in the Interstate System. I said that we were studying the whole matter, the whole Hawaii problem.

Senator DOUGLAS. Is this intended as a substitute for roads, a study as a substitute for construction?

Mr. TALLAMY. No.

Senator DOUGLAS. It is a very unsatisfactory substitute. You can't drive automobiles or trucks over studies. You have to drive them over roads.

Mr. TALLAMY. You are right, sir, but we have to have a study before we can decide whether we should build roads.

Senator DOUGLAS. Now we know of course that Alaska and Hawaii are detached States. They are not physically contiguous to other States but should this prevent their participation in the Interstate System?

Mr. TALLAMY. Alaska, Senator, their portion of the highway work has gone up from as I recall it somewhere around \$13 million to over \$30 million.

Senator DOUGLAS. This is Alaska?

Mr. TALLAMY. Yes; since it became a State. They have had a tremendous increase in available funds.

Senator DOUGLAS. I am asking you a technical question. Could Alaska and Hawaii, which are not physically contiguous to other States, be included in the Interstate System?

Mr. TALLAMY. I would not think so.

Senator DOUGLAS. Or are they debarred by the very fact of non-contiguity?

Mr. TALLAMY. I would think they would be from the Interstate System as such.

Senator DOUGLAS. Would they have to fall back on the 50-50 system?

Mr. TALLAMY. That is why in answer to the question that was asked of me before, I said we were studying the matter of defense highways.

Senator DOUGLAS. I see. Then the Federal Government would bear 100 percent of the cost?

Mr. TALLAMY. I don't know.

Senator DOUGLAS. What?

Mr. TALLAMY. I don't know, sir.

Senator DOUGLAS. Isn't that what happens in defense highways? The Federal Government bears 100 percent of the cost?

Mr. TALLAMY. I wasn't thinking of this in those terms.

Senator DOUGLAS. No?

Mr. TALLAMY. No, sir.

Senator DOUGLAS. What terms were you thinking of it?

Mr. TALLAMY. I was thinking of it as a different type of defense highway than the defense access highway that you are speaking of.

You are speaking of the defense access highways, and on those we do pay 100 percent of them, but I was thinking of a highway system which might be necessary for combined purposes, general highway use and defense as well.

Senator DOUGLAS. You think they are definitely outside of the Interstate System?

Mr. TALLAMY. I think so.

Senator DOUGLAS. They will either have to go in the 50-50 system, you call it the ABC system, started by Congressman Shackelford in 1916, I think, or under defense highways.

Mr. TALLAMY. Under existing legislation that's true.

Senator DOUGLAS. Could you tie the Alaskan highways onto the Alcan Highway?

Mr. TALLAMY. Well, the existing legislation requires a continuous and coordinated and integrated system, and I doubt that the interpretation of that could be broad enough to include a highway in a foreign country like Canada or another country.

Senator DOUGLAS. I grant that, but a highway to the 49th State which connects with the Alcan Highway which in turn connects with the American system of highways—

Mr. TALLAMY. I think it would require an adjustment in our legislation.

Senator DOUGLAS. Mr. Chairman, I'm sorry to have taken so much time but this is a very perplexing problem.

Senator BYRD. I would like to ask you, Mr. Tallamy, what is the method of allocating to both Alaska and Hawaii from those funds?

Mr. TALLAMY. The method of allocating money to Alaska and Hawaii will be the same as it is for any other State now that it has become a State, and it depends upon the area, the population and the road miles.

Senator BYRD. It is only for the ABC system.

Mr. TALLAMY. Yes.

Senator BYRD. They will receive no interstate funds?

Mr. TALLAMY. No, sir.

Senator BYRD. I have figures you presented to the House Committee showing that in 1962 under the present legislation there will be an expenditure of \$1,160 million. Under the House bill that is reduced to \$897 million. In 1963 if no action is taken now by Congress, under present law \$1,106 million will be expended and under the House bill \$911 million would be expended.

Mr. TALLAMY. Yes, sir.

Senator BYRD. Why is that reduction under the two bills on the ABC system?

Mr. TALLAMY. Will you tell me what the figure was again for the 1962 year?

Senator BYRD. I hand you this table.

(The table is as follows:)

Highway trust fund expenditures, fiscal years 1957-72

[In millions]

Fiscal year	ABC program		Interstate system		Total	
	With no action by Congress at this time	Under H.R. 8678	With no action by Congress at this time	Under H.R. 8678	With no action by Congress at this time	Under H.R. 8678
1957.....	\$758	\$758	\$208	\$208	\$966	\$966
1958.....	836	836	675	675	1,511	1,511
1959.....	1,112	1,112	1,501	1,501	2,613	2,613
1960.....	1,002	1,110	1,791	2,025	2,793	3,135
1961.....	560	910	1,487	1,755	2,047	2,605
1962.....	1,160	897	1,120	2,000	2,280	2,897
1963.....	1,106	911	1,226	2,000	2,332	2,911
1964.....	936	936	1,456	2,200	2,332	3,136
1965.....	936	936	1,519	1,575	2,455	2,511
1966.....	936	936	1,584	1,600	2,520	2,536
1967.....	935	935	1,651	1,650	2,586	2,585
1968.....	935	935	1,722	1,725	2,657	2,660
1969.....	935	935	1,793	1,775	2,728	2,710
1970.....	935	935	1,864	1,875	2,799	2,810
1971.....	935	935	1,938	1,925	2,873	2,860
1972.....	935	935	2,016	2,584	2,951	3,519

Source: Present law figures from table submitted to Ways and Means Committee by Mr. B. D. Tallamy, Federal Highway Administrator, July 22, 1959; figures under House bill 1957-64 from Bureau of Public Roads, Sept. 2, 1959, and 1965-72 from House Report on H.R. 8678, Sept. 1, 1959.

Senator BYRD. Senator Douglas, will you act as chairman for a few minutes?

Senator GORE. Mr. Chairman, the Senate has just recessed until 1 o'clock.

Senator ANDERSON. Go right ahead, Mr. Tallamy.

Mr. TALLAMY. Mr. Chairman, in answer to the question, the result of a moratorium on any contracts in fiscal 1959 results in an increase in expenditures in later years when you begin to pick up the authorizations which can be deferred in this fiscal year.

Senator KERR. Are there further questions?

Senator CURTIS. Mr. Chairman.

Senator KERR. The Senator from Nebraska.

Senator CURTIS. Mr. Tallamy, I have a problem that isn't covered in your statement, and it has to do with the treatment of individual States under the interstate highway program.

Now, as I recall the original act was passed in 1956. Then in 1958 a new act was passed accelerating the program, waiving the pay-as-you-go Byrd amendment for awhile.

Now we are in difficulties because that period has run out and the waiver period has ended.

Why is it that the State that proceeded conservatively and never exceeded a rate of construction or planning beyond what would come within the purview of the 1956 act, why are they short of Federal funds? Is it an absolute requirement of Federal law, or is it because of the practices and the way you feel you have to administer them?

Mr. TALLAMY. The first part-----

Senator ANDERSON. A difficult question to answer.

Mr. TALLAMY. This acceleration that was directed required that \$400, really \$515 million be placed under contract by December 1 of last year.

Senator KERR. That was not in the interstate program.

Mr. TALLAMY. No. But it all comes out of the trust fund-----

Senator KERR. The same money.

Mr. TALLAMY. And every State in the United States met that responsibility. It so happens that our deficit-----

Senator CURTIS. Not in expenditure.

Mr. TALLAMY. In award of contracts.

Senator CURTIS. In award of contracts?

Mr. TALLAMY. Yes, sir, and of course, the law also said that those contracts had to be finished by December 1 of this year, and they are going to be, so that every State got its fair share of that program.

It all comes out of the trust fund, and the amounts actually in dollars to the deficit which is created this year.

Senator KERR. Will the Senator yield?

Senator CURTIS. Yes.

Senator KERR. Isn't it a fact that when the Department makes its apportionment, it makes it to all of the States for the entire amount for the fiscal year or years for which the apportionment is made?

Mr. TALLAMY. That is correct.

Senator KERR. And the State takes it up as rapidly as in its own judgment or operation it is worked out to do so?

Mr. TALLAMY. That is right.

Senator KERR. Now, being directed to operate on the basis of making the full apportionment, and having done so with all of the States, and then finding out in the middle of the year you didn't have enough money to meet it all, it naturally came about that the States that had been slow in making the apportionment might be further behind at the time of crisis than some other States that had expedited the obligating of the funds.

Mr. TALLAMY. That is right.

Senator KERR. Now, it is a fact, isn't it, that some States go out of the fiscal year without having obligated all of the apportionment given?

Mr. TALLAMY. That is right.

Senator KERR. It is a fact, isn't it, that many States end up the fiscal year with a period of time yet remaining to them to obligate their apportionment, and that is a matter that is entirely up to the States, but since you are operating on an unlimited apportionment up to the amount of the authorization, but a limited revenue with reference to paying for the apportionments, it is entirely up to the States as to which one gets in before the exhaustion of the amount of money you have got which is too small to honor all of the apportionments, if all of them are obligated?

Mr. TALLAMY. That certainly is correct on the situation up until now. But I do believe that from here on in, with 209(g) in effect, we will have to apportion—not apportion—but control contracts so that a particular State which may be in a position to go ahead very rapidly in the first few months as compared to another State which cannot will have to control the rate of award of contracts so that every State will have an opportunity during that course of that year to award contracts to the amount which has been authorized for that particular year.

Senator CURTIS. Now, Mr. Tallamy, right on that point, I think we are in trouble, because of acceleration. Well, that is water over the dam. I voted against it. I think it was bad legislation to waive the Byrd amendment.

But what I want to know about the future, suppose a State chose in the interest of conserving their own funds, and in the interest of getting the best contracts, and in the interest of avoiding the waste from rushing, suppose they chose to operate at a slower pace. Are their Federal funds going to be consumed because some other States just rush and get there first and take it all?

Mr. TALLAMY. No.

Senator CURTIS. So in the future that will not be a problem as it is now?

Mr. TALLAMY. No, not under contract control, and it wasn't a problem before.

Senator CURTIS. It is a problem now, isn't it?

Mr. TALLAMY. It became a problem as a result of the fact that last year we had to go ahead with a larger program than the trust fund would support. Now in the future we will have to control contracts to the extent that the trust fund can support. And in the control of the contracts, we will apportion to each State the number of contracts that it can enter into in that particular year and they can enter into that year or they can enter into the next year.

Senator CURTIS. So if one State rushes, they cannot jeopardize the Federal funds that are intended for another State?

Mr. TALLAMY. No.

Senator CURTIS. But it did work out that way at the present time, didn't it?

Mr. TALLAMY. It worked out that——

Senator CURTIS. I don't say that it was intended or planned, but it actually worked out that way, didn't it?

Mr. TALLAMY. In a way it did.

Senator CURTIS. Well, now, for instance, Nebraska's rate of construction hasn't caused any deficit, and yet we are in trouble along with the rest of the Nation.

Mr. TALLAMY. It worked out that way to this extent: that if a State did not obligate by contract all of the amount that had been apportioned to the State, whereas another State had completely obligated it, the new contract controls within the life, within the ability of the trust fund to liquidate, will be apportioned to the various States, and it will in effect freeze the present position of all of the States, but it will not discriminate against any particular State so far as future contract control.

Senator CURTIS. So in the future your contract control is going to protect the State that is conservative in their spending from the rapid spending of a sister State.

Mr. TALLAMY. It will protect them; yes.

Senator CURTIS. Now, is that a policy change, or is there something in the law that brings that about, or both?

Mr. TALLAMY. It is no change so far as what the 1956 act would have brought about.

Senator CURTIS. Yes.

Mr. TALLAMY. But since the 1958 act, through a new factor in it because of the recession, it did result in some States, now that we go back to 209(g), that some States will not be able to pick up immediately at least what they had not placed under contract as a result of previous apportionments.

Senator CURTIS. I appreciate very much getting that information. I, for one, do not adhere to the philosophy of the accelerated program that was put in. It means the taxpayers get less roads per dollar; it means it goes at such a rapid rate that when it stops we have an unemployment problem, and I don't think pump priming ever works and I am happy for this new contract control plan that you describe.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Tallamy, the pay-as-you-go amendment, when did it become operative again?

Mr. TALLAMY. Just with the new apportionment.

The CHAIRMAN. The new apportionment?

Mr. TALLAMY. Yes.

The CHAIRMAN. On what date?

Mr. TALLAMY. As soon as we make it, and under this, which would be this year under the legislation under which you are considering.

The CHAIRMAN. It runs automatically?

Mr. TALLAMY. It runs automatically.

The CHAIRMAN. As soon as action is taken?

Mr. TALLAMY. Yes, sir.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. No questions.

The CHAIRMAN. Senator Gore.

Senator GORE. Mr. Chairman, I submit that Mr. Tallamy's replies to the questions of Senator Douglas have already demonstrated that the answers to you earlier, on which I raised the point, was only partially correct. I shall come to that in due order, however.

I would like to develop this question in an orderly way, and will come to that question later.

Mr. Tallamy, your problem has two distinct parts, does it not? One, the lack of funds to meet commitments and obligations falling due within the present fiscal year?

Mr. TALLAMY. Yes, sir.

Senator GORE. And two, the making of apportionments for use and obligation of the States for future years?

Mr. TALLAMY. Yes; that is right.

Senator GORE. And each of those two major parts is subdivided, are they not, into the interstate highway program, on the one hand, and the ABC, the primary, secondary, and urban highways, on the other.

Mr. TALLAMY. That is right.

Senator GORE. I would like first to discuss problem No. 1, to which little reference has been made thus far.

What are the obligations falling due within the fiscal year, or the amount of obligations falling due within the present fiscal year which you are unable to meet without additional legislation or appropriation?

Mr. TALLAMY. Would you ask me that question again?

Senator GORE. What is the amount, what is the total of the obligations falling due within the present fiscal year, 1960, for which you would be in default without either additional legislation or appropriation?

Mr. TALLAMY. Divided into two parts, we require an expenditure this year of \$1.11 billion for the ABC program, and \$2.25 billion for the interstate program.

Senator GORE. You are giving me now the total commitments?

Mr. TALLAMY. The result of the total commitments. This is the result.

Senator GORE. The figure I am asking you for is the amount of default on the trust fund, if I must use that word, without additional legislation or appropriation, or a combination of the two.

Mr. TALLAMY. I understand; \$490 million.

Senator KERR. That is the deficit for the current fiscal year which you forecast?

Mr. TALLAMY. Yes, sir.

Senator GORE. I thought you had estimated it to be \$493 million.

Mr. TALLAMY. \$490 million is what I have on this chart. Maybe it is \$493 million.

The interest is \$3 million, I am told.

Senator GORE. Then as a matter of fact, it is \$493 million?

Mr. TALLAMY. Yes.

Senator GORE. Now, how much additional revenue within the fund will be provided by H.R. 8678, within the present fiscal year?

Mr. TALLAMY. \$383 million. That is based on the present legislation being effective on September 1.

Senator GORE. That cannot now be a correct answer.

Mr. TALLAMY. So it will be reduced. My charts are all based on that, but it will be reduced \$50 million, so it will be about \$333 million.

Senator GORE. Then you have a deficit in the fund of \$493 million and the bill before the committee would provide only \$333 million.

Mr. TALLAMY. Yes.

Senator GORE. Then that would leave you in default to the States \$190 million, would it not?

Senator KERR. \$160 million.

Senator GORE. \$160 million.

