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1969
THE 1969 ECONOMIC REPORT
OF THE PRESIDENT

HEARINGS
BEFORE THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-FIRST CONGRESS

FIRST SESSION

PART 1

JANUARY 17, 1969

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(II)

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THE 1969 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, JANUARY 17, 1969

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Joint Economic Committee met, pursuant to notice, at 10 a.m., in room S-407, the Capitol, Hon. Wright Patman (chairman of the joint committee) presiding.

Present: Representatives Patman, Bolling, Griffiths, Moorhead, Widnall, and Rumsfeld; and Senators Proxmire, Javits, and Percy.

Also present: John R. Stark, executive director and Douglas C. Frechtling (minority).

Chairman PATMAN. The committee will please come to order.

Today the Joint Economic Committee begins its annual review of the state of the economy and the programs designed to achieve the objectives of the Employment Act of 1946.

We have just received from the outgoing administration their budget proposals for the coming fiscal year and their Economic Report. It is important that we take this opportunity to hear from them in regard to these and related matters.

In greeting you gentlemen this morning—the top three officials of the Government so far as public economic policy is concerned—I want to take the opportunity to commend you for your record in office. We have been fortunate to have men of your outstanding abilities and character in the key economic posts of the Government and I want you to know that we are most appreciative of your assistance on numerous occasions.

There is a great deal of material to cover and we are well aware that this is just about the last day we will have the opportunity to review it with you as representatives of the administration. For that reason it seems appropriate for the three of you to appear together so that we can more easily discuss question with you. After you have made your statements we will have questions from the members of the committee.

The Senator from New York, Mr. Javits, the Joint Economic Committee's ranking minority member, would like to make a statement.

Senator Javits, you may proceed.

**STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE
STATE OF NEW YORK, AND THE RANKING MINORITY MEMBER
OF THE JOINT ECONOMIC COMMITTEE**

Senator JAVITS. First, gentlemen—first, Mr. Chairman, may I thank the Chair for its indulgence in allowing me to make a brief statement.

Second, may I say to these three top officers of our Government that you represent in your own person here this morning the very embodiment of what gives our country such great stability, as you are in the economic field the expression of the smoothness of transition from the present to a new administration.

Our chairman has worked out the hearing question so that within a period of 30 days, roughly, the country will have the benefit of your views and your experience as well as the initial bow of the new administration through what it says about your Economic Report. Thus, the American people will have the best of both worlds in the whole fiscal field.

I think this is a tremendous tribute to you and to our Government and to what makes it go—which are people like yourself. I would like to express as an American and as a Senator my appreciation for that.

I have a few remarks on the Economic Report and the budget message. The outgoing Democratic administration in both these messages, recounts our economy's enviable record of achievement over the last 5 years. It is true that we are participating in the longest economic expansion in our Nation's history, that our growth in economic potential and production has been enormous and that overall unemployment has been pushed to record low levels. Although some may argue that the Vietnam war has helped fuel our prosperity and inflate our employment total, none will dispute the fact that we now have the means to insure balanced economic growth and prosperity, if only we will use them properly.

But we must not allow ourselves to become lulled into any idea that we are to have permanent prosperity by the euphoric enumeration of the economic milestones we have passed during the last several years, for there are grave dangers facing us now. I would like to refer briefly to them.

Overstimulated economic growth has produced a price inflation foreign to us for so many years. Over the 12 months of 1968, consumers have watched prices rise at a rate greater than 4½ percent—more than any year since the Korean war. Wage increases have become commonplace yet the average worker with three dependents finds his real spendable earnings reduced to levels below 1 year ago—while his dollar earnings have increased almost \$4 a week, his real spendable earnings have declined 36 cents.

An overall unemployment rate at its post-Korean war low masks the fact that not all are participating equally in our high employment economy. Nonwhite workers and teenagers have consistently faced unemployment rates substantially higher than the total and the spiraling welfare rolls—and we can certainly testify to that in New York City—testify that economic growth has not reached the poor. Further, many of those who are employed receive an income less

than adequate to take care of their families' needs, especially even their elementary education and health needs.

A grave problem that we must confront squarely is our country's balance-of-payments position. While it is true that we have achieved in 1968 an apparent balance for the first time in many years, this was achieved only by leaning on the crutch of capital controls and window dressing such as special official foreign purchases of U.S. Government securities. We cannot let this obscure the fact that our trade balance, for many years the source of strength in our international accounts, has deteriorated alarmingly. The longer we continue to prop up our balance-of-payments accounts with accounting gimmicks to provide an arithmetic balance, the more damaging will become the underlying weaknesses and the more difficult will be true improvement in our position.

While great strides have been made in improving the operation of the international monetary system, the three crises of 1968 are proof that we have a long way to go.

On the domestic front, it seems to me that we are fast approaching the end of an era. Solutions that may have been relevant to an earlier day are inappropriate to an incredibly changing world. Our neglected cities, deteriorating welfare system, the mounting financial problems of our State and local governments and obviously ineffective agricultural price policies are living testimonials to this. We have discovered that passing landmark economic and social legislation could be the relatively easier part of improving the quality of American life. Making the programs work—and avoiding harmful side effects that could nullify the benefits—is infinitely more difficult and calls for a strength of will and devotion to achieving success—and willingness to sacrifice, as in paying necessary taxes, we have not seen yet. New approaches are needed placing heavier reliance on the private sector, on States, and on local governments to utilize far more effectively the allocated Federal resources.

The 1970 budget is still woefully out of tune with the country's needs, and one of the greatest challenges of the new administration and the 91st Congress will be a reordering of our national priorities and enactment of legislation and appropriations based on agreed priorities. While proposed defense expenditures continue to rise, funds allocated for the crisis of the cities remain grossly inadequate. The fiscal year 1970 budget suggests that more than twice as much will be spent on farm price supports than on community development and housing; that more than twice as much will be spent on interstate highways than on urban mass transit, and that we are to spend no more in the coming year on water pollution than in the previous 2 years. The loan guarantee program to encourage the construction of academic facilities for higher education is proposed to be used as a replacement for, rather than as a supplement to, Federal grants and loans. While the President advocates higher education for all, the budget cuts back on National Defense Education Act loans for low income students. And I could go on and on.

The great failure of economic policy in the 1960's was the delayed implementation of a substantial measure of fiscal restraint—the failure to increase Federal income taxes in time to head off serious price inflation. The President's Economic Report blames the Congress for a tardy

response to the administration's request for tax action, but I respectfully submit that no real administration muscle was used in the drive for it.

I would also remind the administration that long before it began to support a tax surcharge, the minority members of this committee warned that fiscal restraint was essential to maintain and moderate economic expansion. While the administration manipulated the time stream of Government revenues, pressured labor and business to comply with wage-price guidelines and secured the suspension of the 7 percent tax credit—a device to stimulate the expansion and growth of our productive capacity—we continued to point out that these makeshift measures merely postponed the day of judgment.

Further, had the administration vigorously campaigned for the tax surcharge it proposed and willingly considered the reservations we in Congress expressed, we could have avoided the terrible legacy of accelerated inflation left for the new administration.

But what remains unfinished by the old administration is a challenge to the new. Where the President's Economic Report looks longingly at past achievements—and that is their warranty—we must be concerned with the future. Where the old administration recites the successes of economic policy, we must examine and rectify its failures. For it is not in past achievement that the future can be secured, but only by what we do here and now and in the coming months and years.

Thank you so much, Mr. Chairman.

Chairman PATMAN. Mr. Barr, you are recognized. You may proceed, sir. Joseph W. Barr, Secretary of the Treasury. We are glad to have you.

STATEMENT OF HON. JOSEPH W. BARR, SECRETARY OF THE TREASURY

Secretary BARR. Thank you, Mr. Chairman.

With your indulgence, Mr. Chairman, I would like to say just a few personal words, sir.

Mr. Chairman, you have served in this Congress for many, many years and you have done many great things, but I cannot think that anything you have done in your career is as crucially important as your work with the late Senator Taft in establishing this committee and in establishing the Council of Economic Advisers to serve the President of the United States.

I have been an insider and outsider, Mr. Chairman, as you know. I have been on both ends of Pennsylvania Avenue. This is a prestigious committee that attracts some of the best minds in the Congress. The Council of Economic Advisers, almost since its inception, has attracted some of the best minds in this country. Mr. Burns, Mr. Saulnier, Mr. Heller, Mr. Ackley, and now my distinguished colleague, Mr. Okun. These men may disagree but their degree of professionalism, Mr. Chairman, is superb.

I will submit, sir, that in your long career there is nothing that you have done for this country that has had a more lasting benefit.

Now, Mr. Chairman, on a slightly more personal note, you may be dismayed to read in the papers this morning that I am going to leave

the Treasury and move across the street and become a banker. [Laughter.]

Mr. Chairman, in my own defense—I served with you, sir, and I think you will admit the record shows that I am not a very good politician. I was promptly defeated after my first term in office and I go to banking secure in the knowledge, Mr. Chairman, that you are going to keep me honest. [Laughter.]

Senator JAVITS. Mr. Chairman, may I on behalf of the minority, welcome the chairman to his present post and join with Secretary Barr in the satisfaction we all derive from this great committee and what it is able to accomplish guiding our people and our Government, and express my personal thanks, and I know every member of the minority feels the same way, to Representative Patman for his unfailing courtesy.

Chairman PATMAN. Thank you, Senator.

Senator JAVITS. And also while I have got the floor, briefly I want to again thank our own colleague, Senator Proxmire, for his very gifted incumbency and the tact and kindness with which he conducted the chair during the past 2 years.

Senator PROXMIRE. Thank you very much.

Secretary BARR. Mr. Chairman, may I warn you that if this sounds a bit more like a stump speech than a statement by the Secretary of the Treasury, that is precisely what it is intended to be.

With that warning, let me plunge in.

First of all, Mr. Chairman, what I will say now is not in my formal statement. After I was defeated in the Congress and I joined the Treasury with Secretary Dillon under President Kennedy, there was one fire that really burned in my belly and that was to do something about the economic slack that prevailed this country. I thought we could do more in order to use our productive capacity, our labor, and our savings more efficiently.

Mr. Chairman, that agenda item is finished. We are doing all we can and probably more. Mr. Zwick and Mr. Okun later will inform you that we are perhaps trying to do too much today. So the agenda item on which I came in is behind us.

The new agenda item, the one in which I ask your support for the new Secretary-designate, is to help cool off this economy, to bring our prices back into a more adequate relationship without throwing the country into a tailspin.

Now, gentlemen and Mrs. Griffiths, this is a tricky business, and I do not want to sound too nonpartisan here today, but it is going to take the best judgment of all of you and the new administration to accomplish this extremely difficult task.

Now, what are the agenda items that I, after a decade of public service, would like to call to your attention—the unfinished items that I would like to call to your attention.

First of all, Mr. Chairman, I think the greatest unfinished agenda item is that we have not been able to do more on tax reform. Mr. Chairman and members of the Joint Economic Committee, I will haz-

ard a guess that there is going to be a taxpayer revolt over the income taxes in this country unless we move in this area.

Now, the revolt is not going to come from the poor. They do not pay very much in taxes. The revolt is going to come from the middle class. It is going to come from those people with incomes from \$7,000 to \$20,000 who pay every nickel of taxes at the going rate. They do not have the loopholes and the gimmicks to resort to, Mr. Chairman.

However, when these people see, as I see, that in the year 1967, there were 155 tax returns in this country with incomes of over \$200,000 a year and 21 returns with incomes of over a million dollars for the year on which the "taxpayers" paid the U.S. Government not 1 cent of income taxes, I think those people are going to say it is time to do something about it and I concur.

Now, we have tried for 8 years to reform the tax system and we have made some dent in the problem. May I encourage this committee to keep up the impetus that it has always had in this area of tax reform.

We have a good tax system. Economically it works as a counter-cyclical force. It is working that way right now. When the economy starts running stronger than it should, the tax system soaks up excess demand and tends to cool off the economy. It is a magnificent system that is producing in the income tax area alone \$132 billion in this fiscal year.

Mr. Chairman, and members of the committee, this is a voluntary system. It will not work unless people support it. Mr. Chairman, I do not believe the problem is the level of taxation. I believe rather it is the equity of taxation. People want to feel they are not paying more than their share and that everyone should pay a fair share. This does not happen when you are running a corporation and you look at the international oil companies and see they pay little or no taxes. They pay huge taxes including royalties to other governments but not to this Government, Mr. Chairman.

You look around and you see many people with huge advantages. Now, these are difficult to terminate. These special tax provisions are controversial subjects, Mr. Chairman, but I submit that if we are going to maintain this magnificent tax system with its advantages for revenues, and provide the revenues that Senator Javits mentions that he wants to use in the cities and the rest of you want to use for various purposes, it must be a fair system.

Senator JAVITS. Mr. Chairman, I have one question that is so pertinent that I beg leave of the Chair to ask it.

Chairman PATMAN. You may proceed, Senator.

Senator JAVITS. It is a fact that the surcharge bill included a requirement for the President to submit a report on tax reform by December 31, 1968.

Secretary BARR. Right, sir.

Senator JAVITS. It is also a fact that on December 31, the President announced with the concurrence of Chairmen Mills and Long, that he will not submit such a report although the Treasury's recommendations would be available to Congress in confidence on request. I was talked to in advance of the date, and asked whether I would consent to

its being submitted as a confidential document. I did not feel I was able to do that but I did not wish to embarrass the outgoing President and make him take responsibility for tax reform proposals which he could not carry on. I understood his desire, though I could not accord with it, and I have asked that at least the staff report be made public.

Now, is it a fact—and please do not answer, Mr. Secretary, unless you feel able to——

Secretary BARR. I am prepared to answer that. I knew you were going to ask it and I have the answer.

Senator JAVITS. I do not want to embarrass you but can you tell us if the report has been requested by members of the proper committees of the Congress which I understand is the President's willingness? Will then, the report be made available generally?

Secretary BARR. Senator, in the past week I have had about as much pressure from the Congress for this data as I have ever had in my life, including a request from the vice chairman of this committee. The pressure was so great that I called the chairman of the Ways and Means Committee, who is now chairman of the Joint Committee on Internal Revenue Taxation, and said that I did not like to leave public office turning down requests from Members of Congress for data that should be available to them.

He convened a meeting of the Joint Committee on Internal Revenue Taxation. Secretary-designate Kennedy accompanied me to this meeting and it was agreed at this meeting that when the Ways and Means Committee is organized next week, Ways and Means will transmit a request to Secretary-designate Kennedy for the information. They will then publish it as a committee print. Secretary-designate Kennedy and I both agreed to this proposal.

Senator JAVITS. Thank you very much, Mr. Secretary. This is most reassuring.

Chairman PATMAN. Very well then—after the three of you finish your statements we will then ask you questions.

Secretary BARR. Now, may I move ahead, Mr. Chairman, to another subject. Over the past 8 years I have had a growing concern that in the area of trade, the United States is disadvantaged in exports because of our tax system compared with the tax systems of other nations. I have been concerned because I felt that an export, let us say a Caterpillar tractor, leaves the United States carrying all the burden of our tax load when it moves into export trade, while the same item of equipment as it leaves Germany or France is exempted from a large share of the tax load that is imposed in those nations. U.S. products such as automobile, cigarettes and alcoholic beverages, on which the Federal Government levies excise taxes, are exempt from the excises if exported.

Now, I can only confess that the academicians have not agreed with me in many instances but I do believe that the events of last November—when Germany reduced its border tax adjustments and France increased its border tax adjustments for the purpose of reducing trade imbalances would tend to lend credence to what I have thought, and

I may add that Secretary Dillon and Secretary Fowler have shared the opinion that we had to do something in this area.

Now, may I suggest, sir, that I do not believe you need to go to a value added tax or some other form of a national sales tax to achieve this objective. I do not think you need to do that. I do think this committee should consider carefully in conjunction with other committees whether or not this Nation should impose border tax adjustments whereby, as our exports leave, there will be a payment to the exporter and as imports come in, there will be a tax. This would tend to equalize our tax system with the systems of other nations relative to exports and imports.

Now, let me warn you, I do believe such border taxes must be under strict international control or you will end up with a protectionist device. On the other hand, may I say to the committee as bluntly as I can, that I think we are at a disadvantage in exports because of the way the present international rules apply to different tax systems and this should be corrected, sir.

Thirdly, we now have nearly completed the special drawing rights facility which your committee, the committee on which you and Mr. Widnall sit, the Banking and Currency Committee considered and the House and Senate approved last year. Not enough countries have ratified the agreement yet to bring this facility into force. May I urge you, sir, and this committee, to keep up an unrelenting pressure on the powers that be, to try to get this special drawing rights facility ratified so the world has an opportunity to create the reserves that it needs to keep international trade and finance and exports moving.

I think it is crucially important and I would hope that it would come into being soon.

Mr. Chairman, I also want to call to your attention the fact that the Congress has still not acted on the request for funds for the International Development Association. I have watched this arrangement since I was a member of Congress. I helped prepare the legislation that first created IDA. I have watched it for 8 years.

I think, Mr. Chairman, this is the way the American people want to move in assistance to developing nations. They want to share the burden with other industrial nations. I would urge the Congress to move as promptly as possible in this crucial area.

And lastly, Mr. Chairman, I want to submit for the analysis of this committee, and especially its staff, a study of tax expenditures which the Treasury has completed, presented in chart form, and called "Comparison of Budget Outlays and Tax Expenditures by Function," together with a supplementary statement entitled "Tax Expenditures: Government Expenditures Made Through the Income Tax System."

Now, I have not had an opportunity to go into this deeply, but the Treasury staff in this report, concludes that through the tax system, not by appropriations, but through special provisions in the tax system, similar in effect to appropriations, we are now making available huge sums of money to various functional sectors of the budget. You have the chart here in front of you. If you want to pick it up I will leaf through it very quickly.

Now, this is done on a functional basis the way the budget is established. You will see that for national defense chart 1, there is a little benefit under the tax code. You would ask where does that come from? Well, it comes from the fact that certain housing and other allowances for military personnel are nontaxable.

International affairs and finance, chart 2—you will find an explanation on the cover side as I flip through these charts—you will find that the Congress is appropriating \$3.7 billion, and there is about a half billion dollars, running through the tax code.

Now, part of that arises from the fact that you can live overseas and the first \$20,000 or \$25,000 of your income is exempt from taxation. The other is various forms of corporate exemptions built into the code.

Agriculture and Agricultural Resources, which is chart 3. You will find that there are special provisions in the tax code that provide about a billion dollars in tax expenditures versus \$5.2 billion in budgetary expenditures.

You will find under Natural Resources—chart 4—that the U.S. Government appropriates about \$1.9 billion a year in the most recent years. The total that ran through the tax expenditure side was \$1.7 billion.

In Commerce and Transportation—chart 5—you will find that the budget outlays which you voted are \$9 billion. The tax expenditure item is \$9.7 billion.

Community Development and Housing is chart 6. The budget outlays total about \$2.8 billion a year, the tax expenditure item total \$5.2 billion.

Health and Welfare, chart 7. Budget outlays are about \$55 billion a year; tax expenditures are roughly \$19.5 billion.

For education and Manpower, chart 8, the budget outlays are \$7.9 billion, tax expenditures are \$900 million.

Veterans Benefits and Services—chart 9.—Budget outlays are about \$7.8 billion, tax expenditures are \$700 million.

The study adds two other headings to cover tax expenditures which do not fit under functional headings in the Federal Budget:

Aid to State and Local Government. Financing involves tax expenditures of \$4.6 billion.

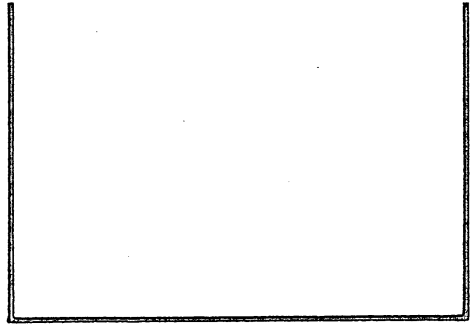
Capital Gains—Individual Income Tax have a tax expenditure cost in the range of \$5.5 to \$8.5 billion.

Mr. Chairman, let me alert the committee to the fact that this is a highly controversial study. It is based on carefully drawn assumptions by the Treasury staff. I submit this not as the last word, but a carefully done staff study to provide additional information which I think this committee should have available to it. You can examine and discuss it as you see fit.

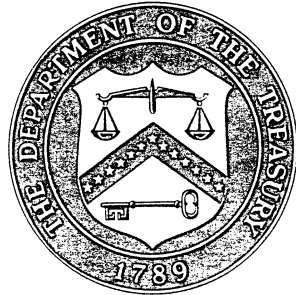
Chairman PATMAN. Without objection, they will be placed in the record at this point.

(The documents referred to follow:)

1. Comparison of Budget Outlays and Tax Expenditures by Function.
2. Supplementary Statement—Tax Expenditures—Government Expenditures Made Through the Income Tax System.



