$465 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

ON

H.R. 16810

TO PROVIDE FOR A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT AND TO PLACE A LIMITATION ON EXPENDITURES AND NET LENDING FOR THE FISCAL YEAR ENDING JUNE 30, 1973

OCTOBER 11, 1972

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
84-914 WASHINGTON : 1972

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

CLINTON P. ANDERSON, New Mexico
HERMAN E. TALMADGE, Georgia
VANCE HARTKE, Indiana
J. W. FULBRIGHT, Arkansas
ABRAHAM RIBICOFF, Connecticut
FRED R. HARRIS, Oklahoma
HARRY F. BYRD, JR., Virginia
GAYLORD NELSON, Wisconsin

WALLACE F. BENNETT, Utah
CARL T. CURTIS, Nebraska
JACK MILLER, Iowa
LEN B. JORDAN, Idaho
PAUL J. FANNIN, Arizona
CLIFFORD P. HANSEN, Wyoming
ROBERT P. GRIFFIN, Michigan

TOM VAIL, *Chief Counsel*
MICHAEL STERN, *Assistant Chief Clerk*

(1,000)

CONTENTS

$465 BILLION DEBT LIMIT

WEDNESDAY, OCTOBER 11, 1972

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

The committee met, pursuant to notice, at 2:10 p.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman), presiding.

Present: Senators Long, Anderson, Talmadge, Hartke, Fulbright, Ribicoff, Byrd, Jr., of Virginia, Nelson, Bennett, Jordan of Idaho, Fannin, Hansen, and Griffin.

The CHAIRMAN. The committee hearing will come to order.

Today we will receive testimony on H.R. 16810, the public debt bill with a rigid expenditure ceiling. There is little controversy concerning title I of the bill which would provide a temporary increase in the debt limitation of $65 billion from November 1, 1972, through June 30, 1973—a $15-billion increase over the present temporary ceiling.

There is considerable controversy, however, over title II of the bill which would provide a $250-billion limitation on the level of budget outlays and lending in fiscal 1973.

Frankly, I do not believe the Congress is likely to abdicate its responsibility over spending programs by giving the President a blank check to cut any appropriations which the Congress has enacted and which the President has signed into law. Furthermore, the charge that the Congress has been irresponsible with the President's budget request cannot stand up in the face of the facts. Through September 30, 1972, the House cut the administration's appropriations requests for fiscal 1973 by $6.3 billion, while the Senate cut them by $2.5 billion.

It is anticipated that when all appropriations bills are enacted, there will be a reduction in budget authority of some $5 billion from the President's appropriation request and a reduction in budget outlays of approximately $1 billion.

However, because of certain increases in legislative bills with mandatory spending authorizations, it is possible that the total outlays provided by the Congress and signed by the President will exceed the rigid $250-billion ceiling. Ninety percent of this overage in budget outlays for fiscal 1973 falls on three items, one of which—general revenue sharing—is a retroactive payment due to a postponement of congressional action.

The three items are general revenue sharing, $3.3 billion; black lung benefits, $1 billion; and the increase in social security benefits, $2.1 billion. General revenue sharing was in the President's budget; however, because it was not passed until October 1972, and was made retroactive, half of the programed fiscal 1972 outlays will be made in fiscal 1973.

Thus, even though the revenue-sharing money had been budgeted in both the fiscal 1972 and fiscal 1973 budgets, because of the postponement in enacting the program, the fiscal year 1973 budget will show an increase in outlays over the budget request of some $2.2 billion. The other two items were passed by Congress and signed into law by the President.

The irony of the situation is that because of the retroactive feature of revenue sharing, which was sought by the administration, and the social security increase and black lung benefits bill, the President will be in the position of having to cut back his own budget requests even though for the most part they had already been cut by the Congress.

We will include in the printed record a copy of the bill, H.R. 16810, as referred to the Committee on Finance and a staff memorandum dealing with the public debt and the expenditure ceiling.

(The material referred to follows:)

92D CONGRESS
2D SESSION

H. R. 16810

IN THE SENATE OF THE UNITED STATES

OCTOBER 11, 1972

Read twice and referred to the Committee on Finance

AN ACT

To provide for a temporary increase in the public debt limit and to place a limitation on expenditures and net lending for the fiscal year ending June 30, 1973.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT

SEC. 101. During the period beginning on November 1, 1972, and ending on June 30, 1973, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) shall be temporarily increased by $65,000,000,000.

TITLE II—LIMITATION ON EXPENDITURES AND NET LENDING FOR FISCAL 1973

SEC. 201. (a) Expenditures and net lending during the fiscal year ending June 30, 1973, under the budget of the United States Government shall not exceed $250,000,000,000.

(b) The President shall, notwithstanding the provisions of any other law, reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of subsection (a).

(c) In the administration of any program as to which—

(1) the amount of expenditures is limited pursuant to subsection (a), and

(2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for obligation (as determined by the President) shall be substituted for the amount appropriated or otherwise made available in the application of the formula.

TITLE III—JOINT COMMITTEE TO REVIEW OPERATION OF BUDGET CEILING AND TO RECOMMEND PROCEDURES FOR IMPROVING CONGRESSIONAL CONTROL OVER BUDGETARY OUTLAY AND RECEIPT TOTALS

SEC. 301. (a) There is hereby established a joint committee composed of thirty members appointed as follows:

(1) seven members from the Committee on Ways and Means of the House of Representatives, appointed by the Speaker of the House;

(2) seven members from the Committee on Appropriations of the House of Representatives, appointed by the Speaker of the House;

(3) one additional Member of the House of Representatives, appointed by the Speaker of the House;

(4) seven members of the Committee on Finance of the Senate, appointed by the President pro tempore of the Senate;

(5) seven members of the Committee on Appropriations of the Senate, appointed by the President pro tempore of the Senate; and

(6) one additional Member of the Senate, appointed by the President pro tempore of the Senate.

(b) The joint committee created by subsection (a) shall make a full study and review of—

(1) the procedures which should be adopted by the Congress for the purpose of improving congressional control of budgetary outlay and receipt totals, including procedures for establishing and maintaining an overall view of each year's budgetary outlays which is fully coordinated with an overall view of the anticipated revenues for that year, and

(2) the operation of the limitation on expenditures and net lending imposed by section 201 of this Act for the fiscal year ending June 30, 1973.

The joint committee shall report the results of such study and review to the Speaker of the House of Representatives and to the President pro tempore of the Senate, not later than February 15, 1973.

(c) (1) The chairman of the joint committee shall be selected by the members of the joint committee.

(2) The joint committee is authorized to appoint such staff, and to request such assistance from the existing staffs

of the Congress, as may be necessary to carry out the purposes of this section.

(d) The joint committee shall cease to exist at the close of the first session of the Ninety-third Congress.

Passed the House of Representatives October 10, 1972.

Attest: W. PAT JENNINGS,

Clerk.

October 11, 1972

To: Members of the Committee on Finance

From: Robert A. Best

Subject: Public Debt, Expenditure Ceiling Bill (H. R. 16810)

I. PRESENT LAW

The permanent debt limitation, under present law is $400 billion. There is also a temporary additional limitation of $50 billion until October 31, 1972, providing an overall limitation of $450 billion, effective through October 31, 1972.

II. HOUSE BILL--Title I, Public Debt

The House bill would provide for a temporary debt limitation of $65 billion from November 1, 1972 through June 30, 1973, a $15 billion increase over the present temporary ceiling for an eight-month period. The permanent limitation would continue at $400 billion.

Title II, Expenditure Ceiling.-- The House bill would provide a $250 billion limitation on the level of budget outlays and net lending in fiscal 1973. There are no exceptions to this limitation for any agency or program. The President is given authority as to where the reductions are to be made to conform with the $250 billion expenditure ceiling.

Title III, Joint Committee to Review Budget Ceiling.-- Title III of H. R. 16810 would establish a joint committee of thirty members appointed by the Speaker of the House and the President pro tempore of the Senate as follows:

(1) 7 members from the Committee on Ways and Means of the House;

(2) 7 members from the Appropriations Committee of the House;

(3) 7 members from the Committee on Finance of the Senate;

(4) 7 members from the Appropriations Committee of the Senate;

(5) 2 additional members, one from the House, the other from the Senate, appointed by the Speaker of the House and the President pro tempore of the Senate, respectively.

This joint committee would be mandated to make a study of (1) the procedures which should be adopted for the purpose of improving Congressional control of budgetary outlays and receipts, and (2) the operation of the $250 billion expenditure ceiling for fiscal year 1973.

The Chairman of the joint committee would be selected by the members. There is provision to appoint necessary staff and to draw upon existing staffs of the Congress.

The joint committee would terminate at the close of the first session of the ninety-third Congress.

III. BUDGET REVIEW AND OUTLOOK

The following table indicates that the January budget submissions for both fiscal years 1972 and 1973 estimated very large budget deficits. In other words, the deficits were "planned" or at least anticipated in the January budget submissions. The actual results in fiscal 1972 show a reduction in the planned or anticipated deficits. The current estimate for fiscal 1973 also indicates a reduction in the planned deficit.

Table 1--Summary of Change in Budget Receipts and Outlays, by Fund Group
(Fiscal years; in billions of dollars)

	1972			1973		
	January estimate	June estimate	Actual	January estimate	June estimate	Current estimate
Federal funds:						
Receipts	137.8	147.1	148.8	150.6	152.6	155.6
Outlays	182.5	179.3	177.7	186.8	190.4	188.0
Deficit (-)	- 44.7	- 32.2	- 28.9	- 36.2	-37.8	- 32.4
Trust funds:						
Receipts	73.2	73.2	72.9	83.2	83.6	82.6
Outlays	67.2	67.0	67.0	72.5	72.8	75.2
Surplus	5.9	6.2	5.9	10.7	10.8	7.4
Unified budget						
Receipts	197.8	207.0	208.6	220.8	223.0	225.0
Outlays	236.6	233.0	231.6	246.3	250.0	250.0
Deficit (-)	- 38.8	- 26.0	- 23.0	- 25.5	-27.0	- 25.0

Note: Detail may not add to totals because of rounding.

Source: Office of Management and the Budget.

IV. CONGRESSIONAL ACTIONS (AND INACTIONS) AFFECTING BUDGET IN FISCAL YEARS 1972 and 1973

The Joint Committee on Reduction of Federal Expenditures regularly publishes estimates of how congressional actions affect the original January budget estimates. The following information is taken from their latest scorekeeping report:

FISCAL YEAR 1972	Budget Authority (obligational & net lending)	Budget Outlays (Expenditures & net lending)	Budget Receipts	Budget Deficits
Net total budget estimates submitted January 24, 1972 (revised) 1/	250.0	236.6	197.8	-38.8
June 5 Revision as Subsequently Amended	247.1	233.0	207.0	-26.0
Actual net totals as enacted by Congress and reported by Treasury	247.5	231.6	208.6	-23.0
Net effect of Congressional actions and inactions	- 3.8	- 2.9	---	- 2.7

1/ The original budget submissions for fiscal 1972 were submitted in January 1971. At that time the estimates were as follows: Budget authority $249.0 billion, budget outlays, $229.2 billion, and budget receipts $217.6 billion.

Thus, in the fiscal 1972 budget, Congress actually reduced the administration requests for budget authority by $3.8 billion and for budget outlays by $2.9 billion. However, a large part of this reduction in outlays ($2.2 billion) was due to the postponement in enacting general revenue sharing. This postponement of outlays to fiscal 1973 will have a large effect on the proposed ceiling, as will be seen.

Fiscal 1973.-- Proposed Ceiling.--The proposed ceiling of $250 billion affects outlays in fiscal 1973 not obligational authority. Current outlay estimates exceed the proposed ceiling by $6.9 billion, as shown in the following table:

	Outlay estimates in billions
Original outlay estimate, January, 1972	246.2
Amendments to 1973 budget transmitted to date	+ 2.9
Congressional action to date	+ 7.1
Other revisions	+ 0.6
Current Outlay Estimate	256.9
Outlay reductions needed to reach $250 billion ceiling	- 6.9

It would appear from the above table that Congress has increased outlays in fiscal 1973 by $7.1 billion. This is misleading and preliminary.

The reasons why it is misleading are as follows:

Appropriations Bills.--In actions on appropriations bills through September 30, 1972, the House has cut budget requests for outlays by $2.1 billion, while the Senate increased budget outlays by $0.2 billion. 2/ Yet, because the appropriation bill in which both Houses made the largest cut (Defense) has not been enacted into law, the net total of enacted appropriations bills shows a slight increase of $328 million. It is anticipated that when all appropriations bills are enacted, there will be a reduction in budget outlays of about $1 billion, and a reduction in budget authority by $5 billion. 3/

2/ On budget authority, the House cut budget requests by $6.3 billion and the Senate cut budget requests by $2.5 billion.

3/ The anticipated net reduction in budget authority of $5.047 billion is made up as follows:

Reductions		Increases	
Defense	$ 5.0 billion	Labor, HEW	$ .850
Foreign Aid	.750	Misc. (all other)	.102
Military Construction	.250		
Total Reductions	$ 6.000 billion	Total Increases	$ .952

Net Reductions = $ 5.047

-5-

Legislative Bills with Spending Authorization.--Ninety percent of the apparent increase in budget outlays by the Congress for fiscal 1973 falls on three items, one of which--general revenue sharing--is a retroactive payment due to a postponement of Congressional action. The three items are general revenue sharing ($3.3 billion), black lung benefits ($1.0 billion), and the increase in social security benefits ($2.1 billion). General revenue sharing was in the President's budget. However, because it was not passed until October, 1973, and was made retroactive, half of the programed fiscal 1972 outlays will be made in fiscal 1973. Thus, even though the revenue sharing money had been budgeted in both the fiscal 1972 and fiscal 1973 budgets, because of the postponement in enacting the program, the fiscal year 1973 budget will show an increase in outlays over the budget request of some $2.2 billion. The other two items were passed by Congress and signed into law by the President.

The CHAIRMAN. Our leadoff witness this afternoon is Senator Roth, the principal author of the spending ceiling. After Senator Roth we will hear from the Honorable George P. Shultz, Secretary of the Treasury, and the Honorable Casper Weinberger, Director of the Office of Management and Budget.

Senator Roth, you may begin your statement or summarize it in brief as you see fit.

We know you are fresh from a major victory on H.R. 1 and we will be pleased to have your views on your subject.

STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM THE STATE OF DELAWARE

Senator ROTH. Thank you, Mr. Chairman, members of the committee.

I greatly appreciate this opportunity to appear before you as you consider the pending legislation to raise the ceiling on our national debt limitation.

My prepared statement will be short and speaks to the hotly debated call for a tight lid on Federal outlays in this current fiscal year. This measure seems particularly germane to the debt ceiling bill for it is the overall impact of expenditures and the net outflows in the loan accounts that produce the Treasury's need to borrow. This will be the third time in 1972 that Congress has acted to adjust the debt limit. simply because our Federal expenditures continue their inexorable rise.

I have offered several measures for expenditure controls in the Senate since my able predecessor, John Williams, retired 2 years ago. His example is one I am happy to follow.

Last November I offered an amendment to the Revenue Act to hold fiscal year 1972 outlays to $229.3 billion. It lost in the Senate by only seven votes. And then in March of this year I continued this thrust with an amendment to the debt ceiling, leveling outlays at $246.3 billion. Though a modified version of my language was accepted, further language left the amendment with a floating lid which would have failed to impose the necessary fiscal discipline I feel is so important. The conferees in March rejected the Senate language, a move which I supported, since inclusion of the amended language would have been illusory and ineffective.

And then, on September 11, I offered my latest proposal—S. 3977—which called for a no-holes ceiling on fiscal year 1973 outlays at $250 billion. The bill's earlier companion, S. 3123, was cosponsored by 49 other Senators, including eight members of this committee and both the majority and minority leaders.

The language of this bill, S. 2977, is identical to title II of the House bill, H.R. 16810, which passed on a rollcall of 221 to 163 last night. This tight discipline successfully withstood the challenge of a weakening amendment offered by Chairman Mahon. So it is perfectly clear that the House has not only endorsed the idea but has had the opportunity to reject a less stringent alternative.

I am here, then, to ask this distinguished committee to approve title II, for it seems to me the only honest way to approach expenditure controls. After all, it is total spending, regardless of its controlability, that affects our total debt requirements.

I might add here that I heartily endorse the House action which includes in title III authorizations for a Joint Committee on Budget Policy. It is high time we began looking prospectively for new and better ways to tighten up Congress' control of the Executive's proposed budget this year.

Mr. Chairman, I won't take long, but I would like to quickly touch on what, I believe to be four compelling reasons for this spending ceiling:

First, the Federal budget has not really served the meaning of the word. By the very nature of our political process, the budget is simply a guess at revenues and outlays.

I have a table here that I would like to insert in the record which shows that in the 20 years since fiscal year 1954 we have overspent the estimate 16 times. Taken together with the shortfall in receipts—table II, the total impact has been a series of deficits—$91.5 billion more than was originally planned.

(The table referred to follows:)

TABLE I.—VARIATIONS IN ORIGINAL BUDGET PROJECTIONS (EXPENDITURES)

[In billions of dollars]

Fiscal year	Original expenditure estimates	Actual expenditures	Difference
1954	66.3	70.9	4.6
1955	65.4	64.4	−1.0
1956	62.1	66.2	4.1
1957	64.6	69.0	4.4
1958	71.2	71.4	.2
1959	73.6	80.3	6.7
1960	76.3	76.5	.2
1961	79.1	81.5	2.4
1962	80.9	87.8	6.9
1963	92.5	92.6	.1
1964	98.8	97.7	−1.1
1965	97.9	96.5	−1.4
1966	99.7	107.0	7.3
1967	112.8	125.7	12.9
1968	135.0	143.1	8.1
1969	186.1	184.6	−1.5
1970	195.3	196.6	1.3
1971	200.8	211.4	10.6
1972	229.2	231.6	2.4
1973	246.3	[1] 250.0	[1] 3.7
Total	2,333.9	2,404.8	+70.9

[1] Latest estimates, through Aug. 4, 1972.

Source: Office of Management and Budget.

TABLE II.—VARIATIONS IN ORIGINAL BUDGET PROJECTIONS (RECEIPTS)

[In billions of dollars]

Fiscal year	Original receipt estimates	Actual receipts	Difference
1954	70.3	69.7	−.6
1955	62.5	60.2	−2.3
1956	59.7	67.8	8.1
1957	65.0	70.6	5.6
1958	73.1	68.6	−4.5

TABLE II.—VARIATIONS IN ORIGINAL BUDGET PROJECTIONS (RECEIPTS)—Continued

[In billions of dollars]

Fiscal year	Original receipt estimates	Actual receipts	Difference
1959	74.0	67.9	−6.1
1960	76.4	77.8	1.4
1961	83.3	77.7	−5.6
1962	82.3	81.4	−.9
1963	93.0	86.4	−6.6
1964	86.9	89.5	2.6
1965	93.0	93.1	.1
1966	94.4	104.7	10.3
1967	111.0	115.8	4.8
1968	126.9	114.7	−12.2
1969	178.1	187.8	9.7
1970	198.7	193.7	−5.0
1971	202.1	188.4	−13.7
1972	217.6	208.6	−9.0
1973	220.7	[1] 223.0	2.3
Totals	2,269.0	2,247.4	−21.6

[1] Lastest estimates.

Source: Office of Management and Budget.

These would be unacceptable in any private enterprise and when we realize that proportionately higher spending and lower receipts have magnified those deficits in recent years, can we reasonably expect fiscal year 1973 to be different if we do not impose this measure of self-discipline?

This brings me to my second point. As Federal deficits continue to rise, the American public places less and less confidence in the desire or ability of the Congress to achieve a sensible balance between fiscal stimulation and restraint. The most recent fiscal year, with its roller-coaster record of predictions and actualities, is a perfect example. We have given the administration authority to manage the economic stabilization program which calls for sacrifices throughout the private sector, yet to date Congress has shown no inclination to follow suit. Rightly or wrongly, if an uncontrollable Federal budget spells inflation to the average businessman or consumer, his behavior will naturally subvert the objectives of phase II and perhaps lead to a longer and more painful phase III.

(Table III follows:)

TABLE III.—BALANCES IN FEDERAL FUNDS, UNIFIED BUDGET, AND FULL EMPLOYMENT, LEVELS OF FEDERAL DEBT, AND DEBT INTEREST, 1963–73 INCLUSIVE

[In billions of dollars]

Fiscal year	Federal funds	Unified budget	Full-employment budget	Total gross Federal debt at Dec. 31	Total debt interest
1963	−6.5	−4.8	+4.4	310.8	9.2
1964	−8.6	−5.9	+2.1	316.8	9.8
1965	−3.9	−1.6	+2.4	323.2	10.3
1966	−5.1	−3.8	−6.1	329.5	11.3
1967	−15.0	−8.7	−10.6	341.3	12.6
1968	−28.4	−25.1	−25.2	369.8	13.7
1969	−5.5	+3.2	0	367.1	15.8
1970	−13.1	−2.8	+2.6	382.6	18.3
1971	−30.2	−23.2	−3.2	409.5	19.6
1972	−28.9	−23.0	−3.6	[1] 455.8	21.8
1973 [1]	−41.3	−34.2	−3.0	493.1	22.1

[1] Estimates.

Source: Office of Management and Budget.

Setting this example of a firm ceiling at $250 billion seems hardly sacrificial on our part. With outlays at that level, we will still be running a unified deficit of some $25 billion and a Federal funds deficit close to $32 billion. With our domestic economy returning slowly to normalcy, an exemplary action by the Congress could well restore private confidence in our public decisionmaking. We have all seen what happened in the height of 1969's inflation. Counterproductive as it was, people increased their savings even though their dollars would buy less in another year, businesses canceled plans for expansion and the slowdown helped produce an aggravating and tragic situation of unemployment. It seems to me little enough to ask Congress and the administration to hold to a sensible spending guideline when we are asking auto makers, supermarkets, doctors, machinists, schoolteachers and housewives alike to adhere to current controls.

Third, our inflationary problem does not stop at the U.S. border. Our deteriorating trade deficit has been caused in part by America's inability to compete in world markets. I cannot pretend to be an expert on international economic problems but the figures really speak for themselves.

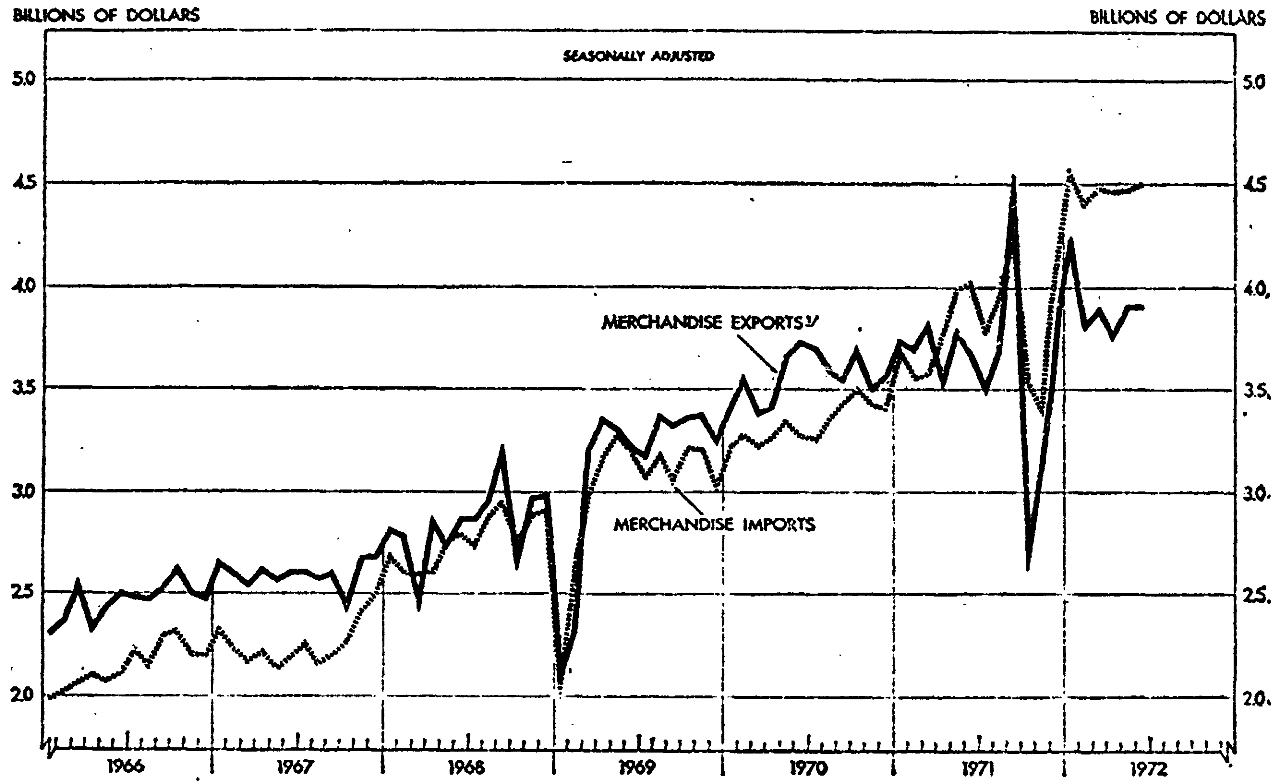
A fourth table here shows the widening import-export gap. We used to enjoy a healthy surplus, particularly in manufactured goods, but as the factor inputs of these products—labor and raw materials—have become more expensive, our surplus has turned to a festering deficit.