Mr. TALLAMY. \$157 million is what the deficit would be at the end of this fiscal year, and what we would have to do under this legislation would be to carry vouchers over to the extent of about 2 or 2½ weeks'

business from this fiscal year to the next fiscal year, and then taper off during the course of the next fiscal year.

Senator GORE. That is a nice way of explaining how you would handle a default.

Mr. TALLAMY. Yes; that is the way it will have to be done.

Senator ANDERSON. Could you find out how you got the \$157 million? You said it was \$493 million, and you subtracted \$333 million from it and got \$157 million.

Senator BENNETT. There is \$3 million of interest in there which probably does not affect the obligation to the States. He started out with a figure of \$490 million.

Senator GORE. It affects his deficit; it affects his ability to meet those obligations, so it really is \$160 million.

Mr. TALLAMY. Let me straighten that interest out. It isn't interest that we have to pay; it is interest that we get. It is \$3 million in interest which goes to the credit of the trust fund as a result of investments by the Secretary of Treasury of existing funds.

Senator KERR. And that reduces the deficit?

Mr. TALLAMY. That reduces it, so that it comes down to \$157 million.

Senator GORE. I am willing to proceed on the basis of \$157 million, because it probably is still there in approximately the same proportion. How much money is in the trust fund at this time?

Mr. TALLAMY. I can give it to you on July 31. It was \$15 million.

Senator GORE. I would like to know what it will be—what I am really getting to—what is it going to be on October 1, which would be the earliest effective date in which this additional gasoline tax could go into effect, if it ever does?

Mr. TALLAMY. The balance at the end of September will be \$38 million.

Senator GORE. \$38 million.

Now, what would be your deficit in the fund on December 31, even with the passage of H.R. 8678?

Mr. TALLAMY. \$353 million would be the deficit on December 31.

Senator GORE. Even with the passage of H.R. 8678?

Mr. TALLAMY. Yes, sir.

Senator GORE. Then how can you possibly contend that H.R. 8678 solves your problem?

Mr. TALLAMY. The Secretary of Treasury has advised that he would have no objection to an appropriation to the general fund, to the trust fund, for this fiscal year, provided it was returned from the trust fund to the general fund by the end of this fiscal year, so it would require an appropriation act this year.

Senator GORE. As a matter of fact, has not the Department of Commerce already prepared such a supplemental appropriation request and submitted it to the Bureau of the Budget?

Mr. TALLAMY. Yes, sir.

Senator GORE. I think you are prudent in doing so, but it doesn't quite comport with all of the public pronouncements that the 1-cent additional gasoline tax is going to solve the problem.

Mr. TALLAMY. It permits the repayment to the general fund of its appropriations which we just spoke of during this fiscal year within the \$157 million item which will be carried over by holding vouchers from one fiscal year to another.

Senator GORE. Does your supplemental request involve an appropriation to accommodate not only the \$353 million deficit as of December 31, but the \$157 million deficit as of next June 30?

Mr. TALLAMY. No, sir; it does not.

Senator GORE. You propose to let the States continue to hold the bag for \$157 million?

Mr. TALLAMY. For a short period from one fiscal year to another, and then taper off in the second fiscal year.

Senator GORE. Had the Congress previously been advised of this pending supplemental appropriation request?

Mr. TALLAMY. It has been certainly discussed on the House side in the consideration of this legislation.

Senator GORE. Let us go now to the question of apportionment, which is the second major part.

Did the 1958 act provide any acceleration of construction or obligation?

Mr. TALLAMY. Yes, sir; it did.

Senator GORE. In the Interstate System over the schedule of apportionment written into the 1956 act?

Mr. TALLAMY. It did.

Senator GORE. Are you sure?

Mr. TALLAMY. I am sure.

Senator GORE. What was the apportionment schedule in the 1956 act?

Mr. TALLAMY. The apportionment for fiscal 1959 was \$2 billion and the 1958 act increased it to \$2.2 billion, and in the 1960 it was \$2.2 billion. The 1958 act increased it to \$2.5 billion.

Senator GORE. All right, I will put it this way:

Did the 1958 act accelerate the interstate and defense highway construction schedule as to time, or did it not, in fact, merely increase apportionments in direct compliance with the increased cost estimates which you submitted to the Congress, to the Senate Committee on Public Works?

Mr. TALLAMY. Well, it did both. It increased the amount of contracts and apportionments that could be made for the Interstate System, and that was probably in recognition of the increased cost. I don't know that the legislation specifically said so.

Senator GORE. I think we understand each other, if we can get it into the same words, because I know what the facts are, and so do you.

Mr. TALLAMY. Surely.

Senator GORE. And you are not trying to be evasive.

Mr. TALLAMY. No, sir.

Senator GORE. You never have been.

Is it not a fact—I will give you the table if you need it to refresh your memory—is it not a fact that the 1958 act provided apportionments only sufficient to keep the interstate schedule, the interstate highway program on a construction schedule and apportionment schedule which would comply with the schedule in the original act?

Mr. TALLAMY. The schedule of completion in the original Act?

Senator GORE. That is right.

Mr. TALLAMY. Yes, sir; it did.

Senator GORE. Then your answer is "Yes"?

Mr. TALLAMY. Yes.

Senator GORE. Then what the 1958 act provided on the Interstate System was not an acceleration, but merely adjusting the apportionment schedule to comply with the increased cost estimates which you, yourself, submitted?

Mr. TALLAMY. It made it possible with those apportionment figures in the 1958 act to meet the date of completion of the Interstate System, so that statement is correct.

Senator GORE. So we are in agreement on that?

Mr. TALLAMY. Yes, sir.

Senator GORE. Without such an action on the part of Congress, there would have been a slowup and a stretchout of the construction schedule, completion schedule of the Interstate System?

Mr. TALLAMY. There would, unless there was an acceleration later on.

Senator GORE. We are not speaking now of "ifs".

Mr. TALLAMY. That is right.

Senator GORE. We are speaking of facts. Without the 1958 act, you had recommended and there would have been in effect now a stretchout of the completion schedule of the Interstate System?

Mr. TALLAMY. That is right.

Senator GORE. Unless the Congress takes action now, there will be another stretchout even worse; is that not true?

Mr. TALLAMY. That would depend on the action we took in 1961 when the reports come in.

Senator GORE. Again we are speaking of the future.

I am saying unless the Congress acts now, there is in prospect a severe slowup if not an absolute stoppage of the Interstate System.

Mr. TALLAMY. That is absolutely so. Unless the Congress takes action now, it will seriously slow up the program under existing legislation.

Senator GORE. All right, we agree on that.

Now, I come to the next question:

If the Congress does no more than to pass H.R. 8678, it will necessitate a stretchout of the completion schedule of the Interstate System; is that correct?

Mr. TALLAMY. If they take no other action than that, that is true.

Senator GORE. All right. Now give us the exact amount of the stretchout. In how many years would you expect the program to be completed if this is the total revenue provided to the trust fund?

Mr. TALLAMY. And nothing else throughout the life of the program?

Senator GORE. That is right.

Senator KERR. Except existing law.

Senator GORE. Except existing law.

Mr. TALLAMY. Four years.

Senator GORE. A 4-year stretchout?

Mr. TALLAMY. Yes, sir.

Senator GORE. So H.R. 8678 neither meets your problem of obligations to this fiscal year, nor the problem of apportionments to keep the system on schedule for future years' is that not a correct statement?

Mr. TALLAMY. That is a correct statement. I might add though, if I may—

Senator GORE. You may add anything you like.

Mr. TALLAMY. I may say that it maintains this at a rate whereby the Congress might at least consider a long-range financing program in 1961, and develop one which would not be an impossible one to do, and still remain on schedule.

Senator GORE. Are you sure that you gave a correct answer that H.R. 8678 would only necessitate a 4-year stretchout. Would not in fact a \$2.5 billion rate of expenditure give us a 3-year stretchout when all that would be available for apportionment as a result of passage of H.R. 8678 would be \$1.8 billion?

Mr. TALLAMY. Mr. Allen is with me and he has worked up a chart which shows that under the apportionment schedule \$1.8 billion for 1961 and \$2 billion for 1962, and then going down to \$1.6 billion in 1963, and then increasing gradually to \$2 billion in 1970 and practically \$2 billion in 1971.

We have a total of \$27.4 billion.

Senator GORE. Your increased estimates of cost exceed that. Incidentally, I have a Mr. Allen with me also who has likewise prepared some charts.

Mr. TALLAMY. And that gives us this amount in 1972, and then we would have 4 more years of trust fund revenue to obtain the additional funds and that would be all right.

Senator GORE. How long will it be at the annual rate of \$2 billion?

Mr. TALLAMY. We have got \$8.9 billion. It would be a little over 5 years at that rate, at \$2 billion.

Senator GORE. Mr. Chairman, it is obvious that we agree that H.R. 8678 if passed in its present form would provide a great stretchout of the program, and I request that Mr. Tallamy be permitted to submit a table at this point, and that I will submit a table showing the exact amount of the stretchout which will be necessary.

Senator BYRD. Without objection that will be done.

(The following table was submitted by Senator Gore:)

Estimated completion date for Interstate System with funds provided by H.R. 8678 and extension of funds earmarked by Highway Revenue Act of 1956

Fiscal year	Present trust fund revenues	Revenues added by H.R. 8678	Total funds	ABC ¹ expenditure requirements	Balance available for interstate	Accumulative total for interstate
1957	\$1,482		\$1,482	\$758	\$724	\$724
1959	2,044		2,044	836	1,208	1,932
1959	2,084		2,084	1,112	972	2,904
1960	2,122	\$375	2,497	1,110	1,387	4,291
1961	2,195	580	2,775	910	1,865	6,156
1962	2,280	840	3,120	897	2,223	8,379
1963	2,332	815	3,147	911	2,236	10,615
1964	2,392	835	3,227	936	2,291	12,906
1965	2,455		2,455	936	1,519	14,415
1966	2,520		2,520	936	1,584	15,999
1967	2,586		2,586	935	1,651	17,650
1968	2,657		2,657	935	1,722	19,372
1969	2,728		2,728	935	1,793	21,165
1970	2,799		2,799	935	1,864	23,029
1971	2,873		2,873	935	1,938	24,967
1972	2,951		2,951	935	2,016	26,983
1973	3,028		3,028	935	2,093	29,076
1974	3,103		3,103	935	2,168	31,244
1975	3,180		3,180	935	2,245	33,489
1976	3,260		3,260	935	2,325	35,814
1977 ²	2,121		2,121	935	1,186	37,000
1978	935		935	935	0	

¹ ABC program frozen at \$925,000,000 per year (plus \$10,000,000 for revolving catastrophe fund).

² Trust fund reduced to needs to finish interstate and continue ABC.

³ To complete the 41,000-mile system.

(The following table was submitted by Mr. Tallamy).

Estimated status of highway trust fund under proposed legislation, H. R. 8678

(Millions of dollars)

Fiscal year	Apportionments		Expenditures		Revenues			Balance to the fund
	Interstate	Primary secondary and urban ¹	Interstate	Primary secondary and urban ¹	Present sources	Add-tional	Total	
Balance.....	140	005						
1957.....	1,175	832	208	768	1,482		1,482	1,510
1958.....	1,700	860	075	830	2,044		2,044	1,049
1959.....	2,200	1,388	1,501	1,112	2,087		2,087	-1,029
1960.....	2,500	010	2,025	1,110	2,122	333	2,505	-107
1961.....	1,800	893	1,755	010	2,105	577	2,722	0
1962.....	2,000	884	2,000	807	2,280	877	3,157	200
1963.....	1,600	035	2,000	011	2,332	831	3,163	512
1964.....	1,000	035	2,280	030	2,302	864	3,240	-622
1965.....	1,000	035	1,575	030	2,455		2,455	500
1966.....	1,000	035	1,000	030	2,520		2,520	550
1967.....	1,800	035	1,050	035	2,580		2,580	551
1968.....	1,800	035	1,725	035	2,657		2,657	-544
1969.....	1,000	035	1,775	035	2,728		2,728	500
1970.....	2,000	035	1,875	035	2,790		2,790	555
1971.....	2,000	035	1,925	038	2,873		2,873	608
1972.....	2,200	035	2,025	038	2,951		2,951	560
1973.....	2,200	035	2,100	035	3,028		3,028	552
1974.....	2,300	035	2,175	035	3,111		3,111	553
1975.....	1,885	035	2,250	035	3,193		3,193	561
1976.....		035	2,350	035	3,278		3,278	554
1977.....		035	011	035	302		302	0
Total.....	30,000	20,740	30,000	10,027	62,105	3,522	55,027	

¹ Includes emergency relief program, as well as special funds totaling \$502 million apportioned for 1959.

Senator GORE. Now Mr. Tallamy and Mr. Chairman, I want to call your attention to what I regard as a serious matter. Mr. Tallamy has several times used the term "contract control." I would like to have the attention of the chairman, who is ordinarily interested in States rights. Mr. Tallamy has several times today used the term "contract control." He is talking about control of State contracts. This is Federal control of contracts of the Commonwealth of Virginia, about which he is talking, and the State of Tennessee.

I know of no authority in the law for such action. The law provides for apportionment to the States by a given formula to the extent that funds are available in the trust fund. When that apportionment is made, that becomes a commitment to the States. I know of no control over which State contracts which the Bureau of Roads can exercise within the commitment of this apportionment except approval or disapproval, and I think the senior Senator from Oklahoma will bear me out that that approval or disapproval contemplates approval or disapproval as to engineering designs, as to adequacy of plan.

Senator KERR. Meeting of standards.

Senator GORE. Meeting of standards.

Senator KERR. I think the Director will agree with that.

Senator GORE. Well, we will give him an opportunity.

Senator KERR. I say that that is my understanding of the law, and if it isn't the law, I would like to have the Director show me the language which is different.

Senator GORE. And we will soon I believe make it the law.

Senator BYRD. Are you speaking of the interstate?

Senator KERR. Any apportionment.

Senator GORE. I am speaking of a farm to market road also, sir.

Senator KERR. Any apportionments?

Senator GORE. In Virginia?

Mr. TALLAMY. It is an overriding basic principle involved it would seem to me that section 209(g) says that we cannot create an obligation or certainly implies that we cannot create an obligation which will result in a deficit in the trust fund.

Senator KERR. Where is 209(g)?

Can staff let us have a copy?

Senator GORE. I would like to point out that that relates to the limitation of apportionment, availability of funds within the trust fund. This doesn't give the Federal Government any overriding authority to ride herd over the State highway departments and control their contracts after the apportionment has been made.

Senator KERR. I believe the Director's staff has a copy of 209(g), doesn't he?

Senator DOUGLASS. There is an interval and I would like to assume the somewhat unfamiliar role of coming to the aid of the beleaguered gentleman. Since the Federal Government pays 90 percent of the cost, if it is not in the law I would like to see it put into the law that the Federal Government would have some control over the expenditure.

Senator KERR. I remind the Senator of the actual amendment.

Senator GORE. I am not attempting to belouguer the gentleman. There has been lots of misinformation on this program, and I am trying to get it down to the basic facts and get it before the American people. This is an unjustified proposal. It is inadequate and unacceptable. It will solve neither the obligations of the present year nor the problem of apportionments for future years.

I don't propose to see it solved by any extra legal Federal control of State contracts.

Mr. TALLAMY. May I have my General Counsel answer this? I am an engineer, not a lawyer.

Senator BYRD. Yes.

