EXTENSION OF EXISTING $450 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

ON

H.R. 15390

TO PROVIDE FOR A 4-MONTH EXTENSION OF THE PRESENT TEMPORARY LEVEL IN THE PUBLIC DEBT LIMITATION

JUNE 28, 1972

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EXTENSION OF EXISTING $450 BILLION DEBT LIMIT

WEDNESDAY, JUNE 28, 1972

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

The committee met at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Hartke, Fulbright, Byrd, Jr., of Virginia, Nelson, Bennett, Curtis, Jordan of Idaho, and Hansen.

The CHAIRMAN. The committee will consider today H.R. 15390, a bill which would provide a 4-month extension of the present temporary level in the public debt limitation. This is the second time that the committee has met to act upon the public debt limitation this year.

Under the present law, the debt limit is composed of two parts: a permanent limitation of $400 billion and a temporary additional limit of $50 billion through June 30, 1972. Thus, unless we act on this legislation this week, the debt limit will automatically revert to the permanent limit of $400 billion.

On June 27, the debt subject to the limit was $426.8 billion, considerably higher than the permanent limit would be; signaling the urgency of this legislation.

Current estimates of the budget indicate the fiscal 1972 budget outlook has improved somewhat over the January estimate, although on both the Federal funds and the unified funds basis, the deficit continues to be heavily in the red.

We also must be concerned about the fact that the fiscal 1973 budget projections show increases over the current projected deficits for fiscal 1972.

We will insert at this point in the record a copy of our committee press release announcing this hearing, a copy of the bill before us, and a memorandum prepared by the Finance staff providing some background on the budget.

(The material referred to follows:)

PRESS RELEASE

FOR IMMEDIATE RELEASE
June 23, 1972

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office Bldg.

FINANCE COMMITTEE ANNOUNCES HEARING ON THE PUBLIC DEBT

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee will hold a one-day hearing on Wednesday, June 28, 1972, on H.R. 15390, a bill to extend the present temporary ceiling of $450 billion on the public debt through October 31, 1972.

The Chairman announced that this legislation should be passed before June 30, 1972, because at that time the permanent debt limit of $400 billion would go into effect, significantly below the current outstanding debt of the Treasury Department. The debt on June 15 was $427.7 billion.

The Honorable George P. Shultz, Secretary of the Treasury, will be the principal witness for the Administration. He will be accompanied by the Honorable Caspar W. Weinberger, Deputy Director of the Office of Management and Budget.

The hearing will be held in Room 2221, New Senate Office Building and will begin at 10:00 A. M.

PR #14

92D CONGRESS
2D SESSION

H. R. 15390

IN THE HOUSE OF REPRESENTATIVES

A BILL

To provide for a four-month extension of the present temporary level in the public debt limitation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Law 92–250 and section 2 (a) of Public Law 92–5 are each amended by striking out "June 30, 1972," and inserting in lieu thereof "October 31, 1972,".

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June 28, 1972

MEMORANDUM

TO: Members of the Committee on Finance

FROM: Tom Vail, Chief Counsel

SUBJECT: Public Debt Bill (H. R. 15390)

House Bill. -- H. R. 15390 would provide a four-month extension -- through October 31, 1972 -- of the present "temporary" public debt limitation of $450 billion. The permanent debt limit would remain at $400 billion. Under present law, the "temporary" ceiling of $450 billion expires on June 30, 1972, and reverts back to the permanent $400 billion level.

Administration Request. -- On January 31, 1972, the Treasury Department requested the Congress to increase the temporary limitation on the public debt to $480 billion through June 30, 1973. Congress did not approve this request, but instead provided a $50 billion temporary addition to the permanent limit. The Administration's current request, submitted to Congress on June 5, was to increase the temporary limitation on the public debt to $465 billion which was estimated sufficient to finance the debt through February, 1973.

Explanation of House Action. -- According to the House Committee Report (pages 8 - 11), the House did not accede to the latest Administration's request for the following reasons:

1. Uncertainties in the Federal budget;
2. Concern with overwithholding of Federal taxes;
3. Concern over increasing expenditures; and
4. Broad interest in tax reform.

Thus, under the House action, Congress would have to consider the debt limit issue a third time this year, some time shortly before the end of October.

BUDGET

The January budget estimated a deficit for fiscal 1972 on a Federal funds basis of $44.7 billion. The unified or consolidated deficit was projected at $38.8 billion. These estimates have been revised downward to $32.2 billion and $26.0 billion, respectively. However, the fiscal 1973 budget estimates have been revised slightly upwards, as can be seen in the following table.

	1972		1973	
	January Estimate	Current Estimate	January Estimate	Current Estimate
Federal funds:				
Receipts	137.8	147.1	150.6	152.6
Outlays	182.5	179.3	186.8	190.4
Deficit(-)	-44.7	-32.2	-36.2	-37.8
Trust funds:				
Receipts	73.2	73.2	83.2	83.6
Outlays	67.2	67.0	72.5	72.8
Surplus	5.9	6.2	10.7	10.8
Unified budget:				
Receipts	197.8	207.0	220.8	223.0
Outlays	236.6	233.0	246.3	250.0
Deficit(-)	-38.8	-26.0	-25.5	-27.0

NOTE: Detail may not add to totals because of rounding.
Source: Office of Management and the Budget

The CHAIRMAN. Our first witness today will be the Honorable George P. Shultz, Secretary of the Treasury. Mr. Secretary, I see that you are accompanied by Mr. Weinberger, your successor, as the new Director of the Budget.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF THE TREASURY; ACCOMPANIED BY PAUL VOLCKER, UNDERSECRETARY OF THE TREASURY

Secretary SHULTZ. Yes, sir. I am also accompanied by Mr. Paul Volcker, Undersecretary of the Treasury for Monetary Affairs.

The CHAIRMAN. Well you inherited some good people over there, Mr. Shultz. I hope when you go selecting additional people to work with you and make some selections of your own down through the years that you will succeed in attracting the same quality of high-caliber people that your predecessors have been able to bring to the Treasury. You've got a good group over there.

Secretary SHULTZ. That is my impression also, Mr. Chairman, and I am glad to say that Mr. Volcker and many others are staying on in the Treasury and helping with the many problems that we have.

The CHAIRMAN. Mr. Caspar Weinberger will testify with you at the same time.

Mr. WEINBERGER. We have a short separate statement, Mr. Chairman, which we can deliver any time at your convenience.

I am accompanied by Mr. Samuel Cohn, assistant director, Office of Management and Budget.

The CHAIRMAN. I would suggest that each of you present your statements and that we withhold our questions and at that point then you can field the questions that are directed toward the Treasury and Mr. Weinberger can field those directed toward the Office of the Director of the Budget.

Secretary SHULTZ. Thank you, Mr. Chairman.

On July 1, 1972, as you noted in your statement, Mr. Chairman, the debt limit will revert to its permanent ceiling of $400 billion. The debt subject to statutory limit stood at $426.8 billion on June 27 and will be approximately $425 billion on July 1.

In addition, assuming an operating cash balance of $6 billion we expect the debt to rise to approximately $460 billion next February.

Accordingly—in order both to provide a margin for contingencies and to assure the new Congress an early opportunity to review the debt limit matter—we recommended to the House Ways and Means Committee that the temporary ceiling be increased to $465 billion and extended to March 1, 1973.

However, the committee recommended—and the House adopted—an extension of the existing $450 billion ceiling only through October of this year.

The 1972 fiscal situation has improved significantly in recent months. In our midsession review, we estimated that the fiscal 1972 deficit would be in the range of $26 billion—almost $13 billion less than the January estimate.

This improvement is primarily the result of a $9.2 billion increase in revenues—largely due to higher individual income tax receipts.

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Outlays also are now expected to be some $3.6 billion below the January estimate. Almost two-thirds of the reduction in outlays results from the delay in enactment of the President's revenue-sharing measure, which would have added some $2.2 billion to fiscal 1972 expenditures.

I might just interject at this point, assuming that the revenue-sharing measure passed retroactive to 1972, it would be an outlay technically, so to speak, in the fiscal 1973 budget. It would pass from the 1972 budget.

About two-thirds of the expected increase in individual income tax receipts is in withheld taxes, and largely reflects the overwithholding resulting from the Revenue Act of 1971.

Looking ahead to fiscal 1973, we now see a unified budget deficit of $27 billion, $1.5 billion over the January estimate of $25.5 billion. Total outlays—including the $2.2 billion in revenue sharing which we expect to be spent in fiscal 1973 rather than this year—are $3.7 billion higher. Despite heavy refunds, receipts will also be higher than thought in January.

Taken together, the deficits for fiscal years 1972 and 1973 are now expected to be about $11 billion less than anticipated last January.

The needed increase in the debt ceiling is determined not only by the deficit in transactions with the general public (the unified budget) but also by the amount of Treasury debt held by the Federal trust funds and other Government agencies.

Virtually all of the reduction from our January estimates in our projected deficits for the 2 years, fiscal 1972 and 1973, has occurred in the Federal funds sector of the budget. The trust funds are in surplus and therefore acquiring Treasury debt.

However, contrary to popular belief, the trust funds are in surplus only because they receive substantial amounts of Federal funds each year.

The table that you have before you in my testimony is of interest in this connection and its shows the interplay of the numbers.

(The table follows:)

[In billions]

	Actual 1971	Estimated 1972	Estimated 1973
Trust fund receipts from the public	$54.8	$60.1	$70.6
Trust fund receipts of Federal funds	11.4	13.1	13.0
Total	66.2	73.2	83.6
Trust fund outlays	59.4	67.0	72.8
Trust fund surplus	6.8	6.2	10.8

Table I [1] shows our estimates of Federal debt subject to limitation by months through June 29, 1973. Assuming a constant $6 billion cash balance, the calendar year 1972 peak level will be $453.2 billion on December 15. On February 27, 1973, the level will rise to $460 billion.

In proposing to the Ways and Means Committee a new temporary debt ceiling of $465 billion for the period through February 1973, we recognized that it will again be appropriate at that time for the Con-

[1] See page 8.

gress to review the budget and debt limit situation against the background of actual experience in the first half of fiscal 1973 and in relation to the fiscal 1974 budget outlook.

As already noted, the House has passed a bill which will merely extend the $450 billion temporary limit to November 1, when further action would again be essential.

I view this intention as unfortunate in view of the many other obligations facing the Congress. We would very much prefer that the Congress accede to our original request.

However, we must defer to the exigencies of the situation, and ask you to report a bill identical to H.R. 15390, the bill passed by the House of Representatives. Otherwise, I am concerned that June 30 will pass without final congressional action.

I am sure I need not belabor before this committee the need for congressional action on the debt ceiling by June 30. The result of inaction on this matter would be a reversion to a debt ceiling some $25 billion below the level of the debt actually outstanding. This would create an extremely difficult situation for the Government in paying its bills and conducting its business.

I therefore recommend prompt and favorable consideration of this request for a $450 billion temporary debt ceiling through October 1972.

Mr. Chairman, in concluding my statement I would be remiss if I did not express my deep and growing concern about the emerging fiscal situation in this country.

With deficits this year and next, the Federal budget will continue appropriately to stimulate an economy in which unemployment is too high and plant utilization too low.

My concern is not that such deficits will occur—but that our seeming inability to master the Federal budget will swell them much beyond proper economic limits. If this unhappy event is allowed to occur, then we shall likely find ourselves overwhelmed once again by the ravages of demand-pull inflation.

We must not undo the good work of recent years. The difficult and courageous efforts to cool an overheated economy and restore healthy economic growth with high employment and stable prices must not be negated by a ballooning Federal budget which no one can control.

The administration is firmly convinced that the Congress must face up to this problem in this session. It can do so by enacting the tough, no-exceptions ceiling on outlays which the President first proposed in July 1970, and again in 1971 and January 1972.

Adjusted for the delay in revenue sharing, that ceiling should be set no higher than $250 billion for the coming fiscal year, a level that approximates the revenues we would receive if the economy were at full employment.

Although it would normally be appropriate to add such a measure to the debt ceiling legislation, time does not so permit. The bill you are considering must be on the President's desk before midnight, June 30. Therefore a bill identical to that which passed the House yesterday is essential.

But there will be ample time and opportunities to enact the President's outlay ceiling before final adjournment of this Congress. Indeed, the expiration of the temporary debt ceiling on October 31 assures just such an opportunity—and without the exigencies of the current situation.

We therefore recommend—and urgently—that this committee report out H.R. 15390 without amendment.

Thank you, Mr. Chairman.

(Tables attached to Mr. Shultz' statement follow:)

TABLE I.—*Estimated public debt subject to limitation, fiscal year 1973*

[Dollars in billions]

	With $6 billion cash balance
1972:	
June 30	425.4
July:	
17	434.0
28	[1] 435.5
31	432.0
August:	
15	439.1
30	[1] 440.7
31	439.4
September:	
15	[1] 446.4
29	439.0
October:	
16	444.7
30	[1] 447.3
31	441.8
November:	
15	448.9
29	[1] 451.5
30	447.1
December:	
15	[1] 453.2
29	449.7
1973:	
January:	
15	[1] 455.4
31	449.4
February:	
15	458.4
27	[1] 460.0
28	456.8
March:	
15	463.5
29	[1] 469.8
30	465.8
April:	
16	[1] 473.2
30	463.3
May:	
15	470.2
30	[1] 475.4
31	371.8
June:	
15	[1] 477.9
29	464.8

[1] Peak level of month.

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

[In billions]

	Fiscal year		
	Actual	Current estimate	
	1971	1972	1973
Receipts:			
Trust funds	$66.2	$73.2	$83.6
Federal funds	133.8	147.1	152.6
Deduct: Intragovernmental receipts	—11.6	—13.3	—13.2
Total unified budget	188.4	207.0	223.0
Outlays:			
Trust funds	59.4	67.0	72.8
Federal funds	163.7	179.3	1940.4
Deduct: Intragovernmental outlays	—11.6	—13.3	—13.2
Total unified budget	211.4	233.0	250.0
Budget surplus (+) or definic (—):			
Trust funds	+6.8	+6.2	+10.8
Federal funds	—29.9	—32.2	—37.8
Total unified budget	—23.0	—26.0	—27.0

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

[In billions]

	Fiscal year 1972			Fiscal year 1973		
	January 1972 estimate	Change from January 1972 estimate	Current estimate	January 1972 estimate	Change from January 1972 estimate	Current estimate
Receipts	$197.8	+$9.2	$207.0	$220.8	+$2.2	$223.0
Outlays	236.6	—3.6	233.0	246.3	+3.8	250.0
Deficit (—)	—38.8	+12.8	—26.0	—25.5	—1.6	—27.0

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

TABLE IV.—COMPARISON OF FISCAL YEAR 1972 RECEIPTS AS ESTIMATED IN JANUARY 1972 AND CURRENTLY

[In billions]

	January 1972 budget	Change from January 1972 budget				Current estimate
		Economic and reestimate	Legislation	Other	Total	
Individual income tax	$86.5	+$6.4		[1] +$1.5	+$7.9	$94.4
Corporation income tax	30.1	+1.5			+1.5	31.6
Employment taxes and contributions	46.4		—$0.1		—.1	46.3
Unemployment insurance	4.4	—.1			—.1	4.3
Contributions for other insurance and retirement	3.4	+.1			+.1	3.5
Excise taxes	15.2					15.2
Estate and gift taxes	5.2	—.1			—.1	5.1
Customs duties	3.2					3.2
Miscellaneous receipts	3.5					3.5
Total budget receipts	197.8	+7.8	—.1	+1.5	+9.2	207.0
Underlying income assumptions, calendar year 1971:						
GNP	1,047					1,047
Personal income	857					857
Corporate profits before tax	85					85.5

[1] Change in capital gains tax estimate.

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

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

[In billions]

	January 1972 budget	Change from January 1972 budget: Economic and reestimate	Legislation	Other	Total	Current estimate
Individual income tax	$93.9	+$0.1		[1] +$1.5	+$1.6	$95.5
Corporation income tax	35.7	+.3			+.3	36.0
Employment taxes and contributions	55.1		+$0.1		+.1	55.2
Unemployment insurance	5.0					5.0
Contributions for other insurance and retirement	3.6	+.1			+.1	3.7
Excise taxes	16.3					16.3
Estate and gift taxes	4.3					4.3
Customs duties	2.8	+.1			+.1	2.9
Miscellaneous receipts	4.1					4.1
Total budget receipts	220.8	+.6	+.1	+1.5	+2.2	223.0
Underlying income assumptions, calendar year 1972:						
GNP	1,145					1,145
Personal income	924					924
Corporate profits before tax	99					99

[1] Change in capital gains tax estimate.

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

TABLE VI.—UNIFIED BUDGET RECEIPTS: ESTIMATED RECEIPTS, FISCAL YEARS 1972 AND 1973, JANUARY 1972 BUDGET AND CURRENT ESTIMATE

[In billions]

	Fiscal year 1972					Fiscal year 1973				
	Total receipts		Increase (+) or decrease (−), current estimate over January estimate			Total receipts		Increase (+) or decrease (−), current estimate over January budget		
	January budget	Current estimate	Total	Legislation	Other	January budget	Current estimate	Total	Legislation	Other
Individual income tax:										
Gross:										
Withheld	$76.2	$82.5	+$6.3		+$6.3	$34.3	$94.8	+$10.5		+$10.5
Other than withheld	24.8	25.8	+1.0		+1.0	26.6	24.9	−1.7		−1.7
Total gross	101.0	108.3	+7.3		+7.3	110.9	119.7	+8.8		+8.8
Less: Refunds	14.5	13.9	−.6		−0.6	17.0	24.2	+7.2		+7.2
Net individual income tax	86.5	94.4	+7.9		+7.9	93.9	95.5	+1.6		+1.6
Corporation income tax	30.1	31.6	+1.5		+1.5	35.7	36.0	+.3		+.3
Employment taxes and contributions	46.4	46.3	−.1	+$0.1		55.1	55.2	+.1	[1] +0.1	
Unemployment insurance	4.4	4.3	−.1		−.1	5.0	5.0			
Contributions for other insurance and retirement	3.4	3.5	+.1		+.1	3.6	3.7	+.1		+.1
Excise taxes	15.2	15.2	(2)		(2)	16.3	16.3			
Estate and gift taxes	5.2	5.1	−.1		−.1	4.3	4.3			
Customs duties	3.2	3.2	(2)		(2)	2.8	2.9	+.1		+.1
Miscellaneous receipts	3.5	3.5	(2)		(2)	4.1	4.1			
Total receipts	197.8	207.0	+9.2	−.1	+9.3	220.8	223.0	+2.2	+.1	+2.1

[1] Effect of delaying of increase in wage base from $9,000 to $10,200 past June 30 1972.
[2] Less than $50,000,000.