(The tables referred to follow:)

TABLE IV

MERCHANDISE EXPORTS AND IMPORTS

The trade balance on a seasonally adjusted basis worsened in June by $38 million, leaving a deficit of $590 million.



1/ SEE NOTE BELOW.
SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISORS

[Millions of dollars]

Period	Merchandise exports: Total (including reexports)[1]: *Seasonally adjusted*	Merchandise exports: Total (including reexports)[1]: Unadjusted	Merchandise exports: Domestic exports: Total[1 2]	Domestic exports: Food, beverages, and tobacco	Domestic exports: Crude materials and fuels	Domestic exports: Manufactured goods	Merchandise imports: General imports[3]: Total[2]: *Seasonally adjusted*	General imports: Total[2]: Unadjusted	General imports: Food, beverages, and tobacco	General imports: Crude materials and fuels	General imports: Manufactured goods	Gross merchandise trade surplus, *seasonally adjusted*
Monthly average:												
1963	-------	1, 869	1, 845	349	315	1, 191	-------	1, 428	322	396	672	441
1964	-------	2, 153	2, 123	386	361	1, 377	-------	1, 562	335	419	759	590
1965	-------	2, 229	2, 201	377	356	1, 453	-------	1, 786	334	453	937	444
1966	-------	2, 458	2, 421	432	367	1, 602	-------	2, 135	382	476	1, 204	323
1967	-------	2, 586	2, 554	392	394	1, 737	-------	2, 241	392	447	1, 313	345
1968	-------	2, 839	2, 802	383	405	1, 985	-------	2, 769	447	503	1, 719	70
1969	-------	3, 111	3, 066	370	417	2, 232	-------	3, 004	442	533	1, 918	107
1970	-------	3, 555	3, 502	422	558	2, 445	-------	3, 329	519	545	2, 159	226
1971	-------	3, 629	3, 576	423	537	2, 537	-------	3, 797	534	606	2, 534	−168
		Unadjusted						Unadjusted				
1971: May	*3, 776*	3, 907	3, 847	423	550	2, 785	*3, 988*	3, 845	520	607	2, 591	*−212*
June	*3, 662*	3, 687	3, 626	395	546	2, 604	*4, 012*	4, 271	593	665	2, 888	*−350*
July	*3, 493*	3, 338	3, 293	385	468	2, 362	*3, 793*	3, 693	565	629	2, 367	*−300*
Aug	*3, 678*	3, 366	3, 329	384	515	2, 353	*3, 928*	3, 838	616	640	2, 462	*−251*
Sept	*4, 505*	4, 220	4, 166	586	586	2, 934	*4, 237*	4, 246	714	659	2, 760	*268*
Oct	*2, 708*	2, 826	2, 774	294	394	2, 026	*3, 523*	3, 463	352	571	2, 414	*−815*
Nov	*3, 160*	3, 221	3, 177	395	471	2, 247	*3, 379*	3, 522	353	598	2, 454	*−218*
Dec	*3, 858*	4, 056	3, 999	636	644	2, 738	*4, 128*	4, 279	606	710	2, 822	*−270*
1972: Jan	*4, 221*	3, 815	3, 766	506	567	2, 601	*4, 540*	4, 280	631	702	2, 820	*−319*
Feb	*3, 806*	3, 780	3, 723	485	527	2, 332	*4, 403*	4, 177	626	673	2, 763	*−598*
Mar	*3, 891*	4, 310	4, 250	426	611	3, 119	*4, 475*	4, 844	554	756	3, 401	*−584*
Apr	*3, 760*	3, 887	3, 812	396	567	2, 754	*4, 460*	4, 248	544	659	2, 918	*−699*
May	*3, 914*	4, 143	4, 074	508	565	2, 917	*4, 466*	4, 722	604	731	3, 254	*−552*
June	*3, 905*	4, 015	3, 942	528	557	2, 762	*4, 495*	4, 767	614	715	3, 306	*−590*

[1] Total excludes Department of Defense shipments of grant-aid military supplies and equipment under the Military Assistance Program.
[2] Total includes commodities and transactions not classified according to kind.
[3] Total arrivals of imported goods other than intransit shipments.

NOTE.—Data adjusted to include silver ore and bullion reported separately prior to 1969.

Source: Department of Commerce.

Parenthetically, too, the long-term success of our recent bold moves to adhere to the parity of the dollar and freeze our remaining supply of gold, depends on international confidence in the U.S. dollar. Foreign central banks and exchange markets carefully watch our domestic economic activities. Runaway Federal deficits can only erode our trading partners' desire to hold dollars as a reserve currency, above and beyond their day-to-day needs. In the past 2 years foreigners have acquired more than $30 billion in Treasury securities. Their desire to hold that debt instead of dedeeming it at maturity will depend on the health and stability of our domestic economy.

Last, we all live with the haunting issue of tax increases. No other action with which we deal receives as much attention from our constituents, regardless of their wealth. I am sure this committee of experts is well acquainted with the most recent Brookings report on national priorities. It contains a very clear message: Under present conditions, revenues will not be adequate to cover expenditures if the Federal budget continues to grow at its current rate.

I, for one, favor periodic review of our tax system but every tax reform proposal I have seen recognizes that substantial revenue gains cannot be achieved without tapping the vast majority of middle-income Americans. It is the average workingman who will bear the brunt of higher taxes and I, for one, will not sit idly by and spend us into this quagmire. "Soak the rich" schemes simply will not produce the tax dollars we will need if Federal spending rises $20-plus billion a year. I certainly think it is fantasy to imagine no increases in taxes next year unless both the Congress and the administration get tough on spending, starting right now.

Mr. Chairman, let me say in closing that I would happily support a figure lower than $250 billion. If this committee should agree that more belt tightening would be prudent, I would certainly work for its passage on the floor. I have tried in the past, though, and not succeeded.

I urge you, Mr. Chairman, to accept the House bill as it stands and I will try to answer any questions the committee may have concerning the spending legislation.

Thank you.

The CHAIRMAN. Now, at this late hour in the session we are trying to expedite the hearing and, therefore, I am going to ask each Senator to limit his questioning to 10 minutes. I am going to ask the staff to keep time for us. Further, I am going to suggest to Senators that it is not necessary for them to ask questions of every witness, that they restrain themselves insofar as they can to try to conclude this hearing this afternoon. I think that it is time that we show further deference to our junior members, so I am going to start at the far end of the table.

Senator Nelson?

Senator NELSON. I will forgo asking any questions of this witness.

The CHAIRMAN. Senator Griffin?

Senator GRIFFIN. I don't have any questions but I certainly want to commend our colleague from Delaware for taking the leadership in presenting this legislation and he is certainly demonstrating that he is a worthy successor to our former colleague on this committee, John Williams, who preached this philosophy and was very, very effective in doing so; and I want to indicate that I will be strongly backing the bill and I hope, like he does, that the Senate will follow the example of the House.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you. I commend Senator Roth and I have no questions.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. No questions.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. No questions.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. No questions.

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. No questions.

Senator BENNETT. We are upholding the tradition that we don't question each other or ourselves, so I have no questions.

The CHAIRMAN. Thank you very much for your presentation, Senator. We will let you know whether we like your version or the version that I offered on the floor last time when we get through.

Thank you very much.

Senator ROTH. Thank you, Mr. Chairman.

The CHAIRMAN. We will now hear from the Secretary of the Treasury, the Honorable George Shultz. We are happy to have you with us and will you please give your statement.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF THE TREASURY

Secretary SHULTZ. Mr. Chairman and members of the committee, Mr. Weinberger and I are appearing today in a sense of urgency on the subject of debt limitation on fiscal year 1973.

The temporary limit of $450 billion section 21 of the Second Liberty Bond Act, as amended, will expire on October 31, 1972. At that time the debt subject to limitation will be approximately $437 billion, while the permanent limit is only $400 billion. It is therefore necessary to have action on the debt limit before the Congress adjourns.

As we requested, the House has approved a temporary limit of $465 billion through June 30, 1973. Based upon our current estimates that budget revenues for the fiscal year will continue to improve to approximately $225 billion and that budget outlays are limited to $250 billion, this should be sufficient to carry us through the fiscal year.

But let me emphasize that $250 billion figure. We must limit our outlays to $250 billion; and the only certain way is to include in the bill before you the President's proposal for a spending ceiling.

We are talking about a ceiling of a quarter of a trillion dollars and the President's belief is that somehow we ought to be able to get along on a quarter trillion dollars a year. If we make the effort, we can.

I believe we can succeed in this endeavor as well as we have succeeded in the fight against inflation.

The recent international monetary meetings proved to me that the performance of the U.S. economy has become the envy of the world. Everybody speaks about it in terms of our strong rate of real growth and our relatively low rate of inflation, unsatisfactory though that rate may be.

The big question is, can we maintain this success. Can we maintain strong, real growth and keep inflation declining? If we can, every person in this Nation will benefit. If we cannot, every American will suffer.

If we have another flood of inflation caused by overspending, wage increases will again be wiped out by price increases. Price hikes will become the rule rather than the exception. We will find ourselves right back in the same sort of fiscal and economic trouble that we had in the late 1960's.

There is no reason for us to repeat that sorry performance. One way to insure success rather than inflation is to do as the President has done—bang on the table and call for an absolute spending ceiling.

The fact is, we have got to change the whole way of thinking in every part of the Government, not only in the Congress but also in the administration itself. The approach has to become "fight and keep spending under control."

I have in the past weeks spoken to groups of business, labor, and civic leaders from many parts of the country. I have found intense public interest in the idea we are discussing here today. But I have also found disbelief, a feeling we cannot do it; our record speaks against us.

The question most often asked of me at these meetings was this: What programs can you cut out if Congress passes the spending ceiling?

I have worked in many parts of Government. Before joining the Treasury I served at OMB which has more than a passing interest in expenditures; and I told the questioners what I tell you now—"We can hold the line everywhere; what we need is the will to act."

We need a get tough attitude, an awareness that every dollar we spend comes from somebody's taxes. If we do not hold the line on expenditures, we will not be able to hold the line on taxes.

Finally, let me say two things:

First, it is a financial necessity for your Government to have the debt limit increased and extended; and, second and even more important, perhaps, it is in the interest of every American to have the spending ceiling enacted at the same time.

I urge prompt approval of the measure before you.

Thank you, Mr. Chairman.

(Tables attached to Secretary Shultz' prepared statement follow:)

TABLE I.—PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1973—BASED ON ESTIMATED BUDGET OUTLAYS OF $250,000,000,000 AND RECEIPTS OF $225,000,000,000

[In billions]

	Operating cash balance	Public debt subject to limitation	With $3,000,000,000 margin for contingencies
1972 ACTUAL			
June: 30	$10.1	$428.6	
July:			
17	6.2	432.3	
28	9.6	[1] 437.0	
31	9.0	433.7	
August:			
15	2.1	434.8	
30	4.6	[1] 438.2	
31	5.0	436.8	
September: 14	1.9	438.2	
1972 ESTIMATED			
September:			
28	6	436	
29	6	432	
October:			
16	6	440	
30	6	[1] 441	
32	6	437	
November:			
15	6	443	
29	6	[1] 444	
30	6	441	
December:			
15	6	[1] 447	
29	6	445	
1973 ESTIMATED			
January:			
15	6	[1] 451	[1] $454
31	6	444	447
February:			
15	6	451	454
27	6	[1] 542	[1] 455
28	6	449	452
March:			
15	6	457	460
29	6	[1] 458	[1] 461
30	6	454	457
April:			
16	6	[1] 461	[1] 464
30	6	451	454
May:			
15	6	458	461
30	6	[1] 462	[1] 465
31	6	458	461
June:			
15	6	[1] 465	[1] 468
29	6	456	459

[1] Peak level of month.

TABLE II.—BUDGET RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT (−) BY FUND

[In billions]

	Fiscal year—		
	Actual, 1971	Actual, 1972	Current, 1973
Receipts:			
Trust funds	$66.2	$72.9	$82.6
Federal funds	133.8	148.8	155.6
Deduct: Intragovernmental receipts	−11.6	−13.1	−13.2
Total unified budget	188.4	208.6	225.0
Outlays:			
Trust funds	59.4	67.0	75.2
Federal funds	163.7	177.7	188.0
Deduct: Intragovernmental outlays	−11.6	−13.1	−13.2
Total unified budget	211.4	231.6	250.0
Budget surplus (+) or deficit (−):			
Trust funds	+6.8	+5.9	+7.4
Federal funds	−29.9	−28.9	−32.4
Total unified budget	−23.0	−23.0	−25.0

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

84-914—72——4

TABLE III.—UNIFIED BUDGET RECEIPTS, OUTLAYS AND DEFICITS (—)

[In billions of dollars]

	Fiscal year 1972					Fiscal year 1973				
	January 1972 estimate	Change from January 1972 estimate	June estimate	Change from June 1972 estimate	Actual	January 1972 estimate	Change from January 1972 estimate	June estimate	Change from June 1972 estimate	Current estimate
Receipts	197.8	+9.2	207.0	+1.6	208.6	220.8	+2.2	223.0	+2.0	225.0
Outlays	236.6	−3.6	233.0	−1.4	231.6	246.3	+3.8	250.0	----------	250.0
Deficit (—)	−38.8	+12.8	−26.0	+3.0	−23.0	−25.5	−1.6	−27.0	+2.0	−25.0

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

Note: Figures are rounded and may not necessarily add to totals.

TABLE IV.—COMPARISON OF FISCAL YEAR 1972 RECEIPTS AS ESTIMATED IN JANUARY 1972, JUNE 1972, AND ACTUAL (PRELIMINARY) JUNE 1972

[In billions of dollars]

	January 1972 budget	Change from January 1972 budget: Economic and reestimate	Legislation	Other	Total	June 1972 estimate	Change from June estimate: Economic and reestimate	Legislation	Other	Total	Actual fiscal year 1972 (preliminary)
Individual income tax	86.5	+6.4		[1] +1.5	+7.9	94.4	+0.4			+0.4	94.8
Corporation income tax	30.1	+1.5			+1.5	31.6	+.4			+.4	32.0
Employment taxes and contributions	46.4		−0.1		−.1	46.3	−.1			−.1	46.1
Unemployment insurance	4.4	−.1			−.1	4.3	+.1			+.1	4.4
Contributions for other insurance and retirement	3.4	+.1			+.1	3.5	(2)			(2)	3.4
Excise taxes	15.2					15.2	+.3			+.3	15.5
Estate and gift taxes	5.2	−.1			−.1	5.1	+.3			+.3	5.4
Customs duties	3.2					3.2	(2)			(2)	3.3
Miscellaneous receipts	3.5					3.5	+.1			+.1	3.6
Total budget receipts	197.8	+7.8	.1	+1.5	+9.2	207.0	+1.6			+1.6	208.6
Underlying income assumptions, calendar year 1971:											
GNP	[3] 1,047.0					[3] 1,047.0					1,050.0
Personal income	[3] 857.0					[3] 857.0					861.0
Corporate profits before tax	[3] 85.0					[3] 85.5					83.0

[1] Change in capital gains tax estimate.
[2] Less than $50 million.
[3] Figures are consistent with pre-July 1972 Commerce figures.

Note: The figures are rounded and may not necessarily add to totals.

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

TABLE V.—COMPARISON OF FISCAL YEAR 1973 RECEIPTS AS ESTIMATED IN JANUARY 1972, JUNE 1972, AND CURRENTLY

[In billions of dollar.]

	January 1972 budget	Change from January 1972 budget				June 1972 estimate	Change from June estimate				Current estimate
		Economic and reestimate	Legislation	Other	Total		Economic and reestimate	Legislation	Other	Total	
Individual income tax	93.9	+.1		[1] +1.5	+1.6	95.5	+3.5			+3.5	99.0
Corporation income tax	35.7	+.3			+.3	36.0	−.5			−.5	35.5
Employment taxes and contributions	55.1		+.1		+.1	55.2	+.7	−1.6		−.9	54.3
Unemployment insurance	5.0					5.0		+.1		+.1	5.1
Contributions for other insurance and retirement	3.6	+.1			+.1	3.7					3.7
Excise taxes	16.3					16.3		−.1		−.1	16.2
Estate and gift taxes	4.3					4.3					4.3
Customs duties	2.8	+.1			+.1	2.9					2.9
Miscellaneous receipts	4.1					4.1	−.1			−.1	4.0
Total budget receipts	220.8	+.6	+.1	+1.5	+2.2	223.0	+3.6	−1.6		+2.0	225.0
Underlying income assumptions, calendar year 1972:											
GNP	[2] 1,145.0					[2] 1,145.0					1,152.0
Personal income	[2] 924.0					[2] 924.0					936.0
Corporate profits before tax	[2] 99.0					[2] 99.0					97.0

[1] Change in capital gains tax estimate.
[2] Figures are consistent with pre-July 1972 Commerce revision.

Note: The figures are rounded and may not necessarily add to totals.

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

The CHAIRMAN. Shall we hear from Mr. Weinberger now and address ourselves to questions later?

STATEMENT OF HON. CASPAR W. WEINBERGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. WEINBERGER. Mr. Chairman, members of the committee, I fully endorse the statement which Secretary Shultz has just made. I have a statement but will, in the interest of time, paraphrase parts of it and obviously leave out the tables. I ask permission that the statement be printed in full in your record.

The comments this afternoon will focus on the 1973 budget outlook and its implications for the subject covered by the first two titles of the bill that is before you—the public debt limitation and the spending ceiling, respectively.

In calling specific attention to the first two titles of the bill, I do not mean to belittle title III. The joint committee proposal in title III offers the promise of long needed reform of the budget process. I support it wholeheartedly.

When we last appeared before you on the debt limitation in June, we presented the results of the midsession review of the budget. We estimated unified budget deficits of $26 billion in fiscal year 1972 and $27 billion in fiscal year 1973. The combined total of the two deficits was $11 billion less than we had estimated in January.

FISCAL YEAR 1972 RESULTS

The actual unified budget deficit for fiscal year 1972 was $23 billion, or $3 billion less than estimated early in June. About one-half of this change resulted from higher receipts and one-half from lower outlays.

On a full employment basis, there was a deficit of about $3.5 billion.

IN FISCAL YEAR 1973

The estimates announced in the midsession review were necessarily tentative. The Congress had not completed action on any of the regular 1973 appropriation bills. Further, we still did not have the final 1972 budget results. Even now, at this late date, the situation is not clear. The Congress has yet to complete final action on five regular appropriations bills, including the two largest—Defense and Labor-HEW. The Congress is also considering other bills, including H.R. 1, that could have a major impact on 1973 spending. In addition, there are the usual uncertainties about estimates covering a year that still has more than 8 months to go.

1973 SPENDING INCREASES

As you know, the administration has been concerned about additions to the 1973 budget. In fact, legislation, other than appropriation bills, that has been enacted or agreed to in conference to date will add about $9½ billion to the 1973 unified budget deficit contemplated in January.

As one of the tables show, this includes $3.7 billion for the social security benefit increase and tax deferral, $3.3 billion for general revenue sharing primarily because of the fact you alluded to—that the Congress did not enact general revenue sharing in fiscal 1972, and, therefore, the necessity for funding it carried over into this fiscal year—and $1 billion for benefits to coal miners with black lung disease.

In addition to the increases shown in that table, it was necessary for the administration to seek and for the Congress to enact appropriations of about $1.8 billion for relief of areas stricken by tropical storm Agnes: these appropriations will add $1.6 billion to 1973 spending.

Incidentally, Mr. Chairman, members of the committee, the table shows of the appropriation bills enacted thus far, the Congress has added $700 million to the President's appropriation request; but the important thing is the point I mentioned a moment ago and that is the enactment of $9.5 billion additions for deficit bills outside of the appropriation process.

NEED FOR A SPENDING CEILING

On July 26, for the second time this session, the President urged the Congress to enact a rigid ceiling on 1973 spending and he has repeated this request frequently since July, most recently last Saturday. The President not only has stressed the problem of budget increases, he has also strongly emphasized the need to prevent higher taxes and higher prices. His action in vetoing the Labor and Health, Education and Welfare Appropriation bill and the 20 percent increase in railroad retirement benefits demonstrates unmistakably his serious concern.

I urge this committee and the Senate to support the provision contained in title II of the bill before you that sets an effective ceiling of $250 billion on total 1973 spending. The President is prepared to face the harsh and difficult decisions necessary to stay within such a spending ceiling. He should have the support of the Congress in this formidable task and the $250 billion spending ceiling in the form proposed is the only way he can get that support now.

We can hold the total of 1973 outlays to $250 billion. We should do so. We can only do so with the rigid ceiling requested by the President and contained in H.R. 16810.

A number of arguments have been heard recently against this proposal. I would like to comment particularly on one of them.

It is said that by enacting this legislation the Congress would be giving up its constitutional control over Federal spending. To the contrary, this legislation represents the only way left for the Congress to get control of spending, to take a look at the total budget and express its will on what level of spending we should have in this fiscal year.

It is the existing congressional procedure for reviewing the budget, which precludes any comprehensive action on the total and not the ceiling proposal, that constitutes an abdication from responsibility. This legislation and this legislation alone, of the thousands of bills before you, gives the Congress an opportunity to participate in and control fiscal policy.

It is worth emphasizing that this legislation does not involve a question of the Executive's encroaching on congressional prerogatives or vice versa. The question is whether the Congress will permit its own procedures to deprive it of all opportunity to exercise its responsibility to direct the fiscal policy. I believe that the Congress wants to exercise its constitutional power to control total spending as much as its power, which we in the executive branch also respect, to allocate funds within that total. This bill gives it the opportunity to act on the total.

1973 RECEIPTS ESTIMATES

Last June, 1973 unified budget receipts were estimated at $223 billion. Since that time the enactment of the social security amendments, in the last debt limit bill, has reduced our estimate of 1973 employment taxes by $1.6 billion. This decrease is more than offset by increases we now anticipate from the vigorous economic expansion that is underway. As a result, unified budget receipts are now estimated at $225 billion, up $4.2 billion since January and $2 billion since June.

The unified budget totals are reflected in the accompanying table.

In conclusion, Mr. Chairman, members of the committee, the proposed $465 billion statutory debt limit is calculated on the basis of $250 billion in 1973 budget outlays. We need the spending ceiling voted by the House in order to hold to this outlay total. We need the increase in the debt limit to continue to operate the Government on this frugal basis.