Mr. ENFIELD. My name is Clifton Enfield. Mr. Chairman, under the provisions of section 105, 106, and 110 of title 23 which is the codified highway law, it provides in section 105 that after submission by the States of a program, the Secretary shall as soon as practicable approve that program. Under section 106 it provides that the Secretary shall, as soon as practical-----

Senator GORE. Before you leave that, that section, why don't you read the whole section and we will see just what it presents.

Mr. ENFIELD. Section 105 provides that:

As soon as practical after the apportionment for the Federal aid systems have been made for any fiscal year, the State highway department of any State desiring to avail itself of the benefits of this chapter shall submit to the Secretary for his approval a program or programs of proposed projects for the utilization of the funds apportioned.

The Secretary shall act upon programs submitted to him as soon as practicable after the same has been submitted. The Secretary may approve a program in whole or in part, but he shall not approve any project in a proposed program which is not located upon an approved Federal aid system.

Subsection (b) goes on to provide for certain requirements on approval.

Senator GORE. Let's have that too.

Mr. ENFIELD. It says:

In approving programs for projects on a Federal aid secondary system the Secretary shall require except in States where all public roads and highways are under the control and supervision of the State highway department that such project be selected by the State highway department and the appropriate local officials in cooperation with each other.

Subsection (c) says:

In approving programs for projects on the Federal aid primary system the Secretary shall give preference to such projects as will expedite the completion of an adequate and connecting system of highways interstate in character.

Section (d):

In approving programs for projects under this chapter the Secretary may give priority of approval to and expedite the construction of projects which are recommended as important to the national defense by the Secretary of Defense or other official authorized by the President to make such recommendation.

Subsection (e):

In approving programs in Hawaii the Secretary shall give preference to such projects as will expedite the completion of highways for national defense or which will connect seaports with units of national parks.

Subsection 106 provides for—

Senator KERR. Mr. Enfield, the question which Senator Gore is trying to determine, and in which I am equally interested, is the basis in law of the proposal the director made a while ago or the policy being announced of contract control after an apportionment has been made, and of amounts of money within the apportionment as made. Now you are one of the most able men who has ever been before any committee of Congress on which I have served. I am sure you can turn to the provision in the law which gives him that authority or which discloses that he doesn't have it.

Mr. ENFIELD. The provisions in the law, that in my opinion give him that authority are found in sections 105, 106, and 110, which provide—

Senator KERR. Then it is not in the so-called Byrd amendment at all.

Mr. ENFIELD. No, sir, and it is the authority that provides for the Secretary's approval or disapproval of projects, programs and entering into projects agreements, and that there is necessarily inherent in the approval authority discretion to assure that all things essential to carrying out that approval are actually present.

Senator KERR. Doesn't the State have the vested right when the apportionment is made to it?

Mr. ENFIELD. The State has the right to submit programs and projects for approval.

Senator KERR. Is that a vested right?

Mr. ENFIELD. You might say it is a vested right insofar as the statute is concerned; yes.

Senator KERR. It would have to be in accordance with the statute or we wouldn't have it.

Mr. ENFIELD. It is a vested right to submit programs and projects for approval.

Senator KERR. Now here is what disturbs the Senator from Tennessee and what disturbs me. After an apportionment is made—you never make an apportionment to one State and not make it to another, do you?

Mr. ENFIELD. No, they are made to all at the same time.

Senator KERR. Well, answer my question. Do you make it to one State without making it to all of them?

Mr. ENFIELD. No, sir.

Senator KERR. Doesn't each one of them have an equal right in the apportionment as made to it?

Mr. ENFIELD. That is correct.

Senator KERR. Then does the Director have the control authority whereby he can say to a State "Now you have an equal right in your apportionment to that which any other State in the Nation has to its apportionment, but by reason of the facts that you are going too fast here, although you are operating within the time the law contemplates that you should operate, we have got contract control over you that we are going to slow you down until other States catch up in the awarding of their contracts to where the withdrawal from the Treasury will be on a proportionate basis as between the States within these apportionments made on an equal basis and at the same time to all the States."

Mr. ENFIELD. Under the approval provisions of 106, which sets up the approval of the project, when that approval is given it creates under the law a contractual obligation to the Government to pay, to pay the Federal share of that contract.

Now I believe there is inherent in the approval which must be exercised under the statute by the Secretary discretionary authority in the Secretary to assure that when he constitutes that contractual obligation by approval, that there will be moneys available to make payment.

He can't withhold that approval arbitrarily nor can he discriminate against one State or in favor of another State.

Senator KERR. Don't you have a provision in the law that that apportionment is valid even beyond the fiscal year for which it is made?

Mr. ENFIELD. It is good for 2 fiscal years following the close of the fiscal year for which it is made.

Senator KERR. Yet you are telling us that in your judgment he can fix it so that each State has to obligate its apportionment proportionately so that one State that is moving ahead in the development of its program will be held back by other States who, for reasons other than to conserve time - it might be because they didn't have the money.

It might be because they weren't ready to go forward with their program. It might be because of the season of the year being different in a northern State also than a southern State. Are you telling the committee that the Director yet has the authority under his contract control right which you say is inherent in the law, to compel all States to move forward on a proportionate basis in the commitment of their parts or percentages in those apportionments?

Mr. ENFIELD. Whether that would be necessary or not I can't answer. I do believe that if he finds that is necessary to prevent an overdraft of the trust fund and not be able to pay bills as they come due, that the Administrator could do that; yes.

Whether that would be necessary to handle it in exactly that fashion I am not prepared to say.

Senator KERR. Then the provision in the law with reference not only to the priority of the ABC system but also with reference to the apportionment being valid 2 years beyond the fiscal year for which it is made are ineffectual except as the Secretary or the Director chooses to implement them consistent with his inherent right to exercise the power of contract control.

Mr. ENFIELD. He couldn't exercise that right of contract control in violation of the general intents and purposes of the act. Whatever he does would have to be to implement the act.

Senator KERR. I am asking you a specific question.

Mr. ENFIELD. Your question is does he exercise contract control in such a way as to mitigate against the provisions for the 3-year availability for the right of the State to submit programs and projects for approval? No; his action would have to be consistent with that.

Senator KERR. Can he exercise the right of contract control so that a State that is ready to go ahead and use up its apportionment in a timely manner subject to the moneys that are in the trust fund cannot do so if he so chooses to tell them that, except as to that part of the trust fund available which he deems to be available proportionately to that State?

Mr. ENFIELD. I think he could do that if otherwise it would mean that some other State would not be able to be paid when they presented their bill.

Senator KERR. Although you had no proposal from them, although you had no submission of a program from them, and actually no knowledge that they were going to use their apportionment within the fiscal year for which it is made, or even in the 2 years that would be valid beyond the fiscal year for which it is made.

Mr. ENFIELD. No; I think that would have to be no. I think that would you would have to have a reasonable basis on which to contemplate that the other States would submit programs and projects for approval.

Senator KERR. How could he know if they had not submitted them. How long would his power be available to him to withhold approval of State aid of contracts submitted within their apportionment, because he contemplated the possibility that if State B didn't get a program in, and he doesn't know whether they are going to or not, that might use up part of that trust fund?

Mr. ENFIELD. He would have knowledge because the programs are submitted considerably in advance of the actual construction.

Senator KERR. Suppose the State had not submitted the programs. Suppose they are a conservative State moving slowly?

Mr. ENFIELD. Then I think it would be the duty of the Administrator to inquire as to what the plans are.

Senator KERR. And hold up State A until he found out what the plan of State B might be some time in the future.

Mr. ENFIELD. A reasonable length of time.

Senator KERR. You think he has that authority?

Mr. ENFIELD. Yes, sir.

Senator KERR. I will tell you I don't think he does. I think the law ought to be clarified to make it clear.

Senator GOBE. Mr. Chairman, I submit that the gentleman is talking of controlling contracts of States to which the States themselves contribute 50 percent of the cost. Never before have we oper-

ated on any basis other than apportionment on a matching basis. This has been a cooperative program. It has worked well. But now we have proposed Federal control of States contracts even though the States provide 50 percent of the contracts. I have taken enough of the committee's time.

Senator BYRD. Mr. Tallamy, when you speak of control do you mean that a Federal agency can compel a State to reject a contract for road construction?

Mr. TALLAMY. That control as I visualize it would operate in this fashion: That we would advise the State that during the course of the year they will be able to enter into \$75 million worth of contracts on the Interstate System and \$30 million say on the ABC program, and so they know that at the very outset. Then knowing that, and incidentally that figure is the amount which would prevent an overdraft of the trust fund, so knowing that at the very outset, the State then can develop its program and proceed under it.

It would, however, in my opinion be necessary to go one step further, and point out that during the course of the year, when they would be awarding this amount of work, and have authority to do it, continue to do it, that they might have to go slow in the first part of the year and accelerate their program during the latter part of the year.

Senator BYRD. If the State was within its allotment, could the Federal agency then say "You cancel a contract with Jim Jones, a contractor"?

Mr. TALLAMY. Cancel a contract; no, no.

Senator KERR. They can withhold approval of it?

Mr. TALLAMY. Oh, no; there would be nothing of that nature.

Senator BYRD. Is this exercised only when a State exceeds its allotment in making contracts? I don't exactly understand what you mean. Now, withholding of approval, would that result from canceling a contract?

Mr. TALLAMY. No; this would be before a contract was entered into. In other words, if the State of Virginia was told that it could proceed with \$25 million worth of contracts during the course of this year on the Interstate System, then the State of Virginia could at once program \$25 million worth of work and place it under contract. But they couldn't place the whole \$25 million in the first 2 years because 2 years from now that would mean that it would all pile up in expenditures on the trust fund in a very short period of time in a fiscal year, so that the \$25 million would have to be spread over this fiscal year, so that the expenditures would be spread over the fiscal year 2 years from now. But it does not mean that any outstanding contracts that the State might have with a contractor would be canceled; no.

Senator BYRD. Is your control limited to control over the amount that is allotted to the States?

Mr. TALLAMY. My control is——

Senator BYRD. In other words, could a State exceed its allotment and pay for that out of its own funds?

Mr. TALLAMY. I'm sorry, I couldn't hear you.

Senator BYRD. I say could a State make contracts in excess of its allotment from the Federal Government?

Mr. TALLAMY. No; it could not.

Senator BYRD. Even though that State was willing to temporarily put up the money to pay the contract?

Mr. TALLAMY. Yes; they could on the Interstate System proceed on their own at their own rate, and then we would approve all of the plans, but when apportionments were made in the future years, they could be applied against those contracts.

Senator BYRD. It is not a question of approving each individual contract as I understand it, the control you speak of is in the programming.

Mr. TALLAMY. It is the programming.

Senator BYRD. I am inquiring, to what extent the contracts can be let? From the standpoint of money involved?

Mr. TALLAMY. Exactly. It is the control of the program that I was referring to.

Senator BYRD. Could you say that a State couldn't give a contract to a contractor that you thought was not a competent and not an efficient contractor or something like that?

Mr. TALLAMY. I could do that but that is under another section of the law.

Senator BYRD. Do you ever do that?

Mr. TALLAMY. Yes, sir.

Senator BYRD. In other words, you exercise a control over the contractor, the man who gets the contract.

Mr. TALLAMY. Yes, sir. Surely we do. We observe the work that he has done, and if it is not proper, we advise the State and tell the State they have got to do something about it, and we won't participate in the cost of it.

Senator BYRD. If the State pays half of it, I don't exactly see how you can determine who the contractor can be by refusing to approve a contract made with a certain firm.

Mr. TALLAMY. If the firm was not a reliable firm - if a firm was not a reliable firm and our past experience had indicated that, we would tell the State that we would not participate in that particular project. Now we can't tell the State it, itself, can't go ahead with it, but certainly we must be sure that the contracts are proper, that they are the low bidder, that they are experienced in that type of work and they are performing it properly.

Otherwise we shouldn't be spending our money for it, and that is the only time that we can, but we don't tell a State they can't do it.

Senator BYRD. The spending in that State is limited to a certain amount, isn't it?

Mr. TALLAMY. Yes.

Senator BYRD. Of course if the State has an inefficient contractor, then the State actually loses.

Mr. TALLAMY. That is right, the State has got to pay for it.

Senator BYRD. They have got to pay for it?

Mr. TALLAMY. Sure.

Senator BYRD. Now the control that you exercise is on ABC contracts as well as on the Interstate System?

Mr. TALLAMY. Yes, sir.

Senator BYRD. Do you often reject any contracts that the States make?

Mr. TALLAMY. No; I don't think so. We find out that situation before the contract is entered into. We carefully analyze all of the

bids that are submitted, and determine the qualifications of the contractor, the suitability of the estimates and of his proposal before we let the State enter into the contract with our money.

The CHAIRMAN. Are all of the contracts let out on competitive bids?

Mr. TALLAMY. Yes, sir.

The CHAIRMAN. And those bids are analyzed by your Department?

Mr. TALLAMY. Yes, sir.

The CHAIRMAN. If you think a bid is excessive, then you withhold your approval of it?

Mr. TALLAMY. We withhold our approval.

The CHAIRMAN. Of course, the State can go ahead and build it if it chooses to?

Mr. TALLAMY. That is right.

The CHAIRMAN. With their own funds?

Mr. TALLAMY. That is right.

The CHAIRMAN. Are there any further questions?

Senator KERR. Does the so-called Byrd amendment direct the Secretary of the Treasury, and whoever else is directed, in watching the income of the trust fund, to take into account what it will probably receive for any given fiscal year, then make the apportionment first to the ABC system, and what is left and within the authorization for the Interstate System, make that apportionment between all the States on an equal basis under the formula prescribed?

Mr. TALLAMY. Yes.

Senator KERR. But you have told us now that in order to guard the trust fund's solvency, you are going to, in the future, exercise contractual control so that no State can get ahead of other States, although the other States didn't want to move according to the schedule, to prevent any State getting the money out of the Trust Fund at a rate faster than all the other States, although the amount it was seeking to have approved and withdrawn is within its apportionment.

Mr. TALLAMY. Not quite the way you have indicated, I don't believe.

Senator KERR. It is either that or nothing, Mr. Director. The Senator from Nebraska asked you if you were going to exercise contract control so that contracts, even though within the apportionment made by the States——

Mr. TALLAMY. Yes, sir.

Senator KERR. Would be held up by you to prevent one State from getting ahead in the rate of withdrawal of other States. Now, that is what the Senator from Nebraska asked you.

Mr. TALLAMY. Yes, sir.

Senator KERR. And you told him yes, and I don't believe you are going to do it. I don't believe you are going to do it. If you do it, I think you will be impeached or run out of the office.

Senator CURTIS. I would be opposed to such an impeachment.

Senator KERR. I am sure you would, if Nebraska was involved.

Senator CURTIS. No, I think if any State was involved.

Senator KERR. If Nebraska were given an apportionment, though, for a fiscal year, and knew that if it didn't obligate it within a certain period of time she would lose it, I don't believe that you would say, "I want you to be held back until some other State who maybe doesn't intend to use it at all, but we don't know, has obligated herself on a proportionate basis," before you can go forward in the orderly de-

velopment of your highway program. I don't believe you would want that put on the record.

Senator CURRIS. That is exactly what I favor.

Senator KERR. No, it is exactly the opposite.

Senator CURRIS. I do not think that these States that proceed at a mad rush—

Senator KERR. You don't have to be in a mad rush.

Senator CURRIS. Should so tie up the Federal funds that States that move more slowly have their Federal funds jeopardized.