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

The CHAIRMAN. Mr. Weinberger.

STATEMENT OF HON. CASPAR W. WEINBERGER, DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET; ACCOMPANIED BY S. M. COHN, ASSISTANT DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. WEINBERGER. Mr. Chairman and members of the committee, Secretary Shultz has explained the need for an extension of the statutory debt limit. I support the request and, because we are faced with the expiration of the current law in 2 days, urge prompt action by this committee.

My remarks will focus primarily on the implications that the current estimates for the 1973 fiscal year budget will have on the public debt.

The midsession review of the 1973 budget, which was transmitted to the Congress on June 5, reflects the changes that have occurred since the 1973 budget was sent to the Congress in January. It shows a slight worsening of the deficit.

Revisions in the receipts estimates reflect the tax collection experience of the 4 months that have passed since January. The outlay estimates presented at that time have been similarly modified and reflect: revised estimates of uncontrollable outlays; changes that will result from action already completed or virtually certain to be completed by the Congress: and new or amended Presidential proposals.

Because congressional action has not been completed on any of the 1973 appropriations bills and on much substantive legislation, the estimates shown in the midsession review are necessarily tentative and, of course, are subject to further revision.

It should be further noted that receipts and outlays in the last month of the fiscal year are generally substantially larger than the average monthly outlays and receipts for the year, a fact which makes the final totals for fiscal year 1972 difficult to estimate with precision even at this late date.

BUDGET TOTALS

The fiscal year 1972 deficit is now expected to be about $26 billion, $13 billion less than was estimated in January. Estimated receipts are some $9 billion higher, while outlays are expected to be approximately $3½ billion lower.

The estimated deficit for fiscal year 1973 has increased by $1½ billion since January, to $27 billion. Congressional action or inaction accounts for increases in outlays totaling nearly $3½ billion which are offset partially by higher estimated receipts.

The combined deficit for the 2 years taken together is now estimated to be $11 to $12 billion less than in January.

On a full-employment basis, the January budget estimated a $8 billion deficit in fiscal year 1972 and a surplus of roughly $1 billion in fiscal year 1973. The current estimates are for a $5 billion deficit in 1972 and a $3 billion deficit in 1973. Thus, the combined full-employment deficit for the 2 years is essentially unchanged.

The movement of part of the deficit out of 1972 into 1973 is due largely to the shift in the anticipated date of the first, retroactive payment of general revenue sharing, which is now expected to come early in fiscal year 1973 rather than late in fiscal year 1972. This shift in timing has no large fiscal or economic significance. The slight delay in the retroactive payment does not violate the principle that the cost of the fiscal year 1973 programs should not exceed the full-employment yield of fiscal year 1973 taxes.

However, proposed additions of new spending programs or enlargement of older ones for fiscal year 1973 and beyond threaten to violate that principle in a dangerous way.

The following table compares the latest estimated totals of receipts, outlays, surplus or deficit, budget authority, and Federal debt with the estimates shown in the January budget. Additional detail is shown in the attached table.

(The table referred to follows:)

BUDGET TOTALS

[Fiscal years. In billions of dollars]

Description	1971 actual	1971 January estimate	1971 Current estimate	1973 January estimate	1973 Current estimate
Budget receipts	188.4	197.8	207	220.8	223
Budget outlays	211.4	236.6	233	246.3	250
Deficit	−23.0	−38.8	−26	−25.5	−27
Full-employment receipts	214.1	225.0	225	245.0	245
Full-employment outlays	209.2	233.1	230	244.3	248
Full-employment surplus or deficit (−)	4.9	−8.1	−5	.7	−3
Budget authority	236.4	249.8	247	270.9	276
Outstanding debt, end of year:					
Gross Federal debt	409.5	455.8	436	493.2	477
Debt held by the public	304.3	343.8	324	371.3	356

The Budget by Fund Group

Mr. Weinberger. The concept of Federal debt subject to limitation is roughly consistent with the "administrative budget" that was used until the 1969 budget. It is also generally similar to the Federal funds part of the unified budget.

For this reason, changes in the Federal debt subject to limit are more closely related to the Federal funds surplus or deficit than to the unified budget surplus or deficit.

The significant story in the revised 1972 figures on budget receipts, outlays, and surplus or deficit by fund group is that virtually all of the change has been in Federal funds.

Federal funds receipts are \$9.3 billion higher, outlays are \$3.2 billion lower, and, consequently, the Federal funds deficit is \$12½ billion lower than was estimated in January. This is why we are able to request a lower statutory limit on the debt than we did in January.

The principal changes in the 1973 estimates are: Federal funds receipts are now estimated to be \$2 billion higher because experience to date suggests that tax liabilities will be higher; and Federal funds outlays will be about \$4 billion higher, largely as a result of: (1) the shift from 1972 to 1973 of retroactive payments because of the delay in enacting general revenue sharing; and (2) the initiation of additional benefits for those suffering from black lung.

Conclusion

The severe budget problems that threaten if pending congressional add-ons are enacted underscore the significance of the warning sounded in the President's January budget message in which he said:

> A strong fiscal discipline will be necessary in the years ahead if we are to preserve the buying power of the dollar. Now spending programs must be evaluated against the most stringent of standards: do they have enough merit to warrant increases in taxes or elimination of existing programs?
>
> This Administration has measured its proposals against this standard. I have made the hard choices necessary to assure that they can be financed within a full-employment budget policy.
>
> I urge the Congress to engage in a similar self-discipline in making the hard choices that will be required during the next few years. This Administration will vigorously oppose irresponsible and shortsighted spending proposals that would commit large sums of Federal money to schemes that are politically attractive but would endanger an inflation-free prosperity.

The President continues his strong determination to preserve, by controlling spending, a 1973 budget that would be balanced under conditions of full employment.

Toward that end, he urged the Congress, in January, to enact a binding limit of $246.3 billion on 1973 spending before it acts any appropriations or other spending bills.

Since then, we have seen congressional action or inaction push the 1973 budget from approximate balance into full employment deficit and threaten a far deeper deficit if pending legislation continues on the track it has taken thus far.

The time for fiscal restraint is here now—both for the Congress and for the administration.

There is enough disenchantment with the institutions of Government as it is without having any kind of spectacle of the sort that would be afforded of a country without a debt ceiling after Friday night.

For that reason, we do join completely in the statements that the Secretary of the Treasury has made.

The statement I have before you supports the request for extension of the debt ceiling and emphasizes the need for not only prompt enactment of this bill that is before you, but also the importance of a real spending ceiling, not one that expands with each act of Congress or has other opportunities for expansion in it.

We think a spending ceiling is the only way that we are going to be able to secure any kind of grip on the outlays. The estimates for uncontrollables inevitably change, and the estimates of revenue are inevitably proved to be not precise—as they cannot possibly be when they are made some 18 months ahead of time. The language that the President used in January is very much applicable now, and the wisdom of his request for a spending ceiling is underlined now.

One other point ought to be added. A lot of people abroad, a lot of people connected with the international markets, a lot of people whose opinion is important in our own balance of trade and balance-of-payment situations view the increasing large deficits as potentially inflationary and as a weakening source for our entire economy. For that reason, as well as for all the others, we very strongly urge that the spending ceiling be enacted, that the overriding necessity for this bill and its prompt enactment before Friday night is such, the time situation, and the parilamentary situation in the House is such that we need this bill as it passed the House.

That would conclude the basic remarks I wish to make, Mr. Chairman, and I appreciate the opportunity to appear before you.

(Tables attached to Mr. Weinberger's prepared statement follow:)

TABLE 1.—CHANGES IN BUDGET RECEIPTS, BY SOURCE

[Fiscal years. In billions of dollars]

		1972			1973		
	1971 actual	January estimate	Current estimate	Change	January estimate	Current estimate	Change
Individual income taxes	86.2	86.5	94.4	+7.9	93.9	95.5	+1.6
Corporation income taxes	26.8	30.1	31.6	+1.5	35.7	36.0	+.3
Social insurance taxes and contributions	48.6	54.1	54.0	−.1	63.7	63.9	+.2
Other	26.8	27.1	27.0	−.1	27.5	27.6	+.1
Total	188.4	197.8	207.0	+9.2	220.8	223.0	+2.2
Memorandum:							
Federal funds	133.8	137.8	147.1	9.3	150.6	152.6	2.0
Trust funds	66.2	73.2	73.2	.1	83.2	83.6	.4
Intragovernmental transactions	−11.6	−13.1	−13.3	−.2	−13.0	−13.2	−.2

TABLE 2.—CHANGES IN BUDGET OUTLAYS, BY AGENCY

[Fiscal years. In billions of dollars]

		1972			1973		
	1971 actual	January estimate	Current estimate	Change	January estimate	Current estimate	Change
Department of Defense, military and military assistance	75.5	75.8	75.8	....	76.5	76.5	....
Agriculture	8.6	11.6	11.7	+0.1	11.0	11.1	+0.1
Commerce	1.2	1.3	1.2	−.1	1.4	1.4	....
Health, Education, and Welfare	61.9	71.9	71.5	−.4	79.0	80.7	+1.7
Social security trust funds	(43.7)	(49.0)	(48.9)	(−.1)	(56.0)	(56.0)	(..........)
Housing and Urban Development	2.9	3.5	3.9	+.4	4.2	3.8	−.4
Interior	.2	1.1	1.3	+.2	−1.1	−1.5	−.4
Justice	.9	1.2	1.2	....	1.5	1.4	−.1
Labor	7.9	10.5	10.0	−.4	9.6	9.7	+.1
(Unemployment trust fund)	(6.1)	(7.3)	(7.1)	(−.2)	(6.1)	(6.1)	(..........)
State	.5	.5	.5	....	.6	.6	....
Transportation	7.2	7.9	7.8	−.1	8.2	8.2	+.1
Treasury	21.0	24.1	22.1	−2.0	27.7	30.6	+2.8
(General revenue sharing)	(..........)	(2.2)	(..........)	(−2.2)	(5.0)	(7.2)	(2.2)
(Interest on the public debt)	(21.0)	(21.4)	(21.8)	(.4)	(22.7)	(23.1)	(.4)
Corps of Engineers	1.3	1.6	1.5	−.1	1.8	1.8	....
Atomic Energy Commission	2.3	2.4	2.4	....	2.4	2.4	....
Environmental Protection Agency	.7	1.3	.9	−.4	1.5	1.5	....
GSA	.5	.5	.6	+.1	.1	.1	....
NASA	3.4	3.2	3.4	+.2	3.2	3.2	....
U.S. Postal Service	2.2	1.9	1.7	−.2	1.4	1.4	....
Veterans' Administration	9.8	11.1	10.9	−.2	11.7	11.8	+.1
Other agencies	10.9	12.6	12.6	−.1	12.9	13.1	+.2
Allowances for:							
Pay raises (excluding DOD)	....	.2	....	−.2	.8	.2	−.5
Contingencies	....	.3	....	−.3	.5	.5	....
Undistributed intergovernmental transactions	−7.4	−7.9	−7.9	....	−8.6	−8.6	....
Total	211.4	236.6	233.0	−3.6	246.3	250.0	+3.8
Memorandum:							
Federal funds	163.7	182.5	179.3	−3.2	186.8	190.4	+3.7
Trust funds	59.4	67.2	67.0	−.2	72.5	72.8	+.3
Intragovernmental transactions	−11.6	−13.1	−13.3	−.2	−13.0	−13.2	−.2

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

TABLE 3.—CHANGE IN BUDGET RECEIPTS AND OUTLAYS, BY FUND GROUP

[Fiscal years. In billions of dollars]

		1972			1973		
	1971 actual	January estimate	Current estimate	Change	January estimate	Current estimate	Change
Receipts:							
Federal funds	133.8	137.8	147.1	9.3	150.6	152.6	2.0
Trust funds	66.2	73.2	73.2	.1	83.2	83.6	.4
Intragovermental transactions	−11.6	−13.1	−13.3	−.2	−13.0	−13.2	−.2
Total	188.4	197.8	207.0	9.2	220.8	223.0	2.2
Outlays:							
Federal funds	163.7	182.5	179.3	−3.2	186.8	190.4	3.7
Trust funds	59.4	67.2	67.0	−.2	72.5	72.8	.3
Intragovernmental transactions	−11.6	−13.1	−13.3	−.2	−13.0	−13.2	−.2
Total	211.4	236.6	233.0	−3.6	246.3	250.0	3.8
Surplus or deficit (−):							
Federal funds	−29.9	−44.7	−32.2	12.5	−36.2	−37.8	−1.7
Trust funds	6.8	5.9	6.2	.3	10.7	10.8	.1
Total	−23.0	−38.8	−26.0	12.8	−25.5	−27.0	−1.6

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

TABLE 4.—CHANGE IN BUDGET SURPLUS OR DEFICIT (−) BY FUND GROUP

[Fiscal years. In billions of dollars]

		1972			1973		
	1971 actual	January estimate	Current estimate	Change	January estimate	Current estimate	Change
Federal funds:							
Transactions with the public	−18.5	−31.8	−19.2	12.6	−23.3	−24.8	−1.5
Transactions with trust funds	−11.4	−12.9	−13.1	−.2	−12.8	−13.0	−.2
Total	−29.9	−44.7	−32.2	12.5	−36.2	−37.8	−1.7
Trust funds:							
Transactions with the public	−4.6	−7.0	−6.8	.1	−2.2	−2.2	−.1
Transactions with Federal funds	11.4	12.9	13.1	.2	12.8	13.0	.2
Total	6.8	5.9	6.2	.3	10.7	10.8	.1
Budget total:							
Federal funds	−29.9	−44.7	−32.2	12.5	−36.2	−37.8	−1.7
Trust funds	6.8	5.9	6.2	.3	10.7	10.8	.1
Total	−23.0	−38.8	−26.0	12.8	−25.5	−27.0	−1.6

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

The CHAIRMAN. Senator Nelson?

Senator NELSON. I'll pass for the moment.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Secretary, the national debt is increased or decreased as the case might be—but I think the word is "increase"—the national debt is increased in almost direct proportion to the increase in the Federal funds deficit. Is that not correct?

Secretary SHULTZ. Yes, sir.

Senator BYRD. Now, according to your testimony, the national debt will be $425 billion on the 30th of this month?

Secretary SHULTZ. Approximately; yes, sir.

Senator BYRD. Now, since the debt stood at $400 billion—or 399 I believe is the exact figure so say $400 billion at the end of the last fiscal year, that is June 30, 1971, this would mean that the debt increased by $16 billion during fiscal year 1972. Would that be correct?

The CHAIRMAN. Two six?

Senator BYRD. Yes $26 billion during fiscal year 1972. Would that be right?

Secretary SHULTZ. I think that is right. I am sure we have a table on that that gives the amount by year.

That is about right. We can provide a table for the record if you would like that just takes us back and gives you a year-by-year account.

Senator BYRD. So that that debt increased by $26 billion during this fiscal year then?

Secretary SHULTZ. About that, yes.

Senator BYRD. Now, the total Federal funds deficits, as I understand it, for the current fiscal year that ends this week will be in the neighborhood of $32 billion.

Secretary SHULTZ. Yes, $32 billion; that is about our current estimate. I think it is well to emphasize that these are estimates. June is quite a big month—big receipts and big outlays—and it is always hazardous to be too precise in your predictions. It is hard to know what the June month will actually show.

Senator BYRD. Well, I notice that you say in your statement that the fiscal situation of the Government has improved significantly in recent months.

Secretary SHULTZ. Well, in fiscal 1972, Senator, comparing the January estimate with our present estimate, that has improved.

On the other hand, the fiscal 1973 picture as projected in the mid-session review has worsened slightly and of course that projection simply projects the President's budget and the President's program. It makes no effort to estimate what, for example, Congress may do on appropriations. We have not yet had any appropriation bills enacted and come to the President's desk.

Senator BYRD. When you say improved significantly, is it not correct that the largest part of that so-called improvement would be the over-withholding of taxes from the citizens to the tune of about $6 billion plus?

Secretary SHULTZ. Yes.

Senator BYRD. Plus a deferment of revenue sharing as an expense?

Secretary SHULTZ. That is correct.

Senator BYRD. So you really don't have an improvement of a personal nature because the taxpayers have had money taken from them which the Government had no right to take and will have to adjust that in a subsequent year; is that correct?

Secretary SHULTZ. I would only take exception to your comment that the Government had no right. That is, the money is flowing in as a result of action by the Congress in changing the withholding tables and I think Congress has a right to do that and generate this flow.

Senator BYRD. You are quite right. The Government has a right to do anything it desires to do. It is question of power and it has the power to do whatever it wishes to do, but phrase it another way: The American people as a result of tables compiled by the Government have paid in withholding taxes an amount equal to about $6 billion in this fiscal year that they under the law were not required to pay.

Secretary SHULTZ. Well, I know you went through this problem extensively in the 1971 Tax Act, and the problem of what assumption is the proper assumption in getting up the tables. Should you assume that households have a single earner and let people adjust off that base, or assume that you have a taxpayer with two jobs—either moonlighting or extra job in the family—and then let people adjust off that basis. There was an underwithholding problem, and I believe this committee was pushing very hard to correct that, and that has resulted in the overwithholding problem.

Of course any individual, as you provided in your 1971 Tax Act, can make this adjustment and forms have been provided to make that possible.