Last year the Federal deficit on a unified budget basis was $23 billion. That deficit occurred when there was a clear need for stimulus in the national economy. This year the economy is moving ahead strongly. We dare not add to a deficit that, even on a full employment basis, is larger than last year's If we allow huge full employment deficits to occur year after year, the inevitable result will be a return to income-eating inflation or higher taxes, or both.

There can be no question that the time for fiscal responsibility is now. The time is past for wanting to spend more on individual programs that we can afford in total.

We—the Congress and the executive branch together—must through a firm $250 billion statutory spending ceiling, assure the Nation and the World that we are determined to avoid inflation and preserve fiscal sanity. This is the only way we can see to give such assurance.

Thank you, Mr. Chairman.

(Mr. Weinberger's prepared statement follows:)

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

STATEMENT OF CASPER W. WEINBERGER, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and Members of the Committee, My remarks this afternoon will focus on the 1973 budget outlook and its implications for the subjects covered by the first two titles of the bill that is before you—the public debt limitation and the spending ceiling, respectively. In calling specific attention to the first two titles of the bill, I do not mean to belittle Title III. The Joint Committee proposed in Title III offers the promise of long-needed reform of the budget process. I support it wholeheartedly.

When we last appeared before you on the debt limitation, in June, we presented the results of the mid-session review of the budget. We estimated unified budget deficits of $26 billion in fiscal year 1972 and $27 billion in fiscal year 1973. The combined total of the two deficits was $11 billion less than we had estimated in January.

FISCAL YEAR 1972 RESULTS

The actual unified budget deficit for fiscal year 1972 was $23 billion, or $3 billion less than estimated early in June. About one-half of this change resulted from higher receipts and one-half from lower outlays.

On a full-employment basis there was a deficit of about $3½ billion.

FISCAL YEAR 1973

The estimates announced in the mid-session review were necessarily tentative. The Congress had not completed action on any of the regular 1973 appropriation bills. Further, we still did not have the final 1972 budget results. Even now—at this late date—the situation is not clear. The Congress has yet to complete final action on five regular appropriations bills, including the two largest——Defense and Labor-HEW. The Congress is also considering other bills, including H.R. 1, that could have a major impact on 1973 spending. In addition, there are the usual uncertainties about estimates covering a year that still has more than eight months to go.

1973 SPENDING INCREASES

As you know, the Administration has been concerned about additions to the 1973 budget. In fact, legislation—other than appropriation bills—that has been enacted or agreed to in conference to date add about $9½ billion to the 1973 unified budget deficit contemplated in January. As the table on the next page shows, this includes $3.7 billion for the social security benefit increase and tax deferral, $3.3 billion for general revenue sharing (largely because of the shift of two quarterly payments from fiscal year 1972 to fiscal year 1973), and $1.0 billion for benefits to coal miners with black lung disease.

EFFECT OF CONGRESSIONAL ACTION ON THE 1973 BUDGET DEFICIT AS OF OCT. 9, 1972

[In billions of dollars]

	House	Senate	Enacted
Appropriation bills:			
Agriculture, EPA, etc	+0.2	+0.4	+0.3
HUD, Space, Science	(1)	+.1	+.1
Labor-HEW (vetoed)	(+.6)	(+1.1)	(+.7)
Labor-HEW (new bill)	+.2	+.7	(3)
Defense and military construction	−2.0	−1.6	(3)
Foreign assistance	−.1	−.7	(3)
Other (net changes)	−.2	+.7	+.2
Total, appropriation bills	−1.8	−.3	+.7
Other actions and inactions:			
Social security, medicare, medicaid:			
Debt limit bill:			
Revenue loss	+1.6	+1.6	+1.6
Benefit increase } Further changes	[4] +4.1	[4] +4.2	+2.1
Further changes			(2)
Total, social security, medicare, medicaid	+5.7	+5.8	+3.7
Railroad retirement benefits	+.4	+.4	[5] +.4
Black lung benefits	+1.0	+1.0	+1.0
General revenue sharing	+3.1	+3.1	[6] +3.3
Housing Act of 1972	(7)	+.5	(2)
Urban special revenue sharing	−.5	−.5	−.5
Water Quality Control Act amendments	+.7	+.7	(3)
Rural Development Act	+.3	+.6	+.3
Vocational Rehabilitation Act	+.3	+.4	(3)
Economic Opportunity Act amendments	+.5	+.8	+.2
Federal-aid highways	+.2	+.2	(3)
Veterans' benefits	+.3	+1.1	+.1
School Lunch Act amendments	+.2	+.2	+.2
Other actions affecting the deficit (mandatory if enacted)	+1.7	+.7	+.2
Total effect on budget deficit	+11.9	+14.7	+9.5

[1] Less than $50,000,000. Detail may not add to totals because of rounding.
[2] No action.
[3] Conference.
[4] Effective dates for further changes in Senate version are later than those in House version. Full year cost of Senate version is substantially higher than House version, reflecting more and higher benefit increases.
[5] Enacted over President's veto.
[6] Based on report of conferees.
[7] Reported.

In addition to the increases shown in that table, it was necessary for the ~~Administration~~ to seek and for the Congress to enact appropriations of about $1.8 billion for relief of areas stricken by tropical storm Agnes; these appropriations will add $1.6 billion to 1973 spending.

NEED FOR A SPENDING CEILING

On July 26, for the second time this session, the President urged the Congress to enact a rigid ceiling on 1973 spending, and he has repeated this request frequently since July. The President not only has stressed the problem of budget increases; he has also strongly emphasized the need to prevent higher taxes and higher prices. His action in vetoing the Labor and Health, Education, and Welfare Appropriation Bill and the 20% increase in railroad retirement benefits demonstrates unmistakably his serious concern.

I urge this Committee and the Senate to support the provision contained in Title II of the bill before you that sets an effective ceiling of $250 billion on total 1973 spending. The President is prepared to face the harsh and difficult decisions necessary to stay within such a spending ceiling. He should have the support of the Congress in this formidable task, and the $250 billion spending ceiling in the form proposed is the only way he can get that support now.

We can hold the total of 1973 outlays to $250 billion. We should do so. We can only do so with the rigid ceiling requested by the President and contained in H.R. 16810.

A number of arguments have been heard recently against this proposal. I would like to comment particularly on one of them.

It is said that by enacting this legislation, the Congress would be giving up its constitutional control over federal spending. To the contrary, this legislation represents the only way left for the Congress to get control of spending, to take a look at the total budget and express its will on what level of spending we should have in this fiscal year.

It is the existing congressional procedure for reviewing the budget (which precludes any comprehensive action on the total) and not the ceiling proposal that constitutes an abdication from responsibility. This legislation and this legislation alone, of the thousands of bills before you, gives the Congress an opportunity to participate in and control fiscal policy.

It is worth emphasizing that this legislation does not involve a question of the Executive's encroaching on congressional prerogatives or vice versa. The question is whether the Congress will permit *its own procedures* to deprive it of all opportunity to exercise its responsibility to direct fiscal policy. I believe that the Congress wants to exercise its constitutional power to control *total* spending as much as its power, which we in the Executive Branch also respect, to allocate funds within that total. This bill gives it the opportunity to act on the total.

1973 RECEIPTS ESTIMATES

Last June, 1973 unified budget receipts were estimated at $223 billion. Since that time, the enactment of the sociol security amendments (in the last debt limit bill) has reduced our estimate of 1973 employment taxes by $1.6 billion. This decrease is more than offset by increases we now anticipate from the vigorous economic expansion that is underway. As a result, unified budget receipts are now estimated at $225 billion, up $4.2 billion since January and $2 billion since June.

UNIFIED BUDGET TOTALS

The following table compares the current estimates with the estimates used in June, and includes estimates on a full-employment basis:

UNIFIED BUDGET TOTALS

[In billions]

	1972		1973	
	June estimate	Actual	June estimate	Current estimate
Budget receipts	207.0	208.6	223.0	225.0
Budget outlays	233.0	231.6	250.0	250.0
Deficit	−26.0	−23.0	−27.0	−25.0
Full-employment receipts	225.0	225.0	245.0	243.5
Full-employment outlays	230.0	228.6	248.0	248.0
Full-employment deficit	−5.0	−3.6	−3.0	−4.5

FEDERAL FUNDS TOTALS

Changes in estimates for the Federal funds part of the budget, which are the basis on which changes in the public debt and the debt limit are calculated, do not show quite the same picture:

	1972		1973	
	June estimate	Actual	June estimate	Current estimate
Receipts	147.1	148.8	152.6	155.6
Outlays	179.3	177.7	190.4	188.0
Deficit	−32.2	−28.9	−37.8	−32.4

The reduction in the Federal funds deficits for the current and prior year leads us to believe that a debt limit of $465 billion can suffice through the fiscal year 1973 if a rigid $250 billion spending ceiling is enacted. Of the $9 billion decrease since June in the estimated Federal funds deficits for the two years, roughtly $5 billion is attributable to higher revenues and $4 billion to the decrease in Federal funds outlays.

CONCLUSION

The proposed $465 billion statutory debt limit is calculated on the basis of $250 billion in 1973 budget outlays. We need the spending ceiling voted by the House in order to hold to this outlay total. We need the increase in the debt limit to continue to operate the Government on this frugal basis.

Last year, the Federal deficit on a unified budget basis was $23 billion. That deficit occurred when there was a clear need for stimulus in the national economy. This year the economy is moving ahead strongly. We dare not add to a deficit that, even on a full-employment basis, is larger than last year's. If we allow huge full-employment deficits to occur year after year, the inevitable result will be a return to income-eating inflation, or higher taxes, or both.

There can be no question that the time for fiscal responsibility is now. The time is past for wanting to spend more on individual programs than we can afford in total. We—the Congress and the Executive Branch together—must, through a firm $250 billion statutory spending ceiling, assure the Nation and the world that we are determined to avoid inflation and preserve fiscal sanity.

BUDGET RECEIPTS AND OUTLAYS, BY FUND GROUP

	1972		1973	
	June estimate	Actual	June estimate	estimate
Receipts:				
Federal funds	147.1	148.8	152.6	155.6
Trust funds	73.2	72.9	83.6	82.6
Intragovernmental transactions	−13.3	−13.1	−13.2	−13.2
Total	207.0	208.6	223.0	225.0
Outlays:				
Federal funds	179.3	177.7	190.4	188.0
Trust funds	67.0	67.0	72.8	75.2
Intragovernmental transactions	−13.3	−13.1	−13.2	−13.2
Total	233.0	231.6	250.0	250.0
Surplus or deficit (−):				
Federal funds	−32.2	−28.9	−37.8	−32.4
Trust funds	6.2	5.9	10.8	7.4
Total	−26.0	−23.0	−27.0	−25.0

BUDGET SURPLUS OR DEFICIT (−) BY FUND GROUP

	1972 June estimate	1972 Actual	1973 June estimate	1973 Current estimate
Federal funds:				
Transactions with the public	−19.2	−16.0	−24.8	−19.4
Transactions with trust funds	−13.1	−12.9	−13.0	−13.0
Total	−32.2	−28.9	−37.8	−32.4
Trust funds:				
Transactions with the public	−6.8	−7.0	−2.2	−5.6
Transactions with Federal funds	13.1	12.9	13.0	13.0
Total	6.2	5.9	10.8	7.4
Budget total:				
Federal funds	−32.2	−28.9	−37.8	−32.4
Trust funds	6.2	5.9	10.8	7.4
Total	−26.0	−23.0	−27.0	−25.0

The CHAIRMAN. Senator Nelson?

Senator NELSON. Under the expenditure ceiling, where would the cuts be made and out of what part of the Federal budget? How many billions are there in the budget from which you would be making the cuts and how much is the total amount of the cut and what percentage of that piece of pie are you cutting?

Mr. WEINBERGER. Senator, the total magnitude of the cut necessary to get in the $250 billion level isn't known yet because, as I have said, there are still five major appropriations bills that are not passed and several other items we must call budget threats that are still pending in both Houses. We have appended a table to the statement here and it shows that there is pending legislation with outlay implications of $11.9 billion in the House versions and $14.7 billion in the Senate versions. Until the final action of the Congress is known, we will not know the magnitude of the task before us. At this point we believe that it is somewhere in the $6 billion range; but, as I say, there is a long way to go even though presumably the time is short. We, therefore, would have to wait and see exactly how much had to be cut.

There is another problem and that is that a large part of the $250 billion is made up of estimates of what the total outlays would be. This spending ceiling affects outlays, not authority, as you know, and that means that what we might see in November and December as a total outlay reduction requirement could well change as we got into April, May or June. With the differing estimates that the uncontrollable programs necessarily have, it is, I think, conceivable that we might start a reduction program in November or December if the ceiling were enacted. The particulars of the program might have to be changed one way or another as we got into the spring. But the general magnitude of what we are looking at at this point is approximately in the $6 billion range. That is not a very large percentage of the $256 billion proposed program at this point.

As far as where the cuts will be made, we haven't completed our work and necessarily, since this is a vital part of the budget process and it is the President's budget, these would be decisions he would have to make. We would hope to present for him a number of options covering alternate reductions in various areas.

We believe the greatest flexibility is needed for this so it be not necessary for him to cut too deeply into any specific program.

By and large, I would say a pretty good guide would be the totals that were contained in the 1973 budget as it was submitted to the Congress in January, though we have indicated changes and the chairman has indicated changes that have had to occur in that as a result of such things as the tropical storms over which obviously there is no control. The short, simple answer is, we are not prepared to say at this point. We have not completed our work but we have indicated the range of total we are looking at this time, bearing in mind it might shift very substantially depending on events, particularly events in the Congress in the next few days.

Senator Nelson. Well, the October 7 Business Week has a note on page 40.

Mr. WEINBERGER. Someone just called my attention to that in the car on the way up. I have not seen that, Senator. It was read to me or quoted to me. It is totally inaccurate, unsubstantiated and there is nothing to it. I haven't seen the quotation. I know someone from the magazine interviewed me and I don't know where they are getting their information, but as is the case with most leaked information, it sounds as if it is rather drastically wrong. Certainly no decisions have been made.

Senator NELSON. The article states that "The Office of Management and Budget has put together a 2-inch-thick black book for President Nixon detailing $8 billion in possible spending cuts this fiscal year. Possibilities include $1.2 billion from defense with some base closings. NASA has already gotten some reading from the book, a spending ceiling of $2.9 billion, and Space Shuttle spending cut in half."

Are you saying there is no such book?

Mr. WEINBERGER. Yes, I am saying whoever wrote that article knows a great deal more than I do or less than I do and I have talked to the top staff people on the way out here that is just plain wrong.

Senator NELSON. You state that a $6 billion cut out of $250 billion isn't very large percentagewise. However, it is clear that there are places in that $250 billion where, of course, you can't cut; payments on interest, veterans' benefits, social security and so forth.

Where will you cut? That $6 billion will be coming out of what total? Is there $100 billion that you can't cut from or $150 billion? Six billion dollars from $75 or $80 or $100 billion is a whole lot more percentagewise than $6 billion out of a total budget of $250 billion.

Secretary SHULTZ. I am sure Mr. Weinberger can give a more comprehensive answer that I to this question, but let me comment on one aspect of it that falls within the Treasury work and that is the question of interest on the debt; and that is always classified as uncontrollable—you have to pay out—and there is nothing that can be done about it.

I think to the contrary, that if this ceiling is enacted it will make a difference in the amount of interest that we have to pay on the debt and it will do so for two important reasons:

One is that we will have a smaller amount of debt in total than we otherwise would have, so naturally we won't have to pay as much interest.

A second and perhaps more fundamental reason is that if we can show resolve in control of Federal spending, we will be able to have a fiscal policy that is consistent with continued progress against the too high rate of inflation; and if we can make progress against inflation, that is the biggest single thing that is going to be affecting the interest rates over a long period of time. Since it will affect interest it will affect the amount of interest we pay on the debt.

I think that the impact of exercising this discipline will be felt all through the budget in subtle ways such as this that aren't direct. OMB doesn't tell you you have to cut interest payments by such and such amount, but it will come about as a result of the operation of the economy following a move like this.

Senator NELSON. My reservation about giving the President the authority is that it gives him an opportunity to legislate, so to speak, spend money; cut moneys from programs he doesn't like that the Congress does want; and I would oppose that but is this going to be an across-the-board cut from all programs?

Mr. WEINBERGER. No; I don't think that is indicated at this point, nor necessary, Senator. I think that is perhaps, if I might use the expression, a comparatively crude and nonanalytical way to go about it because you don't then analyze the programs which are working or the programs which would be severely injured by that kind of procedure. So that would not be the most desirable approach.

This spending ceiling would be in effect for approximately 8 months, perhaps a little less, depending on when and if it is enacted; and, as I have mentioned before, it seems to me the antithesis of an abdication of congressional power to the President. It seems to me the assertion of a power which the Congress has long since seemed to have abandoned and that is the right to say that total fiscal policy of the United States requires that this amount and only this amount be spent. It is a way of getting control over what is coming to be an uncontrollable situation and I don't see it as any kind of addition to the President's power. I see it as an assertion of congressional power to start the first step toward what I would hope would be changes in procedures that would enable the total overall fiscal spending and fiscal policy of the United States to be examined on a regular, recurring basis throughout the session.

Senator NELSON. I guess you and I view it differently. I consider it an inexcusable abdication of congressional authority to say any President can cut a certain amount of money and choose whatever programs he desires to cut it from.

Mr. WEINBERGER. Every President since Thomas Jefferson has felt he had that power and many of them have exercised it, but not in a way that left the Congress with a say over the total fiscal policy or the total spending program of the Government. That is why I think this would be exactly the contrary, would have exactly the contrary of the result you mentioned.

Senator NELSON. If the President asserts that power, why is he coming to the Congress and asking us to pass legislation?

Mr. WEINBERGER. Because the Congress is challenging that power in various fields and what we would have is a series of confrontations instead of a clear signal. We think it is very important for the Congress and the President; indeed, as we mentioned, because of the international effect around the world, this country is determined to get hold of inflation and hold down spending and not produce a result which relies on the simple, easy, wrong answer of more inflation and more taxes each year.

Senator NELSON. Well, I don't agree with you on the percentage-cut proposal; I think that you could put flexibility in it, say, that he has to cut across-the-board proportionately from all programs that can be cut and give him $50 million or $100 million of flexibility for small programs here and there that may be seriously injured.

Now, are there any of these appropriations that the administration considers sacrosanct? For example, will there be cuts made from military aid, foreign aid, military budget?

Mr. WEINBERGER. Well, there were cuts before in that area as a result of the reductions ordered by the President in Camp David in August 1971. In connection with the new economic policy, he directed reductions of approximately 10 percent in foreign aid and they were carried out.

Senator NELSON. Well, I am asking about the present plan. Is there any present plan to exempt any of these programs—foreign economic aid, foreign military aid, the military budget?

Mr. WEINBERGER. None of the ones you have mentioned, no, sir.

The CHAIRMAN. Senator, your time has expired. I am going to call on the next Senator and come back to you.

Mr. Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Weinberger, as I understand your reply to Senator Nelson, while you can't tell exactly the amount that the appropriations may go over the $250 billion mark you anticipated, it probably will be in the neighborhood of $6 billion?

Mr. WEINBERGER. As it looks at the present but there are a lot of unfinished matters both in the appropriations proposed as well as in the programmatic bills that could change that at the moment. Those are the best figures we have right at the moment.

Senator BYRD. And if it was changed, it is more likely to be changed upward from the $6 billion?

Mr. WEINBERGER. I would hope not but realistic appraisals of the past would compel me to agree with you; yes, sir.

Senator BYRD. In connection with another question by Senator Nelson, foreign aid was mentioned. As I recollect, the administration's budget request for foreign aid for fiscal 1973 was about $1 billion greater than the actual appropriations for 1972. Is that approximately correct?

Mr. WEINBERGER. Well, we have shown, if I recall, the bill is still in conference. The Senate version reduced, according to the figures I have before me, the request of somewhere in the neighborhood of $700 million and the House figure somewhere in the neighborhood of $100 million and, as I say, the bill is still in conference.

Senator BYRD. I am speaking now of what was appropriated for fiscal 1972. Your request was substantially higher?

Mr. WEINBERGER. It was higher, yes, Senator. I don't have the exact amount before me but it was higher.

Senator BYRD. And you can correct the record if you wish, but my recollection is it was about $1 million more——

Mr. WEINBERGER. I defer to you.

Senator BYRD (continuing). Than the Congress approved last year. Now, I was over in the House yesterday a good bit of the time, listening to the debate and was there for the vote last evening. Chairman Mills made the assertion in his remarks that of the total debt, as of the end of the current fiscal year, 25 percent will have occurred or resulted from deficits of the 4 fiscal years ending in fiscal 1973. I assume those figures are approximately correct?

Mr. WEINBERGER. Yes.

Secretary SHULTZ. I think that is probably right.

Mr. WEINBERGER. Mr. Mills is very accurate.

Senator BYRD. So while you envision the debt will be in round figures $460 to $465 million by next June 30, the cumulated deficits will be around $104 billion during that 4-year period?

Secretary SHULTZ. Something of that kind; that is right.

Senator BYRD. The expenditures for fiscal 1972 were $232 billion; is that correct, Mr. Secretary?

Secretary SHULTZ. Yes, sir.

Senator BYRD. And assuming we stay within the $250 billion ceiling, which is what the administration has recommended: $250 billion—is that correct?

Secretary SHULTZ. Yes, sir.

Senator BYRD. Then, there will still be an increase of $18 billion?

Secretary SHULTZ. That is correct.

Senator BYRD. Which, as you brought out in your testimony before the House Ways and Means Committee, is a very substantial increase even if we don't go beyond that $250 billion, $18 billion in itself is a very substantial increase?

Secretary SHULTZ. We don't think this is a starvation diet an increase of $18 billion in a quarter trillion dollars altogether.

Senator BYRD. So you are not seeking to reduce expenditures below 1972; what you are seeking to do is to hold the increase to $18 billion above 1972?

Mr. WEINBERGER. Exactly right.

Senator BYRD. Thank you, gentlemen.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Mr. Secretary, why is this action recommended?

Secretary SHULTZ. Why?

Senator HANSEN. Why is the President supporting the action to impose a spending limit?

Secretary SHULTZ. In order to keep the fiscal policy of the Federal Government in a responsible posture so that it helps the expansion of the economy but does not wind up reigniting the fires of inflation that we are gradually dampening out.

Senator HANSEN. Is it the position of the administration that Congress has been derelict in this regard in not imposing self-restraints?

Secretary SHULTZ. Well, we think there is a process here in which the Congress acts on all of the individual pieces one by one without an opportunity to add up what is going on. It isn't so much that there is some fault in the individual Senator or Congressman, but that the process itself doesn't lend itself to a look at the overall impact of the individual actions taken. When you get to the end of the road, where we are now, and if you add up all of the individual pieces, you come to more than is desirable.

Senator HANSEN. As former Governor of Wyoming, I operated in a State that has on its statute books a very clear prohibition against deficit spending. It has been contended that the situation with respect to the President is not unlike that of a Governor. In Wyoming the Governor usually gets all of the appropriation bills at one time and it is an easy matter to make the comparison between the outlay and what is anticipated, on the other hand by way of tax revenues.

Your point is that the manner in which Congress appropriates and deals with each of these separate proposals is not necessarily comparable to that in Wyoming? Did I infer this from what you said?

Secretary SHULTZ. Yes; that is correct.

Senator HANSEN. Congress could if it were of a mind and was willing to set up a different procedure, impose a restraint so that it would not need to give this authority to the Executive if it were of a mind to do it. Would that be your opinion?

Secretary SHULTZ. Well, I think the proposal for a commission to work on this that is in the House bill is by way of an effort to come at this question in a different manner than has been done in the past few years and this year. As of now, as Mr. Weinberger has brought out, the only way in which Congress can exercise an overall fiscal discipline in addition to its statements of intentions on individual matters, is to pass this bill.