Mr. TALLAMY. In furtherance to this question, I would like to point out two things, possibly three:

First, this is a temporary problem resulting from the obligations which have been created in excess of the trust fund's ability to liquidate them. So this contract control feature is one which will exist for probably not more than 2 years, or at the most 3, when the apportionments that are made each year will be in line with the ability of the trust fund to liquidate the expenditures resulting from those apportionments, so that we get back on the same policy of apportionments controlling the expenditures just as soon as we can get over this one hump where the outstanding contracts are in excess of the ability of the trust fund to liquidate them.

Now, in getting over this one hump, the expenditures—let me put it another way—the contract control is not on an individual contract; it is not a piecemeal affair. It is advising the State that in this particular year their program for awarding contracts cannot exceed a certain amount.

Senator GORE. Mr. Tallamy, what you just stated would mean that the apportionment approved by Congress is meaningless.

Mr. TALLAMY. May I—

Senator KERR. Except as he chooses—

Senator GORE. Except as he chooses to implement it with his contract control. This is contrary to the highway program since its very beginning.

Mr. TALLAMY. May I add, and this is what I want to come to, that this would be exercised and we would advise the States that this would be necessary if we are to pay them on time. Now, if a State wants to go ahead within the amount of apportionments that have been made, recognizing that the trust fund will not be able to support their payment when they submit the voucher to us, we, under those circumstances, of course, would not tell a State that they couldn't go ahead. But it would be obviously necessary for us to say to a particular State, "If you want to be paid on time out of the trust fund within our ability to pay you, the amount of contracts under your apportionments that you can make this year is so much, and that is all. And if you go beyond it"—

Senator KERR. Isn't it the duty under the Byrd amendment to exercise that control in the making of the apportionments?

Mr. TALLAMY. Right; but that wasn't done last year, Senator.

Senator KERR. Why would it take you 3 years to catch up to it, when you have told us that you are not even going to make the apportionment for 1961 until you get the money?

Mr. TALLAMY. Yes, but you see—

Senator KERR. Isn't that what you have told us?

Mr. TALLAMY. I did.

Senator KERR. And isn't it incumbent on those charged with that responsibility to exercise that apportionment control with reference to fiscal 1961?

Mr. TALLAMY. Exactly.

Senator KERR. Yet if it is, then why would they not do it in a manner that would relieve you of the responsibility of going behind that and exercising your so-called contract control even with reference to the apportionment for 1961? What would be the meaning of fiscal 1961 apportionment even if we passed this legislation, if you were then going to say to the State, "We asked Congress for certain measures to enable us to make this 1961 apportionment. It has now been made in accordance with the Byrd amendment in the law, but even so we are only going to let you obligate it at a certain rate which will be determined by the rate which other States bring in their contracts for obligations"?

Mr. TALLAMY. I think it could be understood that way. The contracts that we awarded last year to this substantial extent above the trust fund are going to create deficits this year. Now, if we apportion, for example, \$1.8 billion for the Interstate System next month, and if, under that circumstance, the States all came in and placed under contract \$900 million in the next 2 months in this fiscal year, the expenditures that would result from that would be so great that it would, in this fiscal year, that the deficit would be very substantial. It would be increased more than what it will be, this nearly \$500 million, what it will be as a result of the contracts made last year.

So all we are doing, if we did that, would be to have the States award a lot of contracts in November and December and create a lot of additional expenditures in May and in June next year to add to the deficit which is going to be created as a result of the contracts last year.

So all I am saying is that the States can go ahead with the \$1.8 billion in contracts this year, but "Don't do it all in the first part of the program, because if you do, we won't be able to pay you right away."

Now, if the State says, "We don't care whether you pay us or not right away," why then, of course, it is all right for them to do it.

But I do think maybe the words "contract control" are words I should not have used. Maybe I should have said contract advisement in regard to payments.

Senator KERR. I think you have got the right to exercise apportionment control.

Mr. TALLAMY. Yes.

Senator KERR. I think it is mandatory that you do so.

Mr. TALLAMY. Yes, sir.

Senator KERR. I think when you exercise contract control as you have described it, within the limits of the apportionment, then you are doing something on the basis of your counsel's advice that it is inherent within the law, and when you get to exercising powers which you decide are inherent within the law, I draw the limit to that.

Mr. TALLAMY. Maybe under your interpretation I should not do it as a directive, but don't you think I should advise the States that even though they can award \$50 million worth of contracts this year, that "If you do it all in November and December, that I won't be able to pay"?

Senator KERR. I think when you make your apportionments you can say to them this apportionment is made for fiscal 1961. Under the trust funds, under the operations of the trust funds, the funds will be available within a certain period of time to honor the obligations, but we are not attempting nor will we attempt to exercise contract control over your obligations within this apportionment to you, and your achieving it is not going to be subject to whether some other State does or not. But on the basis of the apportionment made to you, the funds under it will be available on a certain schedule.

I think you have got a right to do that.

Mr. TALLAMY. Yes. Well, that is what I had in mind.

Senator KERR. That isn't what you said.

Senator CURTIS. Will the Senator yield briefly right there?

Senator KERR. Yes.

Senator CURTIS. Actually, the term "contract control" may be interpreted by many people to exercise jurisdiction over many phases of the contract. What you really want is within the fiscal year to be in a position to exercise some scheduling control as to when, during that year, you meet the total apportionment, isn't that right?

Senator BENNETT. It is really reimbursement control.

Mr. TALLAMY. Reimbursement control.

Senator CURTIS. Or a schedule of reimbursement scheduling.

Mr. TALLAMY. It all comes down to that one thing of reimbursement. I obviously have no right to tell a State they can't enter into contracts that have been apportioned. But I certainly have a duty to tell them that if they go beyond a certain level, that I won't be able to pay them on time.

Senator CURTIS. I think this: I think that when any program is inaugurated that matches 9 to 1, that the entity furnishing the nine better exercise some control.

Senator KERR. They do. The controls are specified in the statute, and everybody expects them to operate under the statute and in accordance with the statute, and the Administrator has the obligation to administer the law under the statute, the controls provided in it, and not go afield just because the Federal Government is paying 9 to 1.

Senator FREAR. Mr. Tallamy, what are the States under present status that would be in difficulty if the present policy is not enacted?

Mr. TALLAMY. Reimbursementwise, they would all be in trouble, because they all have vouchers coming in.

Senator KERR. What are the States that would be in the most acute trouble?

Mr. TALLAMY. Well, the bigger ones, of course, have the larger programs and the greater number of vouchers coming in. Ohio, New Hampshire, Florida, Oregon, California, Massachusetts, New York, Illinois, New Mexico, Louisiana, Michigan, and Washington are among the most severely hurt.

Then next are Iowa, South Carolina, Missouri, Connecticut, Texas, Vermont, and Kentucky.

Senator FREAR. Where does Delaware come in?

Mr. TALLAMY. Delaware is a little down near the bottom of the program.

Senator FREAR. I don't know whether that is good or bad. And they are not in as dire need, as you see it, as are some of the other States?

Mr. TALLAMY. It is all relative, Senator. If a big State has vouchers for \$30 million that can't be paid, and a small State like Delaware has vouchers for, say, \$5 million, it may be just as hard—

Senator FREAR. Oh, but we don't get up that far.

Mr. TALLAMY. It may be just as hard for them as it is for the big States. So it is an all-relative thing, and all I can say is they will all be affected.

Senator FREAR. When do you make your announcement to the States of their pro rata share?

Mr. TALLAMY. Of their share?

Senator FREAR. Yes, and the amount?

Senator BENNETT. The apportionment.

Senator FREAR. The apportionment.

Mr. TALLAMY. Usually we have in the past made it in July. This year—July or August—

Senator KERR. For the year after next?

Mr. TALLAMY. Yes.

Senator KERR. You make it in July of 1959 for the fiscal year beginning July 1, 1961?

Mr. TALLAMY. Yes. An easy way to remember that, I think, is to add 2 years to the calendar year. Take 1958; in 1958 we make an apportionment for fiscal 1960, and that is the easy way to remember it.

Senator FREAR. But you had not made your apportionment in this July or August for 1961 as yet?

Mr. TALLAMY. No, sir.

Senator FREAR. Thank you.

The CHAIRMAN. What is the situation in Virginia?

Mr. TALLAMY. Virginia is just about in the middle point, average.

The CHAIRMAN. What does that mean?

Mr. TALLAMY. Well, it means that they have used up all of their 1959 funds for the Interstate System, and are now starting on the use of their 1960 funds.

The CHAIRMAN. They have a balance that they can still use, haven't they?

Mr. TALLAMY. They have their 1960 balance.

The CHAIRMAN. How much?

Mr. TALLAMY. Virginia's unobligated balance as of July 31 was \$108 million.

The CHAIRMAN. And that is better than the average of the States, isn't it?

Mr. TALLAMY. Yes, sir.

Senator KERR. What do you mean, "better"?

The CHAIRMAN. Better because we have money we haven't even obligated.

Senator KERR. You mean you have got a big reserve unobligated portion?

The CHAIRMAN. That is right.

Mr. TALLAMY. But that is just the beginning of fiscal 1960.

The CHAIRMAN. You are no doubt aware of the fact that the General Assembly of Virginia last March unanimously passed a resolution requesting that the Interstate Highway System be slowed down.

Mr. TALLAMY. I have heard of it.

The CHAIRMAN. Virginia is living within its income both on a National level and on a State level.

Are there any further questions?

Senator GORE. That was tantamount to an endorsement of the Byrd amendment.

The CHAIRMAN. Right. The Byrd amendment applies to Virginia as well as it did apply until it was suspended in this bill, and as Governor of Virginia 35 years ago I had something to do with enacting a Byrd amendment for the State. Now, we have a good highway system. We are entirely out of debt.

I think you will agree that our highway system is very good and stable.

Mr. TALLAMY. It is.

The CHAIRMAN. In Virginia, furthermore, the State maintains and constructs the entire road system of 52,000 miles. We are one of three States in the Union which do that, and we do it entirely from gasoline tax and license tax. We do not call on the General Treasury. Deficits of any kind are prohibited and we live within our income.

Are there any further questions?

Senator KERR. No, but I would like to make an observation, that if Oklahoma had 250,000 Federal employees that got paid in Washington, and spent it in Oklahoma, we would be a little further along.

But I would like to remind the chairman that we have the same laws in Oklahoma that you do in Virginia, in that we have no deficits, we have no State debt. We pay as we go, and we send a lot of money back here to help increase the revenue of Virginia by reason of so many Federal employees living over there and spending this Federal pay over there, and we are happy to do it for you.

The CHAIRMAN. The Senator from Oklahoma has made that statement many times. As a matter of fact, many of these employees work in Virginia but do not live in Virginia.

Senator KERR. Some of them live in Maryland.

The CHAIRMAN. The Senator from Oklahoma seems to be unaware that the Pentagon Building has 35,000 employees, and a large majority of them live in the District of Columbia, Maryland, and other places. But he insists upon charging all of them to Virginia, simply because we are next to Washington and Washington is overflowing into Virginia and sending people in there many of whom don't pay any taxes. Frequently we have to furnish them facilities of different kinds at the expense of the State of Virginia.

Senator KERR. I am not charging that; I am giving you credit, I congratulate you.

Senator GORE. Mr. Chairman, I move that we recess for lunch.

The CHAIRMAN. The Senator opposed the new Federal airport in Virginia as vigorously as I could, and that is going to bring 40,000 people into Virginia, and yet I opposed it.

Senator KERR. There is no comparison. It stands alone.

The CHAIRMAN. That is right.

Are there any further questions?

Thank you very much, Mr. Tallamy.

Now, the next witness is the Director of the Budget, Mr. Maurice H. Stans.

Senator GORE. Mr. Chairman, I have a luncheon engagement that is of personal importance to me. I hope the Chair doesn't intend to finish with the Director of the Budget today.

Senator KERR. We have only got until 1 o'clock. I say to the Senator, under the situation over in the Senate-----

(Discussion off the record.)

The CHAIRMAN. Mr. Stans.

STATEMENT OF MAURICE H. STANS, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. STANS. Mr. Chairman, and members of the committee, I have a very short statement. Assistant Secretary of the Treasury, Mr. Laurence B. Robbins, also has a very short statement. Since they both bear on financial matters, I would appreciate it if we could both read our statements and then be questioned together. I think it would help the committee's consideration.

The CHAIRMAN. Proceed.

Mr. STANS. I would like here to discuss with you the important question of providing adequate financing for the Federal-aid highway program. Since other witnesses are available here to testify on the program activities, I should like to limit my remarks to consideration of the budgetary implications of the present situation.

Three years ago, in the Federal-Aid Highway Act of 1956, the Federal Government embarked on a greatly expanded program to build interstate highways, sharing the costs 90 to 10 with the States. The decision was made at that time by the Congress that this and other Federal-aid highway programs should be separately financed on a pay-as-you-go basis. A special highway trust fund was established by law for this purpose, with certain highway user taxes designated for deposit into the fund.

The law further declares, as a policy of the Congress, that whenever it appears that total receipts of the trust fund will fall short of total anticipated expenditures—

the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures * * *.

Last year legislation was enacted which accelerated the Interstate Highway authorizations and substantially increased authorizations for other highways. These changes, and higher cost estimates, have upset the self-financing principle of the Federal-aid highway program. In approving the 1958 Highway Act, the President specifically pointed out the necessity for action by the Congress in 1959 to provide additional funds for the enlarged Federal assistance under the act in order to maintain the Federal-aid highway program on a self-sustaining basis.

In his budget message to the Congress last January and a special message to the Congress on May 13, 1959, the President recommended enactment of legislation to provide additional revenues to the highway trust fund by increasing highway fuel taxes by 1.5 cents, to become effective July 1, 1959, and to remain in effect through the fiscal year 1964.

In the absence of action by the Congress, the highway trust fund will incur a deficit now estimated at about \$500 million in the fiscal year 1960 and, even though no further apportionment is made, the cumulative deficit will increase to about \$1 billion by the close of fiscal 1961. If these and later deficits required to continue the interstate

program on schedule were to be financed from the general fund, it would seriously increase the burden placed on the Government's general budget.

IMMEDIATE BUDGETARY OUTLOOK

The necessity of providing additional revenues to keep the highway fund self-financed becomes apparent when we look at the general budgetary situation. We are in a period when a policy of sound fiscal responsibility certainly calls for the Government to keep its expenditures within its receipts and even to reduce the national debt if possible.

Last January, the President recommended a budget which was closely balanced, with a surplus of \$70 million. Since then, interest costs on the public debt have gone up significantly—as I recently indicated to the House, this increase will be at least \$500 million. As of now, however, it is our expectation that there will be sufficient revenue to cover the added interest costs and, if this were the only unplanned expenditure increase, the budget would still be in the black.

However, there are other factors which will bear heavily on the 1960 budget and are tending to force us into a deficit. On the revenue side, the unwillingness of the Congress to enact a postal rate increase, increased taxes on aviation fuel, and certain other recommended tax changes add up to \$500 million.

On the expenditure side, the Congress has enacted some increases beyond the administration's recommendations, the most significant being \$100 million for veterans' direct loans and the pending housing bill.

While it is too early to be definite on actual revenues or expenditures for the year, the present probability is that the combination of these factors will produce a deficit.

While I am on this subject, I would like to say a word here about the appropriation actions this year. Although the Congress has reduced the President's appropriation requests for 1960 on all but two appropriation bills, the net effect will actually be a negligible change—perhaps even an increase—in expenditures for the year. The reason for this is that the significant reductions in appropriations will presumably occur in military construction and mutual security, which consist principally of long leadtime items, and on which reductions in obligational authority have no notable effect on expenditures until 1 or 2 years later. Reductions in all the other appropriation bills were largely offset by the increase in the appropriations for the Department of Health, Education, and Welfare.

