

testimony, since this estimate takes into account the impact on private incomes, and therefore on tax revenues, of the added military expenditures. The deficit under these conditions would be \$16 billion, \$139 billion expenditure, \$123 billion revenue.

We believe a range of \$2 billion on either side of this deficit estimate represents a reasonable allowance for contingencies. On the one hand, military expenditures may not rise by the full \$4 billion. The \$4 billion is not a forecast but the higher end of a range which prudent planning must take into account in view of the uncertainties of a war situation. Moreover, the executive branch will bend every effort to make the civilian expenditure reductions larger than the \$1.5 billion necessary to offset increases now in prospect. On the other hand, additional pay increases or lower participation in sales authorizations could force expenditures above the \$139 billion level, leading to a deficit higher than \$16 billion. The \$14 to \$18 billion range, therefore, reflects a realistic appraisal of the situation as we now see it.

EXPENDITURE REDUCTIONS

We have begun a concerted effort to achieve every reduction and deferral which can reasonably be made in order to lower nondefense expenditures. We are determined to cut more than the \$1.5 billion, which would offset the release of 1967 withheld funds and the uncontrollable increases in CCC, public assistance, and other outlays. Such a cut would bring civilian expenditures—exclusive of changes in participation sales and in the President's pay proposals—back to the \$59.5 billion level estimated in the January budget. Our actual reduction target is larger than that—we are aiming at a cut of over \$2 billion—as a means of holding civilian expenditure below the January estimate.

Such an expenditure reduction would require cuts in obligational authority and program levels of some \$4 billion. Whether we will be able to achieve our target fully, I cannot predict at this time. But we are setting our sights high in order to insure significant reductions, when the actual results are all in. The outcome will, of course, depend in part upon congressional action on the budget, as well as upon our own efforts.

We have already set machinery in motion so that as each appropriation bill is enacted, it will be carefully reviewed by the agency involved to see what can be done to contribute to this interim goal. We believe this is the most effective way to accomplish this first step toward our objectives.

Until the Congress acts, it is impossible to determine the base from which reductions can be achieved. The final result will come from a combination of congressional action on appropriation bills and other legislation and executive branch action to economize, defer, cut back, and stretch out expenditures from the amounts that would be feasible under the appropriations enacted. An intensive review is already underway in the major agencies for which appropriations have thus far been enacted; namely, Treasury, Post Office, and Interior.

The job will not be easy. As the President pointed out in his tax message, and as the members of this committee know, the opportunity for significant discretion in the level of budgetary outlays in the year ahead is very small; only \$21 billion lies outside the areas of national