Senator HANSEN. What you are saying is that this year for these 8 months still remaining in the fiscal year 1973 budget, there is not the mechanism available to Congress to impose these necessary cuts in the budget; is that right?

Secretary SHULTZ. This is the only way that he can see that it can be done.

Senator HANSEN. Do you share Mr. Weinberger's opinion that instead of this being a relinquishment of authority from the legislative to the executive branch, it reflects rather a determination on the part of the Congress to impose fiscal restraint on the budgetmaking process and appropriation process as they are now practiced by the Congress?

Secretary SHULTZ. Yes, sir; I agree with Mr. Weinberger's analysis there. I think it is interesting to note that the history of the spending ceiling—and this committee had a fair amount to do with it—but the history of it is that it was something that Congress wished to pass. I believe on the whole it was resisted by the executive branch and finally was passed in the late 1960's with a lot of misgivings on the part of the executive branch. But its history is, in other words, it was an effort by the Congress essentially to solve just this problem we are talking about and impose a discipline, and we are now coming to you and saying hit us again, we need it.

Senator HANSEN. As a member of the legislative branch, I found it extremely difficult to know where to draw the line and in what amounts to try to draw the line as we are faced with proposals to establish commissions, to appropriate funds.

You mentioned earlier the black lung bill. I think it was sickle cell anemia, cancer research, any number—we could go through the whole list of bills that have been passed—and each one of these proposals is certainly not without merit. They have great appeal to the public and yet overall it has been difficult for me to try to say where and how much we should cut so that I share the dilemma that I suspect is experienced by many in feeling that it is an awfully difficult job as a legislator to get a handle on appropriations and to do what I would assume most of us would hope to do, and that is, to exercise the necessary restraint so as to not add fuel to the fires of inflation; and yet we find ourselves in the dilemma that now confronts us.

Does this seem to you to be the most logical way of coming to grips for this fiscal year with this problem?

Secretary SHULTZ. Yes, sir; I don't see any other way, really.

Senator HANSEN. I have no further questions.

Senator BENNETT. The chairman has asked me to announce that the next opportunity would be for Senator Harris and he isn't here; then the next one would be for Senator Fannin and then for Senator Ribicoff. So, acting in his name, I will ask Senator Fannin if he has any questions.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Secretary, when we are talking about a $250 billion limitation, isn't this of vital importance not only the domestic economy but also the ability of the dollar in the world market?

Secretary SHULTZ. Yes, sir; no doubt about it.

Senator FANNIN. I am thinking about what the impact would be here. We have special drawing rates, as I understand it, that are tied to gold, but that the currencies of the world are tied to the dollar.

The other countries of the world are vitally interested not necessarily in adopting this $250 billion limitation but having limitations that will result in controlling inflation and reducing the value of the dollar; isn't that true?

Secretary SHULTZ. Yes, sir; I think everyone around the world is excited to see the U.S. economy expanding strongly and the rate of inflation receding in hopes that that can continue.

I think we have to remember that when all is said and done, all of the discussions about the esoteric aspect of international monetary problems have been dealt with, nevertheless the fundamental value of the dollar is what you can buy with it in the United States—in this big market. So our ability to exercise discipline here and to control inflation is the fundamental factor.

Senator FANNIN. That has been in evidence. With the reduction of the tremendous pressure that has been placed on the United States, we no longer have a crisis coming along every 60 or 90 days. There seems to be so much greater stability and better feeling in the world market; and I think this is remarkable in the way that it has been handled.

I certainly commend you for it.

Mr. Director, I was wondering if you would want to comment? I was very impressed with the article in one of our papers in the last couple of days: "Roles Reversed on Spending Restraint."

(The article referred to follows:)

[From the Washington Post]

A REPLY TO SENATOR HUMPHREY: ROLES REVERSED ON SPENDING RESTRAINT

(By Caspar W. Weinberger Director of the Office of Management and Budget at the White House)

There once was a time, as Sen. Humphrey indicated in a recent article in The Washington Post, when the Congress was a potent force for spending restraint, and the President was the big spender. Certainly, this was true during the 1960's. But that era ended on Jan. 20, 1969. Now the roles are reversed.

So when Sen. Humphrey persists in measuring Congressional action in terms of Congressional changes to the President's appropriation requests, *he overlooks the fact that actions on bills other than appropriations often force spending increases which appropriations acts* (and the President's proposals for appropriations) then have to accommodate. Following is a table which shows our estimate of the effect of Congressional actions on spending in the current fiscal year
mate of the effect of Congressional actions on spending in the current fiscal year:

EFFECT OF CONGRESSIONAL ACTION ON THE 1973 BUDGET DEFICIT AS OF OCT. 2, 1972

[In billions of dollars]

	House	Senate	Enacted
Appropriation bills:			
Agriculture, EPA, etc.	+0.2	+0.4	+0.3
HUD, Space, Science	(1)	+.1	+.1
Labor-HEW (Vetoed)	(+.6)	(+1.1)	(+.7)
Labor-HEW (new bill)	+.2	(2)	(3)
Defense & military construction	−2.0	−1.6	(3)
Foreign assistance	−.1	+.7	(4)
Other (net changes)	−.2	−.7	+.2
Total, appropriation bills	−1.9	−1.0	+.7
Other Actions and Inactions:			
Social security program:			
Debt limit bill:			
Revenue loss	+1.6	+1.6	+1.6
Benefit increase	+4.1	+2.1	+2.1
Further liberalizations		(2)	(3)
Total, social security	+5.7	+3.7	+3.7
Railroad retirement benefit	+.4	+.4	5 +.4
Black lung benefits	+1.0	+1.0	+1.0
General revenue sharing	+3.1	+3.1	6 +3.3
Housing Act of 1972	(2)	+.5	(3)
Urban special revenue sharing	−.5	−.5	−.5
Water Quality Control Act Amendments	+.7	+.7	(4)
Rural Development Act	+.3	+.6	+.3
Vocational Rehabilitation Act	+.3	+.4	(4)
Economic Opportunity Act Amendments	+.5	+.8	5 +.2
Federal-aid highways	(2)	+.2	(3)
Veterans benefits	+.3	+1.1	+.1
School Lunch Act Amendments	+.2	+.2	+.2
Other actions affecting the deficit (mandatory if enacted)	+1.7	+.7	+.2
Total effect on budget deficit	+11.7	+11.9	+9.5

[1] Less than $50,000,000. Detail may not add to total because of rounding.
[2] Reported.
[3] No action.
[4] Conference.
[5] Enrolled.
[6] Based on report of conferees.

The Congress may reduce the President's appropriation requests (although at the moment it is $700 million above them). But other acts during this session, nearly all of them mandatory, have caused significant increases. In fact, there have been bills in each house adding nearly $12 billion to the deficit in the President's budget, and $9.5 billion of these have been enacted this session. Many of these legislative actions require the President to request additional appropriations. For example, the bill providing additional benefits for coal miners with black lung disease required the President to send up an appropriation request for nearly $1 billion.

The Congress also has raised social security benefits by more than $2 billion this year over the social security budget proposals of the President. That increase never appears in Sen. Humphrey's figures because it does not affect any appropriation bill or serve his argument. Nevertheless, the increase must be included in the President's budget in all future years. Next year, the 1972 social security increase will add $6 billion to 1974 spending over the level contemplated by the President.

It is simply not true that Congress has been cutting spending. When all actions are taken into account, the Congress has not, as Sen. Humphrey suggested, cut spending by $16 billion since this administration took office; in fact, it has not cut spending at all. The increases in spending—not appropriations, and not authority to spend, but the spending increases forced in the past four years—total more than $13 billion. Coincidentally—or is it deliberately—most of this increase is taking place in the current fiscal year. As the table shows, actions of this Congress have already added more than $9 billion to the 1973 deficit estimated by the President last January. Even taking account of the prospective decrease in the appropriations for the military functions of the Department of Defense, the final result threatens to be higher. This is because Congress has not completed action on civilian bills either. For example, it is considering further social security, Medicare and adult assistance liberalizations for which the Senate Finance Committee proposals would add almost $9 billion annually.

The proposed spending ceiling is absolutely essential to the nation's economic well-being. We must not repeat the fiscal mistakes of 1965 to 1968. This Congress has proved beyond any reasonable doubt that it has been incapable of exercising effective control over total spending. It takes a year (or longer in the past two fiscal years) to complete action on approriation bills, and requires the President to transmit a budget for the coming year without knowing the action of Congress for the current year. The Congress pays excessive attention to details and virtually no attention to overall totals or to the effect of individual separate acts of spending on the budget totals. This is the very antithesis of fiscal responsibility.

In his 1973 budget message, the President observed that: "The American people deserve, and our government requires, a more orderly and more rational budget process." A year earlier, in his 1972 budget message, the President had invited the cooperation of the Congress in making the budget an efficient and effective instrument for coordinated management of federal programs and finances. Congress has not yet responded, and the weaknesses of the present process have compounded. For this reason, the Ullman amendment, now contained in the spending ceiling proposal, is doubly welcome. It offers the hope of a vastly better system.

Unless Congress now—with the fiscal year almost half over—approves the proposed spending ceiling, we face the very real prospect of higher taxes in the future.

Senator FANNIN. In replying to one of our gifted colleagues you stated he overlooks the fact that sanctions on bills other than appropriations often force spending increases which appropriation acts and the President's proposals then have to accommodate. You also refer in your article to the increases of spending, not appropriations and not authority to spend, but the spending increases forced in the past 4 years total more than $13 billion.

Would you like to just comment on that?

Mr. WEINBERGER. Yes, sir, Senator, I appreciate the opportunity.

There is a sort of belief, fallacy, as we call it, that the whole thing has to be viewed by examining the action on 14 appropriation bills; and, as we said, Senator Long and I have a little different idea as to precisely what the total is at the moment. It looks on the basis of those bills that have been acted on, we are $700 million over the request; at least that would be that amount added to the deficit as a result of congressional action. But the Congress is not through and there will be traditionally, historically, comparatively small increases, comparatively small decreases when action on the 14 appropriations bills is finished. The simple fact of the problem is that you have bills such as the 20-percent increase in social security, you have a black lung bill, you have various changes in programs that are contemplated by some of the versions of H.R. 1, that require enormous additional in the spending over and above that covered by the appropriations bills. So it is not enough to look at the appropriations bills. So it is not enough to look at the appropriations bills or say that this process is working well because normally we stay within or close to the President's budget.

The problem is what is required by the mandatory programs in many cases that are adopted by the Congress and thereby force their way into the appropriation process in succeeding years and also the appropriation process necessarily covers 1 fiscal year. I think all too rarely do we look at the outyear effect of some of the appropriations, some of the special new bills and programs that are adopted by the Congress, and we are to a very considerable extent prisoners of programs that were adopted a long time ago that keep rolling on whether we touch them or not.

Senator FANNIN. Well, thank you, Mr. Weinberger. I think it is extremely valuable that this be brought forcefully to the attention of Congress. I think many Members of Congress realize—some do not—but more importantly it be brought to the attention of the general public. I thank you.

No further questions.

Senator RIBICOFF. Mr. Secretary, I have been trying to get some thoughts clear in my mind after listening to the chairman and the questioning of Senator Nelson and Senator Byrd.

Could you sort of inform me as to the total amount of the budget deficits occurring in the last 4 years?

Secretary SHULTZ. Let me get the information. These would be the deficits in the unified budget?

Senator RIBICOFF. Unified and Federal funds basis, both.

Secretary SHULTZ. Well, let's start with 1969. We had a surplus in the unified budget of $3.2 billion.

Senator RIBICOFF. Let's take the Nixon years.

Secretary SHULTZ. Well, that was the first Nixon year. In 1970, we had a deficit of $2.8 billion; in 1971, a deficit of $23 billion; in 1972, a deficit of $23 billion. In 1973, we project a deficit of $25 billion, depending upon what happens here. But our projection of revenues is $225 billion, and if we are able to hold expenditures at $250 billion, we will have a $25 billion deficit in fiscal 1973. So that adds up to a net deficit of $70.7 billion for the fiscal years 1969 through 1973, in the unified budget.

Senator Byrd may have had the Federal fund deficit in mind; I am not certain.

Senator BYRD. I had the Federal fund deficit, but I base your public debt limitation on the Federal fund deficit.

Senator RIBICOFF. On the Federal fund deficit, it would be somewhere, I assume, over $100 million as against the unified basis of $70 billion?

Senator BYRD. At least $104 billion.

Senator RIBICOFF. At least $104 billion. So during the Nixon years you would have a $104 billion deficit on the Federal funds basis.

Now, another thing puzzles me. I had been under the impression that over the last 4 years Congress had actually appropriated less money than the President had actually asked for. Could you enlighten me on the basis of the last 4 years what the President requested and what Congress had actually appropriated?

Mr. WEINBERGER. Senator, the point was the same one I was talking to in responding to Senator Fannin's question.

In the appropriation process, the 14 appropriation bills may typically result in a little over or a little under the President's request. The problem comes with the additional programs that are adopted, and the statement that I submitted to the committee goes into that in more detail. It shows that, for example, the enacted appropriation bills are now about $700 million over, adding to the deficit that the President projected when he submitted the budget in January. Those are appropriation bills.

When you look at the other actions and in actions of the Congress, you will see that there are thus far enacted another $9.5 billion which adds to that deficit you have been discussing. And those are outside the appropriation process. They involve such bills, for example, as the railroad retirement benefits in which the President's veto was overridden; black lung benefits of $1 billion; failure to enact revenue sharing in fiscal 1972; the revenue loss occasioned by the social security increase; the benefit increase occasioned by the same increase; and a whole raft of other bills that pose budget threats or require the expenditure of funds.

Senator RIBICOFF. But the President did go along with the social security increase.

Mr. WEINBERGER. He signed that bill because, for one thing, Senator, as you know, it was attached to a debt ceiling bill that is considered by a great many people, particularly the Secretary of the Treasury, to be extremely vital.

Senator RIBICOFF. That is right, but he wasn't against it, was he? Is he against the increases of the social security benefits?

Mr. WEINBERGER. No, he made the point, I think, quite clearly in his signing statement, if I recall, the bill was necessary because it amended the debt ceiling. At that time, he made the point that he felt the most serious problem in connection with it was not the social security benefits, but, rather, the problem was that they were not financed and risked some of the actuarial soundness of the fund.

Senator RIBICOFF. Just the same, the President doesn't mind taking credit for the increases in social security payments to some 19 million people; does he?

Secretary SHULTZ. I think it is fair to say, Senator, that these cautions were raised, as a matter of fact, in this committee. I remember sitting here with Secretary Connally when I was Director of OMB when this first came up. I believe the President was in China and we presumed to speak for him about it.

Senator RIBICOFF. I am somewhat puzzled as to what has been the actual rate of inflation during the last 4 years.

Secretary SHULTZ. Well, we started—what we inherited was a rate of inflation slightly in excess of 6 percent. I believe in the second quarter of 1969 it was 6.4 percent at an annual rate as measured by the consumer's price index, and since then it has come down significantly.

Senator RIBICOFF. I know it has come down. But what has been the total inflationary increase in the last 4 years?

Secretary SHULTZ. Well, we can add them up: 1970 instead of the 6, over 6 percent that we inherited, it came down to 5.5.

Senator RIBICOFF. 5.5 in 1970. What was it in 1971?

Secretary SHULTZ. 1971, I have to break up the years out of memory. In January through July, the period prior to the wage-price freeze it had come down to 3.9 percent at an annual rate.

Senator RIBICOFF. 3.9?

Secretary SHULTZ. And in the balance of the time between the imposition of the freeze and the present, it has gone up, I think, on the order of 2.9 percent. That brings us up to the present.

Senator RIBICOFF. So, based on your figures, then, you have had a 12-percent inflationary rise in the last 3 years?

Secretary SHULTZ. I am not sure you can do it quite that way but at any rate we certainly have had a higher than desirable rate of inflation. We started out with a peak rate and with an accelerting pace—that is, inflation was increasing each year coming up to 1969. Beginning in 1965 it had been getting progressively worse. In the years since the President has been in office it has gotten progressively better, but we are not here to say that we think that the inflation problem is solved by any means. We think it is very much of a problem and that is why we are fighting so hard to get this spending ceiling. We think the reason why we inherited this big inflation was the out-of-control Federal budget that had been in effect in the late 1960's and which the Congress and President Johnson basically turned around with the surcharge and with the submission of the 1969 budget—the budget which the President inherited and worked on further.

Senator RIBICOFF. What puzzles me, is that if you say this was due to President Johnson, then why does the total deficit of the 4 Nixon years exceed all of the deficits of the Eisenhower, Johnson, and Kennedy administrations put together?

Secretary SHULTZ. The effort by the President has been to use the budget as a responsible instrument of fiscal policy and I think it has been a good thing and a courageous thing to put forward a budget that was not in balance in the interest of stimulating the economy, but to do it in a manner that is responsible over the long term.

Now, the characteristics of those budget deficits in the late 1960's were that they were way out of balance at full employment, whereas the budgets of President Nixon so far have been more or less in balance at full employment and we are struggling to maintain that in fiscal year 1973.

Senator RIBICOFF. I am still puzzled. If it is courageous for the President to build in a deficit in his budget, why is it less than courageous for Congress to build in a deficit in its budget? Why is it right for the President and wrong for Congress?

Secretary SHULTZ. It is right, I believe, for the President or Congress to use the budget to stimulate the economy in a responsible manner, and wrong for either to do it in what I will call an irresponsible manner or a manner that is likely to bring forward either higher prices or higher taxes or both.

Senator RIBICOFF. Thank you.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Director, I am pleased that you are seeking a $250-billion limitation on spending and I am pleased also that you have both said that we can hold the line everywhere.

I would like to ask, how much higher is the $250-spending limitation than the actual spending of a year ago, fiscal year 1972?

Secretary SHULTZ. Approximately $18 billion.

Senator JORDAN. $18 billion. Roughly, that is a 7-percent increase over 1972?

Secretary SHULTZ. Yes, sir.

Senator JORDAN. Nowadays, the economic controls call for certain restraints on wages and prices, and what are they?

Secretary SHULTZ Well, the general guideline for the program as a whole is to get the rate of inflation in the neighborhood of 2 to 3 percent.

Senator JORDAN. What do you calculate the rate of inflation to be this year?

Secretary SHULTZ. Since the imposition of the controls as measured by the consumer's price index, about 2.9 percent.

Senator JORDAN. About 2.9. Then if the difference between spending in 1973 and 1972 is 7 percent, and you calculate that the rate of inflation was 2.9, obviously the 1973 budget after the limitation will be an expansionary budget to the extent of about 4 percent?

Secretary SHULTZ. Well, revenues are also expanding. Federal revenues are also expanding and so we see that if we have the spending ceiling the actual budget deficit would be approximately the same—that is, in 1972 it was 23——

Senator JORDAN. I understand you to say the expected deficit on the unified budget basis was slightly higher than fiscal year 1972?

Secretary SHULTZ. I was about to say $23 billion as compared with $25 billion.

Senator JORDAN. I was concerned, Mr. Secretary, about one statement you made: The only way Congress can exercise an overall discipline is to pass this bill to surrender to the President the legislative prerogative of managing the pursestrings. I think that is what it does. Why do you think, either of you, that the executive branch has a better interpretation of spending priorities of the country than the Congress?

Secretary SHULTZ. We don't necessarily think that at all. What we see is a situation where the sum of all of the individual actions that have been taken add up to a larger number by a considerable amount than we think is healthy for the economy. We are urging the Congress to look at this situation and we hope to agree.

Senator JORDAN. I disagree with you.

Secretary SHULTZ. It ought to be kept under control at the $250-billion level.

Senator JORDAN. I agree on the $250-billion level. Where I disagree with you is who shall be vested with that power to bring this budget down to the $250 billion. You apparently have no confidence in the Congress to reduce it on a proportion basis. My amendment, which calls for such a reduction, was rejected and I was sorry to hear that because I thought I was getting the executive branch off the hook. I thought we were assuming a responsibility of the Congress that we rightfully should assume and I am not ready to surrender to the executive branch the appropriative power of the Congress. I thought my amendment would take care of that, but you apparently think not.

Mr. Weinberger, we have discussed this before and I don't agree with your reasoning when you say that by enacting this legislation as now drafted, the Congress would not be giving up its constitutional control over Federal spending. I think that is precisely what we would be doing and I shall propose my amendment to the committee to require that all reducible items be cut on a proportionate basis.

Mr. WEINBERGER. We think that exactly the contrary result obtains, that the Congress does not have any control over the total Federal spending, that it is some weeks after you adjourn and after the close of the fiscal year before you have the slightest idea—and this is not criticism—as to what the total spending has been. Action is taken on individual appropriation bills and individual program bills of the kind that I mentioned and sometime long after adjournment or recess the total is announced. We think that the only way in which Congress can assert its prerogatives and say the total shall be no more than a certain amount is through a bill such as this kind.

Senator JORDAN. Mr. Weinberger, nearly half of the members of this committee have served at one time or another as Governors of their States and this is what takes place in every instance in State government: The legislature adjourns and goes home. So here the Governor is faced with the responsibility of trying to bring the expenditures which the legislature has made in line with revenues which were anticipated perhaps a year in advance.

Mr. WEINBERGER. Well, Senator, I served as finance director for a Governor of a large State for 2 years and I know that in California we had the process under which, if I recall, Senator Hansen observed, it was unconstitutional to spend more than the revenues you took in.

Senator JORDAN. That is right.

Mr. WEINBERGER. The duty to accomplish that constitutional requirement was not left to the Governor. The legislature acted on a single budget bill; they were not authorized under their own procedures to consider any appropriation bill except the budget until they had completed work on it, and they frequently ran, not frequently but maybe two or three times, ran a few days over the beginning of the new fiscal year trying to insure that they were within the revenues of the State. This process has taken place for many years in California. It is a jointly shared responsibility but the legislature does have and has to have, as I would think the Congress would want, the ultimate authority to say thus far and no farther, bearing in mind the enormously increased importance of economic policy at the Federal level over and above what an individual State's fiscal policies' effect has on the economy.

Senator JORDAN. Well, I don't agree with you about the procedure. I commend you on your objectives and I am in full accord with that but I am not ready to abdicate that responsibility, the appropriative power of the Congress. I think the record is clear whatever erosions has taken place from the legislative branch from the Congress to the executive has been by our own abdication. If we have surrendered control of the pursestrings, it was by our own action or inaction. It hasn't been because we had a power hungry executive who wanted to usurp the legislative power of the Congress. That hasn't been true; but it has been our own unwillingness to bite the bullet and face up to it.

Mr. WEINBERGER. For whatever reason, Senator, and I don't think it is important that we try to assign blame—for whatever reason the fact is that we have a series of procedures and spending programs that if left alone will carry us far above the amount that seems to us to be right out of the margin of safety from further inflation or higher taxation, neither of which are in any sense desirable results. And, in order to get hold of that situation, I don't think it is particularly effective to say that this constitutes a loss of congressional power when we would say on the contrary, the loss of constitutional power to whatever source and for whatever reason was given up long ago. The difficulty now is that there is no one, there is a vacuum and there are programs which rage on uncontrollable. Therefore, there is a necessity for the Congress and the President to act together to prevent runaway spending that would certainly lead to more inflation; and certainly we would be very hopeful that this new joint committee would be able to recommend procedures that you and others would want to follow that would prevent that.

This instrument that we are suggesting here would be in effect for a little less than 8 months and it would be effective because it simply would have to be by its very terms.

Senator JORDAN. There was a time when increases in the national debt were considered a remedy of last resort to be used only in time of war or depression. Times have changed and now deficit spending is taken for granted as apparently a remedy of the first resort; and I don't subscribe to that. I think that the Congress has to face up to its responsibilities and I believe my amendment would accomplish that.

I have used my time. I will yield the floor.

The CHAIRMAN. Senator Fulbright?

Senator Miller?

Senator Hartke?

Senator HARTKE. Do you think that public debt limit has held down public debt?

Secretary SHULTZ. No, sir.

