

proposed, and if we get the tax increase and avoid these other items, you add \$700 million in interest costs avoided, bringing you up to \$5.7 billion. Now, we are trying to do what we can in the defense area to get more, to get up to that \$7½ billion.

Mr. BYRNES. As I have said many times, a \$29 billion deficit puts us in a fiscal mess. I said this dismal situation needed attention in three ways: expenditure reductions, tax increases, and some borrowing. I thought that a balanced approach was being recommended, that realistic measures were being proposed instead of simply paying lipservice to expenditure reductions. I hoped that we were actually going to do some belt-tightening, but frankly your testimony does not give me any assurance that this is going to happen.

Mr. SCHULTZE. Mr. Byrnes, let me give you an example. On the one hand, the increase in taxes that we are asking for is approximately calculated on incomes and on the average is about a 1-percent take on personal income. If you look on the expenditure side and take the civilian expenditure reduction target of \$2-plus billion, that is going to have to be accomplished in the area where we can make reductions in terms of controllable expenditures—where we don't have payments locked in by law or payments under prior contracts. In that area, the reduction that is going to be over 15 percent, and I don't consider this in most of those programs a minor effort.

Mr. BYRNES. A 15-percent reduction?

Mr. SCHULTZE. Yes, sir. In the first place, you start with about \$21 billion of expenditures that you can get your hands on this fiscal year.

Mr. BYRNES. Yes, you say, "We are only going to deal with 20 percent of the budget, and we are going to cut that part by 15 percent." Sure, this sounds like a large reduction.

Mr. SCHULTZE. No, not only sounds big, Mr. Byrnes.

Mr. BYRNES. I don't know what basis this provides for the Secretary's statement that the taxpayers are going to pay about 25 percent toward cutting down this deficit and the Government will achieve a similar amount through expenditure control.

Mr. SCHULTZE. It is a matter not just of what the executive branch is going to do, but asking the Congress to cooperate.

Mr. BYRNES. I am sure that is the impression that the American people got listening to it.

Mr. SCHULTZE. Not the way the Secretary read it back to me.

Mr. BYRNES. The language is in the hearing.

The CHAIRMAN. Without cutting you off, gentleman, we may resume our questioning in the morning. If there is no objection, the committee will reconvene at 9:30 in the morning. If you gentlemen will, please be with us at that time.

(Whereupon, at 4:50 p.m. the hearing adjourned, to reconvene at 9:30 a.m., Tuesday, July 15, 1967.)