

(The Treasury Department subsequently furnished the following:)

RESPONSE FROM TREASURY DEPARTMENT

The key factors behind the change in the budget situation from a big deficit to a surplus are as follows:

Receipts in the fiscal year 1969 are estimated to rise \$32.4 billion over actual receipts in fiscal 1968. This is substantially greater than any increase in the past. The large receipts reflect the combination of the record gain in economic incomes realized in the calendar year 1968 and legislative changes enacted in 1968 and in prior years.

GNP in calendar 1968 rose \$71 billion over 1967. Reflecting this record gain in economic activity, personal income rose \$57.0 billion—also a record. Corporate profits before tax rose \$10.7 billion. Although not a record, this figure was exceeded only by the gains in profits in 1950 and 1965. As a result of these gains in income and economic activity, receipts in fiscal 1969 are expected to rise by approximately \$14 billion.

Legislation contributes to an even greater degree to the increase in fiscal 1969 receipts—by approximately \$18 billion. The income tax surcharge, the acceleration in corporation tax payments, and the excise tax rate extensions enacted in 1968 will increase receipts in fiscal 1969 by almost \$14 billion over 1968 receipts. Employment taxes rose by \$4.0 billion in fiscal 1969 because of legislation enacted in 1967. A part of the gain comes from the full-year effect in fiscal 1969 of the increase in the wage base from \$6,600 to \$7,800 effective January 1, 1968 (and only partially effective in fiscal 1968). The remainder arises from the part-year effect of the increase in the combined tax rate from 8.8 percent to 9.6 percent effective January 1, 1969.

(Note: The effect of legislation and growth in economic incomes is discussed in greater detail in the answer to the fourth question of the Chairman.)

(The following was received from the Bureau of the Budget:)

BUREAU OF THE BUDGET RESPONSE TO MR. PATMAN'S QUESTION CONCERNING THE REALISM OF THE 1970 BUDGET

The estimates in the 1970 budget are, in my opinion, realistic and appropriate to the economic outlook and the Government's program commitments at home and abroad.

The basis for the revenue estimates is explained in the material submitted by the Treasury Department. With respect to outlays, as I pointed out in my testimony, barring some major development not now predictable, the estimate for fiscal year 1969 is reasonably firm. The expenditure levels for the first five months of the current fiscal year, July through November, were—after adjustment for seasonality of agricultural and construction programs—at an annual rate of \$181 billion. The estimated total of \$183.7 billion for the year could be met, therefore, even if the rate of outlays during the remaining months of the year increased to nearly \$187 billion. Similarly, the defense figures to date allow leeway for a higher rate of outlays in the last half of the fiscal year than in the first half.

For fiscal year 1970, the budget reflects a general restrictive expenditure policy in recognition of the need for holding down Federal outlays in a time of inflationary pressure. The budget also recognizes the need for continued executive management of outlays, as an outgrowth of statutory controls imposed for fiscal year 1968, and particularly for 1969. For these years, the Congress departed from traditional appropriations procedures and placed direct restrictions, first on obligations, and then on the overall level of outlays. As a result, a considerable amount of enacted budget authority already obligated or now moving to the stage of obligation could convert to outlays in 1970, in addition to the amounts to be spent out of new budget authority recommended for 1970. Accordingly, a policy of strict management of outlays must be maintained in order to hold 1970 outlays to an appropriate level.

Within the necessary tight budget policy, the estimated outlays of \$195.3 billion for 1970 represent a realistic effort to meet pressing national needs. In-