As for 1961, there are built-in increases in existing programs and legislation already enacted or certain of enactment which will add over \$2 billion to the budget. Increases in veterans' pensions, a new program of Government employees' health insurance, and growing expenditures under programs for urban renewal, public works, outer space, defense education, the Development Loan Fund, civil aviation, and so on, will have a material effect on 1961 expenditure levels.

In brief, we are faced with the strong likelihood of deficit spending in 1960 and 1961 unless we take the actions necessary to hold the line.

THE PENDING FEDERAL-AID HIGHWAY ACT OF 1959

The bill before us differs from the administration's recommendations in these two significant respects:

1. It increases the tax on motor fuel by 1 cent for a 22-month period beginning September 1, 1959, as against the President's recommended increase of 1.5 cents for 5 years beginning July 1, 1959.

2. It transfers from the general fund to the highway trust fund the equivalent of a 5-percent tax on passenger automobiles and parts for 3 years—July 1, 1961, through June 30, 1964. The administration has opposed such a diversion.

Notwithstanding these differences we are willing to accept this bill as a temporary measure since:

1. The additional revenue will solve the financial problem of the highway trust fund for the next 2 years without a drastic curtailment of the program.

2. The bill's proposed transfers from the general fund would not take effect until after reports by the Secretary of Commerce on highway costs and equitable distribution of tax burdens are due to be placed before the Congress, early in 1961. The proposed diversion can be reconsidered at that time and appropriate action taken.

On this basis, I urge enactment of this bill at this time without change.

Senator KERR. Mr. Chairman, I make the suggestion that while we have Mr. Robbins' statement before us, that we let him read his statement while we wait for Mr. Stans' statement.

The CHAIRMAN. You go ahead, Mr. Robbins.

STATEMENT OF LAURENCE B. ROBBINS, ASSISTANT SECRETARY OF THE TREASURY

Mr. ROBBINS. Mr. Chairman, and members of the committee, I am glad to have this opportunity to present the Treasury Department's views on the financing of the Federal highway program.

In the highway legislation which it enacted in 1956, the Congress established certain policies for the long-term financing of the Federal highway program. It determined that the costs of the program should be paid by taxes which are in the nature of user-charge taxes. It set the rates of these taxes so that revenues would be sufficient to pay the expected full cost of the program. By establishing the highway trust fund and directing that total expenditures at any time could not exceed available revenues, the Congress established the policy of pay as you build.

The Treasury Department strongly supports the principle of pay as you build from taxes specifically enacted to pay highway costs, and for that reason continues to feel that the best solution of the financing problem would be the increase of 1.5 cents a gallon in the taxes on motor fuels proposed by the President and urged by him again on several occasions.

It would seem to be unnecessary to review in detail the immediate financial problem. The rate of outgo from the highway trust fund is greater than the income. The balance in the trust fund at the present rate will be exhausted by October, and action is necessary if the States are to be reimbursed for work performed and the program is to be continued without serious interruption.

H.R. 8678 falls considerably short of the President's recommendation. However, by providing a 1-cent tax increase for 22 months it does make possible a continuation of the program for several months

beyond the date on which the reports of the studies of the Department of Commerce are to be submitted to the Congress.

The section in H.R. 8078 providing for transfers of excise taxes to the highway trust fund is one which the Treasury Department cannot regard favorably. We understand that the main purpose of this section is to make possible apportionments for 3 years after 1961 without suspending the Byrd amendment, but the Treasury has been and is opposed, in principle, to the diversion of general revenues for specific purposes, and it is our earnest hope that this will not be part of the ultimate financing plan.

To meet the present situation, however, in the realization that the Congress must weigh the economic impact of a somewhat diminished highway program together with financing plans which are practicable and achievable, the Treasury, while not approving H.R. 8078, will accept it reluctantly in the hope that as a result of continued study, and after the Commerce Department's reports have been submitted, a satisfactory plan for permanent financing of the highway system can be devised which will eliminate the revenue transfers proposed in this bill.

The CHAIRMAN. Any questions?

Mr. STANS. Of course, the committee will have to, will want to change the effective date, since September 1 has already passed. With prompt action, the bill could become effective by September 20.

The CHAIRMAN. Mr. Stans, what is the amount of the diversion of the 5-percent tax on passenger automobiles?

Mr. STANS. It would begin in fiscal 1962. It would amount in that year to \$802 million, and in 1963, to \$831 million, and in 1964, to \$854 million. That is the total of all the diversions.

The CHAIRMAN. That comes about by diverting one-half of the 10-percent tax on passenger automobiles and parts?

Mr. STANS. And five-eighths of the tax on parts and accessories.

The CHAIRMAN. Now, Mr. Stans, the question has been discussed here this morning as to what brought about this crisis that confronts us. Is it your opinion that this is due to the suspension of the pay-as-you-go amendment?

Mr. STANS. As a dollar and cents matter, that is exactly the case.

The CHAIRMAN. Mr. Tallamy testified on June 22 before the Ways and Means Committee. He said:

An action by the Congress at this session regarding the temporary increase in trust funds would result in the following:

First, a 9 months' stoppage of all contracting for new highway construction and right-of-way acquisition.

Does that stem back to the suspension of the pay-as-you-go amendment?

Mr. STANS. Yes.

The CHAIRMAN. He made another statement:

Second, the delayed payment of many vouchers submitted by the States for reimbursement of money already expended by them for outstanding contracts.

Is that due to the suspension of the pay-as-you-go amendment?

Mr. STANS. Yes.

The CHAIRMAN (reading):

Third, nearly cut in two the total interstate highway construction authorized for fiscal years 1960 through 1963.

Is that due to the suspension of the pay-as-you-go amendment?

Mr. STANS. Yes. When I say it is due to the suspension of the Byrd amendment, it is due to that fact plus the increased authorizations that were in the same bill.

The CHAIRMAN. If they hadn't suspended the so-called pay-as-you-go amendment, we would not have this situation confronting us whereby there is great pressure brought to bear to increase the gasoline tax.

Mr. STANS. That is as I see it, that is correct.

Senator GORE. Will the chairman yield there?

The suspension of the Byrd amendment permitted apportionments to be made irrespective of the amount of funds appearing in the trust fund. Those apportionments were made in conformity with the 1956 act. Those apportionments for the Interstate and Defense Highway System have not yet resulted in expenditure, so when Mr. Stans makes the statements he just made, like Mr. Tallamy, he is telling only part of the story.

The apportionments that were made 1 year ago to the Interstate System have not resulted in any disbursements by the Federal Government. As the able chairman knows, it requires a period of approximately 2 years after apportionments for States to make surveys, to let the contracts, for the contracts to be performed, vouchers to be submitted to the Federal Government for reimbursement. Therefore, this is only part of the story. We probably would have this problem today without the 1956 act.

Mr. Tallamy testified that-----

Senator KERR. The 1958 act.

Senator GORE. Mr. Tallamy testified, and you heard him, Mr. Stans, that irrespective of the 1958 act, the Congress and the country and the Bureau of Roads would be faced with a slowdown and a stretchout without action.

In many respects we face the same situation now that we faced a year ago. It was made more acute by the acceleration of the ABC programs which have resulted in disbursement. I believe I have made a correct statement.

Mr. STANS. Senator, I just must respectfully disagree, and I think it would be helpful if we took up the points one by one that you have made.

The highway trust fund was fiscally sound, and no apportionments had been made to the States prior to the enactment of the 1958 act.

The trust fund would have been able to meet all of the commitments that had been made under previous apportionments. Now it is true, as the Senator says, that the program may not under the available funds have proceeded as rapidly as the original schedule.

Senator GORE. On schedule.

Mr. STANS. But what I am saying, and I hope this is clear, is that the action of the Congress last year in increasing the apportionments is the direct cause of the fact that we are now unable to make any apportionments, and of the fact that we are now shortly going to be out of money.

Senator GORE. Is it not true, Mr. Stans, that had there been no 1958 act, there would not have been sufficient funds in the trust fund either then or now to make apportionments to keep the highway program on time schedule of the 1956 act passed by the Congress and signed by the President?

Mr. STANS. That is correct, but I submit, sir, that is a different matter.

Senator GORE. I submit it is a part of the same matter.

Senator BENNETT. Mr. Chairman.

Senator BYRD. Senator Bennett.

Senator BENNETT. As one of the few men who stood with the chairman in defending the Byrd amendment in the 1958 act, isn't it fair to say ----

Senator KERR. In the 1956 act.

Senator BENNETT. Yes, but I mean when it was eliminated in the 1958 act.

Isn't it fair to say that the reason for the Byrd amendment was to provide that if and when we faced the situation in which there was not money in the trust fund to require a stretchout, or some other device to keep the fund solvent, and from that point of view, I don't think --this is just my personal opinion --I don't think it is fair to say that the 1956 act obligated the Bureau of Public Roads to continue the program on schedule.

I think the effect of the Byrd amendment was to serve notice on the Bureau of Public Roads "If you haven't got the money you have got to slow up the schedule." Isn't that a fair statement, Mr. Chairman?

Senator BYRD. That is a fair statement. It would give the Congress a chance to consider the matter calmly instead of being forced to do something now that perhaps many of us don't want to do, because they have already allocated the money and let the contracts. Naturally those contracts when they are performed by the contractors, payments must be made. If we stay within the pay-as-you-go amendment, that situation would not have arisen.

Senator BENNETT. Couldn't we have known when we passed the 1958 act that we made a situation like today's situation inevitable, when we took the Byrd amendment off?

Senator GORE. It was already inevitable.

Senator BENNETT. It seems to me under the 1956 act the Bureau had the responsibility to slow down the program if it didn't have the money. When we lifted the Byrd amendment and said "You've got to go ahead and make the apportionment whether you have got the money or not", we inevitably created the situation we face today, when we knew in advance we were not going to have the money. We went ahead on that basis. Now we've got to meet and provide the money to make up the deficit, and it seems to me it is just that simple.

Mr. STANS. That was pointed out by the President in his signing statement when he signed the bill in 1958.

Senator KERR. I want to get the rest of the act that we are talking about. Isn't there in the statute somewhere, if you or your counsel will please find it for me, a statement to the effect that one of the purposes of the Byrd amendment is so that Congress will have information as to whether the expenditure and income of this fund were in balance, and if it were not to do what is necessary to put it in balance?

Mr. STANS. Yes.

Senator KERR. Perhaps Mr. Enfield can help me on that.

Mr. ENFIELD. I think you have reference to the provision of the Highway Revenue Act of 1956 which is 209; 209(b) declares a policy. It says:

It is hereby declared to be the policy of the Congress that if it hereafter appears (1) that the total receipts to the trust fund exclusive of advances under subsection (d) will be less than the total expenditures from such fund exclusive of payments under such advances, or (2) that the distribution of tax burden among the various classes of persons using the Federal aid highways or otherwise deriving benefits from such highways are not equitable, the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures for such equitable distribution as the case may be.

Senator KERR. Yes, that is the language that I also was looking for. I remember some such language in the bill, and if I understand it, it was the declared policy of the Congress that if the total receipts were less than the total expenditures, that Congress shall enact legislation in order to bring about a balance of total receipts to total expenditures.

That is in the same act that says they will not spend it until they get it, isn't it?

Mr. STANS. Yes.

Senator KERR. So that we are operating under all of the law and not just the Byrd amendment, aren't we?

Mr. STANS. I understand that we are, sir.

Senator KERR. And the action of the Congress here last year in accelerating the program was in order to bring the construction up to the schedule set forth in the 1956 act, wasn't it?

Mr. STANS. Mr. Tallamy replied on that.

Senator KERR. That was your testimony, wasn't it, Mr. Tallamy, aside from the increase in the ABC apportionment?

Mr. TALLAMY. Yes.

Senator KERR. So that the Congress in the exercise of their judgment saw fit to accelerate the program, mindful I'm sure of all the provisions of the law or one which said they couldn't pay it out unless they had it. Another which said that if the expenditures got to where they were greater than the receipts, that the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures, and that is the purpose of this act, isn't it?

Mr. STANS. Yes, sir, but may I point out that at the time the Congress last year increased these authorizations, it also specifically waived the Byrd amendment for a period of 2 years.

Senator KERR. It specifically waived that part of it which said that they could not authorize or obligate the expenditure until they had the money in the trust fund.

Mr. STANS. They couldn't apportion it until the moneys were in the trust fund.

Senator KERR. Do you think that was an act of irresponsibility, Mr. Stans?

Mr. STANS. Certainly not. I think it was a very responsible act to put the Byrd amendment in the bill in the first place.

Senator KERR. Do you think that the act of last year had any less dignity or significance than the act of 1956?

Mr. STANS. I certainly assumed that it was the prerogative of the Congress, but it left these disturbing financial repercussions.

Senator KERR. The President approved the act, didn't he?

Mr. STANS. He signed the bill.

Senator BYRD. Senator Frear?

Senator FREAR. I have no questions.

Senator BYRD. Senator Williams?

Senator Anderson?

Senator Douglas?

Senator DOUGLAS. This bill provides for an increase in the Federal gasoline tax from 3 to 4 cents. Is there an increase in the tax on diesel fuel?

Mr. STANS. Yes.

Senator DOUGLAS. How much is that increase?

Mr. TALLAMY. The same thing.

Mr. ROBBINS. This is an increase in the tax on motor fuels. That is the way it is referred to in the act.

Senator DOUGLAS. From 3 to 4 cents and that applies to diesel fuel as well as on gasoline. Is there an increase in the tax on lubricant, lubricating oil?

Mr. STANS. No.

Senator DOUGLAS. What is the present tax on lubricating oil?

Mr. STANS. Six cents a gallon.

Senator DOUGLAS. How much does it yield?

Mr. ROBBINS. The estimate for fiscal 1961 is \$74 million.

Senator DOUGLAS. May I ask why you didn't increase the tax on lubricating oil? You increase the tax on gasoline by one-third from 3 to 4 cents. Why didn't you increase the tax on lubricating oil from 6 to 8 cents? That would have raised \$24 million.

Mr. STANS. The lubricating oil tax does not go into the highway trust fund. It goes into general revenues.

Senator DOUGLAS. Why did you put it there?

Mr. STANS. It is not there now. That is my answer, sir.

Senator DOUGLAS. Would you recommend it being put in?

Mr. STANS. No.

Senator DOUGLAS. That would raise 72 plus 24, 96 million.

Mr. STANS. The administration and the President have consistently opposed the transfer of existing general fund revenues into the highway funds.

Whatever we do there increases our problem in the general fund.

Senator DOUGLAS. It seems to me anomolous that you turn over the gasoline and diesel fuel taxes to the highway fund but don't turn over lubricating oil receipts.

Mr. STANS. All I can say, sir, is that it was an anomoly created by the original act.

Senator DOUGLAS. Mr. Chairman, I suggest there is \$100 million lying around here that we might pick up, even if we were to allow the existing \$72 million to remain in the general fund, we could at least take a \$24 million increase and put it there.

Mr. ROBBINS. I think the main reason why lubricating oil was not treated in the same way as motor fuels in the first place was that such a large percentage of lubricating oil was not going into automotive use. It is used in industry.

Senator DOUGLAS. What portion of it?

Mr. ROBBINS. I haven't those figures, but I would think it was-----

Senator GORE. Approximately one-half, I think.