Senator HARTKE. I don't either. It never will and you know that. You know you are going to increase the public debt limit, don't you?

Secretary SHULTZ. We are asking for an increase.

Senator HARTKE. Mr. Shultz, you know we are going to increase it, don't you?

Secretary SHULTZ. I certainly hope you will.

Senator HARTKE. We are not going to go bankrupt and refuse to pay the obligations of the United States. In my opinion, the public debt limit does not hold down public spending. A limit will not hold down spending.

Secretary SHULTZ. There I guess I would part company with you.

Senator HARTKE. I don't expect you to say anything else. I understand your position and I respect your position. I know what you are supposed to say and you probably believe it. I am not arguing with you; I am just giving you the opposite opinion. You have planned—it is a remarkable administration in a way—a recession so you could then say that you are starting to bring us back out of it. What you said here today was that in the administration of President Johnson you had a Federal deficit larger than the full employment budget would really permit. Now, you are saying the fact that because you have an increase in the rate of unemployment, to which you point with a great deal of pride you are doing a better job of managing the fiscal affairs of this nation.

Secretary SHULTZ. I haven't noticed anybody pointing to unemployment with pride. We are trying to get unemployment down and that is the reason why the President was willing to take what he described as the bitter medicine of a substantial deficit in the Federal budget—to try to do something about the unemployment.

Senator HARTKE. The President took the bitter medicine of reversing the entire economic policy he had been following up until August of last year. Up until August of last year, the people had the bitter medicine of experiencing a planned recession, an increase in unemployment, an increase in interest rates, an increase in welfare payments to the highest level in history, an increase in the national debt, and as far as the country is concerned a decrease in tax revenues.

All I can tell you, and I say this to you quite simply, you have a full employment budget but you don't have a full employment planned economy and I intend to vote against the spending limit. I am going to vote against increasing the debt limit. I think they are both a farce and I don't intend to have anything to do with them and I have no further questions.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman.

I have been in and out a little bit and I haven't heard all of the discussion, but I am interested that the $6 billion which you envision as being the range in which you would have to deal, is a little less than 2.5 percent of the $2.5 billion, so we are not talking about a wide range percentagewise.

One of the reasons given—one of the fears expressed about giving this power to the President is that we are in effect giving him an item veto and that he, therefore, will be expected to eliminate complete programs, which is the meaning of an item veto. If you use an item veto you have to eliminate programs. That is the nature of the word.

As you work on your plans, is it your theory that you are going to operate on the item veto base and begin to slash programs out of the Federal Patterns?

Mr. WEINBERGER. No, sir; there is no authority to destroy or remove authorization and there is no intention to do it in this kind of process. This is not an item veto. As you correctly pointed out, an item veto takes a program off the statute books and this certainly does not do that. It brings out, as the Senators have pointed out, it authorizes an $18 billion increase in spending over the fiscal year just closed, and that certainly does not require nor contemplate the elimination of programs or zeroing appropriations or anything of the kind. The item veto is something that is very familiar to anyone who has worked in State government and this is certainly not that.

Senator BENNETT. Senator Jordan has the feeling, and I can understand why he feels as he does, that perhaps the best way to assert or maintain the power of Congress is to require, when you cut one program, you cut them all by the same amount; and I think I recognize the difficulties you would face.

I can see an office with maybe an administrator and one stenographer as part of a small program and if you were required to make a slash you might find that you would get into trouble.

Have you considered the possible range of reductions which you might suggest as a safeguard? In other words, if we were to write the legislation and say the President's power stops at a reduction of 20 percent or 25 percent of any given program, would this cause problems for you?

Mr. WEINBERGER. Well, I think it would, sir. There are in excess of 1,450 programs, the last time I looked, and they are very widely differed, both with their characteristics, their requirements, the way and rate at which the money is spent and a great many other factors.

Let me just mention one without the slightest reason for anyone to suppose that we are looking at this one for any reductions or not, but let me mention one to illustrate the difference in characteristics. If all of the urban renewal programs were stopped yesterday, it would be 22 months before there would be any reduction in outlays whatsoever because of the commitments that have been made many years in the past, carrying us forward many years into the future.

This spending ceiling would probably apply to outlays and we do have a very serious set of problems if the minute you find a program or decide upon a cut that can properly be sustained in that program, and that turns out to be 7.9 percent, and that means you then have to apply 7.9 percent across 1,400 programs——

Senator BENNETT. That is not my point. I am very sorry.

Mr. WEINBERGER. That is what we believe is called on in this proposal you were discussing.

Senator BENNETT. I am sorry. I will start over.

Suppose we say to you, you may select the programs in which you think reductions are necessary but in no case in any single program may you cut more than x percent. You can cut one program; you can cut 1,300 programs but in no case can you take a single program and cut more than x percent.

Mr. WEINBERGER. Again, Senator, the complexity and variety, numbers of the Federal programs are such that it would be impossible for me to answer you right now and it would involve a whole subsidiary list of considerations and calculations that I don't think would be particularly productive because the problem would be that we would be, perhaps, stopping artificially in some areas and requiring our attentions to be transferred elsewhere, whereas, without a limitation of that kind necessary reductions could be made in some without requiring other programs to be touched. In a reduction exercise of this kind, as the House agreed, the desirable thing, if you are going to resort to it to hold spending at a particular level, necessarily has to be the flexibility of the administration of it. This is why, I think a limitation of that kind would be, frankly, very cumbersome and not really particularly productive because it would in many cases require you to move into other program areas that might not be necessary otherwise.

Senator BENNETT. Well, this communication is a little difficult for me because I don't see why a decision that you will not cut more than 20 percent in program X or more than 20 percent in any program forces you to look at costs in other programs.

Mr. WEINBERGER. Well, because, Senator, you may not get enough of a reduction of that kind in the programs that would be most susceptible to or most possible in which to make reductions, and if you didn't get enough to get into 250 because we don't know how much we will have to go. As you know, we have indicated the magnitude we are loooking at now and if additional cuts are necessary, a straitjacket of that kind or a limitation of that kind might well require you to do so much with this program and that wouldn't be enough and so you would have to look around to find others.

Obviously, if the percentage were set high enough, the difficulty of that problem would be minimized. I don't know at this point without a lot of computer runs and other additional information at what point would a percentage figure be large enough to give the necessary flexibility. Again, because we don't know the magnitude of the amount needed, and it will vary as the estimates change during the balance of the fiscal year, it would be very difficult to give a specific percentage figure that would be safe to set as the limit, but, obviously, in that kind of an approach the higher the percentage permitted the less sum of the problems of administration that I have outlined would arise.

Senator BENNETT. Would it be an easier program to administer than the program suggested by the Senator from Idaho?

Mr. WEINBERGER. I think somewhat, yes, sir.

Senator BENNETT. Depending again on from the point at which the limit is set?

Mr. WEINBERGER. Yes. Again, I don't think—I know the goal that is sought by both, and that is to retain additional congressional control. We don't object to the goal. We don't think either of these proposals would achieve any progress toward that goal. At the same time, it would add substantially and we think unnecessarily in view of the fact that it won't move you any closer to the goal, to the administrative problems involved in this task.

Senator BENNETT. That is all the questions I have, Mr. Chairman.

The CHAIRMAN. As I understand your answer to Senator Bennett's question, you are not asking for what would amount to an item veto?

Mr. WEINBERGER. This is not an item veto.

The CHAIRMAN. In other words, you are not asking for the right just to completely abolish a particular program or two but only to make reductions?

Mr. WEINBERGER. That is correct; and the amount of leeway, the amount of increase in spending between fiscal years 1972 and 1973 that this would permit, I think, would make that self-evident.

The CHAIRMAN. Now, my guess is that the Congress would be willing for you to make as much reduction as you want to make in some of the programs that the administration has to go to great pains to get passed and which Congress doesn't think a great deal of anyway, such as the foreign aid program. My guess is they are probably willing to let you hold all of it and have an item veto on that if you wanted to, hold it all because Congress hasn't found that much appeal to it. Troops to Europe—if you bring them all home and hand them some civilian clothes and save all that money. There are a couple of items—Congress will give you complete cooperation.

Mr. WEINBERGER. That, in and of itself, would cost a substantial amount not only in immediate dollars but in ultimate outlays.

The CHAIRMAN. If you call them home and discharge them—I don't think it would—just a one-shot proposition. Just make a reduction in the number of troops you have in the armed services and reduce them by the number you bring home, bring all but one or two divisions back from Europe and hand them their walking papers and say thank you very much fellows, we don't need you any longer. Some of the President's foreign affairs initiatives may succeed to the extent that that will be possible but certainly that by itself won't reach us, the $6 billion which at this point we think we need.

Well, I understand the House bill now does say, "The President shall, notwithstanding the provisions of any other law, reserve from expenditure and net lending from other appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of subsection (a)."

As I understand it, that, in effect, amounts to an item veto.

Mr. WEINBERGER. No, sir; an item veto would strike a program completely out of the statute books and would require the Congress to reenact it.

The CHAIRMAN. I mean an item veto of the dollar amount that the Congress provided for.

Mr. WEINBERGER. Well, this spending ceiling would be in effect for the balance of the fiscal year and under the terms of this the President could make the necessary reductions in total outlays to get into the amount stated by the Congress at $250 billion.

The CHAIRMAN. But, as I understand it, though, if a particular program, a program that would cost, say, $100 million, or it can be any particular item—forestry research. Under this bill, the President could say, "I am going to save $100 million," to pick a figure, "that program goes; for the time being we think we could do without it." That would be within his power under this to take a particular item and simply spend nothing on it if he wanted to.

Mr. WEINBERGER. The authority to make such reductions as seem to be necessary in the various programs to get the $250 billion would be there, yes. But, the problem, I think, which Chairman Mills pointed out very clearly on the floor of the House yesterday, is that this is the President of the United States, in addition to those duties he is also the leader of one of our two great political parties and I think we have to look at it, as I say, realistically and understand that these are very hard and difficult decisions. It is a totally different approach than we had

4 years ago when a President of the United States vigorously resisted the Congress forcing this kind of power on him, resisting until he got holes punched in the ceiling. It should be realized that this is not a power or an authority that any President or any political leader is going to court; it is only sought because it is considered to be the absolute, last resort necessary to prevent another punishing round of inflation or higher taxes and the President has said a vote for this spending ceiling is a way to avoid higher taxes.

The CHAIRMAN. We have a legal debate whether the President can impound funds and that has been going on as far back as I can recall.

Mr. WEINBERGER. Further.

The CHAIRMAN. We have had it under previous Presidents and I recall we have a legal hiatus where we pass a law and the President signs it. It says the President shall spend this money for this particular purpose, which theoretically is a requirement on him.

I recall when we had the Sugar Act, the provision that those of us on the Senate side agreed to reluctantly because we felt without it we couldn't have a bill; it said the President shall buy a certain amount of sugar from the Dominican Republic. We felt that that was mandatory; he had no choice about it and we weren't happy about it on this side. It was either that or no sugar bill and President Eisenhower at that time didn't do it. He decided they can't do anything but impeach me and I don't think they have that many votes. That was the only recourse Congress had even though the law said he should, and that hiatus, of course, remains—the power of Congress to make the President spend money for something Congress thinks he ought to do or on balance one house can impose on the other to require.

Now, under this there would be no doubt legally he has the right to decline to spend any of the money on any of these items as I understand it; is that correct?

Mr. WEINBERGER. The language would give him the authority to take the reduction actions necessary to get into the $250 billion range for the remaining 7½ or 8 months of the fiscal year. The provision would expire at that time and the provision, of course, could be changed by an act of Congress within that time; but during the period of time as granted by the provision, which the House passed yesterday, he would have the authority to make reductions necessary to get into that range for this fiscal year, leaving all of those programs, leaving all of the authorization on the statute books and obviously not with any authority to change programs or to change authority.

The CHAIRMAN. You reckon you would be willing to trust Mr. McGovern with this same amount of authority?

Mr. WEINBERGER. Well, the point, I gather, from Senator McGovern's speeches, to the extent I have had an opportunity to read them, is that he would like the power to increase this about 100 percent.

The CHAIRMAN. Well, my understanding is he proposes to reduce your defense spending to the point that this administration thinks would be totally irresponsible. The figure is $22 billion.

Mr. WEINBERGER. $33 billion; we agree.

The CHAIRMAN. Please understand I am not recommending that. I frankly think it is too deep a cut.

Mr. WEINBERGER. We agree that that would be totally irresponsible. The President has said so many times and many others have said it for him and quite clearly, reductions of that kind in that amount are not in any sense contemplated under this action for the remaining 8 months of this fiscal year.

The CHAIRMAN. Please keep in mind as far as I am concerned most of us southerners can at least make a gesture of being statesmen about this matter. Usually we southerners are out no matter who is in, so we can usually try to be bipartisan or nonpolitical.

Secretary SHULTZ. Usually when I look up in testimony and say, "Mr. Chairman," I see a southerner. I don't know how far out you are.

The CHAIRMAN. But the thought that occurs to this Senator is, I just wonder if you would be recommending this if Mr. McGovern were going to have this same authority to makes these reductions next year?

Secretary SHULTZ. Well, Senator, that is a very, I hope, hypothetical question and one that we wouldn't have any real opportunity at this point to consider. If that should happen, the Congress could change it just as rapidly as the bill could be passed, which could be very rapid sometimes.

The CHAIRMAN. If I understand the answer, though, you are not recommending that Mr. McGovern have that authority?

Secretary SHULTZ. No; we are not representing Mr. McGovern.

The CHAIRMAN. Well, now, how would you feel about it if we were to say that you could make a reduction of 30 percent if you wanted to on these, on certain items, and then on items Congress doesn't seem to place the highest priority, and then on certain other categories of items you would make it a 20-percent cut and 10-percent cut on the items Congress thinks—where Congress is a little less willing to trust the President's discretion because it tends to mean more to citizens of individual States and the Congress is fearful in an election year the President would tend to make big cuts?

Secretary SHULTZ. The difficulty with that is we don't know and no one will know, including the Congress or anyone, until a substantial period of time has elapsed what will be the magnitude, the size, of the reductions required. Unquestionably, they will vary as we proceed through the fiscal year and as we get different estimates of requirements of programs over which none of us has any control. If you have a sliding scale set of reductions that can and cannot be made, first of all you might well find yourself in the situation where the sliding scale canceled out the direction of the Congress to reach $250 billion—on the left hand order and on the right hand take away. You won't have accomplished any of the economic policy results that you need. And, as I indicated to Senator Bennett, it would add substantially to the difficulties of administering a program without accomplishing any real results. I know the goal again here would be to try to say that in the example you gave that you could only cut 30 percent from such and such a program. You would be under the impression at that time that this would leave *x* amount of dollars for that program. It might very well not because we don't have any idea what this particular program's requirement would turn out to be as we proceed through the fiscal year. So you would not be adding to your own congressional control over this particular item; you would be adding greatly to the cumbersomeness and awkwardness of the administration and you might well be making it impossible to reach a goal which by definition if we enacted a ceiling of this kind we feel would be necessary.

The CHAIRMAN. I had one other thought I would like to address to Mr. Shultz.

Suppose you started making these reductions and you felt it was adding to unemployment and you were rapidly moving back up above the 6.4-percent unemployment rate. Suppose you are economizing, in a recession, what attitude would you take at that point?

Secretary SHULTZ. Well, I think, first of all, the unemployment rate is too high and it is not 6.4 percent. The most recent reading was 5.5 percent.

The CHAIRMAN. I was referring to the 6.4 you said you inherited.

Secretary SHULTZ. That was the rate of inflation we inherited.

The CHAIRMAN. I am sorry. What is the highest unemployment rate you have had during this administration?

Secretary SHULTZ. This is exactly what we fear would happen; we would return to that situation unless we are able to get——

The CHAIRMAN. What was the highest unemployment rate? What was it at the time the President in August, about a year ago, asked for this new economic program, which was a drastic change from what his policy had been prior to that time.

Secretary SHULTZ. The unemployment rate was running on the order of 6 percent; it was 6.1.

The CHAIRMAN. Now, suppose you found that this spending limitation and the action in pursuance of it were putting the unemployment back up to the point that caused the President to ask for a complete change of Federal policy with regard to taxes, what we, in effect, had was repeal of all of the biggest items of the Tax Reform Act in order to help move the economy again. What would you do about that?

Secretary SHULTZ. The economy is now moving forward very strongly; all statistics show that, and the virtually universal expectation is that it will continue to do so throughout this fiscal year. So we don't see that there is any prospect of a sudden cessation of that rate of expansion and if the rate of expansion continues as strongly as it has, we expect that the rate of unemployment will continue to decline as it has in the past year so far. So we don't see any prospect of——

The CHAIRMAN. The question is——

Secretary SHULTZ. If we suddenly had a big shift, naturally we would want to come back and look at the——

Mr. WEINBERGER. I wonder if I might add, it would startle John Maynard Keynes if we had an $18 billion increase in Federal spending that could result in increased unemployment.

The CHAIRMAN. Well, it would seem to me that $25 billion cut in spending might create some real problems in the economy.

Secretary SHULTZ. We are talking here about a budget with an $18 billion increase in spending; a better than 7-percent increase in spending is what we are talking about, comparing 1972 and 1973. So it is a very large increase. We are talking about a budget deficit for which we were being belabored here a while ago on the order of $25 billion, which is large; and here we are with an economy that, in the second quarter, moved up at a rate of, I think, 9.2 percent, a fantastic rate of real growth. All of the indications around and the things that tell you what is going to happen in the future, are that we are moving up very strongly.

The CHAIRMAN. Senator Fulbright hasn't had a chance to participate.

Senator FULBRIGHT. I apologize; I had to leave.

The last statement, Mr. Shultz, "fantastic rate of real growth," what do you mean by that?

Secretary SHULTZ. Well, if you take a gross national product and then make an allowance for the extent of price increases, you are left with the amount of growth that is real, that is not just attributable to inflation.

Senator FULBRIGHT. Growth of what? What do you think the GNP measures?

Secretary SHULTZ. It measures the gross output of the economy.

Senator FULBRIGHT. It doesn't measure the wealth of the country; does it?

Secretary SHULTZ. It doesn't; it is not a balance sheet type——

Senator FULBRIGHT. Does it measure anything other than the activity, the sales and purchases? It doesn't measure output of tangible goods; does it?

Secretary SHULTZ. Oh, yes.

Senator FULBRIGHT. Oh, no. When you hire a policeman to stand watch on the Russian Embassy to prevent it being bombed, does that count in the GNP?

Secretary SHULTZ. In the GNP accounts, Government spending counts as something that contributes to the total flow of goods and services.

Senator FULBRIGHT. If a private company hires someone to gather garbage and dispose of it, and it is very expensive, does that add to the GNP?

Secretary SHULTZ. If it has not been done before.

Secretary FULBRIGHT. I mean, all it measures is activity. I think it is a measurement to try to make people believe we are that much richer. The more crime we have the more GNP, the more gambling the more GNP. If it goes to a higher rate, the GNP goes up to a higher rate?

Secretary SHULTZ. No, sir; I think it works is the reverse manner: That is, a crime tends to be disruptive to the flow of commerce and I think——

Senator FULBRIGHT. Because of controlling crime you add to the GNP?

Secretary SHULTZ. You will find that—for instance, I remember working on this in Chicago when I was there—you find that the business people operating in the downtown area are very interested in reducing the crime around their stores.

Senator FULBRIGHT. You shifted the whole purpose. That isn't what we are talking about. I am not advocating crime. I am only indicating GNP is not a reliable measurement of the wealth of the country and I don't think it is, and I just wanted to point that out.

Secretary SHULTZ. I think it is. I agree with you that it is not a sufficient measure by a long shot. We need to have other measures of welfare, various kinds.

Senator FULBRIGHT. You only said that. I didn't mean to get off on that.

I wanted to disagree with Mr. Weinberger that substantial cuts in the military are as clear as possible. I think the principal reason we are in such difficulty is the excessive expenditure on the military over the last 25 years.

It is right interesting that in the 11 years from 1954 to 1964, the number of dollars expenditure of our Government went up only $26 billion, $26.8 billion; since then it has gone up $150 billion and you list——

Mr. WEINBERGER. We left military spending relatively level for 3½ years and we have added $60 billion to the budget, so we have not really substantively shortened other programs.

Senator FULBRIGHT. Do you know how much, Mr. Weinberger, we have spent in the military since World War II?

Mr. WEINBERGER. Not in total but we can certainly add it up for you.

Senator FULBRIGHT. Do you have any estimate in mind?

Mr. WEINBERGER. No; I don't.

Senator FULBRIGHT. I had the Library of Congress look it up and it is about $1,400 billion. Would you say that is not in the ball park?

Mr. WEINBERGER. Well, Senator, I would say that we are here today and one of the problems that we have with military spending is that if we make a mistake it is totally irrelevant for any other purpose for the rest of our lives and our children's lives and it is very hard to make judgments in this field that we are doing too much or too little. We have programs of this size and my experience has been that any governmental activity or private activity of this size can probably be done for somewhat less without notable loss to the mission, but I certainly think that there are substantial concerns about cuts of the kind that have been proposed of that special nature that would, for example, strip you, leaving you, in effect, one navel base for the entire fleet, or in a situation where the leaders of the various countries won't even bother to respond to the President's request for talks.

Senator FULBRIGHT. Mr. Weinberger, I know from past experience that the Budget Bureau or OMB has taken the position that they don't inquire into the reasonableness of the military budget.

Mr. WEINBERGER. That is totally inaccurate and has been for 2½ years that I have been there and the years Mr. Shultz has been there.

Senator FULBRIGHT. And get whatever they want. That is perfectly well known.

Mr. WEINBERGER. Well, it may be perfectly well known but it is totally incorrect.

Senator FULBRIGHT. It is not incorrect.

Mr. WEINBERGER. It certainly is during the time I have had to do with the Office of Management and Budget or the time Mr. Shultz has been there, and I am quite sure in the past.

Senator FULBRIGHT. Mr. Weinberger, did the Congress appropriate more in fiscal 1972 than was requested by the President?

Mr. WEINBERGER. Fiscal 1972?

Senator FULBRIGHT. I thought you would know this.

Mr. WEINBERGER. I mentioned we can get it. I mentioned a moment ago that it is within the appropriation on process which I assume is what you are referring to, the action on the 14 appropriation bills. That, historically, is a little over or a little under what the President requested and I do not recall whether it was a little over or a little under in 1972, but it is a very small part of the iceberg as far as the total Federal spending program is concerned.

Senator FULBRIGHT. I only asked a simple question: Did the Congress appropriate more than the President requested?

Mr. WEINBERGER. We will get the exact figure for you shortly.

Senator FULBRIGHT. You don't know?

Mr. WEINBERGER. I guess it is a little over or a little under.

Senator FULBRIGHT. Do you know in the current year, although it is not finally completed, have we appropriated more than you have requested?

Mr. WEINBERGER. In the current year the defense and military construction bill was reduced by the Senate, the budget authority was reduced.

Senator FULBRIGHT. I don't mean to name each one of them. Don't you have an overall total?

Mr. WEINBERGER. The overall total appropriation bills that have thus far been enacted, as I mentioned some time ago, exceeds the President's request by $700 million.

Senator FULBRIGHT. Exceeds it?

Mr. WEINBERGER. So far, but you haven't acted on defense and you haven't acted on military construction.

Senator FULBRIGHT. You mean the final amount on defense has not been acted upon?

Mr. WEINBERGER. That is correct.

Senator FULBRIGHT. Yesterday's paper said that they had agreed upon it although it hasn't been submitted to each House.

Mr. WEINBERGER. I haven't seen it yet.

Senator FULBRIGHT. It was agreed upon. Wasn't it in yesterday's paper?

Senator TALMADGE. I don't recall.

Senator FULBRIGHT. The conferees had agreed upon it but it hadn't been submitted.

Senator BYRD. Yes.

Senator FULBRIGHT. Is that more or less than the President requested?

Mr. WEINBERGER. I think that is a little less.