Senator BYRD. I remember the complexities of it and I am not critical of that aspect of it. What I am speaking of is when you say the situation has improved significantly, the largest part of that so-called significant improvement came about by taking an additional $6 billion from the taxpayers over and above what the tax rates actually were at the time the tax was paid. That is the only point I am suggesting.

Secretary SHULTZ. I agree with that point.

I think in a factual sense the fiscal year 1972 deficit is significantly smaller, and that is a fact of some economic significance. But I agree completely with your statement about why and that it is not a permanent gain. At some point it is going to have to be paid out.

Senator BYRD. Well, in projecting the deficit for fiscal 1973, as I understand it, you provided or you assumed a 5-percent increase in social security benefits. Is that correct?

Secretary SHULTZ. We assumed the President's program, which is basically in this area H.R. 1. which you have been discussing, which has a 5-percent increase in social security.

Senator BYRD. Well, the question I would like to ask is this: Assume the Congress were to enact a 10-percent increase in social security benefits and, second, assume that Congress were to enact a 20-percent increase in social security benefits; how would each of those programs, how much would they add to the deficit at the end of 1973?

Secretary SHULTZ. Well, if they were enacted effective July 1, 1973, and they took effect for the full fiscal year——

Senator BYRD. Yes.

Secretary SHULTZ. Let's make that assumption. Then I believe that 5 percentage points not offset by any tax changes is the equivalent of about $2 billion.

In other words, if you go from 5 to 10 that is $2 billion. Ten to fifteen, that is another two. Fifteen to twenty, that is another two.

Senator BYRD. But all of the proposals have an offset in the way of additional taxes, so how would the composite package——

Secretary SHULTZ. Well, it depends on the nature of the offset and how much is really provided. There are a number of proposals that I have read that take off from the advisory committee report to HEW and deal with assumptions about the level of the trust fund and so forth. There are all sorts of ways to allege that you are financing the increase and that I think is a matter of some argument and controversy.

Senator BYRD. Well, Budget undoubtedly has studied the action taken by the Senate Finance Committee.

What effect does that have, taking a 10 percent along with increase in taxes; what net effect does that have?

Mr. WEINBERGER. Senator, the gross effect is a little over $4 billion. The net effect would require payment of approximately $2 billion out of the general fund because the tax structure is such that the increased payroll taxes called for could not take effect until January 1973, so the first 6 months of the fiscal year would have to be financed out of the general fund, which would add substantially to the deficit.

Senator BYRD. That is what I am trying to ascertain.

Mr. WEINBERGER. About $2 billion if the Senate version passed and $4 billion additional for the 20 percent.

Senator BYRD. So if the 10 percent passed as recommended by the Finance Committee, that would mean an increase of about $2 billion?

Mr. WEINBERGER. Yes, sir; and an increase in outlays of about $4 billion.

Senator BYRD. But a net increase of about $2 billion?

Mr. WEINBERGER. Yes, sir.

Senator BYRD. And is that $2 billion over the 5 percent or $2 billion——

Mr. WEINBERGER. Over the 5 percent that we are showing as our projections for the 1973 budget now.

Senator BYRD. And the 20 percent then as has been proposed by some of the Members of the Senate would mean $4 billion?

Mr. WEINBERGER. $4 billion net outlay, yes, sir, unfinanced out of the general fund.

Senator BYRD. Then when you get into the second year in each of those cases you don't have that tremendous, that large deficit do you?

Mr. WEINBERGER. No. Once it moves into a regular cycle, the financing would cover most of it.

Senator BYRD. Would cover most of it after the first year?

Mr. WEINBERGER. Probably. But you would also have a situation in which your reserve fund would only be 75 percent of the coverage it has been, and it would go a long ways toward making the system actuarially unsound.

Senator BYRD. I noticed, Mr. Weinberger, that in the Post this morning they quote you as saying that Congress is going to force a huge tax increase if it keeps creating new programs without deleting old ones, and I certainly agree with that statement.

Now, as Budget Director, would you submit to the committee a list of programs which you feel could be eliminated or reduced?

Mr. WEINBERGER. Senator, the President has done that with two successive budgets and we certainly plan to do it in connection with the submission of the 1974 budget. We are working on that now.

Senator BYRD. I don't quite follow you. I don't quite follow that statement that you have done it.

Mr. WEINBERGER. Yes. The President's budget in 1971 and 1972 had very substantial lists of programs recommended for termination and also other means of making savings.

My memory is that the 1971 recommendation was about $2 billion. Now I have forgotten precisely what the 1972 one was, but I think it was over $3½ billion. We do plan to submit a similar but somewhat more extensive list in the 1974 budget.

Senator BYRD. An extensive list of programs that you recommend be eliminated?

Mr. WEINBERGER. Yes, sir.

Senator BYRD. What do they add up to in dollars?

Mr. WEINBERGER. We haven't completed the list yet, but they will have to be a substantial amount.

In the proposals for special revenue sharing there were recommendations for elimination of a great many programs.

Senator BYRD. Well, that is transferring of expenditures.

Mr. WEINBERGER. It is transferral of the expenditures required by those programs to programs that he felt to be more effective——

Senator BYRD. What I am getting at is what is the reduction that you recommend?

Mr. WEINBERGER. The total reduction that was recommended in those two budgets amounted to more than $4 billion. The recommendations that we will present with the 1974 budget haven't been completed, but I think it is safe to say that they would total much more than the $4 billion we are talking about.

Senator BYRD. I am not sure that I follow you on this.

Let's deal with 1973. To eliminate a certain program and then to take that same amount of money and to give it to the States or localities——

Mr. WEINBERGER. That was one phase of it. That was the special revenue sharing. In addition to that there were economies recommended in the 1971 and 1972 budget that amounted to more than $4 billion. There weren't formal lists in 1973 but the President reiterated his desire to have the earlier recommendations that had not been acted on by the Congress enacted.

Senator BYRD. For the fiscal year ending June 30, 1970, there was a $13 billion deficit, for the fiscal year ending 1971 there was a $30 billion deficit, for the fiscal year ending 1972, which is the day after tomorrow or Saturday, there will be a $32 billion deficit, and for fiscal 1973 there is a deficit estimated at $37.8 billion.

Mr. WEINBERGER. You are using Federal funds figure.

Senator BYRD. Which total $113 billion in deficits over a 4-year period.

Now, we talk about revenue sharing and I approve the concept of revenue sharing, but where is the revenue share of $37.8 billion in fiscal 1973, $32 billion in fiscal 1972, $30 billion deficit for 1971, and a $13 billion deficit for 1970?

Mr. WEINBERGER. Well, it is our hope, Mr. Chairman, that this would take its place as one of the regular expenditures of the Federal Government and that we would be able to make reductions in other programs which would no longer be required at that time.

The revenue sharing concept is a concept designed to take some of the revenue that comes from the Federal tax system and give it to State and local governments so that they in turn will not have to take such a heavy toll through State and local taxation.

It recognizes that the Federal Government has preempted one of the most expansive and elastic bases of taxation, the income tax, that we share in that system to a greater extent with State and local governments.

My State, California, intends to use some of that money to bring about local tax reduction, which I think would be a very useful use to make of that money.

Senator BYRD. Well, I agree with the concept just as you agree with the concept, but I still don't understand where you are going to get the money to share that when you run into these smashing deficits. In other words, you would add it to the deficit.

Mr. WEINBERGER. No, sir. It is included in the figures that we project for 1972 and 1973 because it was a part of the President's program. We think it would be part of the deficit more effectively spent——

Secretary SHULTZ. I wonder if I could take a crack at that, Senator.

The President's budget, including general revenue sharing, is approximately in balance at full employment——

Senator BYRD. Don't let's get on that, if you will, Mr. Secretary. That is a nebulous thing and I can't understand it. I would like to stick with the Federal fund budget which historically has been the basis of operating this Government. We can understand those figures.

Secretary SHULTZ. Well, I think that those figures are an essential and obviously the ones for figuring the debt.

Senator BYRD. That is what we are talking about, the debt. That is the purpose of the meeting.

Secretary SHULTZ. That is what we are talking about here. At the same time we have to be aware of the impact of this gigantic flow of funds from the Federal Government. Once the flow becomes an outlay or once it is attached, it doesn't make any difference whether it comes from a trust fund or goes into a trust fund or comes from Federal funds or goes into Federal funds.

It is outlays and it is receipts and we have to ask ourselves what the impact of that flow is on the well-being of the economy as a whole, and here the need to stimulate the economy at times, the need to hold down at other times, and so on is important. The full employment concept is an effort to give some guidance on that which I think Federal funds concept does not give.

Senator BYRD. I think you should probably be very happy at the turn of events. Only 16 months ago the administration proclaimed that it wanted Keynesian philosophy, that it wanted more deficits, wanted heavier spending.

Well, you have certainly got it. You have got a deficit of $113 billion in a 4-year period. Accelerating each year: $13 billion, $30 billion, $32 billion, $37.8 billion, which in my judgment that last figure is greatly underestimated, but taking your own figures, those are very smashing deficits in my judgment.

Mr. Chairman, I don't want to take any more time right now. I do have other questions if I could ask them later.

The CHAIRMAN. Mr. Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Mr. Secretary, the reason the deficit limit increase request now comes about is because of the Federal funds deficit. Am I right about that?

Secretary SHULTZ. Well, the proposal that we have made—namely to take the bill that the House passed as a clean bill and pass it—does not change the debt ceiling at all. That is, it was $450 billion and it is recommended to stay at $450 billion for the next 4 months.

Of course the problem is that $400 billion of that is permanent and $50 billion of it is temporary. Our actual debt is now about $425 and so we are well within the $450 limit. Certainly it is the Federal funds flow that is the real flow of funds in considering what is likely to happen to the debt.

Senator HANSEN. On page 4 of your statement you call for a spending ceiling—a tough no-exception ceiling on outlays which the President first proposed in July 1970 and again in 1971 and January 1972.

I recall in 1968, Senators Williams and Smathers proposed a spending limit, an overall limit, and if I recall correctly what happened subsequent to the passage of that amendment there were numerous appropriation bills given approval by the Congress which exceeded the terms of the Williams-Smathers amendment and in each one of those instances the Congress simply stated—I recall on our side anyway they did—that the overall limit as called for by the Williams-Smathers amendment would not apply to that specific appropriation.

I think the Senate was advised several times to circumvent the thrust of the overall limit.

Now my question is: What method do you propose we impose on ourselves so as not to exceed this overall limit?

Secretary SHULTZ. Well, our proposal would be that the limit be specified, say, at $250 billion—which we think does provide adequate stimulus but still keeps the situation under control—and that there be no exception. That is, that the Congress in effect have a self-denying limit, so to speak, saying whatever happens, whatever is appropriated, nevertheless the $250 billion ceiling applies. Then the question is who is going to take the heat for cutting back. In our proposal the President has said he is willing to take the heat.

If there is some other proposal, we are willing to listen to it, but there has to be some way to cut down and keep within the limit of $250 billion which is, after all, quite a lot of money.

Senator HANSEN. Well, I am fully in accord with your recommendation and it is in an earnest desire to try to be helpful that I would ask you, Are you familiar with the language of the Williams-Smathers amendment?

Secretary SHULTZ. Yes, sir.

Senator HANSEN. Would you be willing at a later time to provide the language that you think will implement the ironclad, overall limit that will achieve the purpose that you call for?

Secretary SHULTZ. Yes, sir. We have provided that and that is available so we can make that part of the record here.

Mr. WEINBERGER. It has actually been introduced in this Congress, Senator, by Senator Roth and was considered once on the floor of the Senate in connection with the previous debt ceiling bill.

Senator HANSEN. I think I was a cosponsor of that but I must say at the time we passed it that I was not as enthusiastic as I think I might have been because I couldn't see that the language would preclude actions similar to those taken subsequent to the passage of the Williams-Smathers amendment.

Now maybe I am misreading it——

Mr. WEINBERGER. I am not familiar with any spending ceiling language except the one the administration submitted, and that had no escape hatch. It simply provided that by its enactment that fixed spending ceiling at that total amount, and that the President would administer it. No subsequent appropriation or subsequent revision of estimates would lift it. That is the only kind, I think, is really effective.

Senator HANSEN. Well I hope it will be successful. I have no further questions.

The CHAIRMAN. Mr. Ribicoff?

Senator RIBICOFF. No questions.

The CHAIRMAN. Mr. Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Mr. Secretary, this is probably not the time or place to discuss how we arrived where we are, but the fact is we are facing an acute situation.

As I read your statement, the result, you say, or inaction on this matter would be a reversion to a debt ceiling some $25 billion below the level of that actually outstanding which is $230 billion. This would create an extremely difficult situation for the Government in paying bills and conducting its business.

What would be the first trouble that would beset us if we failed to act by June 30?

Secretary SHULTZ. Well, the very first thing we would have to work on is the payroll savings program. The effect of not extending the debt limit means that the Secretary of the Treasury—since we would be over the limit that would then prevail—would not be authorized to sell any debt. The savings bond program is an on-going program. There are 20,000 financial institutions involved, there are 40,000 corporations, over 9 million people who have withholding deductions that they have said they wanted. All those people would be affected in one way or another, and we would have to take some measures with respect to that.

We would run out of cash very fast, not simply because of what you would see by comparing the weekly or daily rate of intake with the rate of outgo, as we think of it, but because the Treasury is constantly turning over the debt at a rate of about $4 billion a week. We would have to pay out cash for the securities that came due. We would not be able to issue new securities, as we normally do, to refund maturing securities.

In addition, next week there is over $1 billion of foreign held securities coming due that we would have to redeem. So our cash balance would very quivkly be depleted and we would come to the point where we wouldn't be able to honor obligations that the U.S. Government has incurred.

Senator JORDAN. When would Federal payrolls become affected?

Secretary SHULTZ. Very quickly. We have a matter of days. Very few days.

Senator JORDAN. Mr. Weinberger, you went through your statement rather hastily, but I am intrigued by this table. I wonder if I am looking at it with a proper interpretation.

You say in this table that we have changed priorities rather dramatically over a 20-year period—from 1953–73. In 1953, 66 percent of the budget was spent for national defense.

Mr. WEINBERGER. Yes, sir. This is yesterday's statement before the Joint Economic Committee, but I have it now before me and it does show that there has been a very substantial reversal.

(The table referred to follows:)

BUDGET OUTLAYS AND CHANGE IN OUTLAYS, FISCAL YEARS 1969, 1973

[In billions of dollars]

	Outlays (amount)		Change in outlays 1969-73	
	1969	1973	Amount	Percentage
National defense	81.2	78.3	-2.9	-4
Human resources	63.6	113.1	49.5	78
Physical resources	18.2	25.0	6.8	37
Net interest	12.7	18.9	6.2	49
Other	8.8	14.7	5.9	67
Total	184.5	250.0	65.5	35

Senator JORDAN. National defense expenditures for 1953 were 66 percent, and expenditures for human resources were 15 percent.

Mr. WEINBERGER. Yes, sir.

Senator JORDAN. Then as we follow over to 1957, national defense was 56 percent and human resources were 23 percent.

For 1961, national defense was 48 percent and human resources 30 percent; 1965 national defense expenditures were 42 percent and human resources were 30 percent. In 1969 it was 44 percent for national defense and 34 percent for human resources.

Then comes a very spectacular change. In 1973 it is calculated—I guess this would be an estimate for 1973.

Mr. WEINBERGER. Yes, sir. This is the budget as submitted by the President.

Senator JORDAN. Yes; but are the tables correct?

Mr. WEINBERGER. Yes, sir. We believe they are.

Senator JORDAN. You say national defense has been reduced from 44 percent of the budget in 1969 to 31 percent in 1973 and human resources expenditures will increase from 34 percent in 1969 to 45 percent in 1973.

Mr. WEINBERGER. That is correct, Senator. It is a very spectacular and dramatic reversal that is almost an exact reversal of the figures since the administration took office.

Senator JORDAN. So when we hear a lot of talk about changing priorities, it is well to bear in mind that priorities have already been substantially changed as indicated by the figures that you have recited in this table.

Mr. WEINBERGER. That is certainly correct, Senator. Later on in that same statement I said that the Government has certainly not starved the human resources program. It has been a very impressive expansion of money. The problems remain. A lot of the programs, we think, do not have output comparable to the input of money they have received. We have not achieved ~~the~~ results from a lot of these programs that were initiated in the sixties that would justify continuing expenditures on the basis that is now required by these programs. They have built-in uncontrollable factors in them.

Senator JORDAN. I appreciate having that information. I think that story needs to be told over and over again. We have in fact made a dramatic change in priorities already from defense to human resources. That is all I have.

The CHAIRMAN. Mr. Fulbright?

Senator FULBRIGHT. Mr. Secretary, you may have mentioned this. What is the present rate of inflation?

Secretary SHULTZ. Measured by the Consumer Price Index, and if you take a span of time such as the period since the President's new economic program, the rate of inflation is 2.9 percent.

There are all sorts of indices you can use. You can take a month or 2 months, or 1 year or whatever as the base. But I suppose the index that most closely measures what people experience is the Consumers Price Index.

Senator FULBRIGHT. Is that on an annual basis?

Secretary SHULTZ. That is annualized; that is right. That is the annual rate since the President's new economic program began. The rate was lower during the freeze. Then there was a bulge. Then it has come down where it——

Senator FULBRIGHT. Well, the current rate annualized is 2.9 percent.

Secretary SHULTZ. 2.9 since August.

Senator FULBRIGHT. Since last August. Recently the Secretary of Defense said that the extension of the war in Vietnam would probably cost from $3 to $5 billion, I believe.

Has that been taken into account in your estimates of the deficit?

Secretary SHULTZ. Well, that statement came after the midyear review was sent up. Mr. Weinberger?

Senator FULBRIGHT. Is that reflected in these figures?

Mr. WEINBERGER. No, that is not, as you indicated, Senator. It is a pretty wide ranging set of possibilities and those possibilities are not reflected in this because they have not yet been formally transmitted to the Congress as a supplemental or as a budget amendment.