Comparison of Budget Outlays and Tax Expenditures by Function



Fiscal Year 1970

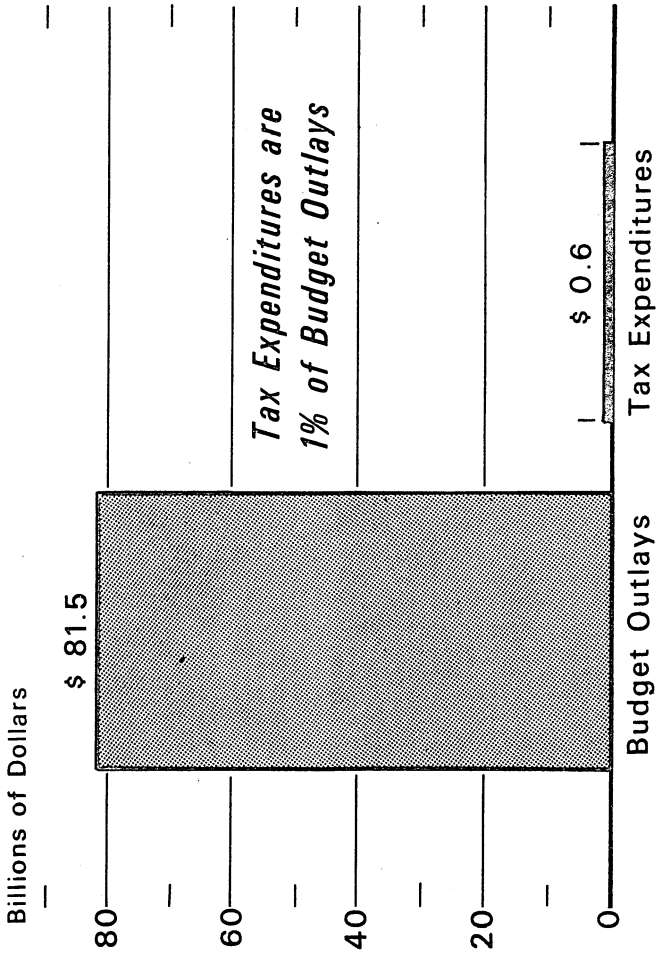


Table 1. National Defense

<u>Tax expenditures (in millions of dollars)</u>		<u>1968</u>	<u>1969</u>		<u>1970</u>
Exclusion of military benefits and allowances	500				
<u>Budget outlays plus tax expenditures (in billions of dollars)</u>					
Budget outlays:					
Expenditures		80.5	81.0	81.5	
Net lending		- *	- *	- *	
Total		<u>80.5</u>	<u>81.0</u>	<u>81.5</u>	
Tax expenditures		0.5	0.6	0.6	
Total budget outlays plus tax expenditures		<u>81.0</u>	<u>81.6</u>	<u>82.1</u>	
Tax expenditures as percent of budget outlays		1%	1%	1%	

*Less than \$50 million.

National Defense, Fiscal 1970

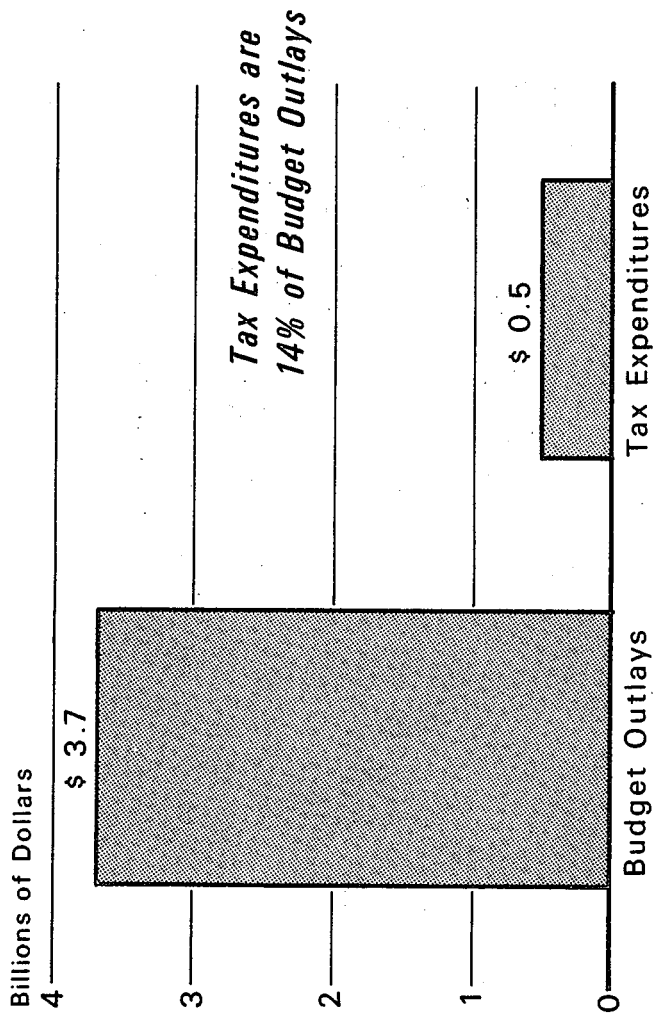


SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Table 2. International Affairs and Finance

<u>Tax expenditures (in millions of dollars)</u>			
	1968		
Individual taxation:			
Exemption for certain income earned abroad by U. S. citizens	40		
Exclusion of income earned in U. S. possessions	10		
Corporate taxation:			
Western Hemisphere trade corporations	50		
Exclusion of gross-up on dividends of less developed country corporations	50		
Exclusion of controlled foreign subsidiaries	150		
Exclusion of income earned in U. S. possessions	70		
Total tax expenditures	370		
<u>Budget outlays plus tax expenditures (in billions of dollars)</u>			
	1968	1969	1970
Budget outlays:			
Expenditures	3.7	3.6	3.5
Net lending	0.9	0.3	0.2
Total	4.6	3.9	3.7
Tax expenditures	0.4	0.4	0.5
Total budget outlays plus tax expenditures	5.0	4.3	4.2
Tax expenditures as percent of budget outlays	9%	10%	14%

International Affairs and Finance, Fiscal 1970



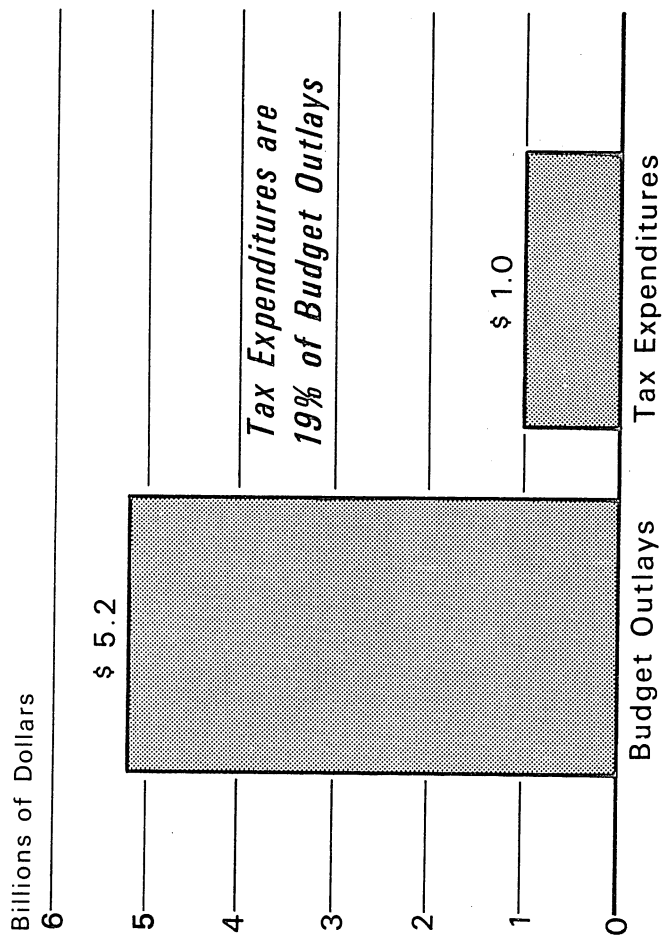
SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 2

Table 3. Agriculture and Agricultural Resources

	<u>Tax expenditures (in millions of dollars)</u>	<u>1968</u>		<u>1968</u>	<u>1969</u>	<u>1970</u>
Farming: Expensing and capital gains treatment						
Timber: Capital gains treatment for certain income						
Total tax expenditures						
Budget outlays plus tax expenditures (in billions of dollars)						
Budget outlays:						
Expenditures						
Net lending						
Total						
Tax expenditures						
Total budget outlays plus tax expenditures						
Tax expenditures as percent of budget outlays						

Agriculture and Agricultural Resources, Fiscal 1970



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Table 4. Natural Resources

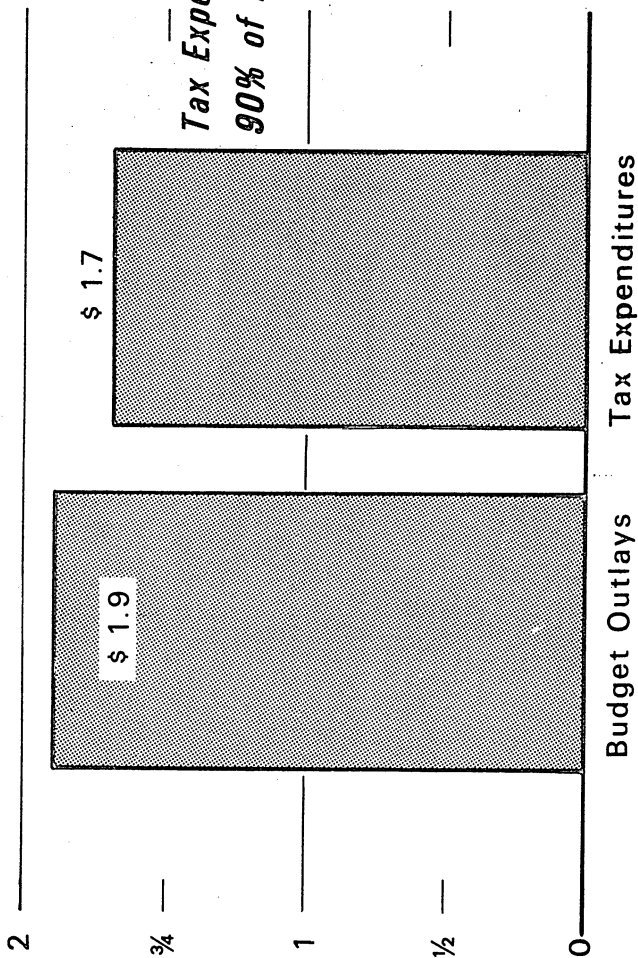
<u>Tax expenditures (in millions of dollars)</u>	<u>1968</u>
Expensing of exploration and development costs	300 1/
Excess of percentage over cost depletion	1,300 1/
Capital gains treatment of royalties on coal and iron ore	5
Total	<u>1,605</u>
<u>Budget outlays plus tax expenditures (in billions of dollars)</u>	<u>1968</u>
Budget outlays:	
Expenditures	1.7
Net lending	*
Total	<u>1.7</u>
Tax expenditures	1.6
Total budget outlays plus tax expenditures	<u>3.3</u>
Tax expenditures as percent of budget outlays	94%
	<u>1969</u>
Expenditures	1.9
Net lending	*
Total	<u>1.9</u>
Tax expenditures	1.7
Total budget outlays plus tax expenditures	<u>3.6</u>
Tax expenditures as percent of budget outlays	90%
	<u>1970</u>
Expenditures	1.9
Net lending	*
Total	<u>1.9</u>
Tax expenditures	1.7
Total budget outlays plus tax expenditures	<u>3.6</u>
Tax expenditures as percent of budget outlays	90%

1/ In the absence of the expensing of exploration and development costs and percentage depletion, the first year revenue effect would be \$750 million and \$1.5 billion, respectively. The difference from the estimates shown which are based on long-run effect is due to the fact that taxpayers with mineral properties would initially have little or no tax basis because of deductions in prior years.

*Less than \$50 million.

Natural Resources

Billions of Dollars



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 4

Table 5. Commerce and Transportation

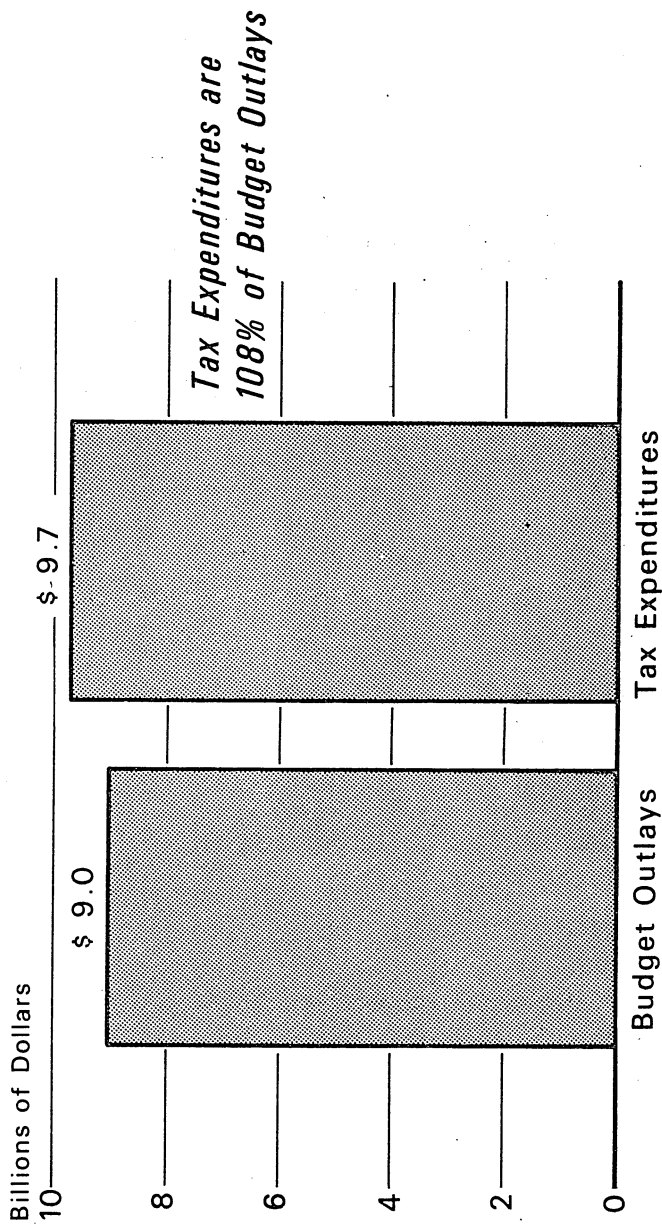
<u>Tax expenditures (in millions of dollars)</u>	<u>1968</u>
Investment credit	2,300
Excess depreciation on buildings	500
Dividend exclusion	225
Capital gains: Corporations (other than Agricultural and Natural Resources)	500
Excess bad debt reserves of financial institutions	600
Exemption of credit unions	40
Deductibility of interest on consumer credit	1,300
Expensing of research and development expenditures	500
\$25,000 surtax exemption	1,800
Deferral of tax on shipping companies	10
Total	<u>7,775 1/</u>

<u>Budget outlays plus tax expenditures (in billions of dollars)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Budget outlays:			
Expenditures	7.8	8.1	8.9
Net lending	0.2	*	0.1
Total	<u>8.0</u>	<u>8.1</u>	<u>9.0</u>
Tax expenditures	7.8	9.2	9.7
Total budget outlays plus tax expenditures	<u>15.8</u>	<u>17.3</u>	<u>18.7</u>
Tax expenditures as percent of budget outlays	98%	114%	108%

1/ The revenue cost for 1968 under this category differs from that in Exhibit 29 of the Secretary's Annual Report due to the exclusion of capital gains - individual and its presentation as a separate item in this revised analysis.

*Less than \$50 million.

Commerce and Transportation



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 5

Table 6. Community Development and Housing

	1968
<u>Tax expenditures (in millions of dollars)</u>	<u>1968</u>

Owner-occupied homes, deductibility of:

Interest on mortgages	1,900
Property taxes	1,800
Rental housing - excess depreciation	250
Total	<u>3,950</u>

	1968	1969	1970
<u>Budget outlays plus tax expenditures (in billions of dollars)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>

Budget outlays:

Expenditures	1.0	1.3	2.6
Net lending	3.1	1.0	0.2
Total	<u>4.1</u>	<u>2.3</u>	<u>2.8</u>

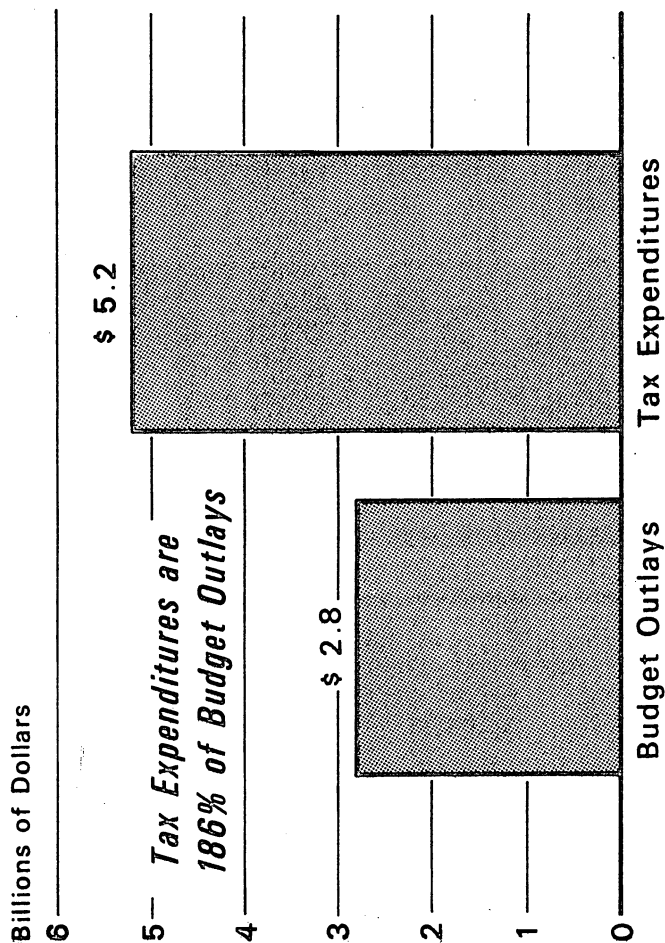
Tax expenditures

Total budget outlays plus tax expenditures	<u>4.0</u>	<u>4.7</u>	<u>5.2</u>
	<u>8.1</u>	<u>7.0</u>	<u>8.0</u>

Tax expenditures as percent of budget outlays

	98%	204%	186%
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Community Development and Housing, Fiscal 1970



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 6

Table 7. Health and Welfare

Tax expenditures (in millions of dollars) 1968

Aged, blind, and disabled:	
Additional exemption, retirement income credit and exclusion of OASDHI for aged	2,300
Additional exemption for blind	10
Exclusion for "sick pay"	85
Exclusion of unemployment insurance benefits	300
Exclusion of workmen's compensation benefits	150
Exclusion of public assistance benefits	50
Exclusion for employee pensions	3,000
Deduction for self-employed retirement	60
Exclusion of other employee benefits:	
Premiums on group term life insurance	400
Accident and death benefits	25
Medical insurance premiums and medical care	1,100
Privately financed supplementary unemployment benefits	25
Meals and lodging	150
Exclusion of interest on life insurance savings	900
Deductibility by individuals of charitable contributions (other than education) including untaxed appreciation	2,200
Deductibility of medical expenses	1,500
Deductibility of child and dependent care expenses	25
Deductibility of casualty losses	70
Standard deduction	3,200 ^{1/}
Total	15,550

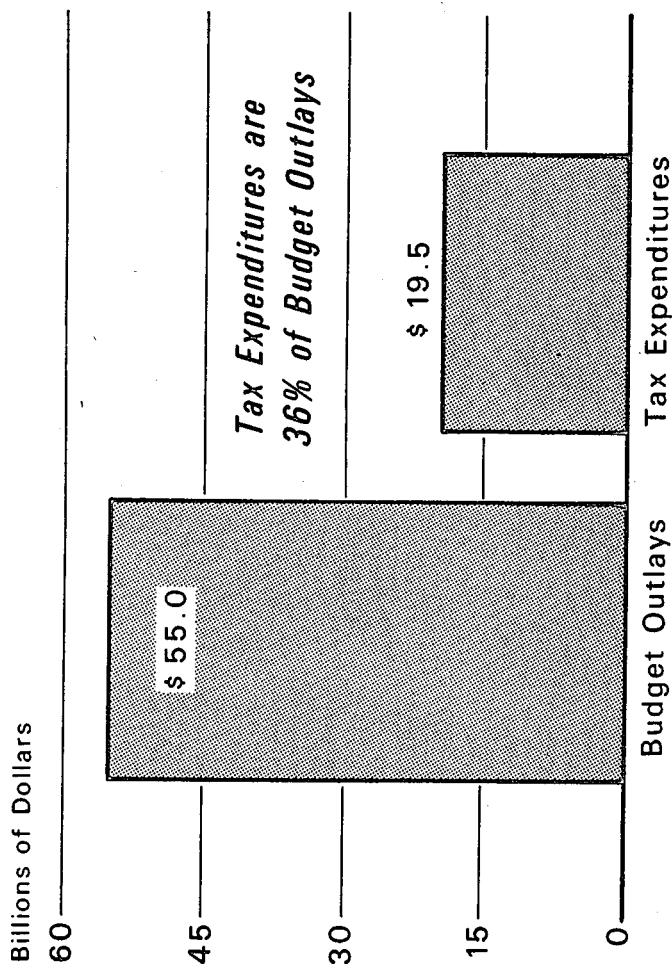
Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	43.4	49.5	55.0
Net lending	0.1	-0.6	*
Total	43.5	48.9	55.0
Tax expenditures	15.6	18.0	19.5
Total budget outlays plus tax expenditures	59.1	66.9	74.5
Tax expenditures as percent of budget outlays	36%	37%	36%

^{1/} In the absence of the 10 percent standard deduction and most itemized non-business deductions, the minimum standard deduction as presently structured would be taken by all taxpayers and its revenue cost would be relatively large. Under present treatment, the minimum standard deduction, in keeping with its objectives, is claimed almost entirely by low-income taxpayers and its revenue cost is \$300 million. The revenue estimate assumes the minimum standard deduction is designed to assist only low-income taxpayers. The minimum standard deduction is regarded in this analysis as related to the system of personal exemptions and thus a part of the structure of an income tax system based on ability to pay, rather than as a tax expenditure.