Mr. ROBBINS. Yes.

Senator DOUGLAS. Now in committee in the House there was added an amendment in which it was stated that it is the policy of Congress to take over from the States the various State toll roads which have been constructed. That was eliminated on a teller vote in the House yesterday by I believe 170 to 84. What is the position of the administration on that?

Should this amendment be reinstated or should it be allowed to rest where it is?

Mr. STANS. The administration proposes that the amendment not be considered in this bill: the bill as passed by the House be passed by the Senate.

Senator DOUGLAS. Mr. Stans, I always marvel at the way you can shift the center of attention from authorizations to appropriations, from authorizations, appropriations and expenditures to suit the particular purpose that you have at hand.

You realize of course that the Congress has already cut the President's appropriations by 402 million, cut the President's requests for military appropriations probably \$200 million more, foreign aid will be cut by \$1.2 billion so that we are going to cut the President's budget by 1.8. You also realize that we are cutting his new obligational authority outside the appropriating process by about \$800 million, so that we are going to cut the estimates of the administration by well over \$2 billion.

But now you are saying that doesn't count because it does not take effect this coming year, although in connection with housing you said that it wasn't the appropriations in the current year that mattered but the authorization up to the year 2,000 that mattered.

So as I say, I think you are shifting the field of battle. But on this question as to toll-road expenditures in a given year, even though appropriations have been made, that lies within administrative discretion, does it not, and if you think that the Government is being tempted to deal and expend money in excess of receipts, this temptation can be avoided by the simple device of the administration not yielding; isn't that true?

Mr. STANS. I wish it were that simple, sir. It really isn't. We have too many reasons for spending the money that the Congress has appropriated.

Senator DOUGLAS. I notice that you are always ready to cut down on expenditures for welfare activities. I would like to see you cut down on some of these construction activities, too. Possibly foreign aid could be reduced, too.

Mr. STANS. Might I answer the Senator's first comment about shifting the point of view of the subject of discussion. I am merely making the point here, Senator, that the reductions made by the Congress in appropriations this year, and my figures are somewhat different from yours, but I don't think that is pertinent to the point, do not help the—

Senator DOUGLAS. I have a Congressional Record which keeps the box score each morning.

Mr. STANS. May I submit, Senator, that I reluctantly must say that I disagree with the box score appearing in the Congressional Record?

Senator DOUGLAS. I wish you would file for the record, and I will ask to have it included in the Congressional Record, what you think is wrong with this.

(When received the material will be made a part of the committee files.)

Senator BENNETT. Are we here to discuss the tax bill?

Senator DOUGLAS. I admit this is somewhat extraneous but the Director of the Budget brought it up and I carry on a little subtle propaganda and I thought that since he did it was proper for me to reply.

Senator BENNETT. May the Senator from Utah make the point that we are here only under sufferance from Oregon who gives us until 1 o'clock to operate. Thereafter we may not operate, and I think we have had a very effective filibuster this morning to prevent the committee from considering the bill, and I think that ought to be put into the record.

Senator DOUGLAS. Did the Director of the Budget bring up this statement?

I would not have mentioned this had it not been for Mr. Stans raising this, sir.

Mr. STANS. I'm sure Senator, it was you who raised the subject and I think the record will show that.

Senator DOUGLAS. May I read your statement?

Mr. STANS. I'm sorry, I was referring to the Congressional Record when I said that.

Senator ANDERSON. The Congressional Record was referred to because of what you said.

Mr. STANS. Yes, I understand that.

Senator DOUGLAS. Although Congress has reduced the President's appropriation on all but two appropriation bills, the net effect will actually be a negligible change, perhaps even an increase in expenditures.

The reason for this is significant reduction in appropriations, mutual security which consists of long leadtime, and on reduction in obligational authority which will not affect expenditures until 1 or 2 years later. Reductions in all the other appropriations bills were largely offset by increases in the appropriation of the Department of Health, Education, and Welfare. In 1961 there are built-in increases in the program, increases in veterans' pensions, and a new program of Government employees' health insurance, growing expenditures—I went into that simply because the Director of the Budget though he wasn't testifying on those subjects, brought these items in.

Senator ANDERSON. What connection does that have with road-building?

Mr. STANS. That is what I have been hoping to be able to say for the last 5 minutes, Senator. Just this. If we don't have legislation that produces some revenues for the highway trust fund, the highway trust fund will be in default by a very substantial amount of money, about a half billion dollars this year.

In that case the only source to look to to relieve the Government's promises is the general fund.

I am making the point, and I believe it to be correct, that the general fund is in jeopardy this year.

We are probably going to have an unbalanced budget this year even with the highway fund on a self-sustaining basis. I was making a further point simply to clarify the matter in the minds of anyone that the appropriations reductions made by the Congress this year,

and I don't question the desirability of them at all, had no effect of any consequence on expenditures in 1960. And I make that point simply because it is the relationship between revenues and actual expenditures that determines whether we have a surplus or a deficit in the fiscal year.

Senator McCARTHY. Will the Senator yield to me for a question at this point?

Senator DOUGLAS. Yes. I am through with my questioning.

Senator McCARTHY. Mr. Stans, in the statement which Senator Douglas just read you have made reference to the fact that some of these reductions don't mean much because they are long-term in the obligational authority. You make particular reference, however, to the appropriations for Health, Education and Welfare. Now within the last 2 weeks the President vetoed the public works bill. This is one of those involving long-term obligational authority, is it not?

Mr. STANS. Yes, pretty much so.

Senator McCARTHY. And you put great stress upon the figure of \$800 million although much of this would not be spent for many years. Yet the administration did not feel the appropriation for Health, Education, and Welfare which involved an increase of \$250 million, most of which I assume you intend to spend in 1961 or 1960. Why did you veto the one and not veto the other since the point of balancing the budget seems to be so important?

Mr. STANS. The increase in HEW appropriation will not affect expenditures in 1961 to a proportionate extent because a considerable amount of that increase was in construction as well.

Senator McCARTHY. But you say in your statement here that this increase will have a material effect on the 1961 expenditure level. Now you say it will not.

Mr. STANS. I didn't say that it would have a material effect on the 1961 expenditure level.

Senator McCARTHY. You say "increase in expense, defense, education, Government health insurance." You refer to the increase in the appropriation to the Department of Health, Education, and Welfare?

Mr. STANS. Yes. I refer merely to that.

Senator McCARTHY. These reductions were offset you said by this appropriation, which clearly indicates that you expect or you want us to spend this in 1961.

Mr. STANS. I had no such intention and I hope the statement doesn't convey that thought. I am merely saying that the reductions in appropriations made by the Congress were in two specific appropriations by and large, because all of the other smaller appropriations were reductions offset by an increase in HEW.

Senator McCARTHY. But this wouldn't have any significant effect anyway.

Mr. STANS. I am merely analyzing this matter, because I think it would be helpful to this committee to understand the physical situation of the Government in considering this particular piece of legislation.

Senator McCARTHY. That in turn the effect on the budget you would say; that neither the increased appropriation for Health, Education, and Welfare or the increased appropriations for public works would have any significant effect on the budget.

Mr. STANS. On the 1962 budget the two together would have an effect of about \$100 million.

Senator McCARTHY. Why did you veto the one and not veto the other?

Mr. STANS. Senator, I don't veto a bill. That is the President's judgment.

Senator McCARTHY. Why do you advise? Could you explain why your administration, the administration of which you are a part, vetoes one and not the other, since both included nonbudgeted items.

Mr. STANS. I can't explain all of the reasons in the President's mind for vetoing this bill, but I am sure that it was the basic human consideration that health and education and welfare are the kinds of things that in the present fiscal situation in government are possibly more important than public works?

Senator KERR. Will the Senator yield?

Senator McCARTHY. Was the President not concerned about these things when he drew up the budget?

Mr. STANS. Certainly he was.

Senator KERR. I think in justice to the record that he recommended veto of both. That is my understanding.

Senator McCARTHY. Mr. Stans did.

Senator KERR. I think in justice to him, he recommended vetoing both.

Mr. STANS. I would rather not comment on that.

Senator BYRD. The hour of 1 o'clock has arrived. We cannot legally sit even for a few minutes.

Senator KERR. Mr. Chairman, I move we go into a short illegal executive session.

Senator BYRD. The Chair is unable to say when we can reconvene but there will be another public session. Senator Gore has a proposed amendment.

Senator ANDERSON. Is it not true that while we are not legally sitting, there is no rule of the Senate that keeps us from taking testimony? It only keeps you from taking votes.

Senator McCARTHY. We cannot keep any official record.

Senator KERR. We can continue on an informal basis.

Senator BYRD. We can't take the testimony.

Senator ANDERSON. You certainly can take it down. It is done every day in the year.

Senator KERR. What we can't do is take official action.

Senator GORE. I think this is one of the most important issues to come before the Congress this year. We can't deal with it summarily. It requires attention and consideration and a public record should be made.

Senator ANDERSON. The Senator from Tennessee knows that you can make a public record. We ought to finish with these two witnesses I would think, and then do what you wish.

Senator GORE. I understood from the chairman that we could not.

Senator BYRD. I have no objection, but he was informed as he understood it by Senator Johnson over the telephone, that we could not meet legally after 1 o'clock and take down the record.

Senator KERR. I make a motion that we remain in session for a brief period of time illegally.

Senator BYRD. All in favor of meeting illegally, say "aye."

(Chorus of "ayes.")

Senator GORE. That would put us in the same status of contract control.

Senator KERR. Is the Senator from Minnesota finished?

Senator McCARTHY. You finish.

Senator KERR. I just made that one observation.

Senator BYRD. The Senator from Minnesota may proceed on an illegal basis.

Senator GORE. I would like to ask one question of Mr. Robbins and then yield temporarily to my colleague from Minnesota.

Mr. Robbins, in your statement, you say:

The section in H.R. 8678 provided for transfer of excise taxes to the highway trust fund is one which the Treasury cannot regard favorably.

Yet you endorse the bill?

Mr. ROBBINS. It is explained later on in the statement, by saying that this is not what we want.

Senator GORE. I understand.

Mr. ROBBINS. But we accept it.

Senator GORE. But you do endorse the bill?

Mr. ROBBINS. We accept it; yes.

Senator GORE. Now this second sentence in that paragraph reads as follows:

We understand that the main purpose of this section is to make possible apportionments for 3 years after 1961 without suspending the Byrd amendment.

Senator BYRD. We are discussing procedure.

Senator GORE. That is all right, I don't object. I just don't want to waste my time.

Senator BYRD. We are listening. Go ahead.

Senator GORE. I was reading a statement which Mr. Robbins has made which in my view is incorrect, and unsupportable and I want to ask him about it. It refers to the suspension of the Byrd amendment:

We understand that the main purpose of this section is to make possible apportionments for 3 years after 1961 without suspending the Byrd amendment.

Now will you be so kind as to say to the committee whether you really mean to say that, and if so why?

Mr. ROBBINS. The discussion in the House Ways and Means Committee at the time that this proposal was made is the basis for my statement that our understanding of the explanation of the proposal is that the proposed diversion of revenue was in order to make it possible to make apportionments within the expected revenue.

Senator GORE. I notice that you make this statement about some discussion in the Ways and Means Committee. Is it a factual statement or is it not?

Mr. ROBBINS. It is my understanding of it, sir, the understanding that the Treasury Department has.

Senator GORE. Will you take the bill and show us just how this is going to apply to permit apportionments, to make possible apportionments for 3 years after 1961?

That is 1962, 1963, and 1964. Will you be so kind as to show us that?

Mr. ROBBINS. I don't know that there is anything in the bill that brings that out.

Senator GORE. Then why do you make the statement.

Mr. ROBBINS. The apportionments will be made in 1959 and should be made now for the fiscal 1961, apportionments will be made at some time during the 1960 period for fiscal year 1962, and the following years in a similar way.

Senator GORE. But the statement you make here is with respect to the 3 years after 1961, and will you be so kind as to either show us that this is a correct statement and how it is correct, or say that it is a misunderstanding. I would appreciate it.

Mr. ROBBINS. The bill provides for these transfers for 3 years following fiscal year 1961.

Senator GORE. When do the gasoline taxes end?

Mr. ROBBINS. June 30, 1961.

Senator GORE. Apportionment depend upon what?

Mr. ROBBINS. Under the Byrd amendment? The Byrd amendment governs expenditures that are expected to be made for the years that are affected.

Senator GORE. In the first place apportionments are based upon the amount of money in the fund and which the Secretary of the Treasury calculates to be in the fund according to law at a given time.

Mr. ROBBINS. I think the law requires the Secretary of the Treasury to certify that the expenditures be made under the apportionments will be within the revenues available in the trust fund.

Senator GORE. Is it not true, that the transfers and levies contained in H.R. 8678 are for the purpose of making limited apportionments available for 1961 and 1962?

Mr. ROBBINS. The increase in the motor fuels tax is for the purpose of making limited apportionments for 1961 and 1962.

Senator GORE. So are the transfers.

Mr. ROBBINS. The transfers are to cover apportionments to be made for the years following 1961.

Senator GORE. I don't want to press the point.

(Discussion off the record.)

Senator McCARTHY. I would like to take up the question I raised before yielding to the Senator from Tennessee. I understood you said the increases which Congress has voted in appropriations for the next fiscal year, would if taken altogether in actual appropriations amount to about \$300 million.

Did you say that the actual appropriations would not amount to much over \$100 million?

Mr. STANS. I'm sorry, the gentleman has me confused with both figures. I don't recall saying either one.

Senator McCARTHY. I was asking you about the increased appropriation for health, education, and welfare. You said the actual expenditures for the next fiscal year would not come to the full \$259 million.

Mr. STANS. I said speaking of those two bills alone, the appropriations for health, education, and welfare and the appropriations for public works, that the expenditure effect in 1960 would be about \$100 million.

Senator McCARTHY. Taken altogether?

Mr. STANS. Those two bills together.

Senator McCARTHY. And yet you said in your testimony that the reductions which the Congress had made would have the negligible effect, and that altogether there might even be an increased

expenditure. In other words is it your opinion that the reductions the Congress has made would not offset what you estimate to be a \$100 million increase in expenditures as a result of the increases which Congress has made?

Mr. STANS. That is correct. Taking all of the appropriations it is my estimate that there will be a very small decrease in expenditures in 1960.

Senator McCARTHY. We decreased—if we decreased the mutual security appropriation by \$1 billion there would be less than \$100 million reduction in expenditures the next fiscal year.

Mr. STANS. That's correct.

Senator McCARTHY. Altogether all of the reductions made by Congress will not in practical effect reduce expenditures by less than \$100 million?

Mr. STANS. That is the estimate and I will be glad to put a table to that effect in the record representing our best estimates as of the moment.

Senator McCARTHY. I would like to have that estimate. Then at worst Congress will not increase expenditures—by what do you estimate that reduction in amount? How much would the actual expenditures—

Senator BYRD. Will the Senator yield for a moment? We have gotten word from the majority leader that even taking testimony is illegal.

I would suggest that the Senator from Minnesota finish out his present line of questioning and he can resume it when we sit legally.

Senator McCARTHY. Since we have been illegal up to this point, what is the estimate of reduction that can be brought about as a result of the reduction in appropriations which the Congress has approved?

Mr. STANS. For fiscal 1960 it is my estimate that there will be practically no reduction in expenditures as a result of congressional action in the 1960 appropriation. The reduction in expenditures which results from cutting the appropriations will occur in 1961 to some degree and in a larger degree in 1962 and 1963.