Senator FULBRIGHT. Will that have an impact on your debt?

Mr. WEINBERGER. Yes, sir, it will.

Senator FULBRIGHT. Could you tell us what is the annual rate now of the cost of the war in Vietnam?

Mr. WEINBERGER. I have that. I believe those figures were supplied at one time by Secretary Laird. All I have is the material that he supplied, and I don't know how up to date it is. The last figure we have in it is either early this year or late last year.

Senator FULBRIGHT. What was it?

Mr. WEINBERGER. It is a single sheet of paper which I think he furnished to I believe your committee, Senator, at that time.

We will get it and send it up again.

The last figure that he had was fiscal year 1972 where he estimated the incremental cost at $7 billion.

Senator FULBRIGHT. $7 billion? So that if he is correct in his estimate it could be somewhere between $10 and $12 billion this year.

Mr. WEINBERGER. No, I don't think so, because it is on a declining basis. The figure I gave you is 1972. This is very largely a definitional problem.*

Senator BENNETT. Mr. Chairman, we have a vote on and they have just rung the 5-minute bell.

*See further discussion on this subject; page 29 of this hearing.

The CHAIRMAN. Well, I would suggest then that we stand in recess until we can return to the room. At that point we will resume.

Senator FULBRIGHT. While we are gone, Mr. Weinberger, would you give us a cumulative cost of the war since 1965. You have those figures I believe. I would just be curious about it.

(Brief recess taken.)

The CHAIRMAN. I would assume that Senator Fulbright will be back in his place in just one moment, so I will not call upon the next Senator at this time. In the meanwhile I might announce that the debt limit bill has reached the Senate from the House and in view of the fact that time is running out on this matter it occurred to the chairman that it might be best to intercept the bill at the desk and ask that it go immediately to the calendar. The committee can recommend what it wants to do about that matter, but we can bypass the requirement under the rules that the bill lay over for a day after being reported out by the committee.

I would hope that when we conclude our session here this morning that the committee could meet in executive session and act—at least make its recommendation with regard to this measure this morning, so the Senate would be ready to do business on this subject tomorrow.

Now, in view of the fact that Senator Fulbright has not yet returned and I did want to respect his position, I will ask a couple of questions rather than recognize someone else and then have to interrupt him to turn to Senator Fulbright.

Mr. Secretary, during your confirmation hearing you advised the committee that you would look into the Treasury practice of withholding information from the General Accounting Office and administration of the countervailing duty statute and on the Lockheed loan guarantee.

Is there anything you can report to the committee regarding that situation?

Secretary SHULTZ. Well, only procedurally that I have studied it. I have talked with Mr. Staats on the telephone and we had a fairly lengthy meeting between the two of us. We have tried to identify, with respect to the Lockheed loan question, precisely what it is that he wishes to have, and it is my feeling, and I believe his, that we are going to be able to solve that issue. We are working at it but have not gotten complete closure on it.

The CHAIRMAN. Well, it would seem to me that you are both able and competent public servants and I just don't see why men of good qualification and good will can't get together on something of that sort and resolve it.

Now if you can't resolve it, I supposed we can offer you a referee from this committee to help break the tie if your people can't seem to come to terms on it, but I think that would be something that is subject to being resolved without surrender of principle on either side.

Now I would like to ask about another matter.

Following your confirmation I wrote to you regarding the executive branch practice of impounding funds appropriated by Congress for various programs including the Highway Trust Fund.

In your response to me of June 7 this year, you reported that the executive branch will release $4.4 billion in fiscal 1973 of impounded funds for the Interstate Highway System.

The Federal Aid Highway Act of 1970 authorized obligations in excess of $5.5 billion for the Interstate System in fiscal 1973.

I'd like to make this question in two parts.

Does this mean that there will be $9.9 billion available for highway commitments in 1973, and two, how much would still be impounded if you released $4.4 billion in fiscal 1973?

Secretary SHULTZ. I think the answer to the first part is no. The fiscal 1973 release is the $4.4 billion.

Now, how much this holds over, I believe that gets pretty well obligated, but I will defer to Mr. Weinberger or Mr. Cohn on exactly where that stands.

Mr. COHN. Mr. Chairman, in addition to the 1973 availability there are some balances that have been carried over since the 1960's that have not been obligated. That amount must be something in the neighborhood of close to $1 billion.

The difference between the $4.4 and $5 billion is another half a billion dollars or so that would still be in reserve. That would be all unless the 1970 or a later act provided some more funds for 1974, which would also become available. That would be for the 1974 program—if it is provided.

For the 1973 program, my guess is that between $1 and $2 billion of funds representing carryovers for past years as well as 1973 would still be in reserve.

The CHAIRMAN. Of course you didn't start it, but when President Eisenhower was in office we were urged to pass this tax and set up this highway trust fund and we didn't have the pleasure on this committee of saying who gets the money. All the joy we had was just in putting the tax on somebody to pay for all this and, having done that, we were given to understand that this money would be spent.

In fact, that was Harry Byrd, Sr.'s amendment that put it on a pay-as-you-go basis.

I am not too sure it was that good an idea, but I went along with it.

Now we find that we are not getting it on pay-as-you-go. We pay, but we don't go. How can you justify holding up the money when the whole idea was that we would pay as we go?

Secretary SHULTZ. We were saying this morning that there would be another $2 or $3 billion if all of this money were expended in this year. Also, some of the worst inflation in the economy is in the construction industry and we would be adding considerable demand-pull pressures to that if all of these funds were released.

Seventy-one percent of the Federal budget is uncontrollable. This happens to be in the sector that is controllable. It therefore gets a little closer look.

The final point, there weren't all that many applications pending that would have justified or warranted the release of all of these funds. The simple fact of the matter is that there are some highway funds available which have not been spent, but from which—in order to keep the fiscal situation the way it is and not get us further into heavy deficit spending of the kind the committee has been commenting on—it will be necessary to make some withholding.

The CHAIRMAN. That seems to me to be a very inappropriate way to do business. First it is represented to American people that this money is to be taxed from the people and spent for highways. It is dedicated to a particular fund. Then you proceed to withhold it. On a unified budget basis, that works out just the same as if it had never been made available for highway purposes at all.

Now, frankly, I have had other Presidents explain to me how, as far as the overall budgetary impact on a unified basis is concerned, if you decline to spend a dedicated fund it can achieve the same budgetary advantage that it does if you decline to spend something else, but I just don't think it is playing fair with the American people to represent to them that the money they pay is going to go for this, then withhold it and in effect spend it for something else.

Mr. WEINBERGER. No. That amount of money, Mr. Chairman, will be spent for highway purposes eventually. That is what it is earmarked for.

The CHAIRMAN. In the long run it might come out even but in the long run we will all be dead. It seems to me people are paying for something and are entitled to get what they pay for. I just don't think you ought to ask us to pass a tax—it was asked under a previous administration—for the purpose of providing highways, then impound it, hold it up, and take advantage of that to try to balance the unified budget. It just doesn't seem right.

Secretary SHULTZ. I don't think, as I would understand it, that is the way we would identify the flow of funds. That is, the program provides for a special tax flowing money into a trust fund. That money accumulates and it is earmarked, as Mr. Weinberger said. At the same time the Interstate System is being built and money is being paid out by the trust fund. To the extent that if there is a balance in the trust fund it remains there until it is used for this purpose.

It is not used for any other purpose.

The CHAIRMAN. Oh, eventually it might get used by some other President provided some other President doesn't do the same thing you are doing, just decline to spend the money.

Now the logical example or conclusion that your argument would be that the President just didn't want to spend any of this money for highways, they just keep impounding it and reflecting all that balance on a unified budget as though that the highway tax money was helping to balance our budget and never give the public any highways.

Secretary SHULTZ. Well, I think it has to be recognized that, in the Interstate System, there has been a great deal of building; $4.4 billion for fiscal 1973 is certainly pushing that program.

Now, what we find, as the Interstate System comes closer and closer to completion, is that the remaining portions of it are increasingly around the metropolitan areas. These roads are harder and harder to build because they involve a lot of displacement—more displacement than the previously built portions. It is a longer process as people argue, as we have seen right around Washington, D.C. There are many such examples throughout the country which make this stage of highway construction go a little slower.

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. On that inflation, I wasn't quite clear. What is the rate of food prices in the last 6 months? How much have they risen?

Secretary SHULTZ. Food prices have risen about 5½ percent—at an annual rate—during the past 6 months on the basis of the Consumer Price Index. Prices of meat, poultry, and fish increased by more than 10 percent at an annual rate during that period.

As you know, the President on Monday, in effect, removed all quantitative barriers on the import of meat into this country. Meat has been the principal area in the food sector that has gone up rapidly.

Senator FULBRIGHT. Has that been more than 2.9 percent?

Secretary SHULTZ. Yes, sir.

Senator FULBRIGHT. What about food prices for the last 6 months?

Secretary SHULTZ. Well, the meat sector has been going up——

Senator FULBRIGHT. No. Just the overall. Don't you have one on food generally?

Secretary SHULTZ. That is the 5½ percent figure I mentioned a moment ago.

Senator FULBRIGHT. OK.

Mr. Weinberger, you were going to give the cost of the war. Did you find the cost of it in the last 10 years?

Mr. WEINBERGER. This was the same figure that was supplied to the Appropriations Committee and Armed Services Committee in January of this year, Senator, by the Secretary of Defense. They are his estimates. There are a lot of definitional problems, but these figures that he gave showed that during the Johnson administration the incremental cost was about $65 billion and since that time it has been winding down very sharply and is under $35 billion in total for the years that Mr. Nixon has been in.

Senator FULBRIGHT. Well, I got lost there. The total cost of—I don't know how to put it in terms of asking you.

Do you not have figures for the cost of the war?

Mr. WEINBERGER. Those are the figures I just gave you.

Senator FULBRIGHT. Since 1965?

Mr. WEINBERGER. Yes, sir. The same sheet you have had in the other committees. What I have given you is what I understood you to ask just before the recess. I summed the different portions of the incremental cost. It is a very tricky definitional problem, and this is one man's estimate of it. A lot of others would differ.

It involves trying to figure how much of the division would be paid for otherwise and how much overhead should be charged to one thing and another.

Senator FULBRIGHT. Can you give the figures on the military costs, leaving out that problem of definition?

Mr. WEINBERGER. No. I have only those figures that you have had before.

Senator FULBRIGHT. Treasury doesn't have available what we spend on military affairs overall?

Mr. WEINBERGER. I have the Department of Defense budget.

Senator FULBRIGHT. Well, the military affairs would include the veterans cost and the interest on the debt, wouldn't it?

Mr. WEINBERGER. That has all been published in the budget.

Senator FULBRIGHT. Well, do you have it? Is it available there?

Mr. WEINBERGER. It is available in the budget, yes, sir. It is going to take a little time, but veterans costs are all the income maintenance, education, health, and rehabilitation activities. It is all spelled out starting about page 545 of the budget.

Senator FULBRIGHT. Well, if you don't care to go into it, it is all right. The Library of Congress estimated we had spent on military affairs since World War II about $1,300 billion. Is that in the ballpark according to your estimate?

Mr. WEINBERGER. We have never assembled a figure like that. Ours stop considerably short of that, but a lot depends on what you mean by military affairs.

Senator FULBRIGHT. Appropriation for Department of Defense; interest on the debt, which is 99-percent military.

Mr. WEINBERGER. I certainly wouldn't categorize it as that. You are talking about the cost of past military operations and again, we get into definitional problems.

Senator FULBRIGHT. That is right. The military costs. Don't you think it would be interesting to these people who pay taxes to know what you are spending for military affairs.

Mr. WEINBERGER. Again I would think they would like to know how you define it. The second part of the answer is it has all been published in the budget. It is all there and we'll be glad to assemble such portions of the individual pieces as you wish. I wouldn't, however, classify it all as military affairs.

Senator FULBRIGHT. I didn't want it in pieces. I wanted to give some impression of how extravagant the military activities are. We talk about the withholding of the money for the highways and I am very sympathetic to the chairman's point of view, but very little is said when we read that the C-5A cost $5 billion and it is not very good, that the wings are very dubious, that they have cut down its lifespan from 30,000 hours to whatever it is, 15. No one seems to pay any attention about that type of thing. It is taken with a grain of salt. But when it comes to construction of the highways, something of this kind, that they withhold the money. That is also serious, but I never notice you withhold any money from the C-5A or anything comparable to it. This is what I think we would like to understand—the rationale behind this.

One of the reasons I asked the question about how much you spend for military affairs is because this debt that you are asking to extend is primarily created by the overexpenditures on military affairs trying to police the world. That is where the great expenditure has been. It hasn't been on domestic affairs.

Would you not agree with that?

Mr. WEINBERGER. No, sir; I wouldn't.

Senator FULBRIGHT. How would you put it?

Mr. WEINBERGER. Well, I would want to know what we mean by military affairs. We use in the budget a definition that covers present and future costs to the extent we can estimate them, and we provide a historical series going back 10 years. We have previously listed and continue to list the expenditures required for the other functional categories. We think there is great virtue to consistency in compiling these estimates because it is the only way we can get consistent, logical, year-by-year measures. We classify interest on the national debt a separate functional category because that is what it is.

We don't go back and break the interest figure down according to an estimate of what portions of the national debt were used for this and that. We classify veterans expenditures as part of our human resources because we think that is a proper classification in view of the fact that there is a great deal of income maintenance rehabilitation, medical training, and things of that kind that go with them. It is purely a matter of how you wish to define it. So that other people can define it easily, we present all of the component parts of the budget each year. If someone else wants to take some of the building blocks and assemble them in a different way under a different column, they are free to do so.

Senator FULBRIGHT. You would agree that the veterans program is a result of military activity or not?

Mr. WEINBERGER. It is a result of military activity in the past to some extent. To some extent, it is the result of generosity of various Congresses that have made family members and persons who didn't take an active part in military affairs the beneficiary of some of the programs. That is one of the definitional problems that is involved in it.

Senator FULBRIGHT. Is it not a fact that the deficits we have accumulated that are reflected in the $450 billion you want have arisen during the period of warfare in the last 25 or 30 years?

Mr. WEINBERGER. I think that certainly a portion of them, without any question, have. The greatest expansion of the national debt occurred during World War II.

Senator FULBRIGHT. What percentage of the income of the Government, without the trust fund, is now going for military—leaving out trust funds, all of them? That is, the social security and the highway trust fund and all that.

Mr. WEINBERGER. We'll try to get it for you, Senator.

Senator FULBRIGHT. Well, it is all right if you don't know it.

Mr. WEINBERGER. I don't know it offhand because we don't use that classification. We don't think it is fair to drop out the trust funds because they are an expenditure out of the Treasury, so we calculate the total outlay.

Senator FULBRIGHT. I know you do, but that confuses the public as to what we are doing. You used to do it that way.

Mr. WEINBERGER. We are getting it for you, Senator.

Senator FULBRIGHT. That unified budget gives a false impression to what we actually operate. That was only a recent innovation of the Johnson administration, wasn't it?

Secretary SHULTZ. Well, it is a concept that has more or less been used a long time? It used to be called the cash budget. That is, it has been recognized for many years that to judge the impact of the Federal budget on the economy you need to get an idea of the overall flow of cash.

Senator FULBRIGHT. But, Mr. Shultz, you know it was begun by Mr. Johnson at the height of the war in order to disguise the cost of the war, wasn't it?

Secretary SHULTZ. That is not my impression; no.

Senator FULBRIGHT. Why do you think he did it?

Secretary SHULTZ. I have the recollection that a Committee on Budget Concepts was formed. It included Members of the Congress—the Senate and the House. It included members of the Johnson administration. David Kennedy, who was the chairman of the Continental Bank, was chairman of the committee. And this was their recommendation.

Senator FULBRIGHT. I think I recall that the father of our present Senator Byrd objected vigorously to this, what he called legerdemain in the way you present the Government finances.

Is that not so?

Senator BYRD. If the Senator will yield, I am sure it is so, but it is even worse now with this so-called full employment budget. It is like saying it is an "if" budget. It will be balanced if something happens, if we have full employment, which we don't expect to have, but if we do. It is very much like saying, it seems to me, I wouldn't be broke if my uncle had left me a thousand dollars.

I think it is a ridiculous thing.

Senator FULBRIGHT. Well, I do think that the Treasury should be the source of some kind of reasonable estimate that ordinary people can understand how we spend the tax income of the country, and I regret that the Treasury is reluctant to classify it so that you can say there is this much for military affairs and there is this much for other classifications.

That is the largest single item in the budget, is it not? Isn't military budget the largest?

Secretary SHULTZ. The HEW budget is by far bigger now.

Senator FULBRIGHT. You are including social security? Is that what you mean?

Secretary SHULTZ. Yes. Social security is in the HEW budget. I agree with you, I think the Treasury and Budget should give a very detailed and full disclosure of the flow of funds through the Federal tax and expenditure system. The budget is a big document, particularly the appendix, and you can find just about anything you want in it.

Senator FULBRIGHT. I know you can. The budget, as published, is so complicated that most ordinary people, including many Members of the Congress I think, are not quite able to comprehend it unless it is broken down into categories which have some meaning to them. I have been under the impression that the present request is $83 billion for the Department of Defense.

Secretary SHULTZ. That is the budget authority, roughly, for fiscal 1973 for both military and civil functions.

Senator FULBRIGHT. That is correct. And what is HEW?

Mr. WEINBERGER. I think it is about $84 billion.

Senator FULBRIGHT. What?

Mr. WEINBERGER. About $84 billion.

We have this other figure now, if you want it.

Senator FULBRIGHT. How much of that is social security? This is what is so confusing. I mean, the social security is a very special type of activity in which the individuals contribute part and the employer part. That is what you say is greater than the Defense Department?

Mr. WEINBERGER. Yes.

