Fourth, a net decline of $100 million will result from lower expenditures on international financial transactions, partially offset by a rise in outlays for domestic loan programs.

Table 2, attached to this statement, shows by agency the major changes I have just described.

II. *Contingencies.*—Let me turn now to some contingency elements. In considering the expenditure outlook for 1968, there are a number of contingencies which must be explicitly recognized, but whose precise outcome cannot be forecast at the present time.

1. *Defense expenditures.*—In a war situation, military requirements tend to change, and accurate prediction of those changes long in advance is virtually impossible. As a consequence, we must be prepared for additional defense expenditures in support of our combat forces. One illustration of changing requirements was the President's recent decision to authorize an increase of 45,000 in American troops deployed in Vietnam, over and above the number incorporated in the January budget estimates.

At the same time, however, the President has directed Secretary McNamara to review all defense expenditures and to reduce or defer those not now essential for national security. The Secretary is conducting this review, and all efforts will be made to offset to the greatest extent possible the potential increase in Vietnam outlays over the amounts budgeted in January.

Neither the magnitude of the increases for Vietnam or the amount of offsetting savings can be accurately predicted at this time. The net change in defense expenditures, however, should range from zero to an increase of $4 billion, taking into account both the increases and the offsetting savings.

2. *Federal employee pay raises.*—As you know, the President proposed a 4½-percent pay raise for Federal civilian and military employees, effective October 1, 1967. The $1 billion cost of this proposal was incorporated in the January estimate of budget expenditures. The pay bill now being considered by the House Committee on Post Office and Civil Service would provide a larger percentage increase, an earlier effective date, and other changes which, when extended to military as well as civilian employes, would ad an additional unbudgeted $1 billion to fiscal 1968 expenditures.

3. *Participation certificates.*—The Congress in the Participation Sales Act of 1966 authorized an expansion of the existing participation sales program to cover additional types of Federal programs.

As part of that act, it was provided that the volume of participation sales made each year by the Federal National Mortgage Association would be authorized in appropriations acts. The January budget proposed total sales of $5 billion of participation certificates and requested the necessary authorizations.

In appropriation actions to date by one or the other Houses of Congress, the requested authorizations for participation sales have been reduced. These reductions, if sustained by the actions of the full Congress, would result in some $2 billion less participation sales during fiscal 1968 than estimated in the January budget document.

Proceeds from participation sales are credited to the revolving funds of various Federal credit programs and reduce net budget expenditures for these programs. Consequently, if participation sales are $2