Senator FULBRIGHT. The reason I asked you that, the impression has gone out that the Congress has insisted upon spending a lot more than the President wants to spend.

Mr. WEINBERGER. The Congress, without attempting to fix blame, the total action and inaction of the Congress has thus far added $9.5 billion to the amount of spending deficit that was contemplated at the time the President's budget was submitted. In addition, there are pending in the Senate 14 bills, spending requests that would be additions to that that have not yet thus far been all enacted, so I am not trying to fix blame here, Senator, but to concentrate on the 14 appropriation bills and neglect the other bills that require spending, gives a very small part of the total story.

Senator FULBRIGHT. Have you already discussed the proposal for pro rata cut that you sought?

Mr. WEINBERGER. Yes, sir.

Senator FULBRIGHT. And you are opposed to that?

Mr. WEINBERGER. Yes, sir.

Senator FULBRIGHT. And you have discussed the limitation of so much percentage?

Mr. WEINBERGER. Yes, sir.

Senator FULBRIGHT. Are you opposed to that?

Mr. WEINBERGER. Yes, sir.

Senator FULBRIGHT. Have you submitted a hypothetical example as to how you would propose to cut, assuming this bill is passed?

Mr. WEINBERGER. No.

Senator FULBRIGHT. Why not? Haven't you considered one?

Mr. WEINBERGER. No, we have considered various individual recommendations that we would make to the President but he hasn't had an opportunity to see those. We don't know the total that is required. We know it will be a shifting total and we have not completed the necessary review of all of the Federal Government activities to submit our recommendations to the President.

Senator FULBRIGHT. Don't you think you should submit to the committee a proposal that this is what you would propose to do, assuming this bill is passed?

Mr. WEINBERGER. I perhaps erroneously assumed the debate would immediately degenerate into a discussion of the individual merits of each individual item in the list, whatever it might be. We would be back in the same box that we are now and we would have the same problems that we have now that have made necessary the request for a spending ceiling.

I think in any up and down vote on specific proposal to reduce a specific program which has its own constituency and its own supporters and so on, the result over the years has, and that is the reason for the figures we have here before us, always goes against any specific reduction. What we are talking about is a proposal to get away from that, to get into a consideration of overall totals and overall fiscal policy of the Government and to give the Congress some control over all fiscal policy.

Senator FULBRIGHT. What would be your position if we gave this authority to cut it subject to a subsequent approval? In other words, you go back into the first of January and submit to the Congress a proposal for cutting it and that be subject, as the reorganization plan is, to the approval?

Mr. WEINBERGER. That is subject to the same infirmities I mentioned a moment ago. This gets you back into an individual, up and down road on whether this program or that program should be reduced and inevitably all of the discussions would focus on this program and that program and none of the debate or discussion I am afraid would consider the overall total. It hasn't in the past and that is why we feel a spending ceiling that does concentrate on the total is the only way to accomplish this, as we see it, desirable economic policy.

Senator FULBRIGHT. And that the President be given complete freedom as to how he would allocate the cut—that is your position?

Mr. WEINBERGER. Yes, sir.

Senator FULBRIGHT. No restrictions?

Mr. WEINBERGER. The bill that the House passed is before you and I don't want to interpret it. I think that it is clear and it is short and it is simple and as passed by the House it gives the kind of assurance that we think is necessary if we can get to and stay at $250 billion this fiscal year.

The CHAIRMAN. Any further questions of this witness, gentlemen?

Senator BYRD. Mr. Chairman——

The CHAIRMAN. Senator Byrd?

Senator BYRD. I had not planned further comment or questions but I am prompted to do so by the exchange between Mr. Shultz and Senator Ribicoff.

Mr. Secretary, do you foresee an increase in the inflationary spiral? Is there an increase taking place in the inflationary spiral?

Secretary SHULTZ. No, sir; not right now. I don't believe so.

Senator BYRD. In the third quarter of this year, wholesale prices rose at a 6.7-percent annual rate. This can be compared with 4.9 percent for the previous two quarters. Is that considered inflationary?

Secretary SHULTZ. No, sir; two numbers, one opposed against the other——

Senator BYRD. I beg your pardon?

Secretary SHULTZ. When you pose those two numbers one against the other, you certainly can make that inference. There are many other indicators of what is happening to prices and I think on the wholesale price index you have to take it apart and study the components.

Senator BYRD. Do you consider the figure that I cited—and I think it is correct; if it isn't you can correct me—as inflationary?

Secretary SHULTZ. Well, I don't think that the wholesale price index by itself is an adequate indication of the inflation problem throughout the country.

Senator BYRD. Well, now, let's take another item: Increasing accumulation of inventories. Is that another sign of rising inflationary pressure?

Secretary SHULTZ. No, sir; I think that the rising rate of accumulation of inventories is something that you expect to see in the expansion process and, as a matter of fact, it has been rather delayed and is just beginning to come. In many ways I suppose as we look to the future the fact that the expansion we have has not been dependent on big inventory boom is probably a healthy thing.

Senator BYRD. You do not regard that as inflationary?

Secretary SHULTZ. No; not in and of itself. I don't want to give that impression from this exchange, and I don't know exactly what it is you are getting at——

Senator BYRD. I am trying to find out whether or not we are in an inflationary spiral; whether the inflation is increasing.

Secretary SHULTZ. I think as of the moment we have a good strong posture against inflation but we also have a Federal spending level——

Senator BYRD. Let's get back.

Secretary SHULTZ. That is ready to go off the trolly and I think if it does we will reverse all of the good trends.

Senator BYRD. I want to get into that later but I want to try to find out from you—you are the Secretary of the Treasury, you are the man who is in the best position to know, and all I want is your judgment what we have to act on, and I need some judgment there.

In your judgment, are we or are we not in a period where the inflationary aspects are increasing?

Secretary SHULTZ. Over the past 3 years I think we have had a general decline in the rate of inflation.

Senator BYRD. I am talking about from this point on.

Secretary SHULTZ. And the result of that and the result of the various things connected with new economic policy has led people to have somewhat reduced expectations about the future of inflation but we have a long way to go; we have a genuine inflation problem and I think that the matters we are talking about right now will have a lot to do with how well we make out in the future.

Senator BYRD. Do you regard the rise in outstanding consumer credit to be inflationary?

Secretary SHULTZ. Well, I think that perhaps this is what you are getting at: Certainly as an economy expands there is a tendency for markets to tighten and, therefore, the pressures on prices as demand rises to be greater. You have that side of the coin. On the other hand, as an economy expands rapidly, as ours did in the second quarter and has so far this year, you tend to get a very rapid rate of increase in productivity and that balanced against wage rate increases tends to keep labor costs down and to remove a lot of the upward push on prices that you otherwise get.

Senator BYRD. Total consumer credit increased by 12 percent from July 1971, to July 1972. In this last 3 months, however, consumer credit has increased at an annual rate in excess of 16 percent. Do you regard that as inflationary?

Secretary SHULTZ. Well, I regard it as a sign of consumer confidence in expansion.

Senator BYRD. You do not regard it as inflationary?

Secretary SHULTZ. Not in and of itself.

Senator BYRD. In recent months there has also been a rise, again, in interest rates; this is true both for long-term and short-term interest rates. Do you regard this as inflationary?

Secretary SHULTZ. I think long-term interest rates particularly are an index of people's sentiment about inflation and when they are rising that isn't necessarily all attributable to changed expectations about inflation, but that is a good danger sign to look at.

Now, we have had——

Senator BYRD. You do regard that as one of the signs of inflation?

Secretary SHULTZ. That is an indicator and I think, however, interest rate increases on longer term obligations have been moderate and in the last month those interest rates have been quite stable; but I think that we are right at a testing time right now.

Senator BYRD. There has been increased pressure on the money supply. From October 1971, to August 1972, basic money increased by 5 percent but the estimated increase between August and September of this year is at an annual rate of 7 percent.

Do you regard that inflationary?

Secretary SHULTZ. Well, the problem of managing the money supply is something that the Federal Reserve is charged with and it is a difficult matter and I would just rather not get involved in making comments about that.

Senator BYRD. I am not suggesting that you say whether the Federal Reserve is right or wrong; all I am asking you, as an economist—you are an economist; have been in business all of your life; you are Secretary of the Treasury testifying on a vitally important matter before the committee—is whether in your judgment you feel that is inflationary.

Secretary SHULTZ. A long standing rate of increase in the money supply of the general order you mention would certainly add to inflation.

Now, I think that one has to recognize that the Federal Reserve doesn't operate independently of what is going on with the Federal budget—that is, they are independent in the sense they have to do what they think is right, but the demand that the Federal Government makes on the financial markets are an element that the Federal Reserve has to consider and we cannot expect them to carry the whole load in controlling inflation.

Senator BYRD. That is correct and that is why I have felt that a major cause, if not the major cause, of inflation is the tremendous increase in deficits that the Government has been running, beginning with the Johnson administration and continuing in this administration.

Secretary SHULTZ. Well, we have been through this before several times and I don't know how much you want to repeat it, but I do think there is a big difference between——

Senator BYRD. That is the reason I opened this colloquy again, your reply to Senator Ribicoff.

Secretary SHULTZ. I was afraid of that.

Senator BYRD. I am not that partisan. Lyndon Johnson would be very surprised if he were to hear me today. I condemned him for his deficits, and I condemn the deficits of the present administration, which, whether you use the unified budget or whether you use the Federal funds budget, are twice the deficits that the Johnson administration ran in its last 4 years. The deficits in your 4 years will be double the Johnson deficits, and you say that the Johnson deficits, are inflationary but the Nixon administration deficits are not inflationary?

Secretary SHULTZ. Well, could I offer you one——

Senator BYRD. I believe that is a very partisan outlook. I am not that much of a partisan, although I am very much inclined toward President Nixon.

Secretary SHULTZ. Could I offer you one bit of evidence on the point? The rate of inflation was increasing during the period of the Johnson deficits and it has been decreasing in the period of the Nixon deficits.

Senator BYRD. Well, then, what you are saying is that the Nixon deficits are antiinflationary?

Secretary SHULTZ. No, sir; I am just saying that it is a point of some validity to measure outlays against full employment revenues as distinct from all revenues.

Senator BYRD. The fact is that the accumulated deficits of the 4 years of the Nixon administration, ending next June 30, will be double the first years of President Johnson. Whether you put that on a unified basis or put it on a Federal fund basis, the fact is, and you have testified to this earlier today, that when this current fiscal year ends, that approximately 25 percent of the total Federal debt will have been accumulated during the 4 years ending next June 30. You spoke in a very laudatory way a few minutes ago to Senator Ribicoff about how the administration encouraged these deficits in 1971 and you certainly did encourage them; you wanted it done; you encouraged the Congress to go into deficit spending, and I submit the Congress doesn't need much encouragement. It is like putting a rabbit in the lettuce patch; you don't need to encourage the Congress to spend; you stimulated all of this by saying we believe in deficit spending. You got it and now you come in and want the Congress to save you from it, I guess. I don't know. Anyway, I wouldn't have brought this up except that you brought it up with Senator Ribicoff.

Secretary SHULTZ. Senator Ribicoff brought it up.

Senator BYRD. I just think that you have got something to be worried about; I think the country has something to be worried about, and I think the Congress and the administration have something to be worried about when, in 4 years, 25 percent of the total accumulated deficit of this country, going back to the beginning of the country, has occurred.

I think it is a highly dangerous thing and I am going to, I think, support your proposal because I think it is one of the only things we can do right now, but I blame the administration just as much as I blame the Congress. I think the Congress is reckless and I think the administration was reckless when they came in here and said we don't want a Keynesian budget; we want more deficits. By golly, you got more deficits.

Mr. Chairman, I ask unanimous consent to insert in the record a table that I prepared, "Deficits in Federal Funds and Interest on the National Debt, 1954–1973, Inclusive."

(The table referred to by Senator Byrd follows:)

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT, 1954–73, INCLUSIVE

[In billions of dollars]

	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest
1954	62.8	65.9	−3.1	6.4
1955	58.1	62.3	−4.2	6.4
1956	65.4	63.8	+1.6	6.8
1957	68.8	67.1	+1.7	7.2
1958	66.6	69.7	−3.1	7.6
1959	65.8	77.0	−11.2	7.6
1960	75.7	74.9	+.8	9.2
1961	75.2	79.3	−4.1	9.0
1962	79.7	86.6	−6.9	9.1
1963	83.6	90.1	−6.5	9.9
1964	87.2	95.8	−8.6	10.7
1965	90.9	94.8	−3.9	11.4
1966	101.4	106.5	−5.1	12.0
1967	111.8	126.8	−15.0	13.4
1968	114.7	143.1	−28.4	14.6
1969	143.3	148.8	−5.5	16.6
1970	143.2	156.3	−13.1	19.3
1971	133.7	163.7	−30.0	20.8
1972	149.0	178.0	−29.0	21.2
1973	152.6	190.4	−37.8	22.7
20-year total	1,929.5	2,140.9	211.4	241.9

[1] Estimated figures.

Source: Office of Management and Budget and Treasury Department.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator NELSON. I just am puzzled by something. The presentation of this request several times by the President and the administration spokesman has been presented in a way to tell the public somehow or other the Congress has been irresponsible in their spending and the President fiscally responsible, showing restraint, and that is why we have to have the $250 billion spending ceiling.

Just about 2 or 3 weeks ago the Congress passed the President's revenue sharing proposal. Ironically, the revenue sharing proposal cost just about exactly what you gentlemen estimate you are going to have to cut off the budget in order to hold the $250 billion. Revenue sharing will be about $33 billion of the Federal deficit in the next 5 years, around $6 billion a year. The President said he didn't want to increase taxes to pay for that.

There were some of us in Congress who thought the President's position was fiscally irresponsible and I proposed a tax increase to pay for it and when we couldn't get that adopted, when the President wouldn't support any proposal for tax increase to pay for it, I voted against the revenue sharing despite the fact that the cities and my State government did very well.

Now, the President is asking for authority to cut what you estimate to be $6 billion, almost identical to the amount of the President's own revenue sharing bill.

My question is, Why didn't the President be responsibile and ask Congress to pass the tax to pay for the revenue sharing which they would have done if the President would have backed them?

Why didn't he do that? Then you wouldn't have to be in here with your request for a spending ceiling limit of $250 billion.

Secretary SHULTZ. I think, first, I would point out that the revenue sharing proposals of the President were budgeted; they are in the President's budget. The original budget was $246.3 billion outlays. We have increased this ceiling—the President has increased the ceiling to $250 billion to a considerable extent reflecting the fact that the revenue sharing outlay for fiscal 1972 is going to wind up in fiscal 1973 and so that needs to be taken into account. But the President had budgeted the revenue sharing item and he feels, as he has stated on many occasions, that if we can now control spending and keep it within the $250 billion limits—which we feel can be done all right—that we will be able to avoid a tax increase. So in his thinking and our thinking the control of spending is linked directly to the control of taxing.

Senator NELSON. Well, we avoided a tax increase, if you want to maintain a large deficit, but that bill was just before us. I don't think you could say whatever the President puts in his budget is already funded and taken care of but anything Congress might decide to put in is not. It is $5.3 billion the first year. It was before us 3 or 4 weeks ago and the administration knew what the fiscal situation and it would seem to me if he was going to be responsible he would say, yes, we can't start to open up the Treasury and start paying for the cost of local and State governments out of, as the chairman said, of the national deficit. The President has taken advantage of the great publicity he gets to make it appear that Congress is irresponsible and he is trying to stop Congress from throwing money away.

The President threw away just about $6 billion. It was fiscally irresponsible for him and for Congress to add $6 billion to the debt. You can't get away from that fact and the President shares the irresponsibility. If he had said to the Congress it is bad policy to start spending, deficit spending to support State and local governments, we wouldn't have passed it and you would have your $250 billion limit because we wouldn't have paid for the $6 billion addition, so I think the public ought to know this and the President can't posture as a fiscally responsible leader when he decides that he will pick programs and irresponsibly push for it through the Congress and criticize the Congress for not passing them fast enough, then turn around and denounce the Congress for overspending; it is like starting a fire and then rushing back in with a fire extinguisher and getting a hero's medal for putting out the fire.

Mr. WEINBERGER. Another way to look at this, the President made this request and the Congress enacted that request and enacted a great many more, so you did have a total and you can't earmark which $6 billion it is that now seems to be in need of cutting.

The simple fact of the matter is, we are not trying to fix blame. We have said many times and my statement to the Ways and Means Committee says specifically: "The time has passed for trying to fix blame. There will be credit enough for all if a spending ceiling is enacted and we can assure the Nation and world that we are determined to avoid inflation and preserve fiscal sanity." The short, simple, easy answer of increasing taxes, you were talking about, is what the President feels is the exact wrong answer because it increases the share of the GNP that supports Government and we are already devoting more than a third of our GNP to Government right now. So I don't see any basis for saying the President is acting irresponsibly when he submits 2 years ago a program to the Congress, the Congress enacts it and enacts a great many more programs. I think it is a question of semantics at this point and I don't think it is particularly profitable to try to fix blame. The important thing is to look at the needs and the need is to hold total spending down and that is what we are prepared to do, given the enactment of this ceiling which in and of itself can prevent the need for additional taxes.

Senator NELSON. The President tried to fix the blame by a radio address to the public and now every Senator hears their constituents saying. "Do what the Presidents wants." You can't have it both ways. You can't have the President denouncing Congress and saying a 20-percent increase in social security is irresponsible and then taking credit for it. You can't have the President asking for a revenue-sharing program that is totally irresponsible because it isn't funded and then the President blaming Congress for deficit spending. If he had been fair and gone on the air and said Congress and I, the President, this President and this administration, share the responsibility, then I think we ought to join now in putting a limit; nobody would criticize him, but the President didn't say that.

Mr. WEINBERGER. That is the way I interpreted his statement with respect to the need to share the responsibility and the task at the moment. The whole basis for requesting the ceiling in this form, as we have said many times, is to let the country know that we are—both the

Congress and the President, because the ceiling applies equally to both, united, to try to secure this very desirable result of preventing higher taxes and more inflation.

Senator NELSON. It isn't the case. The President attacked Congress as big spenders several times; he knew what he was doing and he can't take the position that anything he recommends is fine and anything Congress may decide to originate and recommend is bad.

Mr. WEINBERGER. It is the total of the two that we are concerned with.

Senator NELSON. His is in the total.

Mr. WEINBERGER. His was in the total he submitted in January.

Senator NELSON. When he saw the problem 3 weeks ago he could have very easily said we had better fund this or not pass it. I am objecting to the posture the President takes about fiscal responsibility.

Mr. WEINBERGER. We still don't know what the total will be. The Congress will enact and, as we have been through many times, the appropriation bills as well as the other bills that are existing as budget threats at the moment, but have not been enacted; so it is rather idle to fix a point in time in saying all of the money requestel or spent up to that time is responsible and all after that is irresponsible. The important point is that we are looking at an expenditure program which would force us into another very punishing round of inflation or higher taxes or both and this is the way we think that it can best be avoided and there will be credit enough for everybody if the ceiling is enacted and we can advise the country and the world that we have joined in taking this action.

Senator NELSON. I just want to make one observation about the point raised by Senator Fulbright—the military cuts.

The fact is that the Congressional Quarterly, 2 years ago, more than 2 years ago, in a very in depth study, discussed the military budget, with people high in the Pentagon, civilian and military, with the understanding that their names would not be disclosed, and as a consequence of those discussions, with generals, and high civilian officials in the Pentagon, as well as distinguished authorities outside the Pentagon, they came to the conclusion that conservatively you could cut the military budget by $10 billion and strengthen the defense of the United States, so I think your comments about George McGovern's irresponsibility are irresponsible themselves and there are some good independent, nonpartisan authorities that support substantial cuts.

Mr. WEINBERGER. I would want to examine the independent and nonpartisan character of the reports that were made but we certainly are on the lookout for, and as I indicated earlier, I think in response to your question we don't regard anything as exempt from very careful examination and certainly the strengthening of the country is something that obviously everybody wants to do, but we think that the $33 billion prepared cut is not the way to do it, to put it midly.

Senator NELSON. Let me ask just one final question, speaking of the proposal of Senator Jordan of Idaho:

Why wouldn't it be feasible to require, as he does in his resolution, a proportional cut across the board in those programs that the President would decide pursuant to this resolution? Give him a 5 or 10 percent flexibility; that is to say, we all know there will be smaller agencies—you men suggested that yourselves and Mr. Shultz here, in which you have two choices, some such thing; it isn't feasible to make a personal cut. if the cut is $6 billion, as the objective, and then you said, the President, he has 10 percent flexibility, that is to say, $600 million of it he can move wherever he pleases; it doesn't have to be exactly proportional, that you give him a 10-percent flexibility, which we have done in a number of programs, in the manpower programs in fact, a much larger percentage in that—then he would have $600 million; he would have $600 billion, so any smaller agencies or other that would be adversely affected, and that is a substantial amount of money.

Mr. WEINBERGER. Well, I would like to avail myself of the technique used in some courtrooms and ask the reporter to read back my answer to the previous question. I wouldn't do that. I will try to run through it again and indicate that we, if I recall, I don't know the total reductions that will be required and won't know that until the final actions of the Congress and also there will be changes in the estimates of the programs that do have uncontrollable outlays that are subject to revised estimates.

The other problem is that not knowing what the total amount of reduction will be necessary at any given time to get to this ceiling, we will have to apply rather flexibly differing suggestions as to how we move up and down. The restriction that this kind of a percentage reduction or indeed any of those I indicated to Senator Bennett, the higher the percentage permitted the less concern there is about the need of flexibility. You have an administrative problem of additional complexity and the constant worry as to whether the permitted boundary lines are actually going to enable you to get to the amount that is actually needed to sustain the ceiling. It is going to do very little good from the point of view of economic policy in controlling inflation if the Congress with the left hand says impose a ceiling and with the right hand says but you can only reduce programs this amount and when you put the two together you find that you do not have enough leeway because of changing conditions which the Congress couldn't foresee at the time they made the enactment. So again, the final point I would want to make would be that the goal of additional congressional control is a perfectly worthy one. It would not be served, I think, by this kind of administrative hampers, or whatever that might be put on the ability to achieve the reduction necessary without reference to a very specific set of mathematical guidelines that could well get into far deeper reduction in particular programs than might be necessary and, contrarywise, might leave as is some programs where the reductions could be made untouchable.

Senator NELSON. Well, I don't quite follow that. About 30 percent of the budget is military, and health is 25 percent of the budget and education, manpower 5; all others 20 percent. You are going to have to go to the defense budget unless you are going to drastically cut the others.

Mr. WEINBERGER. We have said repeatedly, Senator, in answer to you, I think your very first question, that it not an exempt program.

Senator NELSON. Well, that is why I say I don't see where your big problem is. National defense is 30 percent, just about, of the budget and you have foreign aid and military, foreign economic and military aid; then you have got education, manpower, you have got health and then all of the rest adds up to about $61 billion. I don't see that that should be such a tremendous problem to apply proportional cuts with $600 million of flexibility and $6 million cut.

Mr. WEINBERGER. I will try it again but initially the principal point to be made is it is a moving, changing situation and it shifts very rapidly and as it does it is necessary to have some degree of flexibility to achieve the overall total which by definition if this bill is enacted, the Congress and the President would have agreed was the proper total of Federal spending for this particular fiscal year.

Senator NELSON. What is a flexible, moving situation?

Mr. WEINBERGER. The flexible, moving situation is that at the moment we are looking at about $6 billion of reductions that may have to be made. If there are a series of enactments, such as the amounts to H.R. 1 which were adopted 3 days and 2 weeks ago, we might be looking at a great deal more than that; we don't know.

We also don't know what the spending requirements of certain programs will be in March, April, or May, as compared with estimates we have now. That is the shifting, moving nature of the requirement.

Senator NELSON. I am aware of that. I am suggesting you give the President flexibility of 10 percent or whatever total it is and he decides he has to cut in order to get back to the spending limit.