Secretary SHULTZ. The funds that flow through HEW are. Now, the budget is presented to you in minute detail, and then accumulated in various accounts shown in various kinds of breakdowns. I don't see any problem about the rearranging. If you want to deduct social security out of the HEW accounts, that can fairly quickly be done. If you want to add veterans to the Defense budget or if you want to add interest to the debt for the Defense budget, you can do that. If you want to take out of the Defense budget the Corps of Engineers, if you want to take out of the Defense budget any training that a person gets that is useful in civilian life, you can do that. There are all sorts of classifications that can be made.

Senator FULBRIGHT. I know.

Mr. WEINBERGER. The question on HEW, $86.9 billion was the budget authority for HEW, and $81.7 billion was the budget authority requested for the military functions of the Department of Defense. The other figure you requested outside of Defense Department schedules is about 40 percent, not counting the trust funds.

Senator FULBRIGHT. About 40 percent?

Mr. WEINBERGER. About 40 percent.

Senator FULBRIGHT. That is all, Mr. Chairman.

The CHAIRMAN. Senator Miller?

Senator MILLER. Mr. Weinberger, looking at the table in page 2 of your statement, I noticed that starting in 1965, the human resource percent of the budget—do you have the table?

Mr. WEINBERGER. No. This was yesterday's statement.

(The table referred to follows:)

PERCENTAGE DISTRIBUTION OF BUDGET OUTLAYS BY MAJOR FUNCTIONAL CATEGORIES, SELECTED FISCAL YEARS

Functional category	Fiscal year 1953	1957	1961	1965	1969	1973
National defense	66	56	48	42	44	31
Human resources	15	23	30	30	34	45
Physical resources	9	9	10	12	10	10
Net interest	7	7	7	7	7	6
Other	3	5	5	[1] 9	5	[2] 8
Total	100	100	100	100	100	100

[1] The substantial increase in this category resulted mostly from a rapid expansion of the space program.
[2] General revenue sharing is the primary component of this increase.

Senator MILLER. Starting in 1965, the Human Resource percentage budget has gone from 30 up to 45 for 1973.

Mr. WEINBERGER. That is correct.

Senator MILLER. That is about a 15-percent increase, and translated in terms of total expenditures, would it be fair to say that this increase has contributed to the deficits that have been talked about here this morning?

Mr. WEINBERGER. Without question. it is a substantial increase.

Senator MILLER. All right. Now, getting back to this highway trust fund matter, I am concerned about it like our chairman is. However, the way I view it is that what you have done is you have tried to reconcile the public's desire for increased highway spending, at least in one particular year, with the public desire to put a stop to this inflation, and it is your judgment that in reconciling that you ought to impound these funds for perhaps for a year or so, so that the public can be assured that it is going to have this money spent on one thing, but that it will have to wait a little longer in order to bring it to the policy of holding down inflation.

Mr. WEINBERGER. That is substantially correct, yes, sir; and it will all be spent on highways. And in many cases, in addition to the factors you have cited, there is the point Secretary Shultz made a moment ago, that in some cases the actual designs and applications aren't ready for full expenditure of every dollar that is available.

Senator MILLER. All right. Now, our chief counsel has prepared a table which shows that the current estimates for the deficit for fiscal 1972 was $26 billion.* How current is that?

Mr. WEINBERGER. That was the estimate as of June 5. Our mid-session review, which was issued on June 5, is based on "actuals" through April for the most part.

Senator MILLER. And the same thing would be true with respect to fiscal 1973. The deficit, on the current estimate, is $27 billion.

Mr. WEINBERGER. Yes, sir; those were both compiled on the same date.

Senator MILLER. Secretary Laird was here, testifying before various committees, particularly following the SALT agreements, and came down pretty hard on some expenditures; and I am wondering if the expenditures that he is talking about that he wants to move ahead are reflected in that $27 billion current deficit.

Mr. WEINBERGER. No, sir; they are not.

Senator MILLER. They are not?

Mr. WEINBERGER. They are not.

Senator MILLER. All right. Then if Congress acts favorably on the recommendations of the administration with respect to the representation made by the Secretary of Defense to move ahead with our offensive weapons in line with the SALT agreement limitation, how much would that $27 billion——

Mr. WEINBERGER. Some of the confusion may have arisen because items such as the Triton and B-1 are in the 1973 budget, but I understood you to refer to the additions that Secretary Laird was talking about as well as the offsets that might occur as a result of the SALT agreement. The additions that he is talking about and any SALT offsetting are not included in this $27 billion figure.

Senator MILLER. You understood me correctly, and I am wondering how much more that current estimate would be changed upward now by way of a deficit to take into account those additional items.

Mr. WEINBERGER. I am sorry, sir?

Senator MILLER. I said you understood me correctly, and I am wondering now—what I want to do is just make this a little bit more current. You said the current estimate has been made. Now let's make it as of today. Take into account the additional items that the Secretary of Defense has recommended which are not in that current estimate.

Mr. WEINBERGER. Again, Senator, none of those items have been formally transmitted that he has been talking about. The only way an item can be formally transmitted and calculated as a budget amendment or supplemental is when the President does it. What Secretary Laird has been doing, as I understand it, is discussing his ideas of some of the needs that may be incurred as a result of the escalated activity since May in Vietnam.

Senator MILLER. Now, so that we are all on the same wavelength, what you are telling me is that as far as the offensive weapons developments are concerned—which the Secretary wants to go ahead with under the limitations of the SALT agreement—those are already in the budget.

*See staff memorandum, p. 4.

Mr. WEINBERGER. Yes. The Triton and B-1 and various other things that he has identified.

Senator MILLER. Now we have some additional cost because of the invasion by North Vietnam that occurred back in April.

Mr. WEINBERGER. That is right.

Senator MILLER. And I have heard various estimates that this could increase the cost of an average of $5 billion a year, and I am wondering how much of those costs would be reflected in that May estimate of $27 billion, and how much is not included.

Mr. WEINBERGER. We haven't included that. The estimates, Senator, are made up on the basis of items that are in the President's budget or changes in the uncontrollables or changes in the actual appropriation. So, the figures that are used here, the $27 billion, as a potential estimated deficit for the 1973 budget, would not include anything that had not been formally transmitted by the President up to the time those estimates were made.

And they were made in late May, based largely in "actuals" through April. The figures do not reflect anything since that time: and because nothing has yet been transmitted by the President, they do not reflect any precise figure with respect to requests for the activities that Secretary Laird was testifying about.

Senator MILLER. Well, then, if these costs are, obviously, being undergone——

Mr. WEINBERGER. That is right.

Senator MILLER (continuing). The only way to handle them would be by way of a supplemental budget.

Mr. WEINBERGER. That is correct.

Senator MILLER. And that, in turn, would be recommended by the administration. So suppose, though, the supplemental budget request is made by the administration for an extra $4 billion, let's say, as a result of the activity in Southeast Asia following the invasion by North Vietnam; that would shift that deficit from $27 billion up to $31 billion.

Mr. WEINBERGER. Not necessarily, because that would not reflect any offsets and it wouldn't reflect any other changes that may have occurred since the May figures were compiled. And there have been other changes and there are a lot of different factors. But if nothing else happened, that would be the case. But there are a great many shifts back and forth in these estimates.

Senator MILLER. You see, I was trying to cover that. I originally was going to suggest "5" be added; then I cut it back to "4".

Mr. WEINBERGER. Well, it wouldn't even be $4 billion. It will be up some, but it is not reflected in these figures.

Senator MILLER. You say it would not be $4 billion?

Mr. WEINBERGER. No. I don't have anything precise, but I think it will not be in that range.

Senator BYRD. Mr. Chairman, if the Senator would yield at that point, the Department of Defense has testified before Armed Services that they needed $5 billion addititonal.

Mr. WEINBERGER. Well, I think they—at least the testimony I read was—asked to a range of between $3 billion and $5 billion.

Senator BYRD. That could be, but we can't appropriate on a range.

Mr. WEINBERGER. No. I know you can't. That is why his testimony did not constitute a formal request. The formal request has to come from the President, and it has not come yet.

Senator BYRD. Well, that relieves my mind. I don't have to worry about that $5 billion right now.

Thank you, Senator.

Senator MILLER. Let me ask you this: Might it well be that will be a net additional $3 billion?

Mr. WEINBERGER. Well, it is possible, in that general range, that would be the budget authority request. I think we would be on a lot safer ground if we were operating directly from the formal administration request which hasn't yet been presented.

Senator MILLER. I appreciate that, but I just want to get a perspective. Now, let's say that we find a net $3 billion request under supplemental by the time you add on the additional costs and you have the slippages and things like that. That brings us up to $30 billion.

Last night the Senate passed the HEW-Labor appropriations bill, and my recollection is that that was well over $2 billion in excess of the President's budget.

Mr. WEINBERGER. Our understanding is that the addition that result from the black lung legislation, the so-called WIN amendment, and other congressional actions to the Labor-HEW bill amount to about $2.4 billion over the budget.

Senator MILLER. All right. Now, if that should go through, that would add another $2.4 billion to this $30 billion emergency budget deficit for fiscal 1973, would it not?

Mr. WEINBERGER. Yes; if it goes through.

Secretary SHULTZ. You haven't sold that to the President yet.

Senator MILLER. I understand. I said "if that goes through."

Now, Mr. Secretary, a perceptive article in The Journal of Commerce on Wednesday—which I ask be included in the record following my questioning, Mr. Chairman——

The CHAIRMAN. It is so ordered.

Senator MILLER (continuing). Suggests that if the revenue sharing and social security payments are made retroactive, Treasury borrowing would have to exceed $30 billion between this July and next March.

Is that correct? Does that sound correct?

Secretary SHULTZ. All of these things depend on the outcome of the congressional activities now under way, and that is what we are trying to call your attention to, that looking at fiscal 1973, we have a very severe problem, and it well behooves us to act with restraint.

Senator MILLER. Well, yes; but the article says that if the changes in social security payments are made retroactive and if the revenue sharing is made retroactive, that this is going to require you to borrow $30 billion during the next 9 months. Does that sound right?

Secretary SHULTZ. Well, I don't like to react offhand just to a number, but certainly the fiscal funds deficit in 1973 will be large, as it has been estimated and brought out here. That is essentially what controls the flow of the debt.

Senator MILLER. What is this likely to do to interest rates?

Secretary SHULTZ. Well, I think that there are two main things to think about there. One is, of course, the general state of demand for money and the supply of money for the activities of government and private industry. The other has to do with our ability to control inflation.

There is a considerable inflation premium built into longer-term interest rates, and I think that if we are able to continue progress on the inflation front, we can look for a reasonable prospect there. If we are not able to, why, the situation would turn around. So that only emphasizes the importance of putting together a budget picture here that is consistent with fiscal responsibility.

Senator MILLER. Do you know what the prime rate is now?

Secretary SHULTZ. Well, it has just been raised. It is about 5¼ percent.

Senator MILLER. Do you have any estimate of how much of that 5¼ percent is the inflation factor?

Secretary SHULTZ. Well, I wouldn't want to put a proportion on it, but I think there is some inflation premium there.

Senator MILLER. There is some?

Secretary SHULTZ. Yes. Of course, that is a relatively short-term rate. The shorter the term, the less the inflation premium.

Senator MILLER. I noticed in this morning's newspaper where there is a forecast that the prime rate may get to 6 percent later this summer. Would you think that if it happens that would reflect an increase in the inflation factors or tighten some money?

Secretary SHULTZ. Well, I don't expect that will happen, but I hesitate to speculate too much about interest rates.

Senator MILLER. Now, the administration came over to Congress and asked for $465 billion debt limit through February 1972. That is correct, is it not?

Secretary SHULTZ. 1973.

Senator MILLER. 1973. The House has sent us a bill which we are now considering which assessed the debt ceiling of $450 billion only through October 31 of this year.

Secretary SHULTZ. Right.

Senator MILLER. And you are asking us to pass it just as it is.

Secretary SHULTZ. That is correct. That is only because we seem to be practically out of time and it is so important not to go beyond the June 30 date without borrowing authority. Otherwise, we would very much prefer the higher number, and the expiration date at the beginning of March next year.

Senator MILLER. Well, what I can't quite understand is the magic of this October 31 date. Do you have any ideas on that?

Secretary SHULTZ. That is something you will have to ask the Ways and Means Committee. I don't know what the date bears relationship to.

Senator MILLER. Well, it seems to me to be a very strange date. Do you have any great objections if we changed it to September 30?

Secretary SHULTZ. Well, I'd rather have you change it, if you are going to change it, to March 1, 1973, and raise the number. The only reason we are recommending to you that you take the House bill as it stands is to get the job done—to pass a bill that wouldn't require a conference and send it to the President. He can sign it, and we can stay in business.

If it is going to be changed—the dates changed and so forth—then we prefer to go to our original recommendation.

Senator MILLER. I don't see why there should be any concern over a little conference if we should change it to September 30 from October. In fact, we might even be able to make it sooner, make it in August.

There seems to be some implication in the date here that a shorter-range look at the picture might be involved, and I suppose we could make it very short. Here it is almost July 1. We could make it even the end of July.

If we did that, what would that do to the debt limit of $450 billion? Would you recommend that it be the same if we changed the date?

Secretary SHULTZ. We feel that we can live within the $450 billion through the period between now and the 31st of October, which is the Ways and Means bill. In other words, as our table shows, we won't go above that at any time during that period.

So, the $450 billion would suffice through any date that you want to select between now and then. In other words, just leave it unchanged. But, again, let me say, if the committee is going to change it, and we are not going to go forward with a clean bill, then we would prefer our original recommendation.

I just remind you again that the consequences of operating without authority to issue debt securities after June 30 are very serious so far as the orderly operation of Government is concerned.

Senator MILLER. I understand that, but the key date is this Friday. Now, suppose that the bill didn't get to the President until Saturday afternoon. That wouldn't cause any chaos, would it?

Secretary SHULTZ. We have no authority, once midnight June 30 arrives, to sell any debt.

Senator MILLER. You are not going to be selling any debt on Saturday and Sunday.

Secretary SHULTZ. It goes on perpetually. There are 20,000 financial institutions, 40,000 corporations, over 9 million individuals enrolled in the payroll savings bond program. This is just something that goes on constantly. We would have no authority to sell any of those bonds. We would have to take some steps to see to it that we were in conformity with the law.

Senator MILLER. But that isn't going to happen on Saturday and Sunday.

Secretary SHULTZ. Some issuing agents are open on Saturday.

Senator MILLER. I don't suppose it would harm them very much if they took off to play golf on Saturday for a change. What I am getting at——

Secretary SHULTZ. The point is we would have to notify them officially in some manner that they were not able to sell any bond.

Senator MILLER. What I am getting at is that I am very grea. disturbed about this October 31. I haven't found anybody who can tell me the majesty of that date. Of course, I understand it comes a week before the Presidential election. We all understand that.

But even so, I just don't get the majesty of this date and I find it hard to understand why you would want us to just rubber stamp it in the Senate——

Secretary SHULTZ. There is only one reason why we want that, Senator, and that is in order to be sure that we do have authority to borrow money when July 1 comes around. That is the only reason.

Senator MILLER. Let me ask you this, Mr. Secretary: Would you rather have the $450 billion ceiling through October 31 and have that to the President by midnight Friday, or would you rather have the $465 billion through February of next year on the President's desk on Saturday morning? Which would you rather have?

Secretary SHULTZ. Well, I don't know what kind of guarantees can be offered, but I guess I would say that I think it is extremely important for the Government to obey the law. If we are not able to issue debt on midnight, we shouldn't. We should take steps to see that it isn't done. We want to be a lawabiding government; that is extremely important thing for us.

Senator MILLER. You say "take steps at midnight." Aren't there steps that could be taken in the case of these few issuers that are open on Saturday morning?

Secretary SHULTZ. We don't know when congressional action would be taken. That is very difficult to estimate. I think we have to behave in a basically lawabiding manner and not try to predict when the Congress might act on something.

Senator MILLER. All right. One last question.

Mr. Weinberger, getting back to that table, the current estimate for 1972 and 1973 of $26 billion for 1972 and $27 billion for 1973——

Mr. WEINBERGER. Yes, sir.

Senator MILLER. There is considerable talk that there would be a 20-percent social security benefit legislated here in the next day or two. What would that do to those figures?

Mr. WEINBERGER. Well, again, depending on whatever base happens to be chosen for the additional tax contribution and when it takes effect, you get varying answers. It would have a very substantial effect of increasing the deficit somewhere in the range of $4 billion to $6 billion, depending on which set of assumptions or which set of bases is used in the new payroll contribution tax. Somewhere between $4 billion to $6 billion would be the net addition of those figures to the deficit if that kind of social security increase is passed.

Senator MILLER. To the fiscal 1972 or 1973?

Mr. WEINBERGER. 1973.

Senator MILLER. So that if we had this $3 billion that I was using as an assumption, and we had the $2.4 billion on the HEW-Labor bill, that brings us up to $32.4, and we add the 20 percent social security on top of that, you are suggesting that we could get up to $36 billion, $37 billion deficit for fiscal 1973?

Mr. WEINBERGER. If all of those actions are taken as you describe them, Senator, that could be the result; yes, sir.

Senator MILLER. Thank you very much.

Thank you, Mr. Chairman.

(The article referred to follows:)

[From the Journal of Commerce, June 21, 1971]

FINANCING TREASURY DEFICITS TO COME

In recent months we have had no reason to change our view that the national finances are being run more or less recklessly and may become even more so in months ahead, especially if Congress continues to appropriate money that the Treasury doesn't have and will have to borrow and if the administration continues to assume that all is well if the budget still seems reasonable on a full-employment basis, which doesn't exist.

We are now reminded by a realistically-worded commentary by a leading government securities firm, Aubrey G. Lanston & Co., Inc., that Treasury debt management, which hasn't been too good, is going to be an increasing challenge in the fiscal year which will begin July 1. This is because the national deficit will probably be larger—probably greater than anything the former reckless Johnson Administration ever envisaged—and because most of it will have to be financed through new issues of marketable securities.