Senator McCARTHY. Yet the increases which Congress has approved, you say that almost 50 percent of that will be reflected in increased expenditures in the next fiscal year?

Mr. STANS. Yes. I would like to make this clear.

The reductions are pretty much in items that have a long leadtime, that take 2 or 3 years to spend. The increases in defense are partially in military personnel, in HEW, for medical research, and those items tend to go out that much faster.

Senator McCARTHY. But these expenses will be accelerated and the administration now believes that the congressional increase in appropriations for health, education, and welfare seem to be necessary to meet the needs.

It means you are going to spend the money.

Mr. STANS. No; I don't mean that, that is subject to the statement the President signed at the time he signed the bill, which directed the Secretary of Health, Education, and Welfare to be sure that the money for medical research was not spent at a rate in excess of the rate which would really be productive.

Senator McCARTHY. Mr. Chairman, I will rest at this point.

Senator BYRD. We will resume as soon as Mr. Morse allows us to.

Mr. ROBBINS. Mr. Chairman, may I make a very minor correction in a statement I made in answer to a question of Senator Douglas for the record about lubricating oil? I said that the estimate for 1961 was \$74 million. It is the estimate for 1960.

(Whereupon, at 1:15 p.m. the hearing was recessed, to reconvene at 3:15 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order. Senator Gore, do you have any further questions?

Senator GORE. The Senator from Minnesota was questioning. However, I will be glad to proceed.

Senator BYRD. Do you want to present your amendment now and discuss it?

Senator GORE. I want to ask a few questions first. Mr. Stans, are you acquainted with the recommendation of the administration submitted on March 11 of last year with respect to the highway program?

STATEMENT OF MAURICE STANS - Resumed

Mr. STANS. Generally, but I don't have the specifics in mind. I don't have a copy of it here.

Senator GORE. Are you aware that in this recommendation the President recommended that the Byrd amendment be suspended for 3 years?

Mr. STANS. Yes.

Senator GORE. Then when the Congress acted in 1958 in suspending the Byrd amendment, it not only acted with the approval of the President but upon the recommendation of the President.

Mr. STANS. Yes. They increased the apportionments beyond those which the President had in his request by, I believe, a considerable amount, but there is no question the President had recommended an increase in the highway program last year, and I believe——

Senator GORE. I am not complaining about it. I just didn't quite get the point why you were making so much of the fact this morning that the Byrd amendment was suspended for 1 year when the President recommended that it be suspended for 3 years?

Mr. STANS. I think actually it was suspended for 2, but I am not here, Senator, for the purpose of pointing any fingers or anything like that. Just to say that the action taken last year does result in the financial predicament which the President and I am sure the Members of the Congress understood last year would have to be dealt with this year.

Senator GORE. And in doing so, the President approved the action, though he had recommended that it be suspended for a longer period than the Congress suspended it for.

Mr. STANS. Senator, offhand I am not sure whether I recall whether his recommendation was for 1 or 2 or 3 years.

Senator GORE. I give you my recollection that it was 3 years. I would assume that is correct.

Mr. STANS. I would accept that.

Senator GORE. I don't wish to belabor the point but it seems to me there was no point in belaboring it in the first instance. Congress had acted to continue the highway program on schedule as to the Interstate System, and had acted to accelerate the construction and improvement of highways on the primary, secondary and urban systems as a means of relieving severe unemployment.

In so doing it will obviously have an effect in future years as it has had an effect now.

Mr. Chairman, I only cite this to indicate that much ado was made of the fact that the Congress had brought us into this terrible dilemma, when in fact the Congress acted upon the recommendation and with the support and concurrence and approval of the President in this regard.

Senator BUTLER. Will the Senator yield?

Senator GORE. Yes.

Senator BUTLER. Was that the testimony of Mr. Stans? I thought you said that the President had asked for a suspension but on a very modest basis, and then the Congress had greatly increased the request of the President, and had given more, much more than he had asked for.

Mr. STANS. That is true.

Senator BUTLER. I think we ought to have both figures. What did the President want and what did he finally get?

Mr. STANS. I don't have them and my memory doesn't cover them, but I am sure that Mr. Tallamy who is here, could supply them right now.

Senator GORE. I have copy of Mr. Rothschild's testimony in which, on page 506 he read from the President's message as follows:

In the next few days the administration will ask the Congress to amend the Highway Act to suspend certain expenditure limitations for 3 years. If enacted, this amendment will permit apportionment to the States of an additional \$2,200 million of Federal funds, all of which will be placed under contract during the calendar years 1958 to 1961. Adoption of this amendment will permit the apportionment during each of these years of a total of \$2,200 million of Federal funds for interstate-highway construction alone.

Senator BUTLER. If that recommendation had been carried out, would this bill be necessary?

Senator GORE. Yes.

Senator BUTLER. I mean to what extent, Mr. Stans? If you had carried out the recommendations of the President to make it \$2,600 million over a period of 3 years, what is the difference between that program and the program that has been approved by the Congress last year?

Mr. STANS. Senator, that is an intricate computation. All I can say at the moment is we would be short of money and we would not be able to make the apportionments to the States at this time, even if the administration bill had been adopted.

Senator BUTLER. And you would need the cent increase in the gasoline tax to cover that?

Mr. STANS. We might not need a cent. I think a little less than that would do it.

Senator BUTLER. Do you think a half a cent would have done it?

Mr. STANS. It depends upon what is done after the first 2 years for which the 1 cent applies.

If the same provisions were to be considered as are in this bill for the diversion of revenue after the first 22 months, it is possible that a half cent or three-quarters of a cent would have been adequate to cover the administration recommendation.

Senator BUTLER. Inasmuch as the question was raised, I thought the record should be complete on the point, and I have no further questions.

Senator GORE. I say to the Senator from Maryland that I saw no point in the question being raised this morning, but so much point was made of it that I thought the record should be complete.

Senator BUTLER. Then I thought it should be amplified so now I guess we are all happy.

Senator GORE. That is fine. The action of the Congress last year is not solely responsible for the predicament we are in.

We would have been in a similar predicament if the Congress had not passed the act and I think Mr. Stans and we all agree now and I am willing to forget the subject if you are.

Mr. STANS. I think the problem is how do we finance what we committed ourselves last year to do?

Senator GORE. The problem is not only financing the commitments already made, but the problem is also to provide for apportionments in order that the highway program continue. And in that connection I raised some questions with Mr. Tallamy this morning as to when the program would be completed. My tables of calculation now indicate that the highway system will not be completed under the proposed program until 1977. Do you agree with that, Mr. Tallamy?

Mr. TALLAMY. That is pretty close to the thing, yes. I think I would agree to it, between 1976 and 1977.

We will split the year and then I will agree with you.

Senator GORE. We won't fuss about that. Mr. Stans, I find that in your testimony before the House that you recommended the gasoline tax as being not only the easiest way to collect this money, maybe I should say to extract it, but the most equitable way. Now how did you arrive at a Federal sales tax on gasoline which is already the heaviest taxed essential commodity, in some States being taxes 100 percent of the refinery cost, is an equitable tax?

Mr. STANS. It follows the principle which I believe the Congress has enunciated and applied in the past, that the users or the beneficiaries of a special service of Government should pay for it.

Now, granted there are studies underway which will determine more precisely who the beneficiaries of the Federal highway program are, in the meantime the Congress itself has selected the gasoline tax as the one in the first place.

Senator GORE. Because Congress levied some tax on gasoline, I wouldn't think that could be used as an argument that it should be increased ad infinitum.

Mr. STANS. No; and I would agree that there is a limit of course. This was a considered judgment in the executive branch after a great deal of study on the problem, and it was recommended as being the most practical and the most equitable solution to the financial difficulty we are in.

Senator LONG. May I interrupt at that point?

Senator GORE. Yes, sure.

Senator LONG. Mr. Stans, this is a matter which I wanted to make reference to before you came here. It has always been my position, even when we set up this highway program, that the excise tax on new automobiles and also on automobile parts should be considered in the same sense as a gasoline tax, an excise tax on highway users. That was not the prevailing view of the Congress. I voted against the whole program, because I felt it was unsound to look upon only the tax on gasoline as being a tax on highway users when I thought these others fell into the same category.

Can you see some logic to that position, that those are also excise taxes on highway users?

Mr. STANS. I have not honestly been able to see logic in that position, particularly from the standpoint of this program, and I will tell you why. The tax on automobiles existed as one of the excise taxes with which we finance the Government before the highway program came into being. We have a total collection from excise taxes of something like 8 or 9 billion dollars a year that are a necessary part in carrying on all the things the Government does.

Senator GORE. I would like to break in there just to say that at the same time we were doing this, which you have described, the primary, the secondary, and the urban highways were financed out of the general fund.

So if we are going to go back, we need to go back both ways.

Mr. STANS. Yes, we would, but at the time the highway fund was created, there were some existing general fund taxes that were transferred to the highway fund. The highway fund was not financed entirely by new taxes, only a portion of it.

Now the problem, Senator, is simply one of the revenues that the country needs to carry on its activities. The same logic that would argue that the automobile excise tax should be transferred to the benefit of automobile users would also be applicable to transferring the tax on electric appliances to the benefit of those users or the tax on tobacco or liquor.

Senator LONG. Here is the point I had in mind, Mr. Stans. At the time we set all this up and voted an additional tax on gasoline, I voted against the additional tax on gasoline and I voted against the conference report when that tax was added on to that at the time it came over from the House, because it seemed to me that we had certain taxes that we had regarded as temporary taxes to begin with at the time that they were enacted, taxes which were to be taken off at the first opportunity, and it seemed to me as though it would be fair, particularly in view of the fact that in years just immediately preceding we had taken off about \$9 billion in taxes, to just transfer these taxes which had been regarded as temporary in some respects, in addition to some of the other taxes we were putting into the fund, if that were the case we wouldn't have had to put the first 1 penny of additional tax on gasoline.

Of course, even then the amount in the fund would greatly exceed the amount that was used for highways, and there could be some reduction of some of these excise taxes, particularly on automobiles, which most people seem to feel we should deal with first.

Now if we adjust it that way, we would have plenty of money to look after all of our highways. Now when you are looking upon this thing as just a matter of saying that the Government is short on

revenue, I personally would prefer to give you revenue in some other connections or on some other tax bills, which I am not proposing here but I will propose later on.

There are other ways I would propose to vote for the Government to get additional revenues in preference to this gasoline tax. I was just asking you if you could recognize that a tax on new automobiles is just as much a tax on a highway user as a tax on a tire or a tax on lubricating oil or a tax on gasoline.

If a man is not using the highways he is not going to have the automobile. That is the only purpose he could buy it for.

Mr. STANS. As I say we have a great many excise taxes and the minute we start to earmark the use of those taxes for specific purposes, we will be using the cost-meeting tax for some purpose or other, and the same logic applies.

Senator LONG. But the point is that you suggested to us that this program should be taxed, should be financed by excise taxes on the user of the service.

It doesn't seem to me as though you can have it both ways. If you want to finance it with an excise tax on the user of the services it makes just as much sense to take some excise tax that we already have and apply the revenue from that to the service, as it would to levy an additional excise tax on the same user of the service.

At least that's how it seems to me.

Senator GORE. I agree with your statement that earmarking is illogical. It is without rhyme or reason. But it was the recommendation of the Administration, the former Secretary of the Treasury Mr. Humphrey, that this fund was created and certain revenue earmarked for that purpose. I agree with you that it is senseless, but in any event the administration recommended it. Now I notice you say in your testimony that:

Here is an area in which I believe you can reasonably well isolate the benefits that come from the highway program to the people who use the highways.

Do you seriously maintain that?

Mr. STANS. I made the analogy before the House committee of the postal service. I think there is a reasonable parallel here. The people who use the postal service do so at their request and they should pay the costs of it.

Senator GORE. You are aware that then President Eisenhower recommended this and General Clay recommended this program as being necessary for national defense.

Mr. STANS. All I can do is plead the fact that I have no familiarity with the events at that time.

Senator GORE. Do you think now that the tire industry benefits from development of improved highways?

Mr. STANS. The tire industry?

Senator GORE. Yes; Goodyear, Firestone.

Mr. STANS. I am sure the users of tires benefit from improved highways.

Senator GORE. If better highways bring more travel, more consumption of tires, don't you think that would make Goodyear and Firestone bigger and better?

Mr. STANS. I suppose that factor would tend that way. I don't want to be facetious but I suppose good highways make tires last longer, too.

Senator GORE. It may increase the speeds and they may not last quite so long, if we get into that. How do you relate the benefits which Goodyear and Firestone would derive from highway improvement to a tax on gasoline. It is a little farfetched; isn't it?

Mr. STANS. I'm not sure how I can answer that, Senator.

Senator GORE. It is a little farfetched. Now, let's take General Motors. Do you think that the automobile industry will benefit by the completion of this highway program, both interstate, primary, secondary, and urban.

Mr. STANS. Over the long run I am sure that the industry would benefit.

Senator GORE. Then how do you relate that benefit to them to an increase in the tax which every man who buys a gallon of gasoline must pay?

Mr. STANS. Senator, that is a study which the Department of Commerce has underway.

Senator GORE. But you preempted the study. You said this is equitable. You have just said here on page 172:

Here is an area in which I believe you can reasonably well isolate the benefits that come from the highway program to the people who use the highways.

I have asked you to isolate the benefits to General Motors, to Ford, to Chrysler, to Firestone, to Goodyear, to the oil industry itself. Your argument just doesn't stand up.

Mr. STANS. Senator, I think you can find indirect benefits to the economy in a great many ways in this program.

Senator GORE. So do I.

Mr. STANS. But I think it is provable by experience that the highway user, the individual who uses the highways regularly, is a very great beneficiary and has much lower costs by reason of using the highway of the type that we are building in this system. That is why trucking companies and others use toll roads, because they are still more economical than the other ways that are available to them.

I don't think it is too debatable that the user of a car benefits very greatly from the use of a highway, a superhighway system.

Senator GORE. So does the manufacturer of the car?

Mr. STANS. That doesn't make it inequitable to charge the tax to the man who uses the highway, and that is what I said was my judgment.

Senator GORE. I think it is inequitable when you expect the people who must earn their living by using the highways to pay then on the same basis without any respect whatsoever to ability to pay, particularly on an essential commodity that already, in some States, bears a 100 percent tax. So far as I know, the only luxury items are liquor and tobacco that have such a tax as gasoline already bears. This is unfair.

It is highly inequitable. Yet you describe it as equitable and say you can reasonably isolate the benefits to the users of the highways.

I reject that. But even though that be true, and even though we accept that philosophy, the highway user is already paying \$1,600 million in excess of the amount this year that is being used on highways. Then how would you justify that.

Mr. STANS. He is paying it as a taxpayer. That is part of our taxation system. So are the users of a great many other taxed

products. Now, if this gets into the question of the equity of the whole tax system, I think very well we might all have a great many ideas on that.

Senator GORE. I didn't raise it. You are the man who said this was equitable.

Mr. STANS. I said in my opinion-----

Senator GORE. You introduced the subject.

Mr. STANS. I said in my opinion it was equitable, and unfortunately the Senator disagrees with me.

Senator GORE. I think it is highly inequitable.

Senator LONG. Here is a question I wanted to ask along that line. While I have been on this committee this has been in line with the administration's recommendation, we have voted to reduce taxes on a great number of things, and I voted for a considerable number of those, and I am not here to criticize the administration for making recommendations for tax reductions where it believes that they can be justified and supported.