*Less than \$50 million.

Health and Welfare, Fiscal 1970



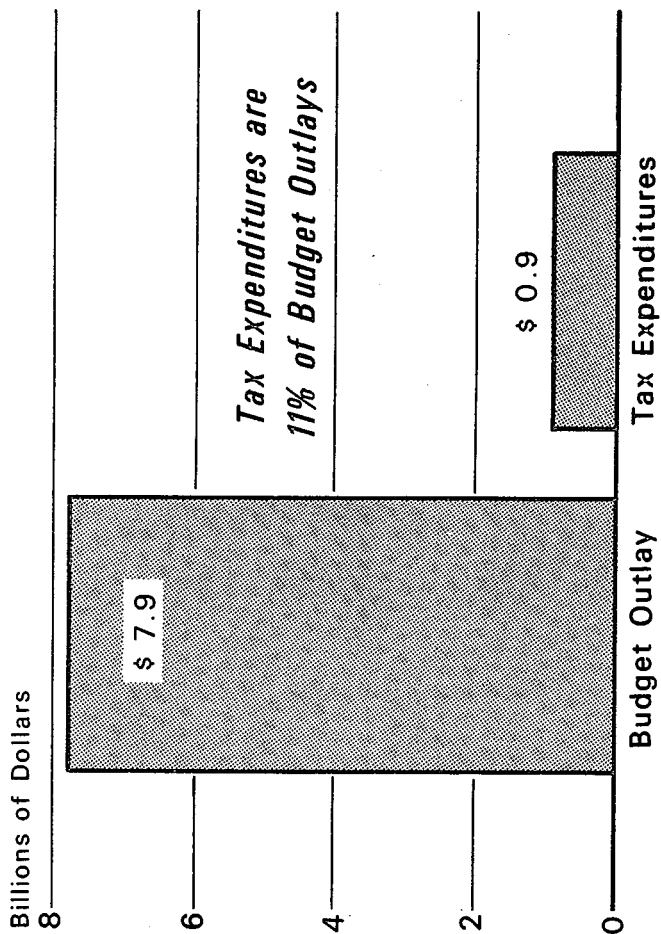
SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 7

Table 8. Education and Manpower

	<u>Tax expenditures (in millions of dollars)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Additional personal exemption for students	500			
Deductibility of contributions by individuals to educational institutions	170			
Exclusion of scholarships and fellowships	50			
Total	<u>720</u>			
		<u>1968</u>	<u>1969</u>	<u>1970</u>
Budget outlays plus tax expenditures (in billions of dollars)				
Budget outlays:				
Expenditures		6.6	6.9	7.6
Net lending		0.4	0.3	0.3
Total		<u>7.0</u>	<u>7.2</u>	<u>7.9</u>
Tax expenditures		0.7	0.8	0.9
Total budget outlays plus tax expenditures		<u>7.7</u>	<u>8.0</u>	<u>8.8</u>
Tax expenditures as percent of budget outlays		10%	11%	11%

Education and Manpower



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

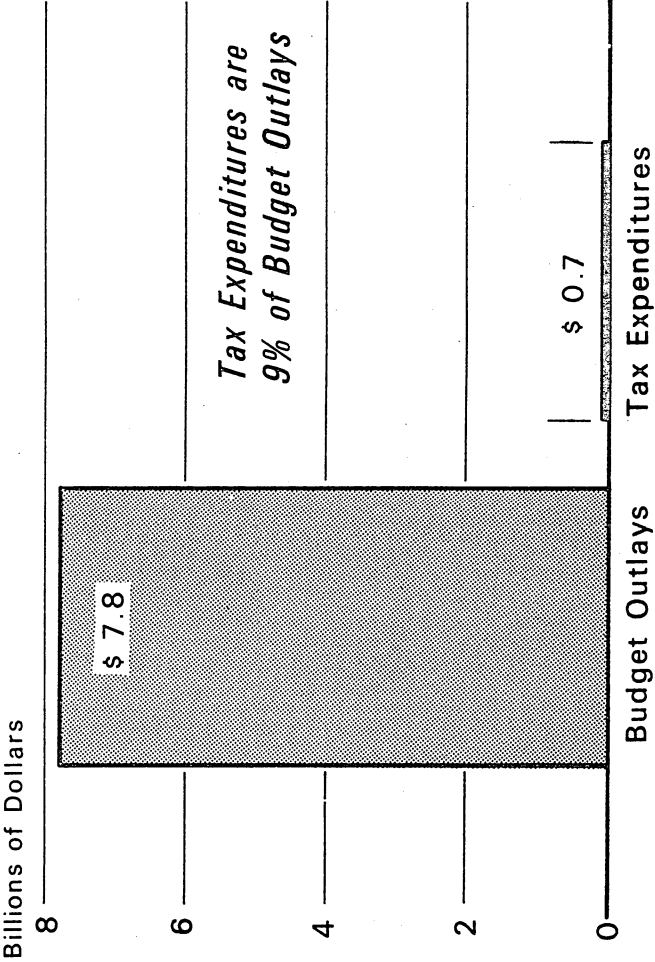
Chart 8

Table 9. Veterans Benefits and Services

<u>Tax expenditures (in millions of dollars)</u>		<u>1968</u>		
Exclusion of certain benefits			550	
<u>Budget outlays plus tax expenditures (in billions of dollars)</u>		<u>1968</u>	<u>1969</u>	<u>1970</u>
Budget outlays:				
Expenditures		6.7	7.4	7.8
Net lending		0.1	0.3	*
Total		<u>6.8</u>	<u>7.7</u>	<u>7.8</u>
Tax expenditures		0.6	0.6	0.7
Total budget outlays plus tax expenditures		<u>7.4</u>	<u>8.3</u>	<u>8.5</u>
Tax expenditures as percent of budget outlays		9%	8%	9%

*Less than \$50 million.

Veterans Benefits and Services



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 9

Table 10. Aid to State and Local Government Financing

<u>Tax expenditures (in millions of dollars)</u>	<u>1968</u>
Exemption of interest on State and local debt obligations	1,800
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes): <u>1/</u>	
Individual income tax	1,350
General sales taxes	775
Gasoline taxes	400
Personal property taxes	150
Other taxes	125
Total	<u>2,800</u>
Property taxes on owner-occupied homes (included under Community Development and Housing)	<u>1,800</u>
Total - All State and local nonbusiness taxes	<u>4,600</u>

1/ For businesses owned by individuals, taxes other than income taxes are considered a cost of doing business and thus deductible in arriving at a net income figure.

AID TO STATE AND LOCAL GOVERNMENT FINANCING

The Federal Government aids State and local government financing through certain tax provisions. These take two forms: (1) the itemized deductions for nonbusiness State and local taxes; (2) the exemption from Federal income tax of interest on State and local government obligations. The revenue costs to the Federal Government of these special tax provisions are shown in Table 10. There is no single functional category in the present Federal budget for aid to State and local government financing, and thus there is no chart for this item.

CAPITAL GAINS - INDIVIDUAL INCOME TAX

The tax expenditures involved in the present treatment of capital gains of individuals are placed in the range of \$5.5 to \$8.5 billion. This revenue cost includes the exclusion from income tax of appreciation on assets transferred at death, the exclusion of half the gains from the sale of capital assets held more than six months, and the maximum rate of 25 percent. No table or chart is shown for this heading, because these tax expenditures would fall under a variety of functions in the Federal budget, including commerce and transportation, agriculture and agricultural resources, community development and housing, and health and welfare. Available data, however, do not provide a basis for accurate distribution among these functions. Thus, to avoid having to choose any single predominant category but to identify the importance of this special provision, a new heading outside any budget classification is included for this item.

Separation of this item from the budget classifications leads to an understatement of the amounts of tax expenditures for the functional categories affected.

SUPPLEMENTARY STATEMENT OF JOSEPH W. BARR

TAX EXPENDITURES: GOVERNMENT EXPENDITURES MADE THROUGH THE INCOME TAX SYSTEM

The Annual Report of the Secretary of the Treasury for fiscal year 1968 includes an exhibit which presents Government expenditures for 1968 made through the income tax system (Exhibit 29). The availability of the budget for fiscal year 1970 enables us to present an updating of tax expenditures to cover the fiscal years 1968, 1969, and 1970 on a basis consistent with the 1970 budget data and classifications. The following statement is a condensed and revised version of the exhibit in the Secretary's 1968 Annual Report with the updated figures.

PURPOSE OF ANALYSIS

This analysis extends the budget to include Government expenditures made through the income tax system. The present Federal income tax structure contains a large number of special deductions, credits, exclusions, exemptions, and preferential rates designed to achieve various social and economic objectives. Most of these special provisions serve ends similar in nature to those served by direct Government expenditures or loan programs, and they affect the private economy in the same way. In a specific functional area the Government may have direct expenditures, direct Federal loans, Federal insurance or guarantees of private loans, and interest subsidies which represent alternative methods of accomplishing the purpose which the special tax provision seeks to achieve or encourage. This analysis, together with the fuller presentation in the Secretary's Annual Report, will permit a better understanding of the amount and allocation of resources on both the outlay and revenue side of the 1970 budget.

A tax expenditure has the same impact on the budget surplus or deficit as a direct increase in expenditures. The tax revenues which the Government does not collect because of these special tax provisions, however, are not reported in the budget as presently constituted. The absence of line items—either on the receipts or outlays side of the budget—for these revenue losses thus results in an understatement of the role of Federal Government financial influence on the behavior of individuals and businesses and on income distribution. In many areas the magnitude of tax expenditures approaches and, in some instances, approximates direct outlays having the same objective.

Tax expenditures are not disclosed in the budget and therefore are not subject to careful annual scrutiny in the budget and appropriation process. Budget outlay decisions, on the other hand, involve the departments and agencies, the Bureau of the Budget, the House and Senate program committees which are competent and experienced in their specialized fields, and the appropriation committees. Tax expenditures are not generally considered by the program departments and congressional committees concerned, and are not reviewed annually or periodically to measure the benefits they achieve against the amounts expended.

The purpose of this analysis is to present information which compares tax expenditures with direct expenditures or loan programs in various functional areas and thus to clarify and present more fully the role of the Federal Government in these areas. Such a comparison should be helpful in the allocation of public resources.

A few illustrations will indicate how tax expenditures are alternatives to direct expenditures or Government lending programs. Under the functional category of health and welfare, the budget lists large direct expenditures which benefit the aged. In addition, \$2.3 billion was expended in 1968 through the tax system to aid the elderly.

Direct expenditures for natural resources are itemized in the budget. To these should be added the \$1.6 billion assistance the tax system provides these industries by permitting the expensing of certain capital costs, the use of percentage depletion in excess of cost depletion, and special capital gains treatment for iron ore and coal royalties.

In the field of housing the Government now provides direct subsidies to lower the interest rates on mortgages paid by buyers of certain homes. Homeownership is also subsidized through the tax deductions for interest paid on home mortgages and for property taxes on homes which now cost the Government annually about \$1.9 billion and \$1.8 billion, respectively.

SCOPE OF TAX EXPENDITURES

Some of the special tax provisions cause revenue to be lost to the Government forever because the current tax base or the tax rates are reduced without any offsetting increase later. Such tax expenditures correspond closely to direct expenditures.

Other special tax provisions serve to defer the time when the taxes will be paid. For a particular taxpayer, transaction, or asset, the special provision may really represent a deferral of tax. However, for stable or growing businesses with an indefinite life, for the Government, and for the entire economy, the deferral of taxes continues forever under most of these provisions; furthermore, in an expanding economy the aggregate amount of deferred taxes tends to grow year after year. Examples of special tax provisions which cause deferral of taxes include: Deduction of employer and self-employed contributions to private pension plans and exemption of investment income of such plans; accelerated depreciation deductions on buildings; net income reinvested in ship construction and renovation by certain shipping companies; expensing of capital costs in agriculture and natural resource industries; and exclusion of nonrepatriated earnings of foreign subsidiaries.

Special tax provisions, which serve to defer but not forgive tax payments, might be compared to net lending in budget terminology. These special tax provisions are generally open-ended, with the extent and duration of their use largely at the taxpayers' option. For these reasons, the tax expenditure classifications in this analysis do not separate the special provisions which reduce taxes from those which defer taxes.

This analysis does not attempt a complete listing of all the special tax provisions. Various items have been excluded for one or more of several reasons:

(a) Some items were excluded because there is insufficient information available on which to base a sound estimate. For example, in the case of depreciation on machinery and equipment, accelerated tax methods may provide an allowance beyond that appropriate to the measurement of net income but it is difficult to measure that difference because the true economic deterioration or obsolescence factor cannot be readily determined.

(b) Some items were excluded where the case for their inclusion in the income base stands on relatively technical or theoretical tax arguments. The imputed rent on owner-occupied homes, for example, involves not only a conceptual problem but difficult practical problems of measurement.

(c) Some items were omitted because of their relatively small quantitative importance.

Other features of our income tax system are considered not as variations from the generally accepted measure of net income or as tax preferences but as a part of the structure of an income-tax system based on ability to pay. Such features include personal exemptions and the rate schedules under the individual income tax.

It must be recognized that the exclusions from the listing are to some extent arbitrary. The objective of this analysis is to provide a list of items that would be generally recognized as an intended use of the tax system to achieve results which are now, or could be, achieved through direct Government expenditures. The design of this list seems best served by constructing a minimum list rather than including highly complicated or controversial items that would becloud the utility of this analysis.

TAX EXPENDITURES BY FUNCTIONAL CATEGORY

The tax expenditures resulting from the various special tax provisions are classified under the functional categories used in the budget. In most cases, particular special tax provisions which affect more than one budget category have been classified in the one where the effect is most important. In a few cases where the amount is large and the allocation relatively clear, the tax expenditures are divided between two functions.

No significant tax expenditures are made in three budget categories, space, interest, and general government and others. Two classes of tax expenditures (aid to State and local governments and capital gains—individual) which involve large amounts have not been assigned to specific functional categories for the reasons given in those sections of the analysis.

All estimates of tax expenditures resulting from special tax provisions represent revenues lost on an annual basis. The estimates of revenue foregone are, in general, based on the assumption that such provisions never existed, or, alternatively, that such provisions have been withdrawn sufficiently long ago that we are now beyond the period needed to permit an equitable transition to a new tax situation.

The revenue cost estimated for these special provisions is not in many cases the revenue change which would result in the first full year if these provisions were withdrawn. Replacement of some or all of these provisions by direct expenditures or lending programs might change the level and composition of economic activity. The revenue cost of each special tax provision presented for 1968 would, of course, generally vary over time with growth in the economy and changes in various parts of the tax base. Also, a realistic approach to any change in these provisions would provide in many situations transition arrangements which would effect the revenue change gradually over a period of years.

Another key assumption is that economic activity for the year would not have been affected by the absence of these special provisions. This, of course, is a simplifying assumption for tax expenditures undoubtedly have significant effects on the composition and perhaps the level of economic activity. Also, in the absence of these tax benefits, there would doubtless have been changes in Government direct spending and net lending to accomplish some of the objectives of the existing provisions. No attempt has been made to speculate how the budget and the economy might differ if none of these provisions were in the law.

No account is taken here of other taxes, such as payroll taxes, estate and gift taxes, excises, or tariffs. The assumption inherent in current law, that corporations are separate entities and subject to income taxation independently from their shareholders, is adhered to in this analysis.

The tax expenditures shown here for the three fiscal years 1968, 1969, and 1970 are figured at the tax rate which affect the revenues in these years.

A brief description of each of the special tax provisions for which a tax expenditure estimate is shown accompanies the estimates.

National Defense

The supplements to salaries of military personnel by provision of quarters and meals on military bases and off-base quarters allowances for military families, and virtually all salary payments and reenlistment bonuses to military personnel serving in combat zones are excluded from tax.

TABLE 1.—NATIONAL DEFENSE

Tax expenditures, 1968

[In millions of dollars]

Exclusion of military benefits and allowances..... 500

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	80.5	81.0	81.5
Net lending.....	(1)	(1)	(1)
Total.....	80.5	81.0	81.5
Tax expenditures.....	.5	.6	.6
Total budget outlays plus tax expenditures.....	81.0	81.6	82.1
Tax expenditures as percent of budget outlays.....	1	1	1

¹ Less than \$50,000,000.

International Affairs and Finance

Individual taxation.—For citizens of the United States, income earned abroad up to \$20,000 for each complete tax year is exempted from taxation if the taxpayer is a bona fide resident of a foreign country for an uninterrupted period that includes 1 full tax year or, if he is present there 510 days during a period of 18 consecutive months. After 3 years, foreign resident taxpayers can exclude up to \$25,000 a tax year.

United States citizens receiving from sources in a U. S. possession may, under certain conditions, exclude such income from tax.

Corporate taxation.—Domestic corporations which qualify as Western Hemisphere Trade Corporations are entitled to a special deduction which reduces their tax rate by 14 percentage points.

Income of foreign branches and subsidiaries of U. S. corporations is subject to taxation abroad and in the United States. A credit is allowed against U. S. income tax for the foreign income taxes paid, up to the amount of U. S. tax liability. U. S. corporations deriving income from foreign subsidiaries may claim a credit for foreign corporate profits tax deemed paid on that income, as well as for foreign taxes imposed directly on that income. If the subsidiary is in a developed country, the parent corporation must include both creditable foreign taxes in its U. S. taxable income; if the subsidiary is in a less developed country, the corporation need not "gross-up" its income to include the creditable portion of foreign profits tax.

United States corporations are not required currently to file consolidated returns which include the unrepatriated earnings of controlled foreign subsidiaries.

Domestic corporations deriving the bulk of their income in U. S. possessions may, under certain conditions, exclude such income from tax.

TABLE 2.—INTERNATIONAL AFFAIRS AND FINANCE

Tax expenditures, 1968			
[In millions of dollars]			
Individual taxation:			
Exemption for certain income earned abroad by U.S. citizens.....			40
Exclusion of income earned in U.S. possessions.....			10
Corporate taxation:			
Western Hemisphere trade corporations.....			50
Exclusion of gross-up on dividends of less developed country corporations.....			50
Exclusion of controlled foreign subsidiaries.....			150
Exclusion of income earned in U.S. possessions.....			70
Total tax expenditures.....			370
Budget outlays plus tax expenditures			
[In billions of dollars]			
	1968	1969	1970
Budget outlays:			
Expenditures.....	3.7	3.6	3.5
Net lending.....	.9	.3	.2
Total.....	4.6	3.9	3.9
Tax expenditures.....	.4	.4	.5
Total budget outlays plus tax expenditures.....	5.0	4.3	4.2
Tax expenditures as percent of budget outlays.....	9	10	14

Agriculture and Agricultural Resources

Farmers, including corporations, may deduct certain costs as current expenses even though these costs represent inventories on hand at the end of the year or capital improvements.

Capital gains treatment also extends to the sale of livestock, orchards, vineyards, and comparable agricultural activities.