If revenue sharing and further Social Security liberalization legislation is not effective until late in the new fiscal year, and if both are not made retroactive, the national deficit for the July-September period may be no more than $7 billion or $8 billion. On the same assumption, financing in the October–December quarter should be double that of the first quarter of the 1973 fiscal year which begins July 1. For the third quarter, January–March 1973, thanks to increased military spending and tax refunds on abnormally large tax withholdings resulting from another Treasury miscalculation, spending will be large enough to require exceptionally heavy public financing. If the revenue sharing and Social Security payments are made retroactive Treasury borrowing would have to exceed $30 billion for nine months.

In passing, it has been suggested that Congress would be well advised to eliminate the retroactive provisions of both the revenue sharing and Social Security bills so as to make forthcoming Treasury financing more manageable and less inflationary. All Treasury deficit financing is of itself inflationary, unless offset by monetary action, for such financing creates new government deposits, which when disbursed become a permanent addition to private deposits and hence an addition to the national money supply.

It may be that the Treasury still has sufficient talent to devise means of financing which will tap new sources of funds, particularly from long term investors, within the limits of the laws which still restrict the Treasury very materially in long term borrowing. The need to extend the average maturity of the national debt is greater than it has ever been, but the Treasury has paid little attention to this need. As of a recent date the entire marketable national debt was scheduled to mature in three years and three months, which represents a worsening of the maturity average over the past four months and which compares with a much better average of five years and four months which prevailed in 1965. Today nearly half of the marketable debt matures in one year.

This is not a favorable base from which to take off on another record breaking expansion of the marketable debt which may make early maturities more unmanageable. It is quite true that under present circumstances the top-heavy early maturity schedules of the national debt are not subject to intensive worry and may not be until 1974. The point is that the time by which we will have to worry is getting nearer.

The size of the national deficit and the manner in which it is financed and managed have a direct relationship to efforts to control inflation and hence efforts to make a success of Phase Two of the present price-wage control efforts. It is increasingly difficult to foresee how interest rates on medium and long term securities are going to be kept at even present high levels (and prevented from going still higher) if the bond markets are going to have to contend with an ever increasing volume of Treasury borrowing, the necessity for which arises from ever more extravagant spending, either at the initiative of Congress or at the instance of administration departments, notably the Defense Department.

Inflation is created in large measure by expectations of inflation and the expectations are fed largely by what is done on the government front, particularly on the Treasury financing front. For this reason it is important that the public be led to expect the best from the Treasury, not the worst.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. As you well know, Mr. Shultz, I agree with your full employment budget concept. I am probably a minority on this committee, but I do think that is a good concept and I hope you do not change your mind on that.

I do oppose the idea that this administration and prior administrations have invaded the trust funds. They have done it repeatedly in the highway trust fund. It is very sad.

In your statement, on page 3, you point out that the trust funds themselves do receive money from the general fund. To a great extent they are not receiving as much as they should because you overcharged in social security last year by about $1.5 billion. You have overwithheld in the general fund about $7 billion. That is about $8.5 billion which has been taken from the taxpayer for which there is no justification whatsoever under any type of theory.

Referring to the figure for "Trust Fund Receipts of Federal Funds," the best estimate I have been able to come up with indicates that probably no more than $2 billion of that is contributions. The rest of that is interest which is paid to the general fund because of the fact that these funds are invested in Government securities.

Am I right, so far?

Secretary SHULTZ. No, sir.

Senator HARTKE. No? You correct me where I am wrong.

Secretary SHULTZ. Let me correct you in a couple of places. First of all, a comment about the overwithholding. If I am not mistaken, you were a prime mover in the effort in 1971 Tax Act discussion to correct the underwithholding problem.

Senator HARTKE. That is right.

Secretary SHULTZ. By changing the tables in such a way that predictably there would be overwithholding unless individuals chose, as they were given the option to choose, to adjust their returns.

Senator HARTKE. I am not asking you that.

Secretary SHULTZ. It turns out that they haven't made those moves, and that is why we have the overwithholding problem now. That is not the end of it, but you used some rather extreme language in characterizing that inflow of money.

Senator HARTKE. How much is the overwithholding in the general fund?

Secretary SHULTZ. It is variously estimated——

Senator HARTKE. Well, you have estimated in your statement——

Secretary SHULTZ. And we have it estimated on the order of about $8 billion. I will have to say——

Senator HARTKE. I am sorry. I was $1 billion low. And $8 billion is going to be overwithheld, is that correct?

Secretary SHULTZ. That is the estimate, but I would have to say to you that I think you have to question that estimate and not feel completely confident with it, because there is quite a lot of evidence that the economy is moving much more strongly than many of the figures indicate——

Senator HARTKE. Mr. Shultz, I don't——

Secretary SHULTZ (continuing). Tax collections may well be reflecting that——

Senator HARTKE. Now let's not get into any of this "iffy" business. You said on page 2, paragraph 2—I am reading from your statement today:

> About two-thirds of the expected increase in individual income tax receipts is in withheld taxes, and largely reflects the overwithholding resulting from the Revenue Act of 1971.

Secretary SHULTZ. Correct.

Senator HARTKE. Now, you estimate the overwithholding at $8 billion; is that correct?

Secretary SHULTZ. That is an approximation; that is our best estimate, but it could be put down as 100-percent certain.

Senator HARTKE. I am saying that is your estimate upon which the present projections are made.

Secretary SHULTZ. That is correct.

Senator HARTKE. All right. That is all I am asking you to do, to verify your own statement. That is all I have said so far.

Secretary SHULTZ. No——

Senator HARTKE. Now, the only mistake I made so far, I said it was $7 billion instead of $8 billion.

Secretary SHULTZ. No, you characterized this overwithholding as some sort of an unconscionable thing that, somehow or other, the administration was perpetrating on the American people. That is not correct, nor is it correct to apply that characterization to social security contributions. Taxation generates a situation where there are often refunds, and that takes place because people may be on more than one payroll. It is an ordinary thing that goes on and on.

Senator HARTKE. Now, Mr. Shultz, I know you are of that Chicago school where you can outtalk us people from Indiana. That is their art. The fact of it is, there is $8 billion being overwithheld at this time. Whatever characterization you want to put on it, or I put on it, that is a fact, isn't it?

Secretary SHULTZ. As best we can estimate, that is a fact, although, it must be said, your committee, in working on this and putting those tables into it, provided the taxpayer can take steps——

Senator HARTKE. If you want to place the blame, the blame belongs on the Internal Revenue Service, who made the mistake, and they admit it.

Secretary SHULTZ. I was not in the Treasury at the time, but it is my impression that in dealing with the question of underwithholding, which this committee was worried about——

Senator HARTKE. Which I was worried about.

Secretary SHULTZ (continuing). Which you were worried about—there was a question about whether the tables should be based on the assumption that there is one earner in the family or two earners in the family. The decision was made to move in the direction that would produce overwithholding unless individuals so affected took some step——

Senator HARTKE. All right——

Secretary SHULTZ (continuing). And the Treasury's recommendation was to move in stages while the committee decided to push it through and get it into place in this particular year.

Senator HARTKE. If you will look at the floor debate in the Senate, you will find that all I said was that no man ought to be misled into paying all these taxes and then have an additional assessment at the end of the year. On the other hand, I have always advocated that you should not overwithhold. Last year in the social security fund you overwithheld $6 billion.

Then this year, you have accumulated a surplus of $1,448 million in 10 months, and I would estimate that you will go up to at least $1.6 billion in overwithholding on the social security fund. That is $1.6 billion beyond what you are paying out.

Is that fair?

Secretary SHULTZ. I am not familiar with the numbers, but I can easily understand how they are generated and I don't quite see how one deals with it. That is, an employer withholds for social security up to a certain payroll level——

Senator HARTKE. Now, Mr. Shultz, you are trying to anticipate what I am going to ask you.

The CHAIRMAN. Just a minute. I am trying to follow your questions and the witness' answers. I would urge you to please let the witness answer the question before you ask him the next question. I can't listen to two people at the same time, so would you please let the man answer the question and then ask him your next question? I want to hear your question and his answer.

Senator HARTKE. All right. I want to ask two questions.

The CHAIRMAN. Well, first let him answer the last one.

Mr. Secretary, are you through answering the previous question?

Secretary SHULTZ. Yes, sir.

The CHAIRMAN. All right. The Senator from Indiana.

Senator HARTKE. I asked two questions, just for the record, and I don't mind the chairman putting me down. It is all right.

The CHAIRMAN. I am not putting you down. You are completely in charge, Senator. I just want to hear both of you.

Senator HARTKE. Secretary Shultz, I want to turn to the annualized cost-of-living figure that you gave to Senator Fulbright. You sterilized and sanitized that figure, too, but what is the actual cost-of-living figure now, from last October?

Secretary SHULTZ. Do you want it for 1 month, 6 months, 1 year, 3 months, or what?

Senator HARTKE. I want the annual rate of increase in the cost of living so far as you have it this year. It is printed in every Wall Street Journal, and it seems to me that you should be able to give that answer.

Secretary SHULTZ. The consumer price index has risen at a 3.4-percent annual rate over the last 6 months, at a 2.9-percent annual rate for the last 3 months, and at a 2.9-percent annual rate since the start of the freeze.

Senator HARTKE. The annual cost-of-living increase this year on an annual basis is what, again? That is 3.9 percent at an annual rate?

Secretary SHULTZ. No. It is 3.4 percent in the past 6 months.

Senator HARTKE. That makes it 6.8?

Secretary SHULTZ. Consumer prices have increased 3.2 percent since May 1971.

Senator HARTKE. On an annual rate?

Secretary SHULTZ. That is an annual rate.

Senator HARTKE. Mr. Chairman, I am going to try to ask the question and see if he can answer: What is, in this year, on an annual rate, the cost-of-living increase—January, February, March, April, May, and we are in June. That is 6 months.

Now, the Bureau of Labor Statistics gives you an annual rate of the cost of living. What is it?

Secretary SHULTZ. I have the change from 6 months ago, so that would include those 5 months. For the 6 months the annual rate of change has been 3.4 percent. As you know, you change your time period and you change the number.

Senator HARTKE. All right. What is the rate of unemployment?

Secretary SHULTZ. The most recent reading was 5.9 percent.

Senator HARTKE. What was the cost-of-living increase in the last 6 months of the Johnson administration; do you know that?

Secretary SHULTZ. I don't happen to have that right in my head, but the figure for 1969 was 6.1 percent. That, I think, was a reflection of what had come before. The figure for 1970 was 5.5 percent; for 1971 prior to the freeze, 3.8 percent; and since the freeze, 2.9 percent. I think that is a considerable record of progress against inflation, and I hope we can keep it going.

Senator HARTKE. What is the rate of unemployment now?

Secretary SHULTZ. It is 5.9 percent.

Senator HARTKE. What was it when the Nixon administration took over?

Secretary SHULTZ. It was 3.4 percent.

Senator HARTKE. I just wanted to bring back that fact.

We have increased the national debt by a total of $113 billion under the Nixon administration. Under the Johnson administration for 6 years the increase was only $49 billion. They repealed the investment tax credit, then reinstituted it. They withheld trust funds during a time when they said the economy was sliding. Now they are going to put the money back into the economy when they say the economy is moving forward.

The 20-percent increase in social security, as Mr. Weinberger said, costs approximately $8 billion. Isn't that correct?

Mr. WEINBERGER. Well——

Senator HARTKE. On an annual level.

Mr. WEINBERGER. Talking about net over the budget, but on a total cost that is approximately right.

Senator HARTKE. In other words, for every percent you add to the social security benefits, the way they are constituted today, you have to add $400 million.

Mr. WEINBERGER. Roughly.

Senator HARTKE. So anyone who wants to do the figuring would merely say: add 1 percent, $400 million; 10 percent, $4 billion; and 20 percent, $8 billion. And everyone, I think, realizes we are going to have a 20-percent increase in social security.

Now, the only question is whether you are going to increase the national debt or pay for it totally out of contributions, or part out of contributions and part out of Treasury. Isn't that correct?

Secretary SHULTZ. Well, I have no way of knowing whether everybody agrees we are going to have a 20-percent increase. If you have, those are three ways in which it can be financed.

Senator HARTKE. That is right, and the fact of it is that no matter how we do it at the present time if you take the $1½ billion which is overwithheld, the 5-percent increase recommended by the President would in no way invade the present surplus in trust funds.

Secretary SHULTZ. There is no way that I know of that you can have a 20-percent increase——

Senator HARTKE. I said a 5-percent increase recommended by the President.

Secretary SHULTZ. Five percent?

Senator HARTKE. Yes. It would practically balance out the overwithholding in the trust fund which has now accumulated a surplus of over $40 billion.

Secretary SHULTZ. Well, the surplus is a pretty illusory figure because you have total obligations you have to consider. If you lower the reserve that is there presently, you don't have the total obligations covered to the extent they are now, obviously.

Senator HARTKE. That is the only trust fund that is used like that, isn't it? The only one that holds a surplus in it above current obligations?

Secretary SHULTZ. No. I think every trust fund has some surplus over current obligations.

Senator HARTKE. A year's surplus? That is not true. Like where?

Secretary SHULTZ. The highway fund has got a surplus.

Senator HARTKE. Only because you impounded funds. You are supposed to allocate that monthly.

Secretary SHULTZ. No, there is no requirement——

Senator HARTKE. I know there is no requirement. It was not, however, the intent of Congress to impound funds. What I am saying to you is that if you approach the trust fund correctly, you can give the 20-percent increase and only reduce the surplus to $30 billion.

What you are saying is you are only going to provide benefit to these elderly people that they have already paid for.

Secretary SHULTZ. Well, there are all ways of explaining it, and that is certainly not the way I would choose.

Senator HARTKE. If you took $8 billion out of the $40 billion surplus, without changing, wouldn't you collect another $40 billion this year?

Secretary SHULTZ. No, sir. The problem here is that reserves have to be maintained. There are a great many people talking about the lack of coverage of the system as it is. What you would be doing would be calling down your reserves to less than 75 percent of 1-year's expenditures, which is below the amount that the advisory council, which has just examined it, has said is in any way safe to go. So what you would be doing would be to say to the old folks that they had a great increase in benefits, and what you would be doing would be undermining their future security, their ability to receive payments.

Senator HARTKE. That is what I call truth by assertion. There is not a single fact to that you could show that it is true. You are collecting now at a rate that yields a surplus of $40 billion a year. Isn't that correct, roughly?

Secretary SHULTZ. Roughly. That is roughly right.

Senator HARTKE. All I am saying to you is that those collections will continue each and every day for the next year. You are going to collect another 40; you have got 40 on hand, you will collect 40, so you are going to have $80 billion in this current year, and you are going to contribute 3 to the people. Isn't that correct?

Secretary SHULTZ. No; I think the contributions that are planned are higher than that.

Senator HARTKE. I am not talking about planned. I am talking about what they are today.

Secretary SHULTZ. If you assume a wage base of $10,200 and a tax rate—adding the employer and the employee rate—of 9.2 percent; that is, in H.R. 1—you would have income of about $47.7 billion. You would have outgo of about $46.2 billion. You would have assets at the end of the year of $41.9 billion. Thus, the assets would be approximately 90 percent of the outgo.

Now, that is the number that one needs to compare with the recommendations of the advisory committee Mr. Weinberger was talking about—their recommendation being that you should have approximately a 1-to-1 relationship between assets and outgo.

Senator HARTKE. I understood everything you said. Now, that is exactly what I have been saying. You are collecting almost 1 year in advance.

Secretary SHULTZ. The 20-percent increase in benefits is an assumption which you suggested to be made.

Senator HARTKE. I am not talking about what is in H.R. 1. I am talking about the facts of life. The facts of life are, very simply, that what Senator Fulbright said, until there was a combined budget, the social security fund was operated as a separate entity. It has been invaded, the cash has been used to pay for other expenses of Government——

Secretary SHULTZ. Well, that is just not correct.

Senator HARTKE. Well, they took the cash, and they are paying interest at the rate of $2.5 billion on it.

Senator BENNETT. They have done that since 1934.

Senator HARTKE. I grant you that. I am not arguing.

Senator BENNETT. It has always been invaded. That is ridiculous.

Senator HARTKE. It is not ridiculous. This is a fact of life, and I am saying it is high time that they get back every year what they pay in. Most of them die after 65. They start dying off.

All I am saying is, before President Johnson combined the budget, before the combined budget, there was a accumulation in this trust fund which was always held as an accumulation and was not considered as a total budget figure. You at this present time are taking that $40 billion and holding it in there and using it for current expenses of Government beyond those which go to the social security beneficiary every single year.

Secretary SHULTZ. That is not the case.

Senator HARTKE. Well, who is getting it?

Secretary SHULTZ. The nature of the social security system had in it the idea that a trust fund should be built up. That was an element of security for the payment of benefits and some assurance to those who retire and are not earning money and were not being taxed, that they would still have some income. Therefore, the trust fund has built up over the years.

It builds up slightly in 1972 under these assumptions that I have mentioned, and then it proceeds—in terms of its proportion of assets to outgo—to decline.

Senator HARTKE. Well, it depends on what we do. The fact of it is, if you follow the old procedures of 1966, it built up a $10 billion surplus in 10 years. All I am saying is that you will collect $40 billion, have got $40 billion on hand. That makes $80 billion that the trust fund will have on hand, either to disperse or withhold.

All I am saying is you can take at least $8 billion and give it to the beneficiaries this year with a 20-percent increase, and we don't have to bother the tax rate at all. Senator Bennett can call it ridiculous if he wants to, but the elderly people understand that they are being cheated in this country, and it is high time that we stopped.

Mr. WEINBERGER. It is time to insure, Senator, that the old folks know that they are going to have an actuarially sound system that will continue to pay out and not be subject to whims of succeeding Congresses with respect to whether or not appropriations are made for their benefit.

Senator HARTKE. Well, I would estimate the trust fund, because the poor people are paying for the social security benefits now. You take a person who earns $9,000 today, he has to pay just as high a percentage of his income as a person making $42,500 in the U.S. Senate, and I see no reason why we should be given that special favoritism—you talk about tax equality; you can start right there. Social security ought to be paid on the ability to pay, just like you pay your income tax.

