

1967 BUDGET PROPOSALS

In addition to all of these inherited deficiencies, the 1967 budget carries a large number of proposals that have drawn fire from opponents and critics. None is improper, but all add to doubts about the realism of the budget.

1. *Reductions in politically sacred programs.* The budget proposed cuts of \$82 million for school milk, \$19 million for school lunches, \$191 million for aid to local schools affected by federal installations and \$12 million for aid to land-grant colleges. There are others, too, and the budgetmakers must have known from experience that the Congress would not accept them.

2. *Bookkeeping "cuts."* There are proposals to reduce expenditures in the Administrative Budget by changing the bookkeeping for them, like transferring the cost of highways on government lands and the cost of highway beautification against the gasoline tax money in the Highway Trust Funds.

3. *Nonrecurring items.* There are one-time cuts in expenses that can be spotted only by reading the fine print, like a "saving" of \$150 million in public assistance costs by shifting the dates of payment.

4. *Hopeless causes.* There are proposals to raise money or to cut expenses in ways which the Congress has many times refused to approve. One is by charging \$66 million to processors of meat and poultry for the costs of government inspection.

5. *Sales of assets.* One of the major devices used to make expenses of the government seem less than they are is the sale of almost \$5 billion of government loans and mortgages, using the proceeds, in the President's own language, "to reduce 1967 expenditures from what they would have been otherwise."

There are other items, large and small, in which 1967 reductions or savings in government costs are merely window dressing, such as:

1. Reductions of \$7 million in the cost of defense, and about \$24 million in other agencies, by spending government-owned foreign currencies without including them in the budget; in previous budgets, foreign currency spending was included in expenditures at its dollar equivalent.

2. A saving in the cost of the Food Stamp Program by a bookkeeping transfer of \$135 million from funds required by law to be used to purchase surplus agricultural products.

3. A serious understatement in costs of military personnel. The budget was based on beginning the fiscal year 1967 with armed forces of 2,987,300 on July 1; actually the Vietnam buildup had brought the total to almost 3,100,000 by that date, creating a deficiency of \$569 million in the budget year, which the Congress had to appropriate on its own initiative.

THE FICTION OF LOAN PARTICIPATION SALES

An extreme example of budgetary license, for size and character, is the proposal in the 1966 and 1967 budgets for \$7 billion in sales to the public of participation units in pools of loans owned by the government. In accounting substance, these "sales" actually represent borrowings by the government that conveniently circumvent the debt limit and the legal ceiling on long-term interest rates the government can pay. Since the proceeds of these loans are shown not as borrowings, but as a reduction of funds spent, they result in understating the cost of government and the budget deficit. For 1967 alone, the proposed sales of participation certificates amount to \$4.2 billion. If these certificates are properly classified as a liability, instead of as a reduction of government expenditures, the projected budget deficit for the year is correctly \$6.0 billion instead of the \$1.8 billion shown.

In legal form, the transactions are arranged by grouping a large number of government-owned mortgages or loans into a pool and selling "participations" in the pool to outside investors. In effect, the transactions are quite different: title to a share of the pooled loans does not pass to the buyer; the government continues to hold and service them at its expense; interest paid the buyer is subsidized at a rate higher than the interest on the pooled loans; the government puts in the pool up to 50 percent more loans than the amount of participations sold; the interest and principal are guaranteed by the government's Federal National Mortgage Association (which has the right to tap the Treasury at any time to make good on the guarantee); and the principal is due in fixed payments on fixed dates not related to the collection of the pooled loans.