The gain on the cutting of timber is taxed at the rates applicable to long-term capital gains, rather than at ordinary income rate.

TABLE 3.—AGRICULTURE AND AGRICULTURAL RESOURCES

Tax expenditures, 1968	
[In millions of dollars]	
Farming: Expensing and capital gains treatment.....	800
Timber: Capital gains treatment for certain income.....	130
Total tax expenditures.....	930

Budget outlays plus tax expenditures
[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	4.8	5.3	5.1
Net lending.....	1.1	.1	.1
Total.....	5.9	5.4	5.2
Tax expenditures.....	.9	1.0	1.0
Total budget outlays plus tax expenditures.....	6.8	6.4	6.2
Tax expenditures as percent of budget outlays.....	15	19	19

Natural Resources

Certain capital costs necessary to bring a mineral deposit into production may be deducted as current expenses rather than spread over the useful life of the property. Included in this category are the intangible drilling costs of oil and gas wells and the cost of developing other mineral deposits, such as mine shafts, tunnels, and stripping.

Extractive industries may choose between two methods of recovering capital costs invested in the development of natural resources. Under one method, actual outlays to the extent not immediately expensible may be deducted as "cost depletion" over the productive life of the property, much as other businesses may take deductions for the depreciation of capital goods. Alternatively, businesses in the extractive industries may deduct a prescribed percentage of gross income (at rates ranging from 27.5 percent for oil and gas to 5 percent for certain minerals, but not more than 50 percent of net income) where such "percentage depletion" exceeds "cost depletion." Percentage depletion is not limited to the cost of the investment as is cost depletion. The basis for "cost depletion" is reduced to the extent certain costs are recovered through expensing of exploration and discovery costs and intangible drilling costs. There is no comparable reduction in "percentage depletion" to allow for costs which are allowed as expenses.

Royalties from coal or iron ore deposits are treated as capital gains.

TABLE 4.—NATURAL RESOURCES

Tax Expenditures, 1968

[In millions of dollars]

Expensing of exploration and development costs.....	1 300
Excess of percentage over cost depletion.....	1 300
Capital gains treatment of royalties on coal and iron ore.....	5
Total.....	1 605

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	1.7	1.9	1.9
Net lending.....	(?)	(?)	(?)
Total.....	1.7	1.9	1.9
Tax expenditures.....	1.6	1.7	1.7
Total budget outlays plus tax expenditures.....	3.3	3.6	3.6
Tax expenditures as percent of budget outlays.....	94	90	90

¹ In the absence of the expensing of exploration and development costs and percentage depletion, the 1st year revenue effect would be \$750,000,000 and \$1,500,000,000 respectively. The difference from the estimates shown which are based on longrun effect is due to the fact that taxpayers with mineral properties would initially have little or no tax basis because of deductions in prior years.

² Less than \$50,000,000.

Commerce and Transportation

Investment credit.—Most businesses may take a tax credit equal to 7 percent of the cost of investments in new machinery and equipment made during the year. This credit does not lower the basis of the property for calculating the deduction for depreciation.

Excess depreciation on buildings.—To the extent that allowable depreciation for tax purposes exceeds the rate at which assets actually depreciate, business tax liabilities are deferred. Businesses may employ a variety of depreciation schedules for tax purposes, some of which cause a much larger part of asset values to be written off in early years of the asset's useful life than do others. The revenue cost of allowing for buildings depreciation methods for tax purposes that reduce asset value more rapidly than straight-line depreciation (the method typically used in financial statements) is shown below. The part based on rental housing is listed under community development and housing. The tax depreciation allowed for machinery and equipment is closer to actual depreciation than that allowed on buildings. In addition, the code permits full recapture as ordinary income of profits resulting from excess depreciation on machinery and equipment, but recapture of only a declining and then disappearing proportion of such profits on buildings. In view of this and the difficulty of estimating the divergence, if any, between depreciation allowed for tax purposes and actual depreciation, depreciation for machinery and equipment is not included here as a tax expenditure.

Dividend exclusion.—Individual income taxpayers may exclude \$100 of dividends from income subject to tax.

Capital gains—Corporation income tax.—Capital gains of corporations are subject to a tax of 25 percent while the rate applicable to other corporate income above \$25,000 is 48 percent (excluding the temporary surcharge).

Bad debt reserves of banks and other financial institutions.—Commercial banks, mutual savings banks, building and loan associations, and cooperative banks are permitted to set aside bad debt reserves based on stipulated fractions of deposits, of loans outstanding, or of taxable income before computation for bad debts. The amounts set aside typically greatly exceed actual loss experience and reasonable expectations as to future losses.

Credit unions.—Credit unions are exempt from Federal income tax.

Deduction of interest on consumer credit.—Interest paid on consumer credit is allowed as an itemized nonbusiness deduction for individuals.

Expensing of research and development expenditures.—Expenditures by businesses for research and development (R&D) are carried out to find new products or processes, to reduce costs, or for other purposes. In nearly all cases, benefits from such expenditures will accrue for well over 1 year. For tax purposes business may deduct all R&D expenditures in the year during which they are incurred, or they may amortize them over not less than 5 years.

Surtax exemption (\$25,000).—Corporations pay income tax at the rate of 22 percent on all taxable income plus a surtax of 26 percent on taxable income in excess of \$25,000 (excluding the temporary surcharge). Each corporation therefore enjoys a surtax exemption of \$25,000. This exemption is intended to encourage small or new businesses.

Deferral of tax on shipping companies.—Certain companies which operate U.S. flag vessel on foreign trade routes receive an indefinite deferral of income taxes on that portion of their net income which is used for shipping purposes, primarily construction, modernization, and major repairs of ships.

TABLE 5—COMMERCE AND TRANSPORTATION

Tax Expenditures, 1968

[In millions of dollars]

Investment credit.....	2,300
Excess depreciation on buildings.....	500
Dividend exclusion.....	225
Capital gains: Corporations (other than agricultural and natural resources).....	500
Excess bad debt reserves of financial institutions.....	600
Exemption of credit unions.....	40
Deductibility of interest on consumer credit.....	1,300
Expensing of research and development expenditures.....	500
\$25,000 surtax exemption.....	1,800
Deferral of tax on shipping companies.....	10
Total.....	17,775

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	7.8	8.1	8.9
Net lending.....	.2	(²)	.1
Total.....	8.0	8.1	9.0
Tax expenditures.....	7.8	9.2	9.7
Total budget outlays plus tax expenditures.....	15.8	17.3	18.7
Tax expenditures as percent of budget outlays.....	98	114	108

¹ The revenue cost for 1968 under this category differs from that in exhibit 29 of the Secretary's annual report due to the exclusion of capital gains—individual and its presentation as a separate item in this revised analysis.

² Less than \$50,000,000.

Community Development and Housing

Owner-occupants of homes may deduct mortgage interest and property taxes (but not maintenance outlays or depreciation) as itemized nonbusiness deductions. The owners of rental housing may claim in early years depreciation in excess of straight-line depreciation. (See Table 5.)

TABLE 6.—COMMUNITY DEVELOPMENT AND HOUSING

Tax Expenditures, 1968

[In millions of dollars]

Owner-occupied homes, deductibility of:	
Interest on mortgages.....	1,900
Property taxes.....	1,800
Rental housing, excess depreciation.....	250
Total.....	3,950

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	1.0	1.3	2.6
Net lending.....	3.1	1.0	.2
Total.....	4.1	2.3	2.8
Tax expenditures.....	4.0	4.7	5.2
Total budget outlays plus tax expenditures.....	8.1	7.0	8.0
Tax expenditures as percent of budget outlays.....	98	204	186

Health and Welfare

A large variety of direct expenditures and transfer payments contribute to health and welfare of families and individuals, both currently and in later years. A considerable number of special tax provisions serve related ends.

Provisions relating to the aged, blind, and disabled.—Individual taxpayers age 65 and over may claim two personal exemptions of \$600 and a second \$100 minimum standard deduction (while persons under age 65 may claim only one of each). The revenue cost of these additional items is \$500 million.

Aged recipients of old age, survivors, and health benefits under the OASDHI program and of railroad retirement benefits are not required to include such benefits in computing tax liability. This revenue cost is \$525 million.¹

Individuals over age 65 may claim a tax credit of up to \$228.60 (15 percent of \$1,524) for a single person or \$342.90 (15 percent of \$2,286) for a married couple based on retirement income from all sources except social security, railroad retirement, or other tax-exempt benefits. In effect, the provision permits taxpayers with taxable retirement income a tax benefit approximately comparable to that accorded recipients of social security and similar tax-exempt benefit payments. The revenue cost is \$200 million.

The combined revenue cost of these three provisions is \$2.3 billion. Because of the effect of the interrelationship of the three provisions on the tax base, the combined cost exceeds the sum of the three provisions taken separately, since the absence of one provision would increase the residual significance of the others.

The blind qualify for two \$600 personal exemptions and an extra \$100 minimum standard deduction.

"Sick pay" exclusions.—Certain payments financed by an employer in lieu of wages during periods of employee injury or sickness are excluded from the employee's income.

Exclusion of unemployment insurance benefits.—Benefits paid by State unemployment insurance plans are financed by a tax on wages paid by the employer and deductible by him, but these benefits are excluded from the employee's income.

Exclusion of workmen's compensation benefits.—Benefits paid under workmen's compensation are excluded from employee's income. These payments are primarily intended to replace earnings lost due to a work-related injury or illness, although some small part of the total payments is compensation for physical loss, such as an eye or an arm. As in the case of unemployment insurance, the benefits are financed by the employer's contributions and are deductible by him.

Exclusion of public assistance.—Public assistance payments are excluded from taxable income.

Exclusion for employee pensions.—Employer contributions to qualified employee pension and annuity plans are deductible by the employer. Income earned by these plans on their investments is not taxable. When an employee retires and is paid a pension or annuity, only part of the amount received is taxable to the employee. He does not pay taxes on the percentage of the benefit purchased by his contributions excluding from the percentage income earned on his contributions.

The revenue cost of the exclusion of investment income earned by all private pension funds, based on the corporate tax rate is \$1.9 billion. The revenue cost of deduction of the total amount contributed by employers to these qualified plans, based on the corporate tax rate, is \$3.4 billion.

The revenue cost, based on the individual income tax rates applicable to employees, is \$0.7 billion as respects the investment income and \$1.4 billion as respects the employers' contributions.

The greater the extent to which the benefits are vested, the more relevant is the use of the individual tax rate in estimating the revenue cost. Taking this vesting into account, the revenue cost of the treatment of pension plans can be put at \$3 billion.

¹ This revenue estimate is based on treatment comparable to other pensions and regards one quarter of the benefits as approximately the cost of employee contribution.

Deduction for self-employed retirement.—Self-employed individuals are permitted a deduction from taxable income for funds they set aside currently in qualified retirement plans.

Exclusion of other employee benefits.—In addition to the benefits already enumerated, a number of other employee benefits (shown in Table 7), the cost of which is paid at least in part by the employer, are also excluded from income subject to tax. The cost to the employer is deductible, and the benefit to the employee not taxable, in all of these cases.

Exclusion of interest on life insurance savings.—Life insurance policies other than term policies, generally have a savings element in them. Savings in the form of policyholders' reserves are accumulated from the premium payment, and interest is earned on these policyholders' reserves. Such interest income is neither taxable as it accrues nor as an element of death benefits.

Deductibility of contributions for other than education.—Contributions to charitable, religious, or certain other nonprofit organizations are allowed as an itemized deduction for individuals generally up to 30 percent of adjusted gross income. Unlimited contributions, however, may be deducted by those taxpayers (a relatively small number) whose contributions plus income taxes equal 90 percent of taxable income in 8 out of the preceding 10 years.

Taxpayers whose contributions to charitable or educational organizations are in the form of capital assets, usually securities, which have appreciated in value above their cost, obtain a deduction for the contribution at the appreciated value of the asset without taxation on the appreciation in value.

Deductibility of medical expenses.—Medical expenses in excess of 3 percent of adjusted gross income and expenditures for prescribed drugs and medicines in excess of 1 percent of adjusted gross income may be deducted by individuals as itemized nonbusiness deductions. Individuals may also deduct half of the premiums paid for medical care insurance up to a maximum deduction of \$150 per year, without regard to the 3 percent limitation.

Deductibility of child and dependent care expenses.—Deductions for a limited amount of expenditures for the care of children under 13 or incapacitated dependents to enable the taxpayer to work are permitted under certain circumstances.

Deductibility of casualty losses.—Taxpayers may deduct as an itemized nonbusiness deduction the amount in excess of \$100 for each loss due to fire, theft, or other casualty to the extent not compensated by insurance.

Standard deduction.—Individuals may itemize deductions for certain personal nonbusiness expenditures, including charitable contributions, interest payments, and medical and drug expenses above a stated percent of income, and certain other items referred to earlier. The taxpayer is also given the option of deducting—instead of this itemization—standard deduction of 10 percent of adjusted gross income or \$1,000 (\$500 if married and filing separately), whichever is less.

TABLE 7.—HEALTH AND WELFARE

Tax Expenditures, 1968

[In millions of dollars]

Aged, blind, and disabled:	
Additional exemption, retirement income credit and exclusion of OASDHI for aged	2,300
Additional exemption for blind	10
Exclusion for sick pay	85
Exclusion of unemployment insurance benefits	300
Exclusion of unemployment insurance benefits	300
Exclusion of workmen's compensation benefits	150
Exclusion of public assistance benefits	50
Exclusion for employee pensions	3,000
Deduction for self-employed retirement	60
Exclusion of other employee benefits:	
Premiums on group term life insurance	400
Accident and death benefits	25
Medical insurance premiums and medical care	1,100
Privately financed supplementary unemployment benefits	25
Meals and lodging	150
Exclusion of interest on life insurance savings	900
Deductibility by individuals of charitable contributions (other than education) including untaxed appreciation	2,200
Deductibility of medical expenses	1,500
Deductibility of child and dependent care expenses	25
Deductibility of casualty losses	70
Standard deduction	13,200
Total	15,550

Budget Outlays Plus Tax Expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures	43.4	49.5	55.0
Net lending	.1	— .6	(²)
Total	43.5	48.9	55.0
Tax expenditures	15.6	18.0	19.5
Total budget outlays plus tax expenditures	59.1	66.9	74.5
Tax expenditures as percent of budget outlays	36	37	36

¹ In the absence of the 10 percent standard deduction and most itemized nonbusiness deductions, the minimum standard deduction as presently structured would be taken by all taxpayers and its revenue cost would be relatively large. Under present treatment, the minimum standard deduction, in keeping with its objectives, is claimed almost entirely by low-income taxpayers and its revenue cost is \$300,000,000. The revenue estimate assumes the minimum standard deduction is designed to assist only low-income taxpayers. The minimum standard deduction is regarded in this analysis as related to the system of personal exemptions and thus a part of the structure of an income tax system based on ability to pay, rather than as a tax expenditure.

² Less than \$50,000,000.

Education and Manpower

Additional personal exemption for students.—Taxpayers may claim personal exemptions for dependent children over 18 who receive \$600 or more of income per year only if they are full-time students. The student may also claim an exemption on his own tax return, in effect providing a double exemption, one on the parents' tax return and one on the student's.

Deductibility of contributions to educational institutions.—Contributions to nonprofit educational institutions are allowed as an itemized nonbusiness deduction for individuals.

Exclusion of scholarships and fellowships.—Recipients of scholarships and fellowships may exclude such amounts from taxable income, subject to certain limitations.

TABLE 8.—EDUCATION AND MANPOWER

Tax expenditures	
[In millions of dollars]	
Additional personal exemption for students.....	500
Deductibility of contributions by individuals to educational institutions.....	170
Exclusion of scholarships and fellowships.....	50
Total.....	720

Budget outlays plus tax expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	6.6	6.9	7.6
Net lending.....	.4	.3	.3
Total.....	7.0	7.2	7.9
Tax expenditures.....	.7	.8	.9
Total budget outlays plus tax expenditures.....	7.7	8.0	8.8
Tax expenditures as percent of budget outlays.....	10	11	11

Veterans Benefits and Services

All veterans pensions due to disability and those paid by the Veterans Administration due to age (over 65) are excluded from taxable income.

TABLE 9.—VETERANS BENEFITS AND SERVICES

Tax expenditures, 1968

[In millions of dollars]

Exclusion of certain benefits.....	550
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Budget outlays plus tax expenditures

[In billions of dollars]

	1968	1969	1970
Budget outlays:			
Expenditures.....	6.7	7.4	7.8
Net lending.....	.1	.3	(¹)
Total.....	6.8	7.7	7.8
Tax expenditures.....	.6	.6	.7
Total budget outlays plus tax expenditures.....	7.4	8.3	8.5
Tax expenditures as percent of budget outlays.....	9	8	9

¹ Less than \$50,000,000.

Aid to State and Local Government Financing

The Federal Government through certain tax provisions provides indirect assistance to State and local governments. The deductibility of property taxes on owner-occupied homes involving a revenue cost of \$1.8 billion is listed above under community development and housing as an element of the tax system which provides support to promote housing. This deduction also aids States and, particularly, local governments, by providing more flexibility in financing their expenditure programs.

Two other special tax provisions also aid State and local governments, but unlike the deductibility of property taxes on homes, they do not fit clearly within any of the functional categories now used in the budget. They are, therefore, shown as a separate budgetary heading, aid to State and local government financing.

In calculating income subject to tax, individuals may take as itemized non-business deductions State and local personal income, gasoline, sales, property, and other taxes. The deductibility of all these State and local taxes (with the exception of taxes on owner-occupied homes) on nonbusiness returns is classified as support for the finances of State and local governments, rather than listed under any of the functional categories in the current budget.

As a result of the exclusion from tax of State and local bond interest, these governments are able to sell debt obligations at a lower interest cost than would be possible if such interest were subject to tax.

The relative importance of indirect assistance to State and local governments through these provisions as compared with direct aid is not shown because the present budget does not show in a single functional category the aid given to State and local governments. The amounts of direct Federal aid by function, however, are brought together in *Special Analysis O* of the Budget for fiscal year 1970.

TABLE 10.—AID TO STATE AND LOCAL GOVERNMENT FINANCING

Tax expenditures, 1968

[In millions of dollars]

Exemption of interest on State and local debt obligations.....	1, 800
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes): ¹	
Individual income tax.....	1, 350
General sales taxes.....	775
Gasoline taxes.....	400
Personal property taxes.....	150
Other taxes.....	125
Total.....	2, 800
Property taxes on owner-occupied homes (included under community development and housing).....	1, 800
Total, all State and local nonbusiness taxes.....	4, 600

¹ For businesses owned by individuals, taxes other than income taxes are considered a cost of doing business and thus deductible in arriving at a net income figure.

Capital Gains—Individual Income Tax

The tax treatment of capital gains of individuals involves a large amount of tax expenditures. These expenditures would fall under a variety of functions in the Federal budget, including commerce and transportation, agriculture and agricultural resources, natural resources, community development and housing, and health and welfare. Available sources, however, do not provide a basis for accurate distribution among these functions. Thus, to avoid distorting any single category but to identify the importance of this special provision under the individual income tax, a new heading outside the budget classification is included for this item. Omission of this item leads to an understatement of the amounts of tax expenditures for the functional categories affected.

The types of special treatment accorded capital gains and the resulting tax expenditures are as follows:

If the owner of appreciated capital assets dies, the capital gains tax is not applied to appreciation which would have been taxable had he sold the assets just before death. Heirs who receive appreciated property from the decedent and who subsequently sell the property are subject to capital gains tax only on appreciation occurring after they acquired the property. Thus the appreciation on assets held until death is never taxed under the income tax. The revenue cost of this treatment is \$2.5 billion at present capital gains rates. (If taxed at full ordinary rates, the cost is \$4 billion.)

As to realized gains, half of the gains from the sale of capital assets held more than 6 months is excluded from income, and in no case is the tax rate applicable to such capital gains allowed to exceed 25 percent. The revenue cost of this treatment is \$4.5 billion. The revenue cost of this treatment at ordinary rates for both realized gains and gains untaxed at death is \$8.5 billion (including the \$4 billion mentioned above).

The cost of capital gains treatment under present law is complex for a number of reason. It could be contended that:

1. Full taxation of realized capital gains, even with full taxation at death, could result in greater postponement of lifetime gains;

2. With a different treatment of capital gains another approach to the corporation tax might provide for some integration of corporate and individual taxes by giving taxpayers who sell corporate shares some credit for taxes paid by the corporation on retained income which is reflected in share values; and

3. Averaging of capital gains would lower the indicated revenue costs.

In recognition of the complex issues involved, the tax expenditures involved in the present treatment of capital gains of individuals are placed in a range of \$5.5 to 8.5 billion. (No table is shown for this heading.)