Secretary SHULTZ. There are two ways to destroy the social security system, if that is what you are after. One is the way you mentioned. The other is to conduct the Government's fiscal affairs so that social security benefits are completely negated by the rising inflation. That is another aspect of what the older citizens need to worry about.

Senator HARTKE. I agree with you. I will tell you something else. Lots of people out there—take a waitress, take a man working picking up garbage—sometimes have a higher withholding for social security today than they do income tax, and I think that is a shame. That is ridiculous. That is the ridiculous part of this whole system.

The fact of it is, in order to pay for these benefits today, poor people out there working—not on welfare—earning their own way, trying to raise a family, educate their children, trying to be decent Americans, and they find out that they are being taxed at a regressive rate under social security. There isn't a tax economist, including the Chicago school, that will deny that. Milton Freedman thinks we should eliminate social security because it is regressive. If you will come back with that theory, I will be on your side, just like I am on the full employment budget concept. I think ability to pay ought to apply to everything, including your social security and medicare.

That is all the questions I have.

The CHAIRMAN. Senator Byrd, do you care to ask some additional questions?

Senator BYRD. I have some debt limit questions I want to ask.

The CHAIRMAN. Well, I will call on you, Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

First, Mr. Secretary, I assume this is a typographical error, but since it was in Secretary Walker's statement of 3 weeks ago, I thought I would try to clarify it. In the table giving the estimated debt subject to limitation, fiscal 1973, for May 31, 1973, you have the figure of $371.8 billion. I assume that should be $471.8 billion?

Secretary SHULTZ. Thank you, Senator.

Senator BYRD. $471 billion?

Secretary SHULTZ. Right.

Senator BYRD. If we refer to the table which you submitted to the committee on February 28, which was 4 months ago, you estimated at that time that the public debt, subject to limitation, would be $443 billion. Today you estimate it will be, as of June 30, $425 billion.

Now, my question is: In that short period of 4 months, where does the differential on that $18 billion come from?

Secretary SHULTZ. Well, the principal reasons have been the ones we talked about earlier: the increase in revenues above what we expected, and the decrease in outlays—the biggest element in decrease in outlays being the fact that general revenue sharing has not passed.

Senator BYRD. But I remind the Secretary that this information was submitted to the committee on February 28. Now, did you not know about the withholding tables, the overwithholding tables, at that time?

Secretary SHULTZ. The expectation was that people would change their withholding forms and take advantage of the opening that was provided in the law. If they had, we would not have that amount of overwithholding.

Senator BYRD. But whatever the reason, the Treasury in a 4-month period made an $18 billion error in its estimates; is that correct?

Secretary SHULTZ. Well, partly, this is a question of estimating what the Congress is going to do and putting forward an estimate based on the assumptions that the President's program will carry. Now, the general revenue-sharing assumption, which has proved not to be true, is an example of a shift of that kind. Congress has not enacted revenue sharing yet, although we hope they will.

Senator BYRD. I understand.

Secretary SHULTZ. I think that the economy has been stronger than was estimated then.

Senator BYRD. That is why I think the House was very wise in not agreeing with the proposal to give you a change in the debt ceiling until next March. They agreed to give it to you until October 31. Now, if you make another $18 billion error, you won't even need this amount of money.

Secretary SHULTZ. When you have a terminal date, such as June 30 or October 31, then certainly we have to come back to the committee and get an extension.

Senator BYRD. Well, that is a great advantage of a debt ceiling, as I see it, so the Treasury does have to come back, whichever administration it might be, does have to come back to the Congress.

But the point I am suggesting in this is that the Congress should go slow in raising the debt ceiling over a longer period of time, because we just have seen where you have made an error, the Treasury Department has made an error, of $18 billion in a 4-month period. That suggests to me that we ought not to change these debt ceilings upward for more than 3 or 4 months.

I would be willing to set this back to September or even to August. As you say, it is difficult to estimate, and I didn't think it should be so difficult to estimate that you would have an error of $18 billion, though, in that short period of time. Now, as I understand your figures—

Oh, before I get into that, Mr. Chairman, I would like to ask unanimous consent to insert in the record in parallel columns the estimate made by the Treasury Department on pages 14 and 15 of the committee report of last February 28, and in a parallel column the estimate of the debt as being estimated today by the Secretary of the Treasury.

The CHAIRMAN. Without objection, it is agreed.

(The listing referred to follows:)

RECONCILIATION OF ESTIMATES OF DEBT SUBJECT TO LIMIT ON JUNE 30, 1972

[Amounts in billions]

	Jan. 19 Estimate	June 5 Estimate
Debt subject to limit, June 30, 1971	$399.5	$399.5
Factors adding to debt:		
Federal funds deficit	44.7	32.2
Reduction in outstanding agency securities	1.1	1.1
Government account investments in excess of current trust fund surpluses	2.6	1.3
Total	48.4	34.6
Factors reducing debt:		
Increase in deposit funds	2.2	6.2
Adjustment of operating cash to $6,000,000,000	2.5	2.5
Total	4.7	8.7
Debt subject to limit, June 30, 1972	443.2	425.4

Source: Office of the Secretary of the Treasury.

ESTIMATED DEBT SUBJECT TO STATUTORY LIMITATION, FISCAL YEAR 1973 (INCLUDES $6,000,000,000 CASH BALANCE)

[In billions]

	Estimate dated Jan. 19, 1972	Estimate dated June 5, 1972		Estimate dated Jan. 19, 1972	Estimate dated June 5, 1972
1972:			1973:		
June 30	$443.2	$425.4	Jan. 15	470.8	455.4
July 17	450.0	434.0	Jan. 31	470.6	449.4
July 31	453.0	432.0	Feb. 15	475.3	458.4
Aug. 15	457.5	439.1	Feb. 28	478.1	456.8
Aug. 31	461.1	439.4	Mar. 16	483.1	463.5
Sept. 15	426.3	446.4	Mar. 30	482.5	465.8
Sept. 29	457.9	439.0	Apr. 16	484.5	473.2
Oct. 16	461.0	444.7	Apr. 30	478.2	463.3
Oct. 31	462.1	441.8	May 15	483.8	470.2
Nov. 15	466.3	448.9	May 31	486.8	471.8
Nov. 30	468.7	447.1	June 15	486.0	477.9
Dec. 15	469.7	453.2	June 29	479.3	464.8
Dec. 29	469.8	449.7			

Source: Office of Debt Analysis, Office of the Secretary.

RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT OF FEDERAL FUNDS, 1933-1973

[Fiscal years, in billions of dollars]

Fiscal year—	Receipts	Outlays	Surplus or deficit (−)
1933	2.0	4.6	−2.6
1934	3.0	6.6	−3.6
1935	3.7	6.5	−2.8
1936	4.0	8.4	−4.4
1937	5.0	7.7	−2.7
1938	5.6	6.8	−1.2
1939	5.0	8.8	−3.8
1940	5.1	9.1	−4.0
1941	7.1	13.3	−6.2
1942	12.5	34.0	−21.5
1943	22.0	79.4	−57.4
1944	43.6	95.0	−51.4
1945	44.4	98.3	−53.9
1946	39.7	60.3	−20.6
1947	39.7	38.9	.8
1948	41.4	33.0	8.4
1949	37.7	39.5	−1.8
1950	36.4	39.5	−3.1
1951	47.5	44.0	3.5
1952	61.3	65.3	−4.0
1953	64.7	74.1	−9.4
1954	62.8	65.9	−3.1
Fiscal year—Continued			
1955	58.1	62.3	−4.2
1956	65.4	63.8	1.6
1957	68.8	67.1	1.7
1958	66.6	69.7	−3.1
1959	65.8	77.1	−11.3
1960	75.7	74.9	.8
1961	75.2	79.3	−4.1
1962	79.7	86.6	−6.9
1963	83.6	90.1	−6.5
1964	87.2	95.8	−8.6
1965	90.9	94.8	−3.9
1966	101.4	106.5	−5.1
1967	111.8	126.8	−15.0
1968	114.7	143.1	−28.4
1969	143.3	148.8	−5.5
1970	143.2	156.3	−13.1
1971	133.7	163.7	−30.0
1972 [1]	147.1	179.3	−32.2
1973 [1]	152.6	190.4	−37.8
41-year total	2,459.0	2,915.4	456.4

[1] Estimated by figures

Note: Figures from 1933 through 1953, inclusive, are on an administrative budget basis.
Source: Office of Management and Budget.

Senator BYRD. Now, your change of revenues, of receipts and outlays, from February to June, if I understand it correctly, you indicate there will be an increase in receipts of $2.2 billion and an increase in outlays of $3.7 billion. How, do you justify an estimated decline in outlays from the original estimate? Is all of that due to the revenue sharing?

Secretary SHULTZ. Approximately $2.2 billion of it in fiscal 1972 is due to the movement of revenue sharing. There are also some declines that reflect the fact that the economy is a little better than was expected, and I think probably that is having some impact on the revenue side, as well.

In other words, it isn't just the overwithholding problem that we have been concentrating on, but, for example, the outlays for unemployment compensation are a little less than anticipated. The outlays for some welfare categories are a little less than anticipated. I am sure there are a variety of reasons for that, but the state of the economy is at least partially responsible.

It is also true that there are some other things beyond general revenue sharing that haven't gone forward as the President's budget suggested they should, because Congress has not acted on the authorizations yet. Environmental protection, waste treatment, and construction grants, for example, have not gone forward because they still haven't been passed. There are some veterans' benefits that haven't gone forward: emergency school assistance hasn't gone forward.

Senator BYRD. Well, that indicates to me, then, that there will be a buildup in 1973 of those things.

Secretary SHULTZ. Some of the things that did not take place in 1972 will take place in 1973. The general revenue sharing that we have talked about is still proposed by the administration as it was enacted in the House, to be retroactive to January 1. That would be an item that would move from fiscal 1972 to fiscal 1973.

Senator BYRD. On what do you base the estimated increase in receipts of 1972 to 1973, of $16 billion?

Secretary SHULTZ. By and large, both the stronger economy and the expanded economy; stronger in terms of a greater prosperity, as well as just normal growth.

Senator BYRD. Well, does that take into account that this overwithholding will have to be adjusted in 1973?

Secretary SHULTZ. There is an effort to take that into account. That is, we would recognize that there will have to be refunds as a result of the overwithholding. The degree to which individuals will change their withholding forms between now and then is very difficult to estimate. We are struggling to see if there isn't some additional way to solve this problem, but I can't report that we have found it as yet.

Senator BYRD. I am concerned at the moment about the figures there. Do I understand correctly, then, if you estimate an increase in receipts of $16 billion and on top of that you have to pay back, so to speak, to the taxpayer $8 billion——

Secretary SHULTZ. No, sir. That is estimated net receipts, which includes the fact that there are normally refunds. Next April, refunds will be larger than usual.

Senator BYRD. I understand, but I am trying to figure out how the $8 billion figure fits into this. I assume it has to be paid back.

Secretary SHULTZ. It has already been netted out.

Senator BYRD. It has been netted out of the $16 billion, is that correct?

Secretary SHULTZ. That is right.

Senator BYRD. So to net it out at 16, you have to take in $8 billion above the 16, would you not?

Secretary SHULTZ. Well, it depends on how people adjust. Let's assume that people choose not to change their withholding at all, that they have looked over the situation and they have, and, in effect, exhibited a preference to be slightly overwithheld—and there is a great deal of evidence in the Internal Revenue Service that people do have that preference. Well, let's just assume that it stays the way it is. Then you would have a payout, but you would also have a continued collection.

We would like to correct the situation and bring the withholding schedule more into line with actuality, but it is a very difficult problem to solve, as you know, in this committee, because you work on it.

Senator BYRD. I am trying to understand the figures, though. On what assumption did you net out $16 billion, taking into consideration the $8 billion of overwithholding?

Secretary SHULTZ. On the assumption that there would be some further tendency for individuals to cut down their withholding. I can't give you the proportions on how they are figured.

Senator BYRD. I am trying to understand how optimistic your $16 billion is because, as I understand it or as I visualize it, you estimate that you will take in more than the $16 billion because you are going to have to pay back to the taxpayers.

Secretary SHULTZ. Right. That is always the case. There are constantly refunds every year.

Senator BYRD. I understand that, but you have got a particular case this year with $8 billion which you have never had in the past.

Secretary SHULTZ. Right.

Senator BYRD. So it occurs to me that you are estimating that your receipts will be substantially more than $16 billion when you net out a portion of that $8 billion.

Secretary SHULTZ. Right.

Senator BYRD. Well, now, how much is involved?

Secretary SHULTZ. You mean, how much is involved in total refunds?

Senator BYRD. No, no. You estimate an increase in receipts of $16 billion, a net increase in receipts of $16 billion. Now, that takes into consideration, you say, the refunds that will have to be paid to the taxpayers because of the $8 billion overwithholding. Now, how much of that is involved?

Secretary SHULTZ. Well, the estimates broken down as to source are as follows: In 1971, on individual income taxes, which is where the overwithholding problem principally arises, $86.2 billion was collected. The current 1972 estimate is $94.4 billion; that is, as distinct from the January estimate of $86.5 billion. Now, there is where your overwithholding estimate comes in.

Senator BYRD. I am speaking of 1973 now.

Secretary SHULTZ. I am getting to that. I just want to make a point that you see where that overwithholding estimate comes from. Now, whether that is all overwithholding or whether the economy was performing better than estimated—and therefore generating better returns—is almost impossible to determine.

Now, the current 1973 estimate is $95.5 billion.

Senator BYRD. That is an increase of $1 billion.

Secretary SHULTZ. $1.1 billion.

Senator BYRD. Where do you get the $16 billion increase?

Secretary SHULTZ. Well, you get it from the accumulation of other sources of income. The corporation tax is estimated at $26.8 billion in 1971, to go to $31.6 billion in 1972, and to go to $36 billion in 1973.

Senator BYRD. Well, that is $4 billion.

Secretary SHULTZ. So there is a big increase there.

Senator BYRD. You have gotten up to $5 billion out of a total of $16 billion, and they are the two major sources.

Secretary SHULTZ. No. Social insurance contributions, depend on what happens to the tax rates, the budget estimates for 1973 is $63.9 billion.

Senator BYRD. So it is in the social security——

Secretary SHULTZ. Well, that is a principal place.

Senator BYRD. That is the principal place.

Secretary SHULTZ. It is the largest of the various increases.

Senator BYRD. Well, that is a good bit. It is, basically, the largest part of the increase of that $16 billion is in social security. You are only predicting a $1.6 billion increase in personal income taxes and a $4 billion increase in corporation taxes.

Secretary SHULTZ. Right.

Senator BYRD. Mr. Secretary and gentlemen, if it is satisfactory to you, could we recess for about 10 minutes? I have only a few more questions—not very many.

(A brief recess was taken at 12:45 p.m.)

Senator BYRD (presiding). The committee will resume deliberations.

I want to thank you, the Secretary and his associates, for their courtesy in permitting me to make that rollcall vote, and I apologize for the necessity of it.

To follow up the last question, as I understand it, for fiscal 1973, insofar as the Federal funds part of the budget is concerned, you anticipate an increase in revenue of about $5 billion; is that right?

Mr. SHULTZ. Yes, sir.

Senator BYRD. And the bulk of the $16 billion increase then would come from an increase in social security revenues which are not available for the general operations of Government.

Mr. SHULTZ. That is correct.

Our estimate is that the trust fund revenues altogether would rise about $10 billion.

Senator BYRD. Yes.

Let me ask you this: If your assumptions as to what the taxpayers will do in regard to this overwithholding of taxes, if your assumptions are correct—or incorrect—that $5 billion increase in revenues could be wiped out by that one item, couldn't it?

Mr. SHULTZ. It is possible, but I would just say again that I think that we are groping in the dark to a degree about precisely what is going on. We know that we are getting more money than we expected, and we are trying to figure out why. Overwithholding leaps to mind, but there are also other possible explanations. Depending upon what those explanations are, we could have a different picture.

So, if we are assuming it is the overwithholding problem, which we have assumed, then we are assuming a big payout next April.

Now, if we are wrong and it isn't so much the overwithholding problem, then we wouldn't have that much payout. It could go the other way. We are doing everything we can to get at this, but it is very difficult to disentangle what precisely is going on.

Senator BYRD. Because you don't know what is going on and because it is difficult to determine what is going on, is that not a sound argument for the Congress to go slow in the timespan that it permits in the increase in debt ceiling?

Mr. SHULTZ. Well, it is always true that we will have more information a week from now than we have this week and so on. We could do this every month if you would like. The trouble is that it is very disruptive to the Government, particularly when we get into the situation that we are in right now 2 days before the expiration and not knowing what is going to happen.

There is a very difficult parliamentary situation, apparently. The prospect of having midnight of June 30 go by and not having the debt limit extended is extremely unpleasant from the standpoint of orderly government.

Senator BYRD. I don't disagree with that at all. I think the other aspect the Congress should want to consider, and certainly I want to consider, is the fact that the Treasury Department, for whatever the reason, made a misjudgment of $18 billion in a 4-month period. That is an astonishing thing. It is incredible to me, an $18 billion error of judgment in a 4-month timespan.

Mr. SHULTZ. Well, I think, Senator, that that is not quite fair to say it is an error of judgment.

The President's budget is put forward with a set of proposals, and the hope is that the Congress will pass those proposals. But revenue sharing, which has been here before the Congress for about 3 years, and many other parts of the President's program, have not been acted upon.

We have to budget for those programs; and if the Congress doesn't act, budgeting is difficult. That is not an error in judgment. That is an error in-----

Senator BYRD. Well, if you want to argue the point, Mr. Secretary, your own figures show that the bulk of the difference came from the overwithholding. Now, the Congress didn't do that.

Mr. SHULTZ. Well, Congress had a very strong hand in that. In fact, the Treasury, as I understand it, was quite reluctant to go forward in the way that this committee, particularly, pushed to change withholding.

Senator BYRD. When you testified on February 28, you knew the situation then?