Mr. WEINBERGER. We don't think that provides the degree of flexibility that would meet all of the possible contingencies we can see at this point nor do we see it accomplishes any particular purpose other than making the administrative problem more difficult.

Senator NELSON. I think in fairness to Congress you at least ought to be able to say here are the areas of programs and show us where 10 percent flexibility would work. You are up here with all of the facts nondisclosed and just saying conclusively to Senator Jordan's suggestion, anybody else's suggestion, that it isn't practical; you can't tell us why it is a moving situation and——

Mr. WEINBERGER. I am disappointed to think you feel I haven't; I have made every effort to during the course of the afternoon.

Senator NELSON. You are here asking for this authority but you don't want to disclose anything to the Congress.

Mr. WEINBERGER. We haven't made any kind of final recommendations nor have we yet the idea of the size of the problem nor has the President, and it is his budget, had an opportunity to address himself to it.

Senator NELSON. Well, as I am suggesting, you ought to come back when you do.

Mr. WEINBERGER. Well, we have already waited to the point where it is desperately urgent that we have legislation of this kind; now we have the debt ceiling that is part of it, that has barely been mentioned, but it is also an important part of it.

Senator FULBRIGHT. Can I ask one question?

Is it the position, Mr. Weinberger, that any working paper, any plans that you have as an internal working paper, until it is finally determined by the President, it would not be available to the Congress?

Mr. WEINBERGER. I haven't addressed myself to that subject at all. We haven't even reached any stage of that kind.

Senator FULBRIGHT. You just said in answer to the question that you haven't reached a final, I think you said, final decision about where the cuts would be made?

Mr. WEINBERGER. If I said that, I didn't mean to imply that we have reached any tentative decisions.

Senator FULBRIGHT. You have no tentative either?

Mr. WEINBERGER. Not at this point; no, sir.

Senator FULBRIGHT. I thought you said any final.

Mr. WEINBERGER. I am sorry.

Senator NELSON. Did I understand earlier, Mr. Shultz or Mr. Weinberger said that some itemized proposals have been sent to the President already?

Mr. WEINBERGER. No, sir; I didn't say that and I didn't hear Mr. Shultz say it. You may still be having in mind the articles I hope I disposed of.

Senator NELSON. Some needed individual proposals for cuts have been sent to the President; I wrote it down when it was said.

Senator BENNETT. I heard it and it had not been sent to the President.

Senator NELSON. Had not been sent. Maybe they will send it to us.

Mr. WEINBERGER. It sounds more familiar that way.

Senator NELSON. That is all I have to say.

The CHAIRMAN. We have one more witness to hear. I think that is all the questions the committee has. Thank you very much.

The CHAIRMAN. Mr. Thomas H. Stanton, an attorney with the Tax Reform Research Group, a Ralph Nader group.

STATEMENT OF THOMAS H. STANTON, ATTORNEY, TAX REFORM RESEARCH GROUP

Mr. STANTON. Thank you, Mr. Chairman. In light of the late hour, I would ask that I be able to summarize my statement and submit it for the record.

The CHAIRMAN. We will print your entire statement.

Mr. STANTON. As well as documentation.

The CHAIRMAN. Yes, sir.

Mr. STANTON. Mr. Chairman, members of the Senate Finance Committee, I am Thomas H. Stanton, an attorney with the Tax Reform Research Group. Our organization concentrates on matters of legislation, regulation, and enforcement in the fields of Federal, State, and local taxation. We are funded by Ralph Nader's Public Citizen, Inc., a broadbased group of citizens through the country who are concerned about consumer and tax issues and the need to make institutions more responsive.

Today I wish to make two major points: (1) In the short run, the presidentially enforced spending ceiling should be rejected in favor of equally effective, less radical alternatives; and (2) the long-run solution to our unbalanced budget should include tax reform.

In the short run, the proposed spending ceiling should be rejected in favor of less radical solutions, for example, the Mahon resolution.

The current issue of U.S. News & World Report quotes a senior Presidential adviser as follows: "Power is centered in the White House and the President feels the most prestigious positions in Washington are White House staff jobs." True, this adviser was making a comparison with Cabinet posts; but it is food for thought that he felt no need to make even a reference to the importance of congressional posts.

The proposed spending ceiling would concentrate even more power and political influence in the White House than it already has. The newly elected, or reelected President could cut at least $6 billion in programs without constraint of any of the traditional constitutional checks and balances, without being accountable to anyone.

As the Portland, Oreg., "Journal" editorialized, the President's power would be close to absolute. Of course, political realism would tie the President's hands somewhat. "But the point is that the power will be in his grip." He could cut social security or even the wages of Government employees and the salaries of Congressmen.

Let us consider the effect on Congress. The supposed temporary grant of power could become permanent like the "temporary" World War II buildings on the Mall that were just recently torn down.

Temporary policies in Washington often last longer well-meaning lawmakers intend. Take the Gulf of Tonkin—most would agree that the congressional budget process has been too loose; we have spent substantially more than we have raised and the spending has not always been wise. But will Congress tighten its vigilance by passing the buck to the White House? The congressional process would only become more relaxed.

Opponents of programs won't fight as hard to trim the fat; they will leave that chore to the White House. And on the other side of the coin, Members of Congress who fight long and hard for their constituents won't be assured that their congressional victory has meaning; they will have to make their peace with the White House to make sure their project gets a cent. And it is said that even getting through to the White House on the telephone is a problem.

The effect on the executive is that he will be deciding basically how to spend the Federal money; especially if Congress doesn't improve its budget process, the President will decide, in good part through his influential staff, what the Government does and doesn't do. The leverage over disfavored Members of Congress could be potentially overwhelming. In my hometown, there is fear that an Air Force base may be closed. Our congressman has begun to act to save the base. If this spending ceiling is passed, the President could next month close that base forever; and our congressman will be powerless, unless, perhaps, he is able to offer enough future congressional votes to the White House.

The effect on citizens: When Congress makes a decision, you allow us hearings, the chance to meet with our locally elected representatives, and at least aides to our Senators. We can have some say in the outcome. This bill guarantees us no right for a hearing at OMB before a local air base is cut and not even a right to discuss the problem with a member of the staff; and those bureaucrats are not accountable to us even if we were allowed to discuss it with them.

Congress does not have to hand over its spending power to the White House to put an effective and responsible check on spending. Chairman Mahon of the House Appropriations Committee has proposed one alternative, House Concurrent Resolution 713. That proposal simply requests the President to advise Congress next year of the programs he would cut in order to remain within the $250 million spending ceiling. Congress would then have to pass appropriate legislation or to come up with a substitute, but it would still be in the saddle. The incentive for Congress to meet this responsibility would be the same as it is now: to avoid angering voters with a hugh tax increase.

Other members of Congress suggest that Congress consider cutting back all programs by the same flat percentage. Whether Congress chose that approach or Congressman Mahon's, or the approach suggested by Senator Bennett here today, the important principle would remain: the decision would be made by a U.S. Congress elected by the people and accountable and available to them.

We support title III of the House bill insofar as it calls for a joint congressional committee to review ways to improve Congress's control of spending and to report proposals to the full Congress next year. We introduce for the record a statement of former Presidential adviser Paul McCracken, which appeared recently in the Wall Street Journal. In this statement, Dr. McCracken makes initial proposals to tighten the congressional budget process.

A radical presidential spending ceiling is not necessary. A combination of short-run congressional belt-tightening and longer-run reform can achieve the same end and leave the constitutional separation of powers intact.

Because of the shortness of time, I would omit part II, "There is wide agreement that a tax increase will soon be necessary. As a part of its tightened budget the Congress should eliminate from the tax laws those preferences which are unduly inequitable or inefficient.

We would submit that material for the record, sir.

The CHAIRMAN. Any questions, gentlemen?

In view of the lateness of the hour, we will forgo any questions. Thank you very much.

(Prepared statement and documents of Mr. Stanton follow:)

PREPARED STATEMENT OF THOMAS H. STANTON

Mr. Chairman, members of the Senate Finance Committee, I am Thomas H. Stanton, an attorney with the Tax Reform Research Group. Our organization concentrates on matters of legislation, regulation, and enforcement in the fields of federal, state and local taxation. We are funded by Ralph Nader's Public Citizen, Inc., a broad-based group of citizens throughout the country who are concerned about consumer and tax issues and the need to make institutions more responsive.

Today, I wish to make two major points:

I. In the short run, the Presidentially enforced spending ceiling should be rejected in favor of equally effective, less radical alternatives; and

II. The long-run solution to our unbalanced budget should include tax reform.

I. In the Short Run, the Proposed Spending Ceiling Should Be Rejected in Favor of Less Radical Solutions, For Example, the Mahon Resolution

The current issue of *U.S. News and World Report* quoted a senior presidential adviser as follows: "Power is centered in the White House, and the President feels the most prestigious positions in Washington are White House staff jobs." True, this adviser was making a comparison with cabinet posts. But it is food for thought that he felt no need to make even a reference to the importance of Congressional posts.

The proposed spending ceiling would concentrate even more power and political influence in the White House than it already has. The newly elected, or re-elected, President could cut at least six billion dollars in programs without constraint of any of the traditional constitutional checks and balances—without being accountable to anyone! As the Portland, Oregon, *Journal* editorialized, the President's power would be close to absolute. Of course, political realism would tie the President's hands somewhat. "But the point is that the power will be in his grip." He could cut Social Security, or even the wages of government employees and salaries of Congressmen.

Let's consider the effect on Congress: The supposed temporary grant of power could become permanent, like the "temporary" World War II buildings on the Mall that were just recently torn down. "Temporary" policies in Washington often last longer than well-meaning lawmakers intend. Take the Gulf of Tonkin. Most would agree that the Congressional budget process has been too loose; we have spent substantially more than we have raised, and the spending has not always been wise. But will Congress tighten its viligence by passing the buck to the White House? The congressional process would only become more relaxed. Opponents of programs won't fight as hard to trim the faat; they'll leave that chore to the White House. And on the other side of the coin, Members of Congress who fight long and hard for their constituents won't be assured that their Congressional victory has meaning; they will have to make their peace with the White House to make sure their project gets a cent. And it is said that even getting through to the White House on the telephone is a problem.

The effect on the Executive: He'll be deciding basically how to spend the federal money. Especially if Congress doesn't improve its budget process, the President will decide—in good part through his influential staff—what the government does and doesn't do. The leverage over disfavored members of Congress could be potentially overwhelming. In my home town, there is fear that an Air Force base may be closed. Our Congressman has begun to act to save the base. If this spending ceiling is passed, the President could next month close that base forever. And our Congressman will be powerless (unless, perhaps, he is able to offer enough future Congressional votes to the White House).

The effect on Citizens: When Congress makes a decision, you allow us hearings, the chance to meet with our locally elected Representatives (and at least aides to our Senators). We can have some say in the outcome. This bill guarantees us no right for a hearing at OMB before a local air base is cut; and not even a right to discuss the problem with a member of the staff. And these bureaucrats are not accountable to us even if we were allowed to discuss it with them.

Congress does not *have* to hand over its spending power to the White House to put an effective and responsible check on spending. Chairman Mahon of the House Appropriations Committee has proposed one alternative, House Concurrent Resolution 713. That proposal simply requests the President to advise Congress next year of the programs he would cut in order to remain within the $250 million spending ceiling. Congress would then have to pass appropriate legislation or to come up with a substitute, but it would still be in the saddle. The incentive for Congress to meet this responsibility would be the same as it is now: to avoid angering voters with a huge tax increase.

Other members of Congress suggest that Congress consider cutting back all programs by the same flat percentage. Whether Congress chose that approach or Congressman Mahon's, (1) the important principle would remain: the decision would be made by a U.S. Congress elected by the people and accountable and available to them.

We support Title III of the House bill insofar as it calls for a joint congressional committee to review ways to improve Congress's control of spending and to report proposals to the full Congress next year. We introduce for the record a statement of former presidential adviser Paul McCracken, which appeared recently in the Wall Street Journal. In this statement, Dr. McCracken makes initial proposals to tighten the Congressional budget process.

A radical presidential spending ceiling is not necessary. A combination of short-run Congressional belt-tightening and longer-run reform can achieve the same end and leave the constitutional separation of powers intact. (2)

II. There is Wide Agreement That a Tax Increase Will Soon be Necessary. As a Part of its Tightened Budget the Congress Should Eliminate From the Tax Laws Those Preferences Which Are Unduly Inequitable or Inefficient

The White House has created an atmosphere of crisis around our budget deficit, much in the way it invoked alarms last year to secure passage of the Revenue Act of 1971. That act cut taxes by an average of over $11 billion annually (averaged over the next decade). Surely an economy-minded Administration would have considered the impact of such a measure on the deficit first.

In fact, what is new is not that we have an exorbitant deficit; what is new is that we are faced with the prospects of a tax increase to pay for it. Last May the prestigious Brookings Institution published a study showing that taxes would have to go up even if we left expenditures next year at this year's (FY '73) levels.

The question then becomes: are there any unfair or inefficient tax preferences which could be eliminated to reduce the deficit. We wish at this point to present to the Committee statistics only recently released by the Treasury Department which dramatically illustrate the inequities of many tax preferences. The figures were presented by Treasury Undersecretary Edwin S. Cohen to the Joint Economic Committee on July 21. They show, for example, that the capital gain tax preference gives the wealthiest 5.4% of the taxpayers an astounding 86% of the benefits. As a part of the tightened budget we should ask whether this multibillion dollar capital gains subsidy is really needed to subsidize the activities of those who benefit from it, at the expense of the middle and lower income taxpayer.

Undersecretary Cohen's figures become even more important when we adjust for the number of taxpayers in each income group. It turns out, then, that the taxpayer with income (AGI) over $100,000 saved an average of over $38,000 thanks to the capital gains preference, while the middle class taxpayer in the $10–15,000 group saved on the average only $16. The tax exemption of interest on state and local bonds saved the taxpayer making over $100,000 an average of $4,600, but saved his middle class counterpart ($10–15,000 group) an average of only 71 cents.

We introduce those statistics for the record. It can be seen that the bias against middle class and lower income taxpayers is also present in those tax preferences once thought to benefit middle income groups. The deduction for interest on mortgages on owner-occupied homes averaged only $51 for the $10–15,000 taxpayer, while averaging $411 for the over $100,000 group. Similarly the deduction for property taxes on owner-occupied homes averaged only $46 for the middle class ($10–15,000) taxpayer, but averaged an immense $1,700 for the over $100,000 group.

The data on the other tax preferences are in the record for your study. Suffice it to say that the unfairness of many of them, as revealed in the Treasury data, make a compelling case for revision. Ending or reducing these could save billions of dollars which could head off the need for an across-the-board tax increase or even a value added tax. We urge tax reform hearings by this Committee next year.

A combined program of short-run expenditure cutbacks by Congress, longer-run improved congressional control of spending, and tax reform next year, could bring the deficit under control. As members of Ways and Means stated in their dissent to the proposed bill: "Certainly, everyone seems to be against inflation and for curbing reckless spending. The undersigned would certainly insist on being included in this group. However, the decision . . . to include in the debt ceiling legislation before us a spending ceiling of $250 billion this fiscal year without any restrictions or direction as to where the necessary cutbacks will occur raises the most serious constitutional questions which the Congress will ignore to the lasting detriment of future Congresses and to the peril of the very Republic itself."

Thank you.

[H. Con. Res. 713, 92d Cong., first sess.]

CONCURRENT RESOLUTION

Whereas the President has requested authority to impose a limitation on expenditures and net lending for fiscal year 1973 in the amount of $250,000,000,000, including authority to change existing laws and make unspecified reductions in existing mandatory spending programs such as social security, impacted area school aid, veterans' benefits, education and health programs, and other programs on which Congress has acted to date; and

Whereas consistent with the constitutional responsibility of the Congress to make appropriations for support of the Government, it is the practice for Congress to make specific approriations for the various activities of the Government; and

Whereas the Congress is concerned about the fiscal plight of the country, especially in view of continued and mounting budget deficits and inflationary pressures; and

Whereas the total deficits in Federal funds for the last three fiscal years have exceeded $70,000,000,000; and

Whereas the most recent estimate of the executive branch of the Federal funds deficit for fiscal year 1973 is $32,400,000,000; and

Whereas approximately one-fourth of the Federal debt will have accumulated in just these last four years; and

Whereas in the annual appropriation bills for the fiscal year 1973, the Congress is in the process of reducing spending in excess of $1,000,000,000; and

Whereas in other bills, including bills raising social security benefits, "black lung" benefits, and veterans benefits, the Congress, with the concurrence of the President, has exceeded the related budget estimates; and

Whereas in certain other bills, including general revenue sharing and water pollution control, the Congress is in the process of enacting spending authority for fiscal year 1973 in excess of the related budget estimates for 1973; and

Whereas the President has not advised Congress of the specific reductions in budget authority and budget outlays which he would make to limit outlays to not more than $250,000,000,000; and

Whereas to grant the authority to impose such a limitation on expenditures, including authority to amend basic legislation governing mandatory programs, would in effect transfer legislative authority to the executive branch; and

Whereas the Congress cannot responsibly act on the proposed limitation of $250,000,000,000 on expenditures and net lending without an advance opportunity to assess the impact of the consequent reductions (which it now appears, would approximate $6,000,000,000) on specific programs and activities: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That the President is hereby respectfully requested to advise the Congress not later than January 2, 1973, of the specific reductions in budget authority and budget outlays (by appropriation or fund), and changes in existing law affecting same, that in his judgment may best be made in order to limit budget outlays for the fiscal year 1973 to not more than $250,000,000,000; and that it is the sense of the Congress that, upon receipt of the list of such specific reductions and modifications, the Congress shall consider legislation dealing with the President's recommendations.

[From the Wall Street Journal, Sept. 19, 1972]

CAN FISCAL POLICY BE CONTROLLED?

(By Paul M. McCracken)

Is it possible that modern governments cannot manage fiscal policy? Only a few years ago to raise such a question would be to mark one as a troglodyte, a hair shirt who had not yet discovered that the thing to do with budgets was not necessarily to balance them but to manage them in ways that would produce the right economic conditions. That might call for a surplus, or a balance or a deficit. It would all depend.

Why the new skepticism?

It is not all home grown. Part of it grows out of international experience. In the early part of last year, for example, Germany was concerned about inflationary pressures on her economy. The concern was understandable. The German price level was rising at the rate of over 6% per year. This was about our rate at its worst in 1969, and it was particularly unacceptable to an inflation-conscious country like Germany. The fiscal prescription for this problem was obviously to limit spending and run a good strong budget suplus. The fiscal program that actually unfolded involved deficits and expenditures which rose 12% in 1971. Fiscal restraint, never popular politically, apparently looked particularly unattractive to this government with its thin parliamentary majority. A tough monetary policy was, therefore, deployed, but this drove interest rates above world levels and attracted a flow of funds into the country which aggravated the international monetary problems of that period.

It might be assumed that modern fiscal policy could at least be worked in the expansionist direction. Yet Japan has had its problems putting in place a sufficiently easy fiscal policy. Their sluggish domestic economy had had more slack than ours. This has, of course, produced sluggish imports, a large trade surplus, and emergent pressure for another upward revaluation of the yen (something which they very much want to avoid). Moreover, Japan needs to spend more on social facilities to bring them more into line with those needed by a advanced and high-income nation. Yet the required degree of fiscal expansion never really has been put in place.

A look over the world economy during recent years, in short, produces a picture of economic conditions which called for fiscal policies that the political process did not, and presumably could not, provide.

It is when we examine our fiscal problems at home, however, that doubts about how maneuverable fiscal policy really is have begun to emerge. Before we dismiss Japan's difficulty in achieving a sufficiently expansive fiscal policy as a special case, we should recall our own major excursion into tax reduction almost a decade ago. President Kennedy recommended tax reduction in January 1963, and indicated earlier that he would do so, but the actual tax reduction could not be achieved until March 1964.

RISING PUBLIC OUTLAYS

The real problem for modern fiscal policy, however, is the relentless rise in public outlays. The magnitudes are impressive. In 1965 the economy regained reasonably full employment. Yet from 1965 to 1968 the rise in federal, state, and local outlays (on a national accounts basis) was equal to almost 57% of the rise in national income, and the figure for the period 1968 to 1972 (first quarter) was almost 48% With roughly half of the increase in national income absorbed by rising government outlays, the ground swell of public concern about taxes becomes understandable. Somehow our expenditure decision-making process has been giving us a larger rise in outlays than people are ready to pay for. The result is a trend that will carry expenditures for this fiscal year at least $10 billion beyond revenues that the tax system would produce at reasonably full employment.

Part of the problem is that to a growing extent federal outlays reflect permanent programs with yearly increases built in. They are thus uncontrollable in the literal sense unless legislation is changed. Social Security, agriculture, welfare—these are programs whose aggregate outlays will be determined by specified benefit levels and the number of eligible recipients. We thus have outlays on a path that is rising more rapidly than the increment of revenues that on-going economic growth will provide from any given tax system. The fiscal dividend of the 1960s has been replaced by the fiscal mortgage of the 1970s. If outlays continue to rise this rapidly, periodic increases in tax rates or new taxes will be required, something that the political process will not find it easy to deliver.

The problem has many roots, but a major one is the "new" fiscal policy itself. In retrospect it seems clear that the "new" fiscal policy threw a baby out with bath water—namely, the idea of fiscal discipline. The old always-balanced budget philosophy did seem at times to call for perverse actions, such as increased taxes or slashed spending in recessions, but it did impose a discipline. It, in principle, required that governments couple with the delectabilities of spending the distasteful task of raising taxes. Thereby a rough cost-benefit equilibrium was achieved.

It was achieved intellectually, and it worked surprisingly well practically. Up to the Great Depression the budget had a surplus in two nonwar years out of three while in the postwar period there have been deficits in two out of three years. "Marriage is popular," observed George Bernard Shaw, "because it combines the maximum of temptation with the maximum of opportunity." Something like this seems to have characterized the actual working of modern fiscal policy. Having been told that there are times when the budget ought not to be balanced, the political process finds it tempting to assume that "now" is one of those times. And the always-balanced principle has metamorphosed into a never-balanced budget.

If modern fiscal policy is ever to live up to its potential, the concept of fiscal discipline must regain a central position in budget policy.

The President put forward a helpful concept with the idea that outlays should not exceed the revenues the tax system would generate at reasonably full employment. This would enable the budget to be expansive during a period of sluggish economic conditions, but it would assure that the budget would come back into equilibrium, with revenues covering outlays, when no further economic stimulus was needed.

CONGRESS IS THE KEY

The key to regaining a greater sense of fiscal discipline is in the Congress. Present congressional procedures do a reasonably effective job of screening the merits of individual requests for money. In that sense the budget problem is not waste and foolish spending. What one person considers "waste" or "unessential spending" is, of course, another's high-prority program. The problem is that the aggregate of individually meritorious programs will always exceed any viable total. In that important sense the federal government's budget problem is similar to that of a family or a business. There are other respects in which it is different, but economists have been so preoccupied with the differences that this important parallel has been overlooked.

Good budgetry, therefore, requires a procedure for deciding not only whether each proposed outlay is good but whether it is good enough to be included within some viable limit or total. This is the missing element in the congressional process. Without it the whole process has a bias toward larger spending than the citizenry will want—want in the only meaningful sense of what it is willing to forego in the way of private spending for these public programs.

The Appropriations Committees have made a small beginning by initial hearings on the budget as a whole. This is a good start. It should develop further into some meaningful actions about each year's budget as a whole.

What is essential is some procedure by which the Congress itself will decide what total outlays should be, and by which Congress also explicitly accepts responsibility for the aggregate expenditures which are the result of their individual program decisions. The initial congressional overview of the whole budget might be extended to include a total within which individual program decisions would have to fit (though early postwar attempts along this line were quickly dropped). Individual appropriations bills could be held until all are passed in order to see what the results would be for total outlays, with perhaps an amendatory bill to keep the total within a viable limit.