IMPORTANCE OF TAX EXPENDITURES

The above analysis indicates that tax provisions control a large fraction of budget resources employed in several functional categories. With respect to commerce and transportation, for example, the volume of budget resources allocated by current special tax provisions is approximately the equivalent of budget outlays. In certain other functional categories, such as natural resources, community development and housing, and health and welfare, tax provisions constitute a major component of total Government activities.

Many reasons for the enactment of these tax provisions may be found other than the promotion of the functional activity under which they are listed, just as a multitude of forces affect the approval of direct Government expenditures which are nonetheless summarized under specific functional headings. This analysis in no way reflects on the wisdom of such reasons.

More efficient use of resources by the Federal Government is advanced, however, if explicit account is taken of all calls upon budget resources, including tax expenditures. The relative importance of different budgetary objectives can be more carefully weighed against all the budget resources used for this objective. Also, the effectiveness of alternative methods of achieving these objectives, whether through direct outlays, loan subsidies, or tax expenditures, can be fully understood, examined, and reevaluated periodically.

Secretary BARR. That concludes my testimony, Mr. Chairman, and I thank you.

Chairman PATMAN. Thank you very much, Mr. Secretary.
(Secretary Barr's prepared statement follows) :

PREPARED STATEMENT OF SECRETARY OF THE TREASURY JOSEPH W. BARR

Mr. Chairman and Members of the Joint Economic Committee, I appreciate the opportunity to meet with this distinguished Committee. I think it extremely important that the members have the economic rationale for the financial plan President Johnson has recommended to the Congress—a plan that is responsible and realistic in terms of the country's needs and resources, and that is consistent with our responsibilities to keep the dollar strong and respected.

Before getting into the body of my remarks, I want to take a moment to pay tribute to you, Mr. Chairman, to the Vice Chairman, Mr. Patman, and to the members of the Committee. Under your leadership, the work of this Committee has contributed greatly to the tremendous growth of public interest in economic issues, to better informed public attitudes on economic policy, and to the record economic progress the United States has achieved.

The economy is now in the 95th month of the most sustained and vigorous period of economic expansion in our country's entire history. There is no need for me to enumerate here the many economic records established during this period of unprecedented prosperity. I believe that in his State of the Union Message and in his Economic Report to the Congress the President clearly established that the economy is now stronger and more vigorous than ever before, with production, employment, and after-tax income, including both wages and profits, all at record highs, far above the levels of a decade ago.

And I want to emphasize that this isn't just a dollar prosperity. The purchasing power of the average American—the real goods he can buy with his dollar income after taxes—has actually increased by 31 percent between 1960 and 1968. This, gentlemen, is the basic definition of economic progress.

Perhaps an even more significant aspect of our economic well-being is that it is probably being shared by a broader segment of our population than during any previous time of great prosperity. Not only have business profits soared to record highs but the unemployment rate has been sharply reduced—particularly among minority groups who have not adequately shared in economic gains of the past. Much remains to be done in this key area of national policy, but it is clear that significant progress has been made in removing barriers and expanding job opportunities for our under-privileged citizens.

However, we must recognize that serious economic problems must still be overcome. The increase in consumer prices in the past year of nearly 4 percent is certainly larger than we can tolerate for very long. Although a small balance of payments surplus was achieved in 1968, vigorous efforts must continue to maintain this record in the current year.

Today I want to go beyond the over-all indicators of a prosperous economy and in a sense see whether the financial underpinning of our economy will support continued sound expansion in the years to come. I also want to review briefly a few items of major, unfinished business that will bear heavily on our future economic growth and, in some instances, that of the entire Free World.

Probably the most important single component of this financial underpinning of our economy is the Federal budget. A properly designed budget should reflect what the country needs, what it can afford and what the Congress can be expected to do. In my judgment President Johnson has presented to the Congress a budget that fully meets this standard. In fiscal 1969 the budget is expected to be strongly in the black, with outlays of \$183.7 billion, revenues of \$186.1 billion and a surplus of \$2.4 billion. For fiscal 1970 we have projected an even larger surplus of \$3.4 billion.

In fiscal 1970 budget receipts are estimated at \$198.7 billion, an increase of \$12.6 billion over the estimate for fiscal 1969. Outlays in fiscal 1970 are projected at \$195.3 billion. The estimated increase in fiscal 1970 Federal revenue is due almost entirely to anticipated economic growth. For calendar 1969 we have projected a gross national product of \$921 billion, personal income of \$736 billion and corporate profits of \$96 billion.

Now there is nothing inherently good or bad in itself about a budget surplus or deficit. The test is whether it contributes to the economic strength of our country. And a budget does this only when it is consistent with current and prospective economic realities.

In the context of the economy as we see it, a Federal budget surplus for fiscal years 1969 and 1970 is necessary for several important reasons.

First, a budget surplus will tend to restrain over-all demand during a time when our productive capacity is straining hard to meet the demands thrust upon it. Second, a budget surplus means that during this period the Treasury will not on balance be competing for funds in our already hard-pressed credit markets. In fact, in fiscal 1969 and 1970 taken as a whole, the Treasury will actually be adding funds to the private credit markets in contrast to the situation in 1969 when \$23.1 billion had to be drawn from private investors. This healthy situation means greater freedom for the Federal Reserve to establish effective monetary policies, and more ready access to private savings by private users of credit and state and local governments—borrowers who have had a rough time in past tight money periods. In this context the home-building industry in particular should greatly benefit.

A third important reason for maintaining a Federal budget surplus at this time is that it will strengthen the hand of our negotiators during the critical period in which we will be working to improve and modernize the international monetary structure.

The Federal Government influences economic activity and the distribution of income not only through direct expenditures and loan programs but also through special tax provisions. A dollar foregone through a special tax provision is no different than a dollar spent through a budget outlay. In other words, these

tax expenditures use budget resources in the same way that direct expenditures or net lending do. In most cases, the special tax provisions are alternatives to direct expenditures or net lending to achieve the same purpose.

The Annual report of the Secretary of the Treasury for fiscal year 1968, which was issued this week, contains for the first time a detailed description and discussion of these tax expenditures and estimates of the amounts involved. To bring this material up to date, the Treasury staff has prepared an analysis of tax expenditures related to the budget for fiscal year 1970 which I am submitting as a supplement to my statement. The revenue costs of the special tax provisions are presented alongside the budget outlays. This makes it possible to get a more complete picture of total government expenditures for various functions. You may be surprised to find that tax expenditures approach or even surpass the budget outlay for certain functions.

The purpose of this special analysis is to present information which will help us to use budget resources most effectively. We can obtain more efficient use of resources by the Federal Government if explicit account is taken of all calls upon budget resources. In this way the importance of different budgetary objectives and the effectiveness of alternative uses, whether through direct expenditures, loan subsidies, or tax expenditures, may be fully understood, examined, and re-evaluated periodically.

I should inject a note of warning at this point. As the Committee knows, the whole subject of tax expenditures is highly controversial and the figures presented in this Treasury report are themselves certain to be controversial. The figures may vary depending on the assumptions used, and we do not claim that our figures and assumptions are the last word. Perhaps the Committee might want to have its staff analyze this document—perhaps in conjunction with the staffs of the Joint Committee on Internal Revenue Taxation and the Appropriations Committees. The staff of the Treasury will be pleased to cooperate. Many of the provisions in the Tax Code are virtually the same as appropriations and should be considered by the Congress as they review the various Federal programs.

Let me turn now to four areas where I believe there is urgent need for action by the United States or by those nations whose economic future is closely linked with our own.

THE NEED FOR TAX REFORM

We have an income tax system which has demonstrated its strength—\$128.3 billion of revenues expected in fiscal year 1970—and its flexibility. The income tax is one of our country's strongest assets; and we must strive to improve it and perfect it.

Our income tax system needs major reforms now, as a matter of importance and urgency. That system essentially depends on an accurate self-assessment by taxpayers. This, in turn, depends on widespread confidence that the tax laws and the tax administration are equitable, and that everyone is paying according to his ability to pay.

We face now the possibility of a taxpayer revolt if we do not soon make major reforms in our income taxes. The revolt will come not from the poor but from the tens of millions of middle-class families and individuals with incomes of \$7,000 to \$20,000, whose tax payments now generally are based on the full ordinary rates and who pay over half of our individual income taxes.

The middle classes are likely to revolt against income taxes not because of the level or amount of the taxes they must pay but because certain provisions of the tax laws unfairly lighten the burdens of others who can afford to pay. People are concerned and indeed angered about the high-income recipients who pay little or no Federal income taxes. For example, the extreme cases are 155 tax returns in 1967 with adjusted gross incomes above \$200,000 on which no Federal income taxes were paid, including 21 with incomes above \$1,000,000.

Judging from taxpayers' letters to the Treasury, I would say that many people are upset and impatient over the need for correcting these and other situations which demand our attention. In this connection, I should point out that the 10 percent surcharge has made many taxpayers more aware of the inequities in our present tax system and more demanding that reforms be adopted.

I believe public confidence in our income tax system is threatened and that tax reform should be a top priority subject for the new Administration and the 91st Congress.

As you know, we at Treasury have been working on tax reform proposals for more than two years, and they are now ready. They will be turned over to Secretary-Designate Kennedy and, upon request, to the Congress.

I feel that the enactment of major reforms to substantially improve the fairness, simplicity, and neutrality of our income taxes are essential to continue and strengthen public confidence in our tax system.

THE NEED FOR RESTORING THE UNITED STATES TRADE POSITION

The international trade position of the United States is rapidly deteriorating. It is essential therefore that we make a forceful policy response to restore our trade account to a position of strength. Short of this, we will find a continuing upsurge apparent in the country.

The answer to our trade problem does not lie in an overhauling of our tax system through the introduction of a value-added tax either in addition to or in lieu of our present taxes. The adverse domestic effects of such a move would far outweigh any small trade advantage which we might gain.

What we might well consider instead is our own system of border adjustments, encompassing both a tax on imports and a payment to exporters. The level of these adjustments would be unrelated to our domestic tax system. The rates would be set at whatever level is necessary to achieve our objective—a healthy trade surplus. This system should be established under the strict control of the General Agreement on Tariffs and Trade or other appropriate international body.

THE NEED FOR ACTION ON THE SDR FACILITY

I would urge the member nations of the International Monetary Fund that have not yet completed action on the Special Drawing Rights Facility to do so promptly. Their ratification of the Proposed Amendment to the IMF Articles of Agreement establishing the SDR Facility will bring closer the day when the world will be assured of an adequate growth in monetary reserves.

The SDR Facility will be created when 67 member nations having 80 percent of the weighted votes in the Fund have ratified the Amendment, and when members having at least 75 percent of the quotas in the Fund have deposited with it an instrument of participation.

The United States completed action on the SDR Facility last July 15. However, as of January 10 of this year, only 29 members of the Fund having 47½ percent of the total votes had ratified the Proposed Amendment.

After years of intensive negotiations, nations have neared establishment of a method for creating the monetary reserves needed by a rapidly growing world economy. We are near the goal of the most important reform in the international monetary system since the Bretton Woods Agreement of 1944. I earnestly hope that other nations and their governments will make it possible for the world to reach that goal within a period of weeks or months.

THE NEED FOR SUPPORT TO MULTILATERAL DEVELOPMENT INSTITUTION

I am also deeply concerned about two items of unfinished business in the field of multilateral development finance. Both—the replenishment of the International Development Association and the provision of special funds for the Asian Bank—involve institutions that I have been intimately involved with over the years. What we in the United States do in regard to these two institutions can have a profound effect on the well-being and the very lives of millions among the two-thirds of the world's population that has little to possess and still less to hope for.

As a freshman Congressman, I helped write the legislation for our participation in IDA. I have seen it in action in the field, in Asia in 1963 and in Africa in 1967. I know it is capably guided by the World Bank under Robert McNamara's sure hand.

IDA is, most importantly, serving in a growing way the primary function we had in mind in the late 1950's—it is mobilizing a greater share of development resources from the other advanced countries. It is putting these resources to work in an efficient and effective manner. Eighteen other countries put up a total substantially greater than our own. Our share in the effort has been reduced from 43 percent at the outset to 40 percent currently, meaning a cumulative transfer of the burden of about \$150 million.

The contribution proposed for the United States—\$160 million in each of three years—will have no adverse effect on the U.S. balance of payments, because we have obtained internationally agreed safeguards to ensure this.

But the entire IDA replenishment package cannot become effective unless the U.S. makes its contribution. I consider it of the highest urgency for the Congress to demonstrate again its consistent attitude of bipartisanship toward IDA by acting on the legislation that has been re-introduced in recent days.

While IDA's operations are world wide, those of the Asian Bank are concentrated in the area of the world that has been torn by intense conflict and wracked by human misery for all too many years. In December 1965, I was privileged, along with Eugene Black, to sign the agreement establishing the Asian Development Bank, thus placing us firmly on the path of constructive multilateral development in Asia. Many members of the Congress and Congressional staff members participated actively in the events leading up to the creation of the Asian Bank. It is now in being, with a distinguished staff and with an effective loan and technical assistance program moving forward.

However, the Bank needs additional resources—beyond its regular funds for conventional lending—for special lending programs on favorable terms in fields such as agriculture and transportation. The new budget proposes a \$25 million U.S. contribution to Asian Bank special funds in 1969 and 1970, and I consider this action, already long delayed, as crucial to Asia and our total interests there.

These funds will help to encourage regional cooperation and peaceful development in southeast Asia. Like our IDA contribution, we would be putting up only a minority share; Japan and other advanced countries will bear the major burden. And this contribution, too, will have no adverse balance of payments effect since it will finance U.S. goods and services.

I sincerely hope that both these vital programs will promptly receive the Congressional support they deserve.

I am submitting with my statement for the record a set of charts with the heading "The Fiscal Program for 1970 in Perspective." These charts set forth the economic rationale for the financial plan which President Johnson recommends to the 91st Congress, and I would like at this time to review them with you.

(The material referred to follows:)

the
fiscal
program
for 1970 in
perspective

Office of the Secretary of the Treasury



THE FISCAL PROGRAM FOR 1970 IN PERSPECTIVE

Current Fiscal Picture

Chart 1 - Budget Outlays and Receipts, Fiscal Year 1970

Chart 2 - Effect of Tax Action on Budget Deficit Fiscal Years 1969 and 1970

Chart 3 - Original Revenue Estimates Compared with Actuals

Burden of Federal Debt and Expenditures

Chart 4 - Budget Outlays as a Percent of Gross National Product

Chart 5 - Net Federal Borrowing From or Repayment to the Public

Chart 6 - Federal Debt Held by the Public as a Percent of Gross National Product

Performance of Economy in Recent Years

Chart 7 - GNP Growth and Price Comparisons

Chart 8 - Growth of Civilian Employment, 1962-'68

Chart 9 - Real Gross National Product After the Recession Troughs of 1954 and 1961

Chart 10- Annual Rate of Growth in Selected Countries

Chart 11- Annual Rate of Cost of Living Increase

Effects of New Tax Program on Taxpayers

Chart 12- Tax Burden in Selected Countries

Chart 13- Tax Savings From Actions Taken After 1963

Chart 14- Tax Savings at 1969 Proposed Rates Compared with 1963 Rates

Chart 15- Tax Savings as Percent of 1963 Tax: At 1969 Proposed Rates Compared with 1963 Rates

Balance of Payments

Chart 16 - U.S. Balance of Payments on "Liquidity" Basis and Gold Sales

Chart 17 - U.S. Balance of Payments on "Official Settlements" Basis and Gold Sales

Chart 18 - U.S. Reserve Assets and Federal Reserve "Swap" Lines, Late 1968

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Table 1 - Federal Spending and Receipts, NIA and Unified Budgets

Table 2 - Unified Budget Receipts and Expenditures, Vietnam and Non-Vietnam

Table 3 - New Budget Concept of Federal Debt and Federal Debt as Percent of GNP

Table 4 - Comparison of Tax Liabilities Under Proposed Surcharge Continuation: Single Individual

Table 5 - Comparison of Tax Liabilities Under Proposed Surcharge Continuation: Married Couple,
Two Dependents

Table 6 - Comparison of Tax Liabilities Under Proposed Surcharge Continuation: Married Couple,
No Dependents

Chart 1

The budget in fiscal year 1970 should register a surplus if economic policy in the country is to be responsible and realistic. The estimate of \$195.3 billion in total budget outlays represents our minimum requirements to meet the urgent domestic and international needs. An extension of the surcharge will make it possible to meet these requirements and to provide for a surplus which will be helpful in relieving inflationary pressures.

It is clear from the chart that if hopes for an early settlement of the Vietnam war are realized, military expenditures can be reduced and substantial savings made for other desirable purposes.

BUDGET OUTLAYS AND RECEIPTS, FISCAL YEAR 1970

Chart 1

Billion Dollars

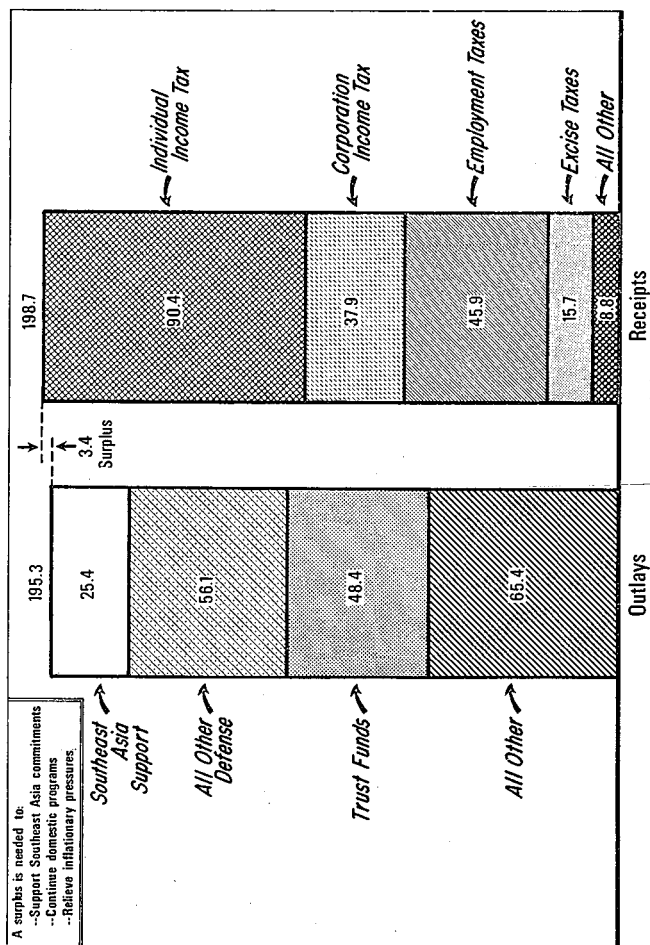


Chart 2

Under existing legislation, a budget surplus is expected at \$1.9 billion in fiscal year 1969 reflecting the surcharge, excise and other provisions enacted last June. The proposed surcharge extension would add another \$0.5 billion, reflecting estimated corporate tax payments.

Under existing legislation for fiscal year 1970, the budget would register a deficit of \$7.1 billion.

Under proposed legislation, revenue yield would increase \$10.5 billion to yield a surplus of \$3.4 billion.

NOTE: The \$10.5 billion includes the net effect of increased social security contributions and benefit payments.

Chart 2
EFFECT OF PROPOSED TAX ACTION ON BUDGET
FISCAL YEARS 1969 AND 1970

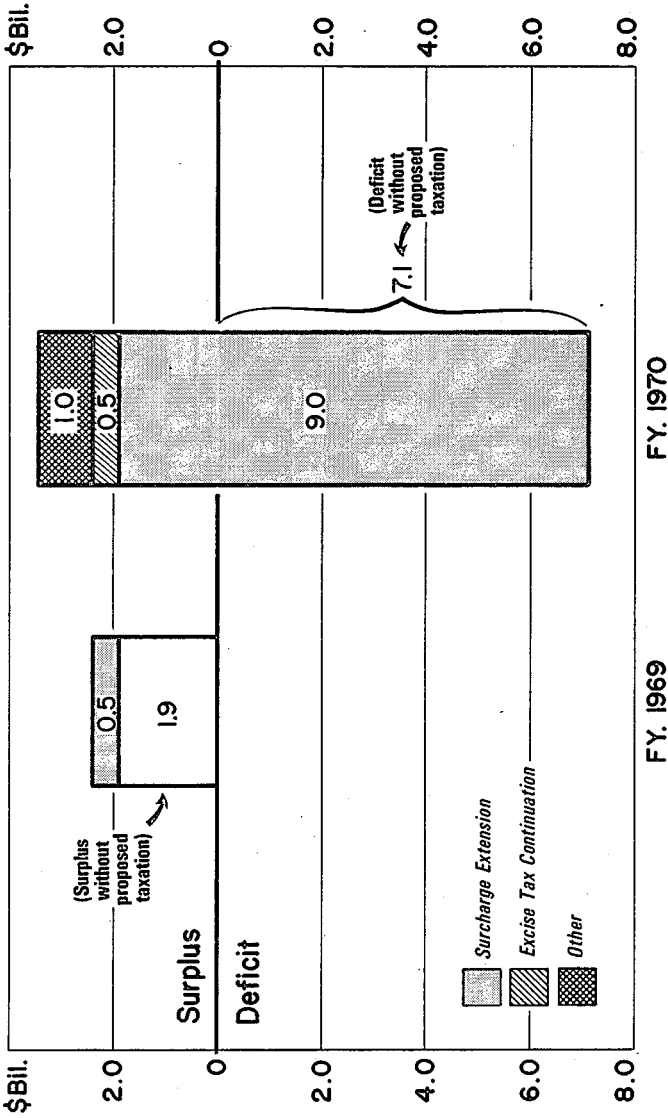


Chart 3

The record shows that this Administration has not overestimated receipts in order to justify higher expenditures. Actual receipts have equaled or exceeded the original estimates in four of the last five years.