Mr. SHULTZ. No. I don't think we were aware then of the extent to which overwithholding would occur, and we are still not certain.

Senator BYRD. Mr. Volcker is shaking his head "yes."

Mr. SHULTZ. And we are not certain how to disentangle these returns to determine the extent to which there is an overwithholding problem.

Senator BYRD. In any case, the facts will show this, and that is why I wanted those tables put in parallel forms. The facts will show that the Congress was given an estimate on February 28 which turned out to be $18 billion in error on June 28.

(A comparison referred to by Senator Byrd follows:)

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1973 (WITH $6,000,000,000 CASH BALANCE)

[In billions of dollars]

	June 28 estimate	February 28 estimate
1972:		
June 30	425.4	433.1
July:		
17	434.0	450.0
28	435.5	
31	432.0	453.5
August:		
15	439.1	457.5
31	439.4	461.1
September:		
15	446.4	462.3
29	439.0	457.9
October:		
16	444.7	461.0
31	441.8	462.1
November:		
15	448.9	466.3
30	447.1	468.7
December:		
15	453.2	469.7
29	449.7	469.8

	June 28 estimate	February 28 estimate
1973:		
January:		
15	455.4	470.8
31	449.4	460.7
February:		
15	458.4	475.3
28	456.8	478.1
March:		
15	463.5	483.1
30	465.8	482.5
April:		
16	473.2	484.5
30	463.3	478.2
May:		
15	470.2	483.8
31	371.8	486.8
June:		
15	477.9	486.0
29	464.8	479.3

Senator BYRD. Now, at Senator Long's request, I would like to ask this question on behalf of Senator Long: Am I correct that the mid-session review shows an increase in effective outlays for the Department of the Interior of $400 million? Is this an increase in rents and royalties from the Outer Continental Shelf?

Mr. WEINBERGER. There is a reduction, actually. Senator, in 1972 rents and royalties, a reduction in effective outlays, because we do not anticipate as many royalties as we did when the budget was made up. We expect larger receipts in 1973. The environmental suits have various injunctions in different parts of the country, and this has reduced the estimated 1972 receipts we would have from that source.

Senator BYRD. Is there any increase in the sale of financial assets in the midsession review over those shown in the January budget?

Mr. COHN. Senator Byrd, as I recall, particularly in the Farmers Home Administration, there are more financial assets now assumed to be sold in fiscal 1973 than there were in the January budget and fewer assumed to be sold in 1972 than in the January budget.

My recollection is that something more than $300 million we thought would be sold in the last month or two of this fiscal year will probably be sold in the first month or two of next fiscal year, so that those sales will be somewhat higher in 1973 and lower in 1972 than we anticipated in January.

Senator BYRD. Thank you.

Now to go to another subject, Mr. Weinberger, in your statement yesterday that Congress is going to enforce a huge tax increase means creating new programs without eliminating old ones, I certainly agree with that.

I predicted 18 months ago that whoever comes in here next January on behalf of whatever administration it might be, is going to ask this committee and the Congress for a substantial increase in taxes or new taxes, or both, and I think what you say here today bears out that view.

Mr. WEINBERGER. Senator, it doesn't bear out that view if the President is reelected.

Senator BYRD. Well, the financial condition of the country is not going to—deficits are not going to change between now and January, regardless of who is reelected.

Now, if you assume that this country can spend itself rich, if you assume that the people can get something for nothing, if you assume that we can keep on spending more money, creating more deficits, and no one has to pay for them, then I guess you are right, but I don't proceed on that assumption.

Mr. WEINBERGER. If the deficits exceed the full-employment revenues on a regular basis, there is no question that they are highly inflationary and can't continue, but the simple fact is that the President thus far and his future plans insofar as I know them, are to conduct the national affairs in such a way that additional taxation will not be needed.

Senator BYRD. Let's get to your deficits right now. I hadn't intended to go into this.

In 4 years, you will have $113 billion in Federal funds deficit: $13 billion in 1970, $30 billion in 1971, $32 billion in 1972, and a minimum of $38 billion, by your own figures, in 1973.

I think those figures alone—and from what we have brought out here today, they are bound to be low—if you are not alarmed about $113 billion, $113 billion accumulated deficit in a 4-year period of time, then I don't know what you would be alarmed about.

I, for one, feel no obligation to support a tax increase. I voted against a bill last night after they loaded down this HEW bill; $6 billion more than we spent las year. I voted to reduce many other appropriations. I voted against that foolish tax reduction that was passed last December which added more to the deficit yet really helped no one, so I feel no obligation to support a tax increase. I will keep an open mind on it because I think you will be around here asking for it. I make the prediction that an increase in taxes or new types will be sought.

Mr. WEINBERGER. No, sir.

Senator BYRD. But, in my judgment, the No. 1 problem facing the United States today is the deplorable and tragic, in my judgment, financial situation of the Government, and we are not making any headway on it. As a matter of fact, we are going backward. Every year the deficit gets more.

And one final thing I must say. I am a minority, a minority in the Senate, a minority in Congress. Nor am I in agreement with the majority of those in the administration in regard to this matter. But I think it is a tragic thing that the people of the United States, the individual citizens, are the ones to be hurt the most by this fantastic Government spending which was stimulated last year by going to a Keynesian concept and by saying we want more deficits, we want an expansionist budget. You sure got it, and Congress is helping you do it. You are not doing it with my help but doing it with the help of the majority of Congress, and you are in tune with the majority of the Congress. They want to spend, and that is what they are doing, and that is what they are going to do.

I just think the people are going to suffer by this a great deal. It might even be likely it is not a very wise political thing to do to be advocating all this spending and all these programs. I don't know.

I admit that I am a very unorthodox politician, voting against tax reduction. That is very unorthodox. Everybody likes to vote for tax reduction, but it doesn't seem very logical to me when you are running these smashing deficits to reduce the Government's revenue.

I asked you earlier about new programs that you would recommend deleting. I went through that with Secretary Shultz in the last meeting that we had here on—not the last meeting, but on February 15, 1972. One question I asked was this:

Senator BYRD. Have you recommended or do you now recommend the elimination of any programs?

Mr. SHULTZ. We had quite a list, I believe, in some of our past budgets of programs that we thought should be eliminated or changed drastically to save substantial sums of money. These reductions have been distributed through the program categories. I don't happen to have the list. I don't think we have accumulated it in that fashion this year.

Then another question:

Senator BYRD. What I want to get from you as Director of the Office of Management and Budget is what programs, in your judgment, can be eliminated. Are there 10, 15, one, zero?

Mr. SHULTZ. Well, we don't have an independent judgment. The President's judgment is reflected in his budget, and that is the judgment that we have before the Congress and before the Appropriations Committee.

That was all I was able to get out of that, but Mr. Shultz subsequently submitted the following information on page 50, I assume it is in response to that question.

(The submission referred to follows:)

1972 OUTLAY SAVINGS

[In millions of dollars]

	Proposed in budget	Savings resulting from action completed in calendar year 1971
Legislative proposals before the Congress:		
1. Sale of stockpiled commodities: Legislation authorizing the sale of $150,000,000 in surplus stockpiled commodities has been submitted to Congress. Of the 31 bills submitted, which would yield sales of $150,000,000, Congress enacted 24 which are expected to yield sales of $40,000,000	150.0	40.0
2. Shift farm operating loan program from direct to insured basis: Passed the Senate as S. 1806 and referred to the House on May 12, 1971. The House has not acted on the bill	275.0	0
3. Medicaid: Reform program to achieve more efficient use of medical resources: The administration's cost-sharing proposals were accepted in large part by the House in H.R. 1, but H.R. 1 is still pending in the Senate	444.0	0
4. Medicare: Control program costs and encourage use of most efficient providers of service. Concept of administration's major cost-sharing proposals were not accepted in H.R. 1, which is still pending in the Senate	400.0	0
5. Sell Government-owned designs and sites for lease construction of buildings. The House and Senate have held hearings on—but have not completed action on—a new administration bill which would require agencies to pay rent to GSA for use of Federal buildings and would also include leasing proposals with sale of Government-owned sites and designs	41.0	0
6. District of Columbia (Federal funds): Finance public works programs by local bonds instead of direct Treasury loans. Requires substantive legislation introduced as S. 1339. No final action yet	14.0	0
Total	1,234.2	40.0
Items being blocked by Congress:		
1. Phase out the Coast Guard Selected Reserve. Congress added funds to the administration's appropriation request	18.0	0
2. Public assistance grants: Terminate the open-ended appropriation for reform service functions and program. Language which would close the end of this open-ended appropriation was deleted from the enacted Labor-HEW appropriation bill. The $121,000,000 in additional savings loss represents the uncontrollable increase in this program which this proposal would have curbed	111.0	−121.0
3. Reduce NERVA nuclear rocket program: Congress added $39,000,000 to the appropriation requests of AEC and NASA for this program. $5,600,000 will be spent in 1972	71.0	65.4
4. Terminate nuclear desalting program: Congress added $1,000,000 to AEC's appropriation for this program, thus reducing the 1972 savings by a like amount	1.0	0
5. Reduce reactor program for space applications: Congress added $1,500,000 to AEC's appropriation for this program, thus reducing the 1972 savings by a like amount	4.7	3.2
6. Terminate low priority plant protection programs: Congress included $1,300,000 in the 1972 agricultural appropriations act for this program, thus eliminating the savings	1.3	0
Reform aid to higher education programs by expanding student support and aid for institutional improvement and by restricting narrow purpose aid. The enacted education appropriation bill included amounts for these 3 purposes, thus eliminating the savings in fiscal year 1972:		
7. Land grant institutions	10.0	0
8. College construction grants	42.0	0
9. Undergraduate instructional equipment	2.0	0
10. Redirect science development grant funds to the support of research. Congress earmarked $3,000,000 for this program to the National Science Foundation's appropriation, thus reducing savings by a like amount	10.0	7.0
11. Redirect science education and terminate programs which have achieved principle objectives. Congress restored funds to the National Science Foundation's appropriation, thus reducing savings by a like amount	5.0	3.0
12. Reduce HEW categorical program support for psychiatric residency stipends. Congress rejected the proposed and restored funds for this program in the 1972 appropriation bill	7.0	0
13. Provide more efficient and complete services to public health hospital patients through contractual arrangements. Congress restored funds for full direct services in the PHS hospitals to the HEW appropriation bill	18.0	0
14. Income security (HEW): Limit research and training to high-priority projects. Congress restored the funds for terminated projects and added an additional $19,000,000 to the program through the 1972 Labor-HEW appropriation bill	11.0	−19.0
Total	312.0	−61.4

1972 OUTLAY SAVINGS—Continued

[In millions of dollars]

	Proposed in budget	Savings resulting from action completed in calendar year 1971
Accomplished or in process:		
1. Redirect State action grants for delinquency prevention—included in the 1 year extension on the Juvenile Delinquency Control Act of 1968 enacted June 30, 1971	3.8	3.8
2. Reduce support levels for NASA's tracking and data acquisition network—accomplished administratively	15.0	15.0
3. Shift water and waste disposal loans (Department of Agriculture) from direct to insured basis, P.L. 91-617 was enacted Dec. 31, 1970, thereby putting this reform into effect	22.0	22.0
4. Increase grazing fees (Department of Interior)—the increase was made by administrative action on Dec. 11, 1970, effective Mar. 1, 1971	1.0	1.0
5. Increase royalties from Federal regulation of oil and gas production from outer continental shelf leases off the Texas and Louisiana coasts—increases have been implemented administratively	22.0	22.0
6. Terminate plans for a national fisheries center and aquarium	2.0	2.0
7. Terminate unrewarding developmental projects on population estimates and projections (Department of Commerce), accomplished administratively	.3	.3
8. Reduce retail sales surveys (Department of Commerce), accomplished administratively	.2	.2
9. Office of Economic Opportunity: Terminate rural loan program which has not raised the income level of the poor. These loans were stopped by administrative action in December 1970	13.0	13.0
10. Reduce excessive scope of the National Register of Scientific and Technical Personnel (National Science Foundation), accomplished administratively	.3	.3
11. Reduce excessive support level for science information system development (National Science Foundation), accomplished administratively	.5	.5
12. Replace formula grants to allied health professions training centers with expanded special project grants, accomplished administratively	2.8	2.8
13. Phase out health science advancement awards program (HEW) because goals have been achieved, accomplished administratively. A $4,000,000 savings in outlays is projected in 1973	0	1.0
14. Reform medicare by eliminating improper payments to extended care facilities and modifying the hospital reimbursements formula—Accomplished administratively	150.0	60.0
15. Reform medicare by placing a limitation on physicians' charges under supplementary medical insurance—Accomplished administratively	60.0	50.0
16. Reduce number of hours of work permissible to qualify for welfare benefits under unemployed fathers programs—Accomplished administratively	15.0	15.0
17. Increase user charges on current commodity surveys (Department of Commerce)—Accomplished administratively	(1)	(1)
Total	307.9	208.9
Not Being Accomplished as Planned		
1. Sale of stockpiled commodities. A total of $595,000,000 reduction in the fiscal year 1972 estimate of receipts from the sale of surplus stockpile commodities will not be realized because of market conditions and other factors	770.0	175.0
2. Increase nuclear powerplant license fees: Lower estimates are due to delays in putting new regulations into effect while complying with the Administrative Procedures Act and to a revised revenue base	9.5	6.5
3. Reduce plutonium production: Original estimate was based on shutting down 2 reactors at Hanford, Wash. Plans now call for 1 reactor to continue in operation through fiscal year 1974	45.0	34.0
4. Terminate the special milk program	84.0	0
5. Remove wool price supports from the parity index: The Agriculture Act of 1970 did remove wool price supports from the index. The reduction in savings is a result of an increase in the amount of wool being supported (though still at a level less than parity)	4.0	0
6. Close Milan Trade Center	.3	0
7. Terminate helium purchase contracts: The termination is currently under litigation	45.0	19.0
8. Close less efficient SBA field offices: Change is due to agency emphasis on decentralization program	1.3	.1
Total	959.1	234.6
Proposals having no 1972 impact but resulting in savings in subsequent years:		
1. Increase Federal Crop Insurance premiums: Introduced as S. 1601 on Apr. 21, 1971. Hearings were held by Senate Agricultural Subcommittee on Research and general legislation. Bill still pending in the Senate	12.0	0
2. Sell National Capital airports. DOT is in the final stages of drafting legislation to accomplish this. It is now expected that receipts will exceed amount estimated in budget	105.0	0
3. Sell Alaska Railroad. Legislation has been introduced as H.R. 9619 and referred to the House Commerce Committee. No hearings have been held	100.0	0

See footnotes at end of table.

1972 OUTLAY SAVINGS—Continued

[In millions of dollars]

	Proposed in budget	Savings resulting from action completed in calendar year 1971
Veterans' Administration:		
4. Avoid duplicate burial benefits for individuals also assisted by social security and other Federal programs. Introduced as H.R. 3343 on Feb. 2, 1971. No action taken by the Congress	54.0	0
5. Provide compensation only for active cases of tuberculosis. Introduced as H.R. 3347 on Feb. 2, 1971. No action taken by the Congress	46.0	0
6. Require private insurers to reimburse Government for policy holders treated in VA hospitals: Introduced as H.R. 3350 on Feb. 2, 1971. No action taken by the Congress	80.0	0
Total	397.0	0

[1] Less than $100,000.

Senator BYRD. When I roughly add up the figures, it shows that recommended decrease of $454 million, of which $215 million are in the sale of stockpiled commodities. When you are selling an asset, that isn't saving anything. It is the sale of an asset, but, anyway, there are figures representing about $545 million, less $215 million of commodities from the stockpile, so there is about $300 million out of budget of $211 billion.

I would like to ask you, sir, if you, Mr. Weinberger—and you said you have recommendations for the elimination of programs—if you would submit for the record what programs you feel ought to be eliminated. I want to help you with it.

Mr. WEINBERGER. I understand that and I appreciate it, Senator. We will submit it in connection with the 1974 budget. I don't see any possibility for the 1973 budget.

Senator BYRD. But we are with the 1973 budget now.

Mr. WEINBERGER. I understand that, sir, but what we would submit would be recommendations of the President, and I think that the recommendations we would make would be recommendations that would be worked on in the course of the next few weeks that he would agree to, that he would wish to submit. Since the Congress is going to be out of session such as it is, the most appropriate time at this point seems to be in connection with the 1974 budget, but we may very well have some reductions that we would want to make in the 1973 total. In that event, they would be submitted as soon as they are ready.

Senator BYRD. I understood from your previous testimony that you already had recommendations——

Mr. WEINBERGER. No, sir. I meant to say that we were working on lists of proposed reductions and eliminations to present to the President for his action. As soon as those are ready and as soon as he wishes them presented, we would obviously present them, but we are working on the problem because we agree with you that this is a very necessary thing to be doing now.

Senator BYRD. But that does not deal with 1973.

Mr. WEINBERGER. Well, it might very well because the submission we make might have some application to the 1973 budget. Some of those are on their way through the Congress now.

Some of the President's feelings about them may be indicated by action that he takes in connection with the individual bills as they reach his desk.

I just don't want to promise you that I am going to deliver a list of recommended reductions tomorrow because I can't do that. It has to go through too many hands.

Senator BYRD. Well, I might say that I would hope to get such a list, but I must say that I wasn't 100-percent certain I would get such a list. I tried to get a list last time. I did get something, a list, which, as I say, adds up to $545 million out of a $211 billion budget.

Mr. WEINBERGER. We will hope to do better.

Senator BYRD. No one seems to want to eliminate any programs.

The only reason I brought it up, you mentioned in this interview published today—I am not defending the Congress. I condemned the Congress on the floor last night for what it is doing in these expenses.

As an independent, I am not going to get mixed up with a Republican administration on one hand and a Democratic Congress on the other, as to who plans to do the most spending and the most taxing. I think neither is exactly in tune with my way of doing things.

I thank you, gentlemen. Thank you very much.

(Whereupon, at 1:15 p.m., the Committee on Finance adjourned.)

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