But I will try to pick out two. As I did vote--I am one of those Senators who voted for this dividend credit of 4 percent when it came through. I don't see how I can justify a vote on the one hand to reduce taxes on those who draw dividends and then turn around on the other hand and vote to raise the tax on gasoline, because it would seem to me that by doing that, if you just compare those two, one of them is a case of reducing in the main taxation on persons better able to pay and getting that money back a few years later by raising taxes, which in many instances fall on people who are not nearly so well able to pay.

The thought just occurs to me that if the highway users should pay excise taxes sufficient to pay for all the highways, we ought to take a look and see what they are paying. They are already paying far in excess of the amount of excise taxes required to finance the highways, that we should not increase the tax burden on the highway users any further, that is so far as the excise tax program.

I am not trying to argue with you but that is just my view then and I hope you recognize that there is some equity on the part of these users who are paying far more than it takes to finance the highways when we have seen other taxes reduced.

We have to come back and increase taxes on them.

Mr. STANS. Senator, all I can say is that I assume Congress considered all these matters when it imposed the original excise tax on the sale of an automobile for general revenue. That became part of the revenue-raising system of the country, along with taxes on electrical devices and beauty products and luggage and a great many other things.

Senator LONG. Of course that was done at a time when the highway program was financed out of general revenue.

I believe that was also done in wartime, wasn't it? Wasn't that part of the wartime taxes? We were going to have to put on some excise taxes in time of war and we hoped we would be able to take them off after the war was over.

Mr. STANS. I understand it was increased during the Korean war. I don't know when the tax was originally imposed.

Senator LONG. Didn't it go on during World War II?

Mr. STANS. I think it did, sir.

The information I have in the table before me, sir——

Senator LONG. My understanding is it started in 1932. It was heavily increased in World War II and at the time of the Korean war. Prior to that it was not earmarked. Then you came along and said that was earmarked money, earmarked certain highway user taxes to finance the highways. It seems to me if you say "earmark certain highway user taxes" it seems to be just as well to earmark certain other highway user taxes to go to highways.

If balancing the budget, which is your problem, we could meet this problem by raising one tax just as well as another. That is my point.

Mr. STANS. I agree I am very seriously worried about balancing the budget.

Senator GORE. Mr. Stans, you have told us today that the budget this year in all probability is going to be unbalanced.

Mr. STANS. I am afraid that is the case.

Senator GORE. Whether the budget is balanced or unbalanced, the highway programs which we are paying for around the world will continue under your policy, but our own program comes to a dead stop unless we impose upon every man who buys a gallon of gasoline an additional tax.

Is that a correct statement?

Mr. STANS. Or unless we find some other way of financing this system.

Senator GORE. Well, I intend to find some other way. I intend to give the Senate a couple of choices, and I will be glad to comment on that in just a moment, but meanwhile I would like to read to you and to the chairman of the committee, I am sure he will enjoy it, a proud announcement that the Government made on July 7. This appears in the New York Times. It announced a great accomplishment:

The United States announced today that it was willing to give Burma and Burma was willing to receive——

Senator LONG. Burma has made a concession. They are the ones who refused to take it for a while. They are the ones who gave in.

Senator GORE. I read this to the very estimable Senator Russell of Georgia, and he said:

So Burma was willing to receive up to \$37 million of economic assistance in the next 4 years. This meant Burma had reversed her six long refusals to accept aid as a gift from the United States. She asked the United States to suspend all aid in 1953.

I will not read it all. This \$37 million is for a highway in Burma, and as the chairman has just said, these will go on around the world, be the budget balanced or unbalanced, but our own highway program is going to stop dead still on October 1, unless we can extract another tax from every man who buys a gallon of gasoline. Now would you classify that as equitable?

Mr. STANS. Senator, you are asking me to debate with you on the validity and reasonableness and propriety of our whole mutual security program.

Senator GORE. Oh, no, I am not. I have supported your program. I am not asking you, I am not raising the question of whether this is a wise expenditure. The question I am raising is that you are making a stepchild of our own defense highway program.

You are putting our own highway program secondary to highway programs around the world.

Just let me list some of them.

Under mutual security included in the present fiscal year there are obligations of \$192 million for highway construction in other countries.

Under the Development Loan Fund, commitments have already been made of \$220 million for transportation and communication and they have under active consideration at this moment \$350 million more, more than the 1 cent gasoline would raise for the remainder of this fiscal year.

The World Bank has loaned \$325 million for highways. The Export-Import Bank, \$241 million.

Maybe we ought to make Senator Byrd's highway trust fund eligible for a loan from one of these agencies. What would be the reaction of the administration on that?

Mr. STANS. Senator, I think we are confusing two different things.

Senator GORE. No; we are not confusing them. I am comparing them.

Mr. STANS. I would like to say this: Certainly no one here from the administration, and no one in this room would believe that we should not go ahead with our highway program. The problem is how are we going to pay for it.

Senator GORE. Then how are we going to pay for these others? How are we going to pay for this road in Burma?

Mr. STANS. That is part of our budget problem as well.

Senator GORE. But you are going to let it continue, but you are going to stop our own highway program dead still October 1.

Mr. STANS. Senator, we have a law that says it shall stop dead till October 1 unless something is done about it.

Senator GORE. And what do you propose to do about it?

Mr. STANS. We propose to increase the revenues in the fund.

Senator GORE. Increase the gas tax?

Mr. STANS. That is right.

Senator GORE. Well, now, I propose a substitute. I would like to have your comment. I propose either one of two; I would be satisfied with either:

One, I propose to save 1 percent of all the appropriations except those statutory requirements that the Congress makes to the general fund in the first session of this Congress, and transfer such an amount to the highway trust fund.

Now, what would be the choice of the administration, to save enough from other expenditures to continue our own highway program without additional Federal sales taxes on gasoline, or would it prefer to spend the money, all the money appropriated on the other programs, and then levy an additional Federal sales tax on gasoline? Which would be your choice?

Mr. STANS. Senator, I would like to answer it in this way: If the Congress has any way in which it can save money without injuring the programs of the Federal Government, I would like to see it saved.

I think that is not inconsistent at all with levying an additional 1-cent gasoline tax to continue the highway fund on a self-supporting basis.

The administration, I am sure, would not support the idea of reducing other expenditures and applying an equivalent amount of revenues into the highway fund.

Senator GORE. Then you would oppose that?

Mr. STANS. I believe we would.

Senator GORE. And you are speaking for the President in so stating?

Mr. STANS. I have not had an opportunity to discuss this with the President because it came to my attention after he left the country, but I am quite certain that that would be his point of view.

Senator GORE. I shall not question that.

Now, in case the Senate or the committee does not accede to this choice, I shall then offer another about which I will be glad to have your comment.

The Treasury testified this morning, or maybe it was Mr. Tallamy, that the 1-cent gasoline tax for the remainder of the fiscal year would produce revenue in the sum of \$333 million.

The Treasury Department has informed me that a repeal of the 4-percent dividend credit would produce revenue in the sum of \$335 million.

Now, which would the administration prefer, a closing of this loophole or the levying of an additional tax on every gallon of gasoline?

Mr. STANS. I think the Secretary of the Treasury could give you a much better answer on that than I could, but in his absence, I will say that I think the administration believes that any consideration of changing the dividend credit or any other tax changes ought to be considered as part of the general study of our tax structure, and should not be brought into consideration of this problem.

Under those circumstances, we would favor the 1-cent increase in the gasoline tax.

Senator GORE. You don't think that an additional tax on gasoline should be a part of that study, either?

Mr. STANS. It will be a part of the Commerce Department's study.

Senator GORE. But you propose to levy it now and study it later?

Mr. STANS. Yes; we do.

Senator GORE. Now, suppose we repeal the dividend credit and study it later?

Mr. STANS. May I point out that the House has already voted for the 1-cent gasoline tax.

Senator GORE. And the Senate has already voted to repeal the dividend credit, and they shall have a chance to do so again.

Senator McCARTHY. Will the Senator yield to me?

Senator GORE. Yes.

Senator McCARTHY. I note from the testimony of the Director of the Budget that whereas he talks in the last paragraph about the study to be made in 1961, at the same time on page 4 he recommends that the 1.5-cent tax be extended for 5 years.

Mr. STANS. Yes; that is what the administration recommends, Senator.

Senator McCARTHY. Why do you recommend 5 years, and then say you want us to hold up until we can get your report in 1961?

Mr. STANS. For this reason: It is necessary to have legislation extending over about 5 years in order to provide the foreseeable receipts in the trust fund over a period of time that is necessary in order to make apportionments this year and next year. It just happens that the mechanics of the law and the formula under the Byrd amendment so requires.

Now, the House has proposed to increase the gasoline tax for 2 years, and to transfer revenues for another 3 years.

Senator McCARTHY. The diversion of the excise tax collected on automobiles would take care of that problem. This is proposed in the House bill. It extends for at least 5 years.

Mr. STANS. That is correct, and the administration has said and the President has said that he does not believe that the diversion of taxes is the way to deal with this problem.

Senator McCARTHY. You don't think that that is the answer over the 5-year period, but you think the extension of the gasoline tax, increase it for 1.5 cents a gallon for a 5-year period is all right, although you say you are going to present some kind of a report early in 1961 dealing with the equitable distribution of the tax burden.

Mr. STANS. Yes, by 1961 we will have a report with all that analysis, and if the law then is inequitable, the Congress undoubtedly will make appropriate adjustments.

Senator McCARTHY. Could not those recommendations take into account the diversion of excise taxes on automobiles just as well as they could take into account the 5-year extension of the 1.5-cent increase in gasoline taxes?

Mr. STANS. I can't anticipate what the recommendations resulting from that study will be, Senator.

Senator McCARTHY. Neither can I.

Mr. STANS. But if I may go back to Senator Gore, I am sure that he is interested in further views with respect to his first proposal.

Senator GORE. I am.

Mr. STANS. I have not had too much time to study it, but we have had other efforts in the past directed at reductions of expenditures generally.

To reduce expenditures broadly across the Government produces a great many difficulties, a great many problems that are much more serious than simply the matter of second-guessing the Appropriations Committee.

The bill itself recognizes the need for some exceptions, which is interest on the debt, veterans compensation, and pensions. There are a very great many other expenditures of the Federal Government that are fixed by formula, or by demand, we will say, in which a 1-percent reduction just isn't feasible.

Senator GORE. Of course, a 1-percent reduction of the appropriation bills.

Mr. STANS. I understand that.

Senator GORE. And I agree with you that it creates problems.

Mr. STANS. I might point out a 1-percent reduction in the appropriation bill for the Commodity Credit Corporation wouldn't save a dollar in the expenditures of the Federal Government because we are committed to buy under the price support formulas to the extent that these crops are tendered to us.

Senator GORE. I have contemplated the problem which you discuss, and I have conferred with numerous people in Government agencies, including the General Accounting Office and the Bureau of the Budget, your own agency.

The General Accounting Office, after several days of study, just today reached its own estimate that my amendment would save \$540 million, which is a little in excess of what the highway trust fund.

needs for this fiscal year, and in reaching that estimate, I asked the GAO to take into consideration these statutory requirements, these irreducible formulas to which you have referred.

I recognize that it creates a problem, but this would not be the first time that a rescission has been made by the Congress. Obviously it creates problems. This gasoline tax creates problems, too.

I got into a taxicab the other day to come to the office. The taxi driver, whom I never remember having seen before, for some reason recognized me as the junior Senator from Tennessee, and he pulled off to the side of the street and stopped, and turned around and thanked me for fighting a further increase in the gasoline tax. He said:

"I have to make a living with this automobile, not only for myself, but for my wife and for three children, and I am already paying about \$300 a year in taxes on gasoline. Please fight the 'H' out of it," he said.

So both these things create problems.

Mr. STANS. Senator, I am not discussing this in terms of problems; I am trying to discuss it in terms of dimensions. I am sure the Senator is interested in this.

Senator GORE. I am.

Mr. STANS. It is possible that a 1-percent reduction in authorizations to spend applied to such items as procurement and construction, and in some areas of personnel, would reduce appropriations for the year. There is no question about it. And it might reduce the appropriations, conceivably, as much as \$400 million or \$500 million.

But, Senator, I can't conceivably find any basis for thinking you could reduce the 1960 expenditures by this process, for the simple reason again, as we discussed this morning, a great many appropriations for construction and so forth don't result in expenditures for another year or two or three, and if you reduce the appropriations for those items, you don't save any expenditures then for a year or two or three.

Senator GORE. Of course, I know we have expenditure budget, appropriation budget. I am talking of the balance of the budget that the President presented.

Mr. STANS. Then we are talking about expenditures.

Senator GORE. Then there is also the problem of what is a balance of the budget. Now, if you give me my preference, I would want to regard the construction of a hydroelectric dam or a new Federal highway as an investment in the future. I don't think it can properly be treated in the same category as a contribution to Syngman Rhee or Gen. Chiang Kai-shek on Taiwan. One is an expenditure from which we get no immediate return, tangible return; the other is an investment in a facility that will add to the wealth and enjoyment and income of the Nation for decades to come.

So if we get into the discussion of what is a wise budget and what is a balanced budget, I think we would need to revise our consideration.

For instance, under your kind of—well, I won't say your kind—under the accepted system of Government bookkeeping the Government has no assets and can make no investment. So I think we would open up a great big, not only theoretical but practical, discussion if we start discussing the nature of a budget.

I am trying to save enough money from other appropriations to finance our own highway program, and without contributing to the unbalancing of your budget.

Mr. STANS. Senator, I would like very much at some time to discuss with you this matter of Federal balance sheet and its assets and liabilities, because I am personally interested in seeing something done about that.

Senator GORE. You have made some fine contributions on that.

Mr. STANS. On the subject of the capital budget, on the other hand, I already have said that I think it would not be practical for this country to go that far. But I think we have gone ahead, and I would like to say this one thing with respect to your proposal:

If the Congress believes that it is possible to reduce appropriations 1 percent in certain areas, then I would like very much to see them do it and use it to apply against the general fund deficit that we are going to have this year and may have next year.

Senator GORE. But by all means you would want another tax on gasoline?

Mr. STANS. I think we need it, and I think it is fair and equitable.

Senator GORE. Let me give you one other choice. Would you rather stop the highway program or see the dividend credit repealed?

Mr. STANS. I would not like to make that choice, because I don't think it is a necessary one, Senator. I think the administration's proposal with the bill passed by the House solves the problem, and the question of dividend credit, whether it should be increased or decreased, should be dealt with in the context of a review of the entire tax system of the country.

Senator GORE. Of course, I don't want to press you if you don't wish to express a choice, but you didn't hesitate to express the view that the administration would prefer an additional gasoline tax instead of stopping the highway program. You didn't hesitate to express the view that the administration would oppose a rescission of the appropriation bill, but when I ask you a choice between highways or dividend credit, then you do not wish to—do you want to persist in not wishing to express a choice?

Mr. STANS. My choice is to increase the gasoline tax by 1.5 cents.

Senator GORE. That was not the question.

Mr. Chairman, I will not press it. That is all.

The CHAIRMAN. Any further questions of Mr. Stans?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Stans.

Senator LONG. Mr. Chairman, are you considering going into executive session now?

The CHAIRMAN. Yes.

Senator LONG. I would like to suggest this, it is not unprecedented with other committees, that we go ahead and start doing business and formalize it as soon as we get a quorum in the room, and I would suggest that we proceed along that line and see if we can't come to some conclusion on it.

The CHAIRMAN. The committee will go into executive session.

(Whereupon, at 3:40 p.m., the committee went into executive session.)