(In the chart, the original estimates for the fiscal years 1968 and 1969 have been adjusted to take account of legislation which was proposed but not enacted.)

Chart 3
ORIGINAL REVENUE ESTIMATES COMPARED WITH ACTUALS
 Administrative Budget 1965-'68; Unified Budget 1969

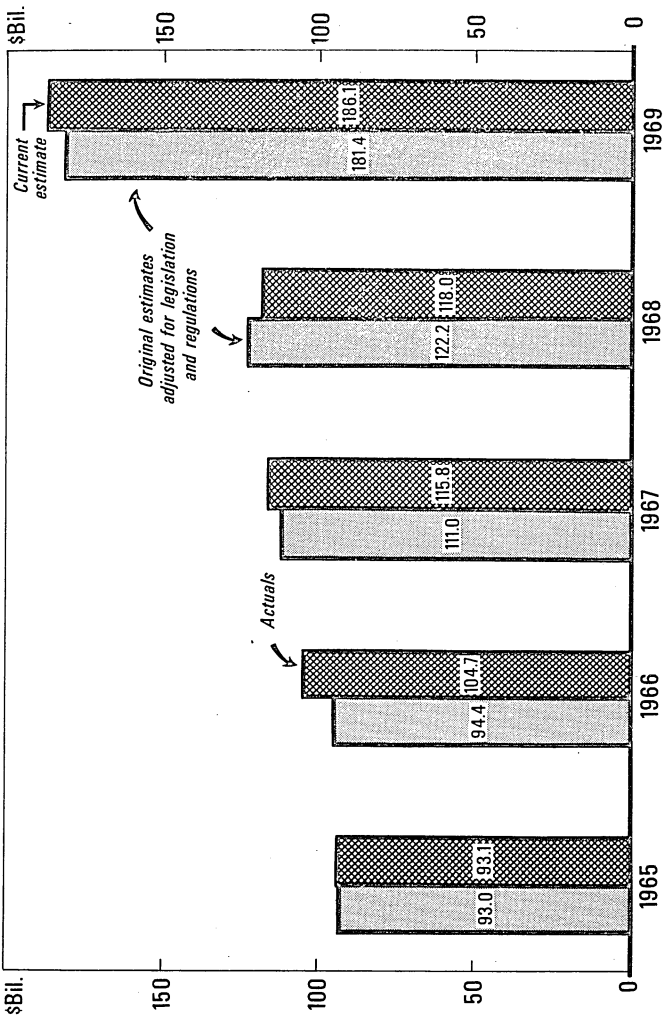


Chart 4

Federal outlays as a proportion of gross national product have remained at about one-fifth for the past fifteen years. However, excluding special Viet Nam costs and the self-financed social insurance trust funds, outlays have been declining as a share of the Nation's product -- declining from an average of 15.9 percent during 1955-1960 to 14.2 percent in 1968. This share will decline further to 12.9 percent and 13.2 percent in fiscal years 1969 and 1970, respectively.

Chart 4

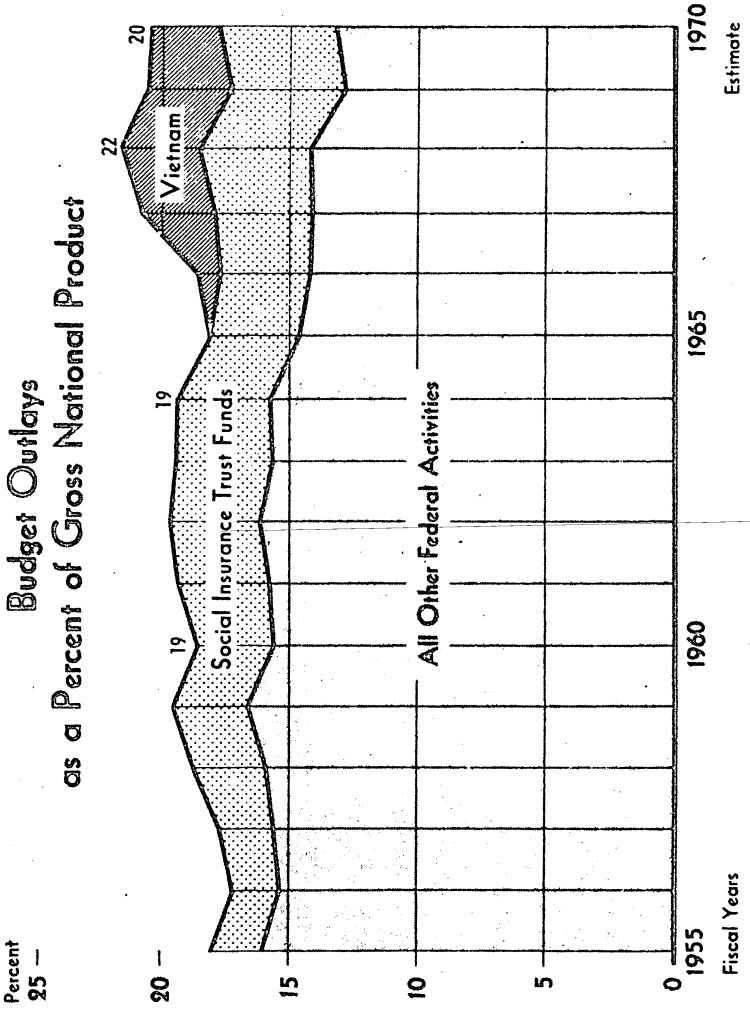
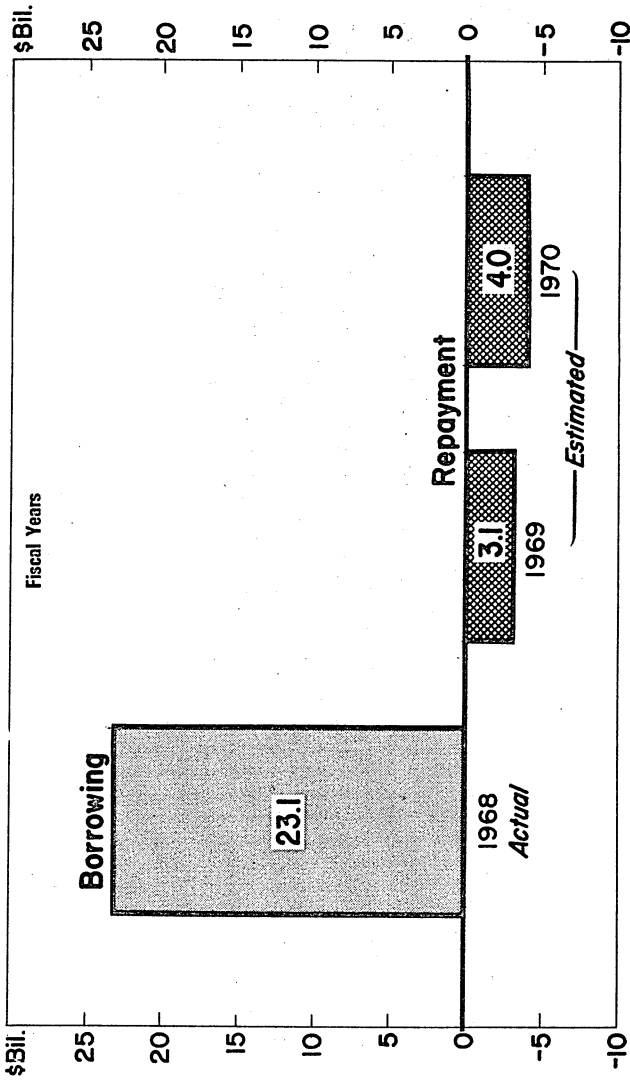


Chart 5

The budget surpluses in fiscal years 1969 and 1970 will permit sizable repayment of debt to the public. This is in contrast with the huge Federal borrowing of \$23 billion during fiscal year 1968. In the period ahead, the Federal Government would be providing funds to the private sector and contributing to easier money and capital markets, instead of exerting pressure on the supply of credit as it did in fiscal 1968.

Chart 5

NET FEDERAL BORROWING FROM OR REPAYMENT TO THE PUBLIC



Source: 1970 Budget Document.

Chart 6

Federal debt held by the public has grown at a much slower rate than the economy. Federal debt held by the public as a percent of gross national product has continued to decline in recent years. From the peak of almost $1\frac{1}{4}$ times the GNP in fiscal 1946, the Federal debt held by the public dropped to 48 percent in 1960 and 40 percent in 1965. The 1970 budget would bring down this percentage even further -- to 29 percent. By this measure, the size of the Federal debt would represent a steadily lessening burden on the economy.

Chart 6

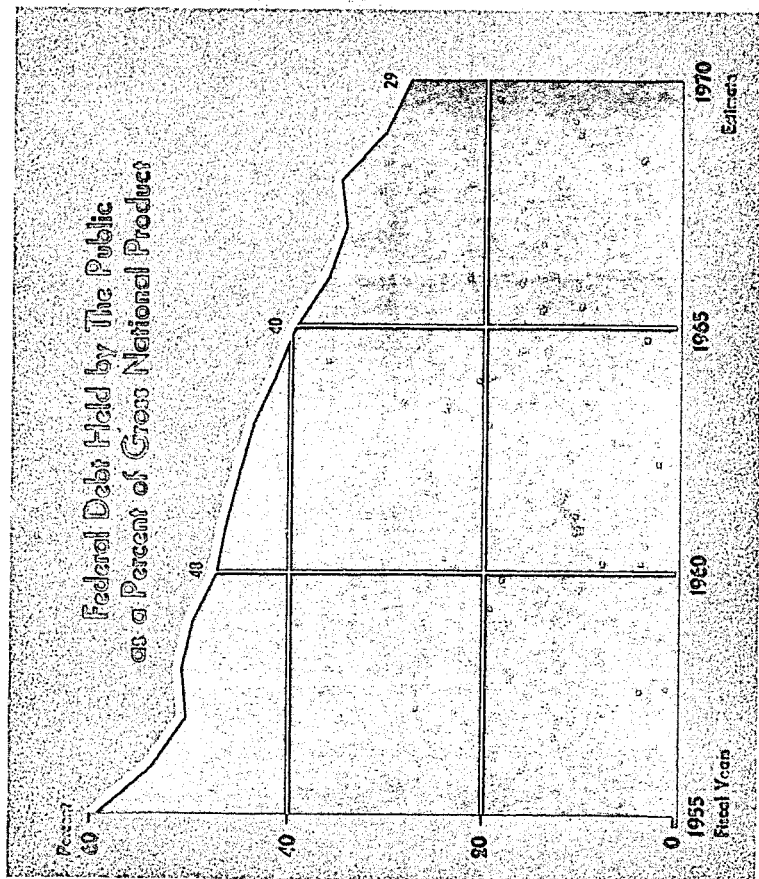


Chart 7

Between 1960 and 1966, real GNP was strong enough to attain more complete utilization of the Nation's resources than in former years. At the same time, prices remained relatively stable. In the last two years, however, strains on our economic resources have begun to develop and were reflected in an acceleration of price advances.

Chart 7

GNP GROWTH AND PRICE COMPARISONS

During 1960-'66 the economy greatly improved in both growth and price performance; however, prices accelerated rapidly in 1967 and 1968.

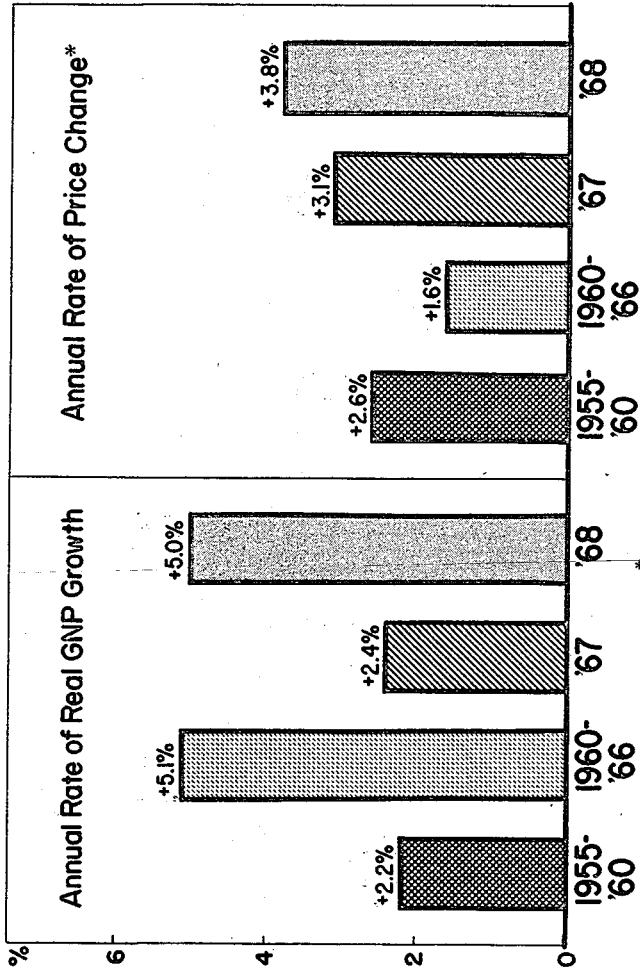


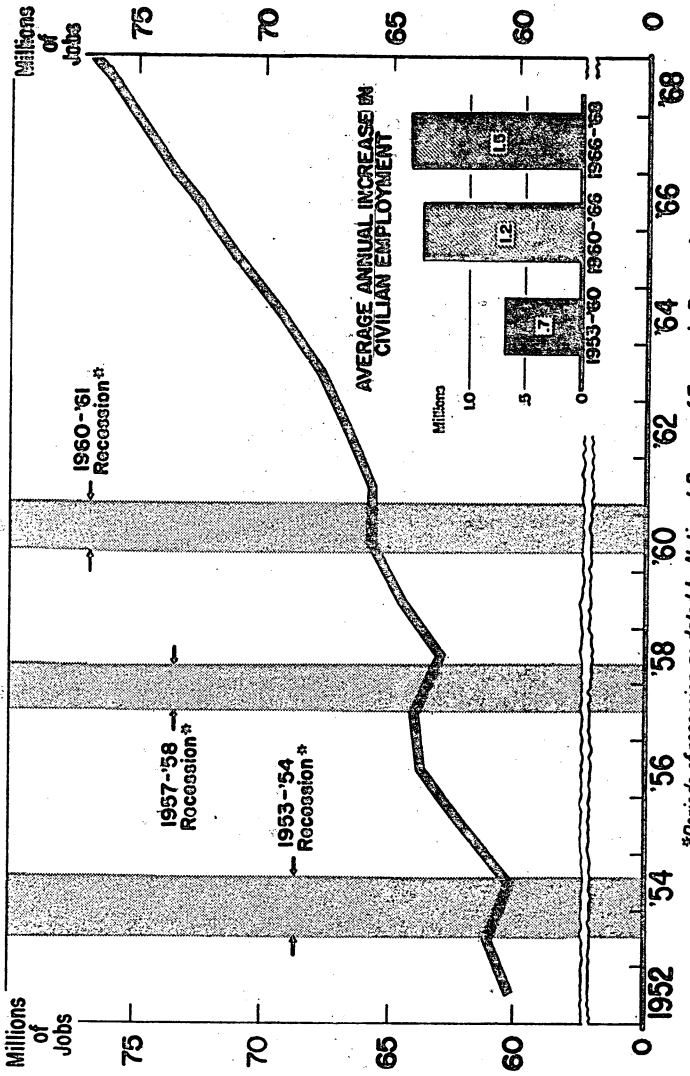
Chart 8

Sustained economic growth without recessions from 1960 to 1966 has generated large employment gains. The average annual increase in civilian employment amounted to 700,000 during 1953-60 as compared with 1.2 million between 1960 and 1966. In the last two years, gains mounted to 1.5 million per year.

Chart 8

GROWTH OF CIVILIAN EMPLOYMENT, 1952-'68

Economic Growth Means More Jobs; Slack Means Fewer Jobs



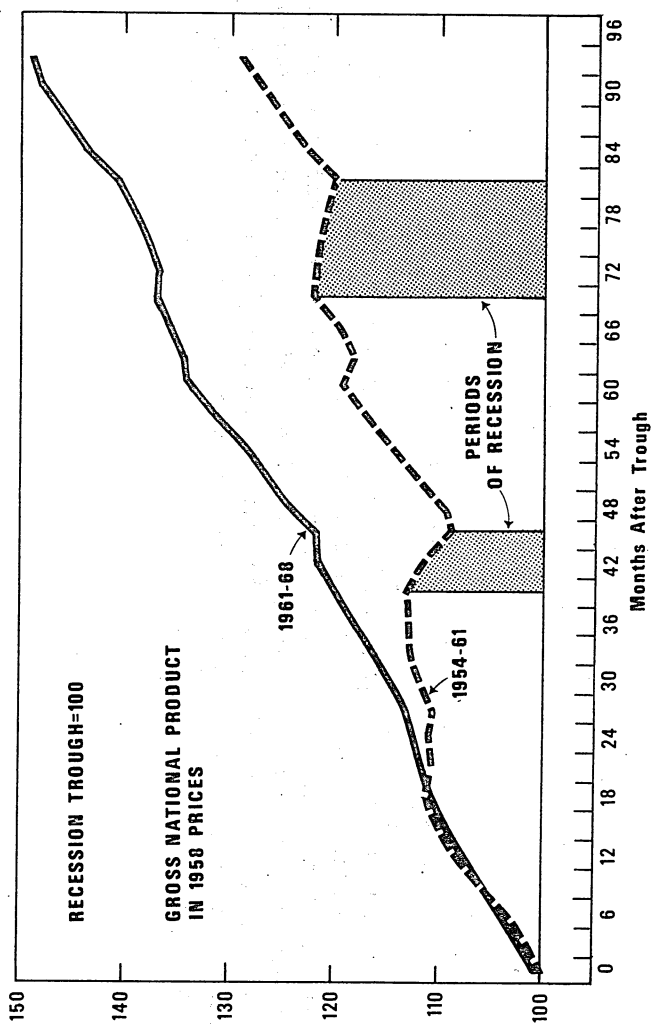
*Periods of recession as dated by National Bureau of Economic Research.

Chart 9

The accelerated rate of growth in GNP during 1961-68 has made available a considerably larger volume of goods and services each year to consumers, business and government. The chart shows a widening improvement in the more recent performance as compared with the earlier period. Since the early 1961 cyclical trough, GNP in 1958 prices has increased 49 percent, which compares with an increase of 29 percent for a comparable period of time since the 1954 recession trough.

Chart 9

REAL GROSS NATIONAL PRODUCT AFTER THE RECESSION TROUGHS OF 1954 and 1961



NOTE:--BASED ON SEASONALLY ADJUSTED QUARTERLY DATA.

SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

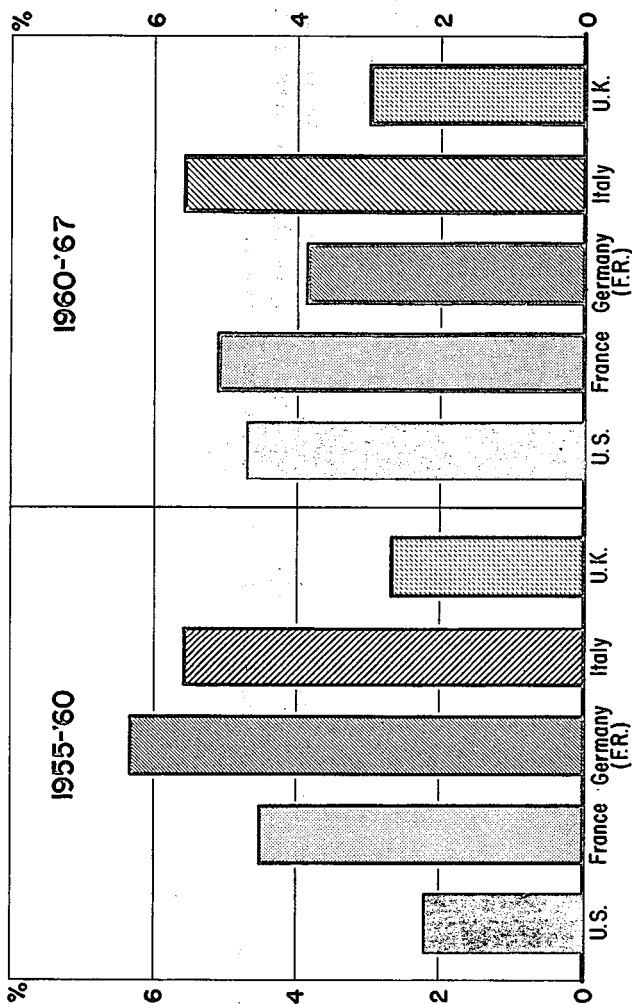
Chart 10

During the late 1950's, the growth rate of the U. S. economy fell below that of other major industrial countries. In the 1960's, the U. S. growth rate has risen appreciably and compares very favorably with growth rates abroad.