Whether modern fiscal policy can yet become a powerful tool for economic adjustment, or whether it must remain a theoretical idea with little substance in reality and largely immobilized by a relentlessly rising outlay trend, is going to depend heavily on whether a greater degree of fiscal discipline can be injected into the budgetary process. Because fiscal policy has substantial potential for domestic economic management and for harmonizing divergent national objectives in the world economy, it is important that the budgetary process be subjected to this greater sense of discipline.

On this both the "new" fiscalists and the "old" budget balancers have common ground.

BOARD OF CONTRIBUTORS

The Wall Street Journal is pleased to announce a new feature, the Board of Contributors, intended to present a broad range of viewpoints on current topics. Four distinguished university professors have been invited to contribute regular monthly articles, and each has agreed to write eight to twelve times over the next year. The contributors are:

Walter W. Heller, Reagents' Professor of Economics at the University of Minnesota and former chairman of the Council of Economic Advisers under Presidents Kennedy and Johnson.

Irving Kristol, Henry Luce Professor of Urban Values at New York University and co-editor of the quarterly, The Public Interest.

Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration at the University of Michigan and former chairman of the Council of Economic Advisers under President Nixon.

Arthur Schlesinger Jr., Albert Schweitzer Professor of the Humanities at the City University of New York and winner of Pulitzer Prices in history and biography.

Dr. McCracken's article is the third in the series. An initial article by Dr. Schlesinger will appear later this week.

[From the Portland (Oreg.) Journal, Sept. 25, 1972]

Giving Away Power of the Purse

Reporters and congressmen were trying to probe the depths of the power that would be given one man--the President—by a spending-control bill in the House Ways and Means Committee.

Administration officials who designed the measure were asked whether the President could go beyond reductions in the normal appropriation bills.

Could he, for instance, cut social security? Or even the wages of federal employes and congressional salaries?

Yes, he would have the authority to go that far.

But "let's be realistic," admonished an official. "You're quibbling now. It just would not be politically realistic to do something like that."

But the question was repeated: Not would such cuts be made, but could they be made? In other words, how much power was being passed from the many to the one, from the policy-making representatives of the people in the Congress to the single executive?

Yes, the President's power would be close to absolute in spending money.

No, of course the President would not plan to use that power to make politically unrealistic cuts.

But the point is that the power would be in his grip. How many times will members of Congress have to complain about presidential misuse of congressional authority that some previous Congress had voted to pass on to the executive before they begin to get their own message?

Gradually, the lawmaking branch is eroding its own rights and responsibilities, leaving it devoid of its standing as a "separate and equal" branch while surrendering more and more of its duties to the White House.

Is the power of the purse about to follow? At what point will Congress cease to be able to justify its own existence?

To be sure, a mechanism is urgently needed to bring sanity to federal fiscal affairs. Tossing the full responsibility to the President might be an expedient thing to do.

But it would not be sound government, at least within the concepts on which the American government is based.

It will be harder, but much more beneficial in the long run, if Congress will develop its own methods of keeping a lid on spending.

[From the Washington Post, Oct. 5, 1972]

Phony Budget Issue

(By Hobart Rowen)

White House aide John Erlichman and other administration officials are now trying to blame any future tax increase on irresponsible congressional spending.

This is a phony issue, as Mr. Erlichman and all of the technicians in the Office of Management and Budget know.

The fact, which is recognized by non-politicians within the government, and practically everybody outside, is that an increase in federal taxes sometime in the next two years is virtually a certainty because of commitments already made by the Nixon administration.

The administration could consult, for example, its former Treasury specialist on economic affairs, Murray Weidenbaum. Prof. Weidenbaum, a Republican, has been making a series of forthright speeches on budget realities. In his latest, sketching out the "hard fiscal facts of life," Weidenbaum said: "We have literally mortgaged available federal revenue for many years into the future."

The same situation would confront Sen. McGovern, should he be elected. But the Republicans are promoting the notion that a wave of a magic budget-cutting wand will solve the problem. The idea doesn't survive non-partisan scrutiny.

Take one example cited by a conservative research group, the American Enterprise Institute: based on bills already passed, and on legislation proposed by the Nixon administration, the actual spending total, in fiscal 1975, two years from now, will be $301 billion, up $51 billion from the $250 billion expenditure ceiling Mr. Nixon is trying to squeeze out of Congress.

That doesn't take into account Mr. Nixon's promise (State of the Union Message) for a federal education program, or any other new initiatives—just what's already been cranked into the spending machine.

It covers an increase of $10 billion for defense: $19 billion for income security; $6 billion for health; $5 billion to expand existing education programs; and $5.3 billion for revenue sharing.

Says the AEI report: "The picture that emerges is a rather grim one for the Nixon administration."

To meet its self-imposed test of maintaining a "full employment balance," says the research group, would require "tax increases of some $21 billion in (fiscal) 1975, $13 billion in 1976, and $6 billion in 1977."

This analysis matches almost exactly the projections made earlier by the Brookings Institution. But the administration tends to brush Brookings aside as a haven for Democrats out of office.

Facts don't have a political bias. The administration's problem is that it won't face up to the tax issue during the election. Instead, it talks of a watertight ceiling on expenditures.

Former Budget Director Charles Schultze of Brookings—a McGovern adviser, a Democrat, and an economist of unimpeachable integrity—pointed out the other day the impractical nature of Mr. Nixon's proposed $250 billion ceiling.

If Congress were to limit spending to $250 billion for fiscal 1973, Schultze points out, it would have to cut $7 billion to $10 from Mr. Nixon's January proposals. But by the time a ceiling goes in effect, five months of the fiscal year would have elapsed, requiring cuts of $12 to $15 billion at an annual rate.

Where would they come from? Certainly not from defense, already trimmed $3.6 billion from Secretary Laird's requests. And it is not possible, for legal or political reasons, to touch Social Security, veterans benefits, interest on the debt, public assistance, unemployment compensation, or revenue-sharing.

That leaves Ehrlichman & Co. about $75 billion in such programs as grants-in-aid to the states for education, manpower training, health, pollution control, urban mass transit and similar objectives. These would have to be slashed about 20 per cent to bring the total budget with a $250 billion ceiling. It just is not a realistic concept. The Administration ought to quit playing politics, and buckle down to the important job of deciding what tax program will put its fiscal house in order.

(Presented by Hon. Edwin S. Cohen, Under Secretary of the Treasury, in testimony before the Joint Economic Committee, Congress of the United States, July 21, 1972:)

APPENDIX E

ESTIMATED DISTRIBUTION OF SELECTED ITEMS OF TAX PREFERENCES OF INDIVIDUALS BY ADJUSTED GROSS INCOME CLASS, CALENDAR YEAR 1971

[In millions of dollars]

Adjusted gross income class (thousands)	Exclusion of benefits and allowances to Armed Forces personnel	Exemption for certain income earned abroad by U.S. citizens	Exclusion of income earned by individuals in U.S. possessions	Farming: Expensing and capital gain treatment	Timber: Capital gain treatment for certain income	Expensing of exploration and development costs	Excess of percentage over cost depletion	Investment credit	Depreciation on buildings (other than rental housing) in excess of straight-line	Asset depreciation range	Dividend exclusion	Deductibility of interest on consumer credit
0 to $3	15	-	-	20	-	-	1	3	-	-	5	1
$3 to $5	120	1	-	55	2	1	2	16	3	2	13	44
$5 to $7	175	4	1	80	2	3	8	27	5	4	17	64
$7 to $10	180	6	1	120	2	2	6	41	11	6	29	165
$10 to $15	115	7	2	155	4	4	12	51	18	12	55	435
$15 to $20	28	16	3	90	2	4	12	32	12	9	46	380
$20 to $50	13	15	3	170	9	16	50	73	47	37	99	620
$50 to $100	3	1	-	55	8	14	43	33	28	23	27	59
$100 and over	1	-	-	45	21	21	66	29	36	7	9	12
Total	650	50	10	790	50	65	200	305	160	100	300	1,800

Adjusted gross income class (thousands)	Deductibility of interest on mortgages on owner-occupied homes	Deductibility of property taxes on owner-occupied homes	Depreciation on rental housing in excess of straight-line	Housing rehabilitation	Disability insurance benefits	Provisions relating to aged, blind, and disabled: Combined cost for additional exemption retirement income credit, and exclusion of OASDHI for aged	Provisions relating to aged, blind, and disabled: Additional exemption for blind	Sick pay exclusion	Exclusion of unemployment insurance benefits	Exclusion of workmen's compensation benefits	Exclusion of public assistance benefits	Net exclusion of pension contributions and earnings: Plans for employees	Net exclusion of pension contributions and earnings: Plans for self-employed
$0 to $3					35	805	1	2	65	15	25	45	
$3 to $5	27	41	4		40	750	2	13	110	28	20	145	7
$5 to $7	81	84	6	1	25	420	2	16	110	41	15	230	10
$7 to $10	276	263	14	1	30	585	2	32	185	69	5	535	13
$10 to $15	719	642	22	2	10	245	1	19	230	83		995	22
$15 to $20	543	505	15	1	5	125	1	20	65	39		685	18
$20 to $50	621	788	59	6	6	215	1	16	30	38		750	96
$50 to $100	101	240	35	3	3	70		2	5	6		175	71
$100 and over	32	137	45	1	1	35				1		90	13
Total	2,400	2,700	200	15	155	3,250	10	120	800	320	65	3,650	250

APPENDIX E—Continued

Adjusted gross income class (thousands)	Exclusion of other employee benefits: Premiums on group life insurance	Deductibility of accident and death benefits	Medical insurance premiums amd medical care	Privately financed supplementary unemployemnt benefits	Meals and lodging	Exclusion of interest on life insurance savings	Deductibility of charitable contributions (other than education)	Deductibility of medical expenses	Deductibility of child and dependent care expense	Deductibility of casualty losses	Excess of standard deduction over minimum
0 to $3	5		25		2	5	3	5	1		0
$3 to $5	20	1	80		14	20	31	100	7	5	3
$5 to $7	30	2	125	1	22	35	82	205	12	10	15
$7 to $10	75	5	300	1	35	85	225	325	5	30	100
$10 to $15	135	8	550	2	35	205	467	470	3	40	415
$15 to $20	95	6	380	1	25	185	364	310	1	20	115
$20 to $50	105	6	415		30	420	716	360	1	30	50
$50 to $100	25	1	95		5	80	426	90		20	2
$100 and over	10	1	30		2	65	886	35		10	
Total	500	30	2,000	5	170	1,100	3,200	1,900	30	165	700

Adjusted gross income class (thousands)	Capital gains, individuals	Additional personal exemption for students	Deductibility of contributions to educational institutions	Exclusion of scholarships and fellowships	Exclusion of certain veterans' benefits	Exemption of interest on State and local debt	Deductibility of nonbusiness State and local taxes (other than on owner occupied homes)
0 to $3	30	1		6	30	5	4
$3 to $5	60	17	3	26	95		56
$5 to $7	70	40	7	28	110		88
$7 to $10	150	101	20	22	130	5	351
$10 to $15	230	182	58	15	220	10	772
$15 to $20	210	92	70	10	70	20	772
$20 to $50	960	47	90	3	41	100	1,713
$50 to $100	920	54	20		3	300	906
$100 and over	2,970	16	7		1	360	928
Total	5,600	550	275	110	700	800	5,600

WHAT UNDER SECRETARY COHEN DIDN'T TELL US. APPENDIX E (WHAT IT REALLY MEANS)

TAX PREFERENCE BENEFITS PER INDIVIDUAL IN EACH ADJUSTED GROSS INCOME CLASS, CALENDAR YEAR 1971

[Tables based on official U.S. Treasury data submitted to the Congressional Joint Economic Committee, July 21, 1972.]

[Dollars per return]

Adjusted gross income class (thousands)	Number of returns per income class[1]	Percent of returns in each income class	Exclusion of benefits and allowances to Armed Forces personnel	Exemption for certain income earned abroad by U.S. citizens	Exclusion of income earned by individuals in U.S. possessions	Farming expensing and capital gain treatment	Timber: capital gain treatment for certain income	Expensing of exploration and development costs
0 to $3	18,063,181	24.4	0.83			1.11		
$3 to $5	10,238,897	13.7	11.72	0.10		5.37	0.20	0.10
$5 to $7	9,410,802	12.7	18.60	.43	0.11	8.50	.21	.32
$7 to $10	12,901,228	17.4	13.95	.47	.08	9.30	.15	.15
$10 to $15	14,104,611	19.1	8.15	.50	.14	10.99	.28	.28
$15 to $20	5,541,347	7.5	5.05	2.89	.54	16.24	.36	.72
$20 to $50	3,596,348	4.8	3.62	4.17	.83	47.27	2.50	4.45
$50 to $100	351,669	.5	8.53	2.84		156.38	22.75	39.80
$100 and over	77,899	.10	12.84			577.66	269.58	269.58

[1] For calendar year 1970. (1971 data not available at time of publication.)

WHAT UNDER SECRETARY COHEN DIDN'T TELL US. APPENDIX E (WHAT IT REALLY MEANS)—Continued

Adjusted gross income class (thousands)	Number of returns per income class[1]	Percent of returns in each income class	Excess of percentage over cost depletion	Investment credit	Depreciation on buildings (other than rental housing) in excess of straight-line	Asset depreciation range	Dividend exclusion	Deductibility of interest on consumer credit	Deductibility of interest on mortgages on owner-occupied homes
$0 to $3	18,063,181	24.4	0.06	0.17	----------	----------	0.28	0.06	----------
$3 to $5	10,238,897	13.7	.20	1.56	0.29	0.20	1.27	4.30	2.64
$5 to $7	9,410,802	12.7	.85	2.87	.53	.43	1.81	6.80	8.61
$7 to $10	12,901,228	17.4	.47	3.18	.85	.47	2.25	14.34	21.39
$10 to $15	14,104,611	19.1	.85	3.62	1.28	.85	3.90	30.84	50.97
$15 to $20	5,541,347	7.5	2.17	5.78	2.17	1.62	8.30	68.58	98.00
$20 to $50	3,596,348	4.8	13.90	20.30	13.07	10.29	27.53	172.40	172.68
$50 to $100	351,669	.5	122.26	93.83	79.61	65.40	76.77	167.76	287.18
$100 and over	77,899	.10	847.24	372.27	462.13	89.86	115.53	154.04	410.78

[1] For calendar year 1970. (1971 data not available at time of publication.)

Adjusted gross income class (thousands)	Number of returns per income class[1]	Percent of returns in each income class	Deductibility of property taxes on owner occupied homes	Depreciation on rental housing in excess of straightline	Housing rehabilitation	Disability insurance benefits	Provisions relating to aged, blind, and disabled—Combined cost for additional exemption retirement income credit, and exclusion of OASDHI for aged	Provisions relating to aged, blind, and disabled—Additional exemption for blind
0 to $3	18,063,181	24.4	----------	----------	----------	1.94	44.57	0.0[illegible]
$3 to $5	10,238,897	13.7	4.00	0.39	----------	3.91	73.25	.26
$5 to $7	9,410,802	12.7	8.93	.64	0.11	2.66	44.63	.21
$7 to $10	12,901,228	17.4	20.39	1.09	.08	2.33	45.35	.16
$10 to $15	14,104,611	19.1	45.52	1.56	.14	.71	17.37	.07
$15 to $20	5,541,347	7.5	91.14	2.71	.18	.90	22.56	.18
$20 to $50	3,596,348	4.8	219.11	16.41	1.67	1.67	59.78	.28
$50 to $100	351,669	.5	682.46	99.52	8.53	8.53	199.03	----------
$100 and over	77,899	.10	1,758.66	577.66	12.84	12.84	449.29	----------

[1] For calendar year 1970. (1971 data not available at time of publication.)

Adjusted gross income class (thousands)	Number of returns per income class[1]	Percent of returns in each income class	Sick pay exclusion	Exclusion of unemployment insurance benefits	Exclusion of workmen's compensation benefits	Exclusion of public assistance benefits	Net exclusion of pension contributions and earnings: Plans for employees	Net exclusion of pension contributions and earnings: Plans for self-employed
$0 to $3	18,063,181	24.4	0.11	3.60	0.83	1.38	2.49	...
$3 to $5	10,238,897	13.7	1.27	10.74	2.73	1.95	14.16	0.68
$5 to $7	9,410,802	12.7	1.70	11.69	4.36	1.59	24.44	1.06
$7 to $10	12,901,228	17.4	2.48	14.34	5.35	.39	41.47	1.01
$10 to $15	14,104,611	19.1	1.35	16.31	5.88	...	70.54	1.56
$15 to $20	5,541,347	7.5	3.61	11.73	7.04	...	123.66	3.25
$20 to $50	3,596,348	4.8	4.45	8.34	10.57	...	208.55	26.69
$50 to $100	351,669	.5	5.69	14.22	17.06	...	497.58	201.88
$100 and over	77,899	.10	...	...	12.84	...	1,155.33	166.88

[1] For calendar year 1970. (1971 data not available at time of publication.)

Adjusted gross income class (thousands)	Number of returns per income class[1]	Percent of returns in each income class	Exclusion of other employee benefits—Premiums on group life insurance	Exclusion of other employee benefits—Deductibility of accident and death benefits	Exclusion of other employee benefits—Medical insurance premiums and medical care	Exclusion of other employee benefits—Privately financed supplementary unemployment benefits	Exclusion of other employee benefits—Meals and lodging	Exclusion of interest on life insurance savings	Deductibility of charitable contributions (other than education)
0 to $3	18,063,181	24.4	0.28	...	1.38	...	0.11	0.28	0.17
$3 to $5	10,238,897	13.7	1.95	0.10	7.81	...	1.37	1.95	3.03
$5 to $7	9,410,802	12.7	3.19	.21	13.28	0.11	2.34	3.72	8.71
$7 to $10	12,901,228	17.4	5.81	.39	23.25	.08	2.71	6.59	17.44
$10 to $15	14,104,611	19.1	9.57	.57	38.99	.14	2.48	14.53	33.11
$15 to $20	5,541,347	7.5	17.14	1.08	68.58	.18	4.51	33.39	65.69
$20 to $50	3,596,348	4.8	29.20	1.67	115.40	...	8.34	116.79	199.09
$50 to $100	351,669	.5	71.08	2.84	270.12	...	14.22	227.47	1,211.16
$100 and over	77,899	.10	128.37	12.84	385.11	...	25.67	834.40	11,373.56

[1] For calendar year 1970. (1971 data not available at time of publication.)

WHAT UNDER SECRETARY COHEN DIDN'T TELL US. APPENDIX E (WHAT IT REALLY MEANS)—Continued

Adjusted gross income class (thousands)	Number of returns per income class [1]	Percent of returns in each income class	Deductibility of medical expenses	Deductibility of child and dependent care expense	Deductibility of casualty losses	Excess of standard deduction over minimum	Capital gains, individuals	Additional personal exemption for students
$0 to $3	18,063,181	24.4	0.28	0.06	....	0	1.66	0.06
$3 to $5	10,238,897	13.7	9.77	.68	0.49	.29	5.86	1.66
$5 to $7	9,410,802	12.7	21.78	1.28	1.06	1.59	7.44	4.25
$7 to $10	12,901,228	17.4	25.19	.39	2.33	7.75	11.63	7.83
$10 to $15	14,104,611	19.1	33.32	.21	2.84	29.42	16.31	12.90
$15 to $20	5,541,347	7.5	55.95	.18	3.61	20.75	37.90	16.60
$20 to $50	3,596,348	4.8	100.10	.28	8.34	13.90	266.94	13.07
$50 to $100	351,669	.5	255.90	....	56.87	5.69	2,616.10	153.54
$100 and over	77,899	.10	449.29	....	128.37	....	38,126.29	205.39

[1] For calendar year 1970. (1971 data not available at time of publication.)

Adjusted gross income class (thousands)	Number of returns per income class [1]	Percent of returns in each income class	Deductibility of contributions to educational institutions	Exclusion of schclarships and fellowships	Exclusion of certain veterans' benefits	Exemption of interest on State and local debt	Deductibility of nonbusiness State and local taxes (other than on owner occupied homes)
0 to $3	18,063,181	24.4	....	0.33	1.66	0.28	0.22
$3 to $5	10,238,897	13.7	0.29	2.54	9.28	....	5.47
$5 to $7	9,410,802	12.7	.74	2.98	11.67	....	9.35
$7 to $10	12,901,228	17.4	1.55	1.71	10.08	.39	27.98
$10 to $15	14,104,611	19.1	4.11	1.06	15.60	.71	54.73
$15 to $20	5,541,347	7.5	12.63	1.80	12.63	3.61	139.33
$20 to $50	3,596,348	4.8	25.02	.83	11.40	27.81	476.32
$50 to $100	351,669	.5	56.87	....	8.53	85.30	2,576.06
$100 and over	77,899	.10	89.86	....	12.84	4,621.31	11,912.71

[1] For calendar year 1970. (1971 data not available at time of publication.)

(By direction of the chairman the following statement was made a part of the printed record:)

STATEMENT OF THE AMERICAN LIFE CONVENTION AND THE LIFE INSURANCE ASSOCIATION OF AMERICA SUBMITTED BY WILLIAM B. HARMAN, JR., ALC, AND KENNETH L. KIMBLE, LIAA

This statement is submitted on behalf of the American Life Convention and the Life Insurance Association of America, two trade associations with a combined membership of 359 life insurance companies which account for about 89 percent of the legal reserve life insurance in force in the United States. The total assets of the life insurance business currently aggregate $230 billion, which represents a substantial portion of the accumulated private savings of the U.S. economy. We support Title II of H.R. 16810 which would impose a fixed ceiling of $250 billion on expenditures and net lending under the Federal budget during the fiscal year ending June 30, 1973.

A primary concern of the life insurance business is the future course of inflation in our economy. As the trustee of billions of dollars of savings accumulated through life insurance and pension plans, we have a vital interest in protecting the purchasing power of these funds. Our concern over inflation is not confined to price developments during a few months or quarters, but rather to the longer span of time which is relevant to our policyholders and pension beneficiaries. Hence, we are deeply concerned over the possibility of a renewal of inflationary pressures in 1973 and the years beyond.

During the past year, the progress made toward curbing inflationary trends in the U.S. economy has been most encouraging. The rate of increase in price levels, measured either by the consumer price index or the deflator for GNP, has moved substantially below the alarming inflation rates of 1970 and early 1971. It is imperative that we preserve these hard-won gains and avoid policies which will lead to a renewal of demand-pull inflation and a quickening of inflationary expectations among the public.

In our view, current budgetary developments carry a very strong threat of renewing inflationary forces in 1973.. During the fiscal year just ended, Federal budget outlays aggregated almost $232 billion, while receipts aggregated $209 billion, leaving a budget deficit of $23 billion. In the current fiscal year, it now appears that Federal budget outlays will approach $260 billion, an increase of $28 billion or 12 percent above fiscal 1972. With budget receipts expected to run $225 billion, the resulting budgetary deficit for fiscal 1973 would total $35 billion unless corrective action is taken.

In economic terms, the prospect of an expanding Federal deficit cannot be justified during a period of rapidly expanding business activity. A vigorous and broad-based expansion of the private economy has been under way for several quarters and its continuation is assured well into the coming year. In this setting, the rising trend of Federal spending is on a collision course with the rapid growth of the private economy and carries a serious threat of renewed pressures of excess demand with inflationary consequences during 1973.

It is not too late for public policy to adjust toward a mitigation of this inflationary threat. The proposal for a $250 billion ceiling on Federal spending in fiscal year 1973 would bring the Federal budget back into better control and we strongly support adoption of this measure by the Congress. The clear alternatives to such a ceiling are an increase in taxes, an increase in prices, or a combination of both. In the interests of sound and responsible fiscal policy, and to preserve the gains made in the battle against inflation, we strongly urge the Congress to enact a spending ceiling of $250 billion for the Federal budget of fiscal 1973.

(Whereupon, at 4:50 p.m., the committee proceeded to an executive session.)

O