Chart 10

ANNUAL RATE OF GROWTH IN SELECTED COUNTRIES*

In the 1960's U.S. growth compares favorably with that of other countries



* Percentage change in constant dollar GNP

Source: OECD

Chart 11

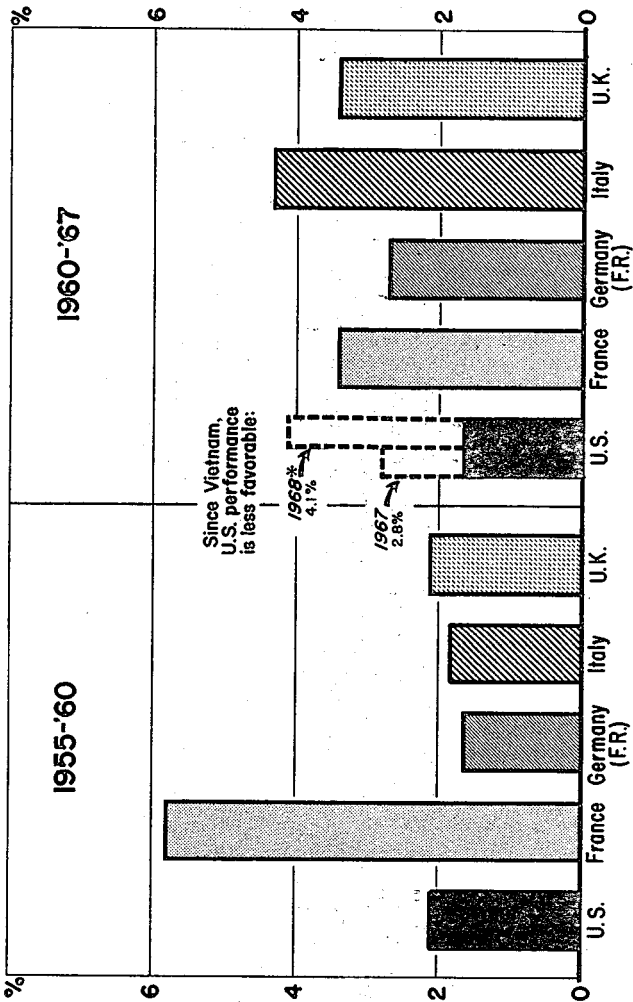
The U. S. cost of living record was generally in line with the experience of most major industrial nations in the 1955-60 period and it was considerably better than the major industrial countries during the 1960-66 period. After rising at about a 2 percent rate in the 1955-60 period, the U. S. cost of living advanced at the slower rate of approximately 1.6 percent in the 1960-66 period.

Since 1966, U.S. performance has been less favorable than earlier. The chart shows that 1967 and 1968 consumer prices rose 2.8 percent and 4.1 percent, respectively. These rates of advance are not less favorable than in some other industrialized countries. However, they do suggest the need for fiscal restraints.

Chart 11

ANNUAL RATE OF COST OF LIVING INCREASE

U.S. cost of living increases have been smaller than abroad



*First eleven months of 1968 over first eleven months of 1967

Source: Labor Department and OECD.

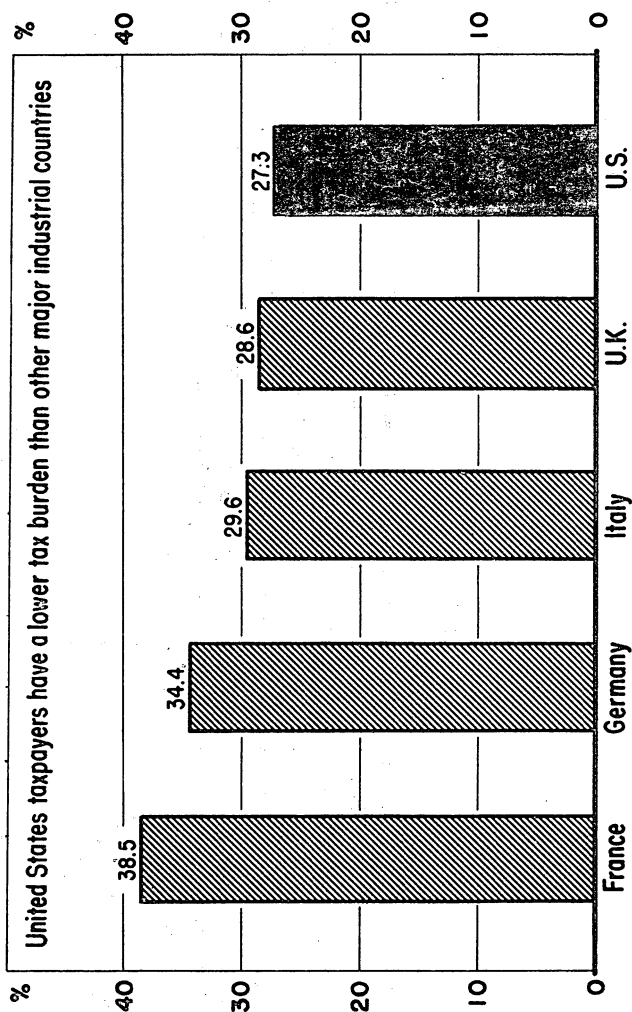
Chart 12

Americans enjoy a lower tax burden than any of the major industrial countries of Western Europe -- and this includes taxes levied at all levels of government -- Federal, state, and local. As shown in the chart, estimates based on data compiled by the Organization for Economic Cooperation and Development show that as a proportion of total national production, French citizens paid 38.5 percent in taxes; Germany, 34.4 percent; Italy, 29.6 percent; United Kingdom, 28.6 percent; and the U. S., 27.3 percent. The figures are based on data for 1966. Little change in these percents has occurred since then.

Chart 12

TAX BURDEN IN SELECTED COUNTRIES*

Total Federal, State and Local Taxes as % of GNP



United States taxpayers have a lower tax burden than other major industrial countries

**Based on OECD data for 1966.*

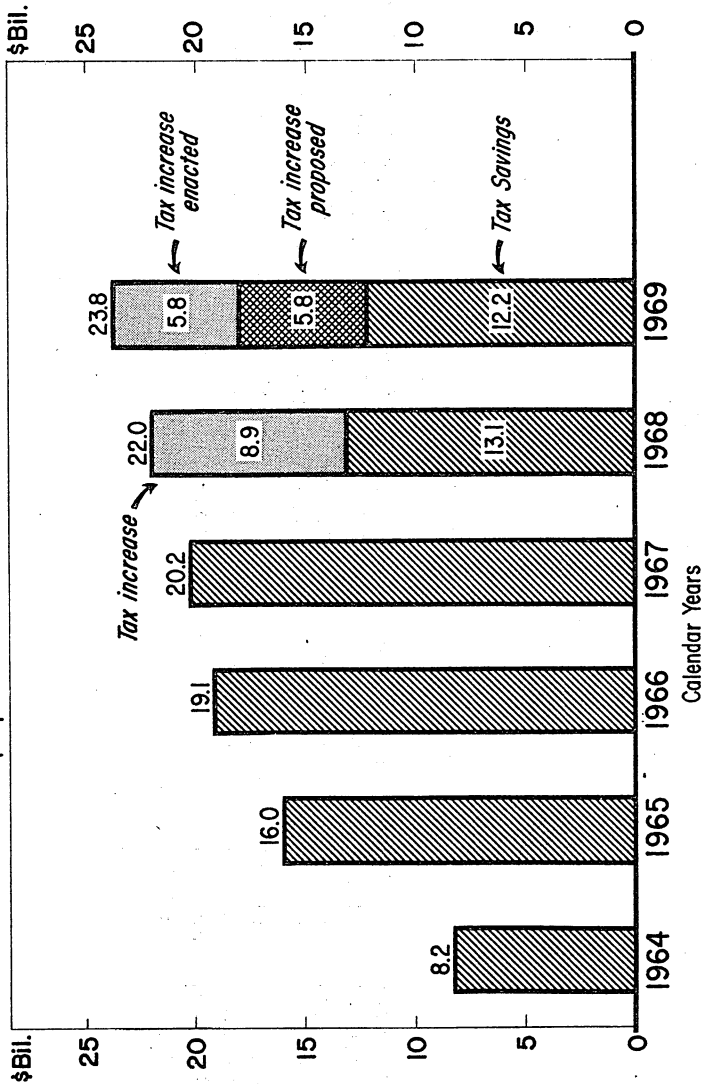
Chart 13

One factor in the proposed tax increase which should not be overlooked is the amount of tax savings which results from actions taken after 1963. These tax savings, which were over \$8 billion in 1964, will rise to nearly \$24 billion in 1969. Even after the increases passed in 1968 and assuming enactment of those proposed, the savings in 1969 would still come to over \$12 billion. Thus, even with the proposed tax increase, American taxpayers are still far ahead of where they would have been were tax rates to have remained at pre-1964 levels.

Chart 13

TAX SAVINGS FROM ACTIONS TAKEN AFTER 1963

Taxpayers will continue to benefit from huge tax savings after proposed and enacted tax increases*



*Tax increases exclude amounts from continuation of excise tax rates.

Office of the Secretary of the Treasury

Chart 14

The proposed continuation of the surcharge at 10 percent for the full calendar year 1969 would still leave individual taxpayers paying much less income tax than they did in 1963. For example, a married couple with two dependents and a wage and salary income of \$7,500 would have a 1969 tax liability of \$755 instead of \$877 at 1963 rates -- a saving of \$122. Savings at other income levels are shown in the chart.

Chart 14

TAX SAVINGS AT 1969 PROPOSED RATES COMPARED WITH 1963 RATES

Wage or Salary Income, Married Couple, Two Dependents

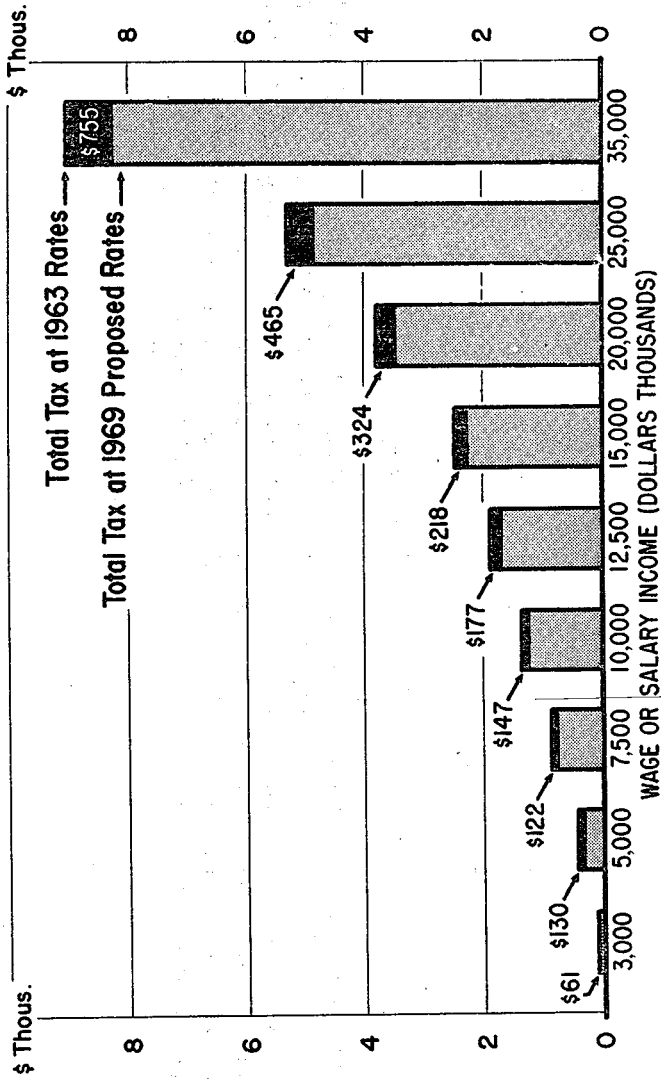


Chart 15

The tax savings at 1969 proposed rates are relatively greatest at lower wage and salary levels, as shown in the chart. For example, at 1969 rates, a married couple with two dependents and wage and salary income of \$3,000 would still save about 94 percent of their total 1963 tax liability. (There would be no increase in 1970 tax for a married couple whose tax at 1967 rates was \$290 or less.)

Chart 15

TAX SAVINGS AS A PERCENT OF 1963 TAX: **AT 1969 PROPOSED RATES COMPARED WITH 1963 RATES** Wage or Salary Income, Married Couple, Two Dependents

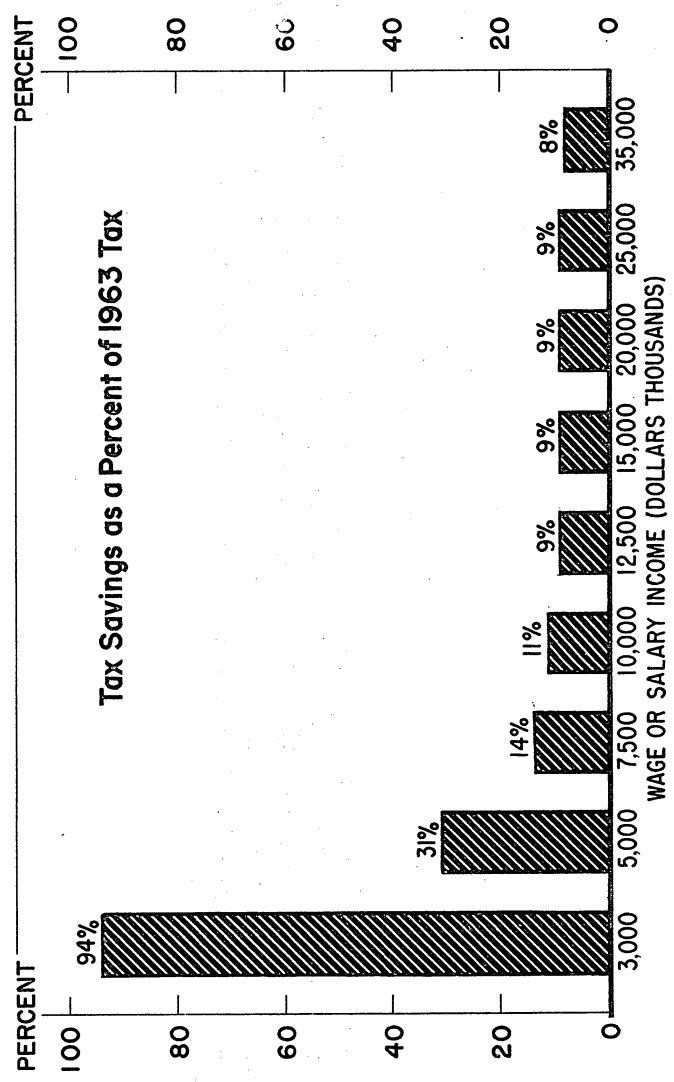


Chart 16

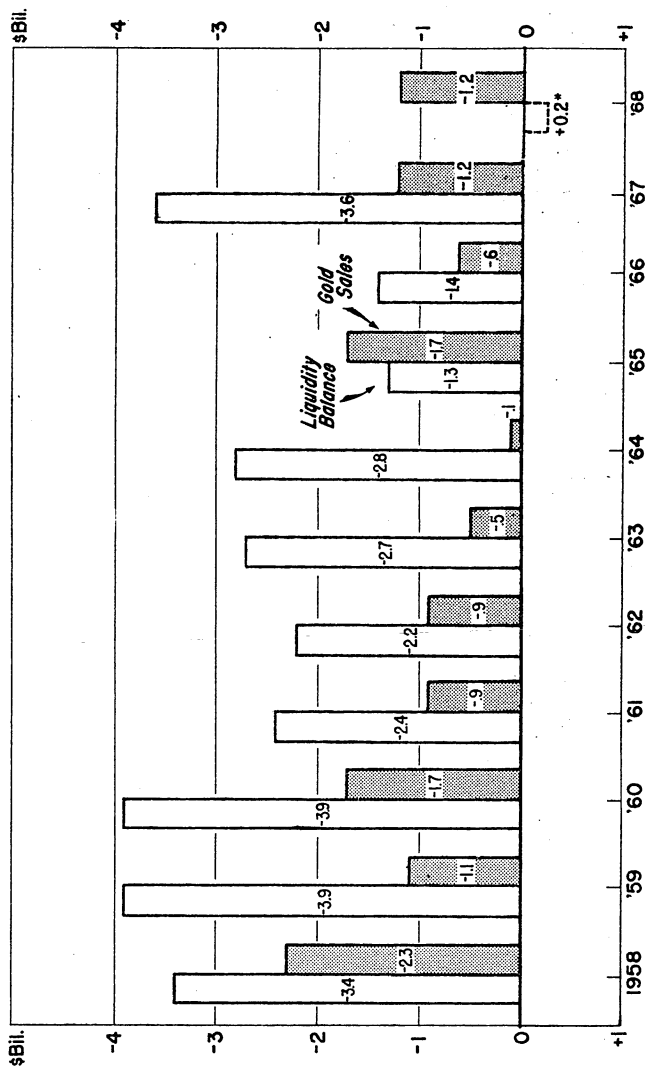
The liquidity deficit was between \$1.3 billion and \$1.4 billion in each of the years 1965 and 1966--only a third as large as the 1959-1960 average.

In 1967, our attempts to restore balance in our international accounts received a severe setback and the deficit rose sharply to \$3.6 billion. The uncertainties and unrest which accompanied the sterling devaluation in November, 1967, accentuated our problems. However, this deterioration also reflected the effects of higher costs in Vietnam, heavy unilateral transfers, a disappointing trade surplus, and increased outlays by U. S. citizens traveling abroad.

In 1968, despite a strong upward surge of imports stimulated by domestic inflation, a strong rate of real GNP growth and various strike situations, the liquidity deficit disappeared and a small balance-of-payments surplus emerged. The improvement, however, was not well balanced as among various accounts.

The trade surplus fell well below \$1 billion and the tourist deficit continued at a high level. Also, some of the sharp improvement in the capital accounts was the result of restraint programs which are not permanent features of our system. The over-all results, however, are encouraging and have been reflected, in part, in a net increase in our gold stock during the second half of last year.

Chart 16 U.S. BALANCE OF PAYMENTS ON "LIQUIDITY" BASIS AND GOLD SALES



*Rounded preliminary figure.

Note: Includes sales for domestic industrial and artistic purposes. Also includes acquisitions from IMF of \$300 million of gold in 1960 and \$50 million in 1961 and a payment of \$259 million of gold for quota increases in 1965.

Chart 17

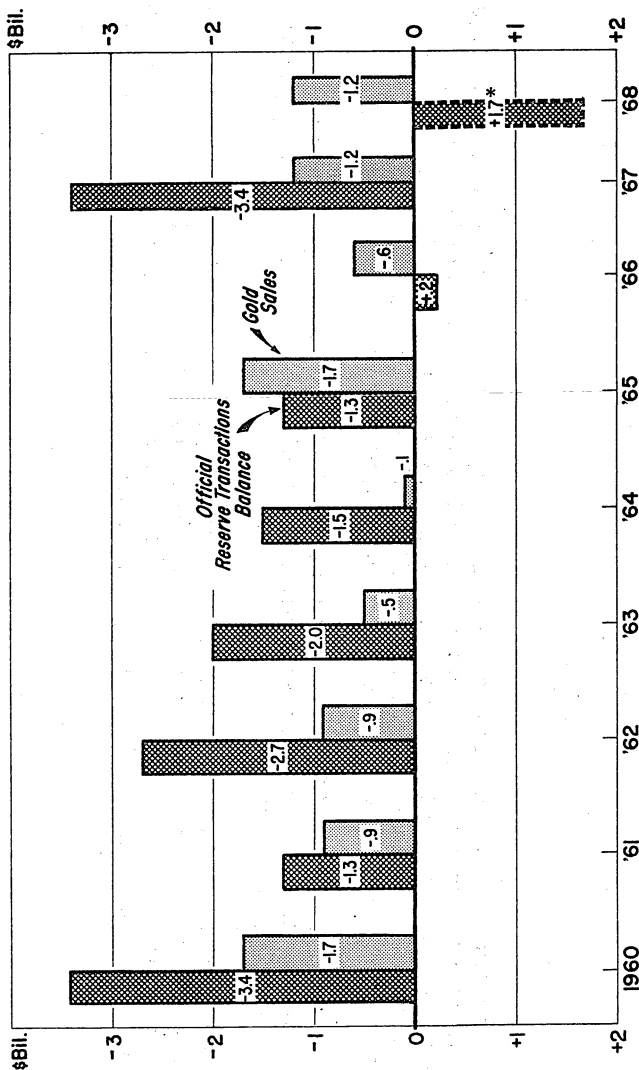
Since only increases in liabilities to foreign official holders (plus changes in U. S. reserve assets) are used to measure the official settlements balance, its changes from year to year reflect to a considerable extent shifts of dollar holdings between foreign private and foreign official holders in response to relative interest rates, here and abroad, and currency speculation.

The downward trend in the official settlements balance from 1960 through 1966--when there was a small surplus--was interrupted in 1967 due in part to the outbreak of private gold speculation in the Fall of that year.

In 1968 the official settlements balance moved into a strong surplus position, particularly in the second quarter of the year, reflecting a loss of reserves from official holders, particularly France. The tighter credit conditions in the U. S. towards the end of the year also helped to accentuate the 1968 official settlements surplus.

Chart 17

U.S. BALANCE OF PAYMENTS ON "OFFICIAL SETTLEMENTS" BASIS AND GOLD SALES



* Rounded preliminary figure.

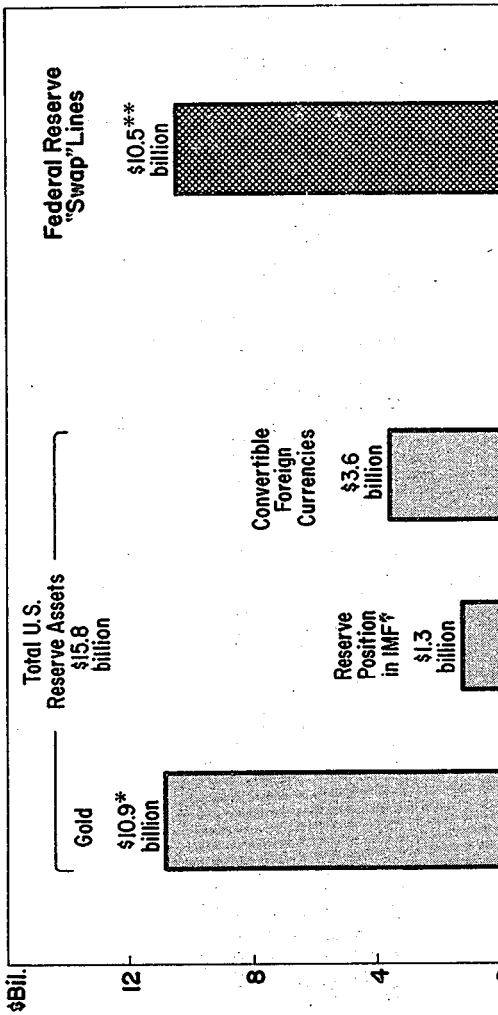
Note: The official settlements balance counts changes in dollar claims of foreign official monetary authorities — but not private holdings — in addition to reserve losses of the U.S. The liquidity balance counts changes in the liquid dollar holdings of all foreigners — private and public — as well as losses in reserves.

Chart 18

The U.S. international reserve position improved following establishment of the two-tier gold system in March 1968 and enactment of the fiscal restraint package at midyear. There was a rise in U.S. reserve assets from a low of \$13.8 billion in the spring of this year to \$15.8 billion by year-end. Gold losses were checked after the first quarter. By the end of the year, all U.S. drawings on the International Monetary Fund had been repaid. Federal Reserve swap lines were enlarged during the year to a total of \$10.5 billion.

Chart 18

U.S. RESERVE ASSETS AND FEDERAL RESERVE "SWAP" LINES, LATE 1968



* Legislation in early 1968 removed the 25% gold cover requirement and freed the U.S. gold stock for international transactions.

* U.S. gold tranche position, which is available virtually automatically if needed. Under appropriate conditions the U.S. could draw additional amounts equal to the U.S. quota of \$5.160 billion.

** U.S. drawings were less than \$0.5 billion at the end of 1968.

Table 1

FEDERAL SPENDING AND RECEIPTS, HIA AND UNIFIED BUDGETS
(In Billions of dollars)

	Actual			Estimate			Change from Previous Year					
	1965	1966	1967	1968	1969	1970	1965	1966	1967	1968	1969	1970
<u>Expenditure Account Basis</u>												
Receipts	116.8	130.9	149.6	153.7	186.1	198.7	+4.1	+14.1	+18.7	+4.1	+32.4	+12.6
Expenditures (excludes net lending)	117.2	130.8	153.3	172.8	182.3	194.4	-0.8	+13.6	+22.5	+19.5	+9.5	+12.1
Surplus or deficit	-0.4	0	-3.7	-19.2	+3.8	+4.3	+5.0	+0.4	-3.7	-15.5	+23.0	+0.5
Net lending	1.2	3.8	5.1	6.0	1.4	0.9	+0.7	+2.6	+1.3	+0.9	-4.6	-0.5
<u>Total Unified Budget</u>												
Receipts	116.8	130.9	149.6	153.7	186.1	198.7	+4.1	+14.1	+18.7	+4.1	+32.4	+12.6
Outlays (expenditures and net lending)	118.4	134.7	158.4	178.9	183.7	195.3	-0.2	+16.3	+23.7	+20.5	+4.8	+11.6
Surplus or deficit	-1.6	-3.8	-8.8	-25.2	+2.4	+3.4	+4.3	-2.2	-5.0	-16.4	+27.6	+1.0

Office of the Secretary of the Treasury
January 15, 1969

Table 2
UNITED BUDGET RECEIPTS AND EXPENDITURES,
VIETNAM AND NON-VIETNAM

	Fiscal Years				
	1964	1965	1966	1967	1968
Unified Budget	1964	1965	1966	1967	1968
Total Outlays	118.6	118.4	134.7	158.4	178.9
Total Receipts	112.7	116.8	130.9	149.6	153.7
(Surplus or deficit)	-5.9	-1.6	-3.8	-8.8	-25.2
Total Outlays, By Type					
Vietnam	-----	0.1	6.1	20.6	26.8
Non-Vietnam					
Trust	22.7	23.2	26.4	31.6	35.5
Other	95.9	95.1	102.2	106.2	116.5
Total Receipts, By Type					
Vietnam Receipts	-----	-----	1.2 ^{1/}	4.6 ^{2/}	1.5 ^{3/}
Non-Vietnam Receipts	112.7	116.8	129.7	145.0	152.2
Non-Vietnam Outlays	118.6	118.3	128.6	137.8	152.1
Non-Vietnam Receipts	112.7	116.8	129.7	145.0	152.2
(Surplus or deficit)	-5.9	-1.5	1.1	7.2	0.1

^{1/} Deferral of scheduled reduction in excise taxes on telephone service and automobiles.

^{2/} Tax Adjustment Act of 1966.

^{3/} Deferral of excise tax reduction.

^{4/} Effect of the Revenue and Expenditure Control Act of 1968 actual and proposed.

January 15, 1969

Table 3

NEW BUDGET CONCEPT^{1/} OF FEDERAL DEBT AND FEDERAL DEBT AS PERCENT OF GNP
(In Billions of Dollars)

End of Fiscal Year	Federal Debt		Federal Debt Held by the Public	
	Gross	Held by public	Change	Percent of GNP
1950	256.9	222.2	+4.6	84.4
Korea				
1951	255.3	217.2	-5.0	70.0
1952	258.8	217.5	+0.3	64.5
1953	265.7	221.1	+3.6	61.6
1954	270.8	224.5	+3.4	62.0
Peacetime				
1955	274.4	226.6	+2.1	59.9
1956	272.7	222.2	-4.4	54.3
1957	272.3	219.4	-2.8	50.9
1958	279.6	226.3	+6.9	51.4
1959	287.7	235.0	+8.7	50.1
1960	290.8	237.1	+2.1	47.9
1961	292.9	238.6	+1.5	47.1
1962	303.2	248.3	+9.7	45.8
1963	310.8	254.4	+6.1	44.4
1964	316.7	257.5	+3.1	42.1
1965	323.1	261.6	+4.1	40.0
Viet Nam				
1966	329.4	264.6	+3.0	36.7
1967	341.3	267.5	+2.9	34.9
1968	369.7	290.6	+23.1	35.3
1969e	365.2	276.6	-14.0	31.0

1/ This concept excludes Federal Land Banks', Federal Home Loan Banks', and District of Columbia debt and Federal security holdings, CCC certificate of interest, and non-interest bearing debt issued to international lending institutions; it includes defense family housing mortgages.

e - Estimated.

January 15, 1969

Table 4

Comparison of Tax Liabilities Under Proposed Surcharge Continuation 1/

Single Individual

Wage income	1963 tax	1967		1968		1969		1970		
		Tax 2/ : from 1963:	: Change : Tax 2/ : from 1967:	Tax 3/ : from 1963:	: Change : Tax 3/ : from 1967:	Tax 4/ : from 1968:	: Change : Tax 4/ : from 1969:	Tax 5/ : from 1969:	: Change : Tax 5/ : from 1970:	
\$ 1,000	\$ 62	\$ 16	\$ -46	\$ 16	\$ 0	\$ 16	\$ 0	\$ -46	\$ 16	\$ 0
1,900	224	147	-77	147	0	147	0	-77	147	0
2,000	242	163	-79	166	3	167	1	-75	165	-2
3,000	427	333	-94	358	25	366	8	-61	350	-16
5,000	818	671	-147	721	50	738	17	-80	705	-33
7,500	1,405	1,168	-237	1,256	88	1,285	29	-120	1,226	-59
10,000	2,096	1,742	-354	1,873	131	1,916	43	-180	1,829	-87
12,500	2,887	2,398	-489	2,578	180	2,638	60	-249	2,518	-120
15,000	3,787	3,154	-633	3,391	237	3,469	78	-318	3,312	-157
20,000	5,900	4,918	-982	5,287	369	5,410	123	-490	5,164	-246
25,000	8,324	6,982	-1,342	7,506	524	7,680	174	-644	7,331	-349
35,000	13,778	11,627	-2,151	12,499	872	12,790	291	-988	12,208	-582

Office of the Secretary of the Treasury

January 14, 1969

Note: There is no surcharge increase in 1968, 1969 or 1970 for a single person whose regular tax is \$145 or less.

See other footnotes on last page.

Table 5

Comparison of Tax Liabilities Under Proposed Surcharge Continuation 1/

Married Couple, Two Dependents

Wage income	1967		1968		1969		1970	
	1963 tax	Tax 2/ :from 1963:	Change : Tax 3/ :from 1967:	Tax 4/ :from 1967:	Change : Tax 4/ :from 1968:	Change : Tax 5/ :from 1969:	Change : Tax 5/ :from 1969:	
\$ 3,000	\$ 65	\$ 4	\$- 61	\$ 4	\$ 0	\$- 61	\$ 4	
5,000	420	290	- 130	290	0	-130	290	
7,500	877	686	- 191	737	51	-122	720	
10,000	1,372	1,114	- 258	1,198	84	-147	1,170	
12,500	1,901	1,567	- 334	1,685	118	-177	1,645	
15,000	2,486	2,062	- 424	2,217	155	-218	2,165	
20,000	3,800	3,160	- 640	3,397	237	-324	3,318	
25,000	5,318	4,412	- 906	4,743	331	-465	4,633	
35,000	9,037	7,529	-1,508	8,094	565	-755	7,905	
					188		-377	

Office of the Secretary of the Treasury
Office of Tax Analysis

January 15, 1969

Note: There is no surcharge increase in 1968, 1969, or 1970 for a married couple whose regular tax is \$290 or less.

See other footnotes on last page.

Table 6

Comparison of Tax Liabilities Under Proposed Surcharge Continuation 1/

Married Couple, No Dependents

Wage income	1967			1968			1969			1970		
	: 1963 tax	: Tax 2/ : from 1963:	: Change : Tax 2/ : from 1963:	: Tax 3/ : from 1963:	: Change : Tax 3/ : from 1963:	: Tax 4/ : from 1963:	: Change : Tax 4/ : from 1963:	: Tax 5/ : from 1963:	: Change : Tax 5/ : from 1963:	: Tax 5/ : from 1963:	: Change : Tax 5/ : from 1963:	: Tax 5/ : from 1963:
\$ 2,000	\$ 122	\$ 58	\$ - 64	\$ 58	\$ 0	\$ 58	\$ 0	\$ - 64	\$ 0	\$ 58	\$ 0	\$ 0
3,000	305	204	- 101	204	0	204	0	- 101	0	204	0	0
3,600	413	294	- 119	295	1	295	0	- 118	0	294	- 1	1
5,000	660	501	- 159	533	32	543	10	- 117	10	522	- 21	21
7,500	1,141	914	- 227	983	69	1,005	22	- 136	22	960	- 45	45
10,000	1,636	1,342	- 294	1,443	101	1,476	33	- 160	33	1,409	- 67	67
12,500	2,213	1,831	- 382	1,968	137	2,014	46	- 199	46	1,923	- 91	91
15,000	2,810	2,335	- 475	2,510	175	2,568	58	- 242	58	2,452	- 116	116
20,000	4,192	3,484	- 708	3,745	261	3,832	87	- 360	87	3,658	- 174	174
25,000	5,774	4,796	- 978	5,156	360	5,276	120	- 498	120	5,036	- 240	240
35,000	9,601	7,997	- 1,604	8,597	600	8,797	200	- 804	200	8,397	- 400	400

Office of the Secretary of the Treasury
Office of Tax Analysis

January 14, 1969

Note: There is no surcharge increase in 1968, 1969, or 1970 for a married couple whose regular tax is \$290 or less.

See other footnotes on last page.

Footnotes:

- 1/ Tax liabilities assume minimum standard deduction or deductions equal to 10 percent of income, whichever is greater. Tax liabilities from optional tax table where income is under \$5,000.
- 2/ From tax schedule revised in 1964 Tax Act.
- 3/ Includes 10 percent tax surcharge effective from April 1, 1968 to December 31, 1968 (i.e., 7-1/2 percent for calendar year). Surcharge liability from tables contained in the Revenue and Expenditure Control Act of 1968.
- 4/ Includes 10 percent tax surcharge proposed for full year. Surcharge liability computed as 10 percent of adjusted tax, but not to exceed 20 percent of adjusted tax in excess of \$145 for single returns and \$290 for joint returns.
- 5/ Includes 10 percent surcharge proposed for one-half year, effective from January 1, 1970 to June 30, 1970 (i.e., 5 percent for calendar year). Surcharge liability from tables prescribed for calendar year 1969 in the Revenue and Expenditure Control Act of 1968.

Chairman PATMAN. Now, Mr. Arthur M. Okun, Chairman of the Council of Economic Advisers. Mr. Okun, we will be glad to hear from you.

STATEMENT OF HON. ARTHUR M. OKUN, CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. OKUN. Thank you, Mr. Chairman. In our closing days in office I can think of no more welcome opportunity for a valedictory than an appearance before this committee. As a member of the Council for 4½ years and as its Chairman during the past year, I have profited greatly from the advice, assistance, discussions, and consultation which the Joint Economic Committee has provided. The Council and the Joint Economic Committee are in a sense twin institutions on the executive and the legislative side and we have worked together effectively in promoting an unprecedented 8 years of economic expansion.

I wanted to turn my attention today to some of the tasks and problems that you people will continue to face in office and I will be observing as a private citizen in promoting a ninth year of unparalleled economic expansion for the Nation.

As 1969 begins, there is distinct evidence that the economy is moving toward improved balance. The advance of real output decelerated significantly from a 6½-percent rate early in 1968 to 4 percent by yearend. Still, a further slowdown is essential to achieve progress toward price and cost stability, to relieve pressures on our financial markets at home, and to strengthen our international trade performance.

Given the current situation and outlook, the fiscal restraint presently operating cannot be relaxed. It must be continued throughout 1969 and into 1970. Director Zwick will outline the administration's stringent program for Federal expenditures. On the revenue side an early expiration or reduction in the tax surcharge would be an unjustified and unwarranted move to fiscal stimulus in an economy that continues to need the firm hand of moderation. With the extension of the surcharge, the President's fiscal program seems well designed to meet the key objectives of providing moderation and yet avoiding excessive weakening of demand. Drastic restraint might make for somewhat faster improvement in our price performance, but only by imposing unconscionable human costs and enormous waste on the Nation.

BACKGROUND OF THE CURRENT SITUATION

To understand the current economic situation and tasks of policy, it is necessary to consider developments of the economy since the middle of 1965. At that time, we were advancing healthily in the longest and strongest peacetime expansion of our history. The subsequent upsurge in defense spending reinforced a strong advance of business investment, creating an unsustainable boom. From the second quarter of 1965 through the first quarter of 1966, the economy advanced much too rapidly. Prices and wages moved sharply upward in response to pressures of demand—particularly because of the speed at which demand was growing. Despite several measures adding to taxes and despite restraint in Federal civilian programs, fiscal policy was too stimulative

in 1966, as defense requirements kept rising. In retrospect, there is general agreement that a tax increase would have been desirable at that time.

The economy experienced a welcome slowdown late in 1966 aided by a strong dose of monetary restraint. From late 1966 to the summer of 1967, the trend of prices improved, although it was still pushed up by earlier cost increases. Consumer prices and the overall price index of GNP both rose at annual rates of less than 2½ percent in the first half of 1967. Interest rates retreated, reflecting both the change of pace of activity and the shift toward easier monetary policy.

As of mid-1967, when the economy began to emerge from an inventory adjustment, we were moving back onto the track of reasonable price stability, and we were preserving our prosperity. To head off a new upsurge, the President then urged immediate enactment of a 10-percent surcharge on income taxes. If that recommendation had been promptly accepted, the economic history of the past year and a half would have been considerably more favorable.

RECORD OF 1968

Without action on taxes, however, the Federal budget became an engine of inflation. In the first half of 1968, the new boom took hold and prices advanced at a disturbing 4-percent rate. This was accompanied by a jump in imports; nervousness in international financial markets; and pressures on financial markets at home, which could not be appropriately accommodated by monetary policy.

By the time the Revenue and Expenditure Control Act became law in June, private demand was very strong and it had developed great forward momentum. There was a significant slowdown in the second half but not as large or prompt as we had expected and hoped. Late in the year, business investment spending moved strongly upward from its earlier plateau. Housing rebounded in the face of tighter credit conditions. Consumer spending rose sharply in the summer months. But the marked slowdown of consumption in the fourth quarter showed that the tax surcharge had begun to exert a restraining impact.

Thus, in some respects, 1968 was too big a year. Yet, the unprecedented 8th consecutive year of expansion brought a 5-percent gain in real output, a 2.1-million rise in nonfarm payroll employment, and a decline in the unemployment rate of 3.6 percent—indeed, to 3.3 percent by yearend.

OUTLOOK FOR 1969

The outlook points to a further appropriate slowing of overall activity in the first half of 1969. Inventory investment is likely to retreat from its recent unusually high rate. Although, the saving rate of the consumer could move downward, the growth of consumer spending is likely to be moderate. Homebuilding will do well to stay near current levels in today's financial markets. And indeed the 15-percent decline in housing starts for December reported today indicates the problems that housing may be beginning to have in these markets.

Federal purchases should change very little. Current evidence suggests that, in the first half—GNP may rise at an annual rate between 5 and 6 percent—slowly enough to achieve a desirable cooling off, but rapidly enough to maintain distinct advances of output and development.

If the tax surcharge were to expire at midyear, a marked fiscal stimulus would be applied to the economy, and a renewed major acceleration of activity would be likely. The only visible alternative to that acceleration in the event of expiration of the surcharge, would be a drastic dose of monetary restraint—a remedy which we should clearly avoid. Monetary restraint could do the job of stopping any incipient boom but it could do so only by pressing unevenly on homebuilding and its credit sensitive sectors of the economy and by disturbing the flows of credit in our financial markets.

In view of this diagnosis, I believe, one can conclude that the whole Nation will benefit if Congress makes clear that a timely and favorable verdict on the extension of the surcharge will be forthcoming. Of course, if peace is achieved, if the expenditure outlook changes markedly for other reasons, or if private demand softens dramatically, the program will require review. In that event, an easing of monetary policy—we well as an adjustment of fiscal policy—could respond to the changing needs.

To meet the possible need for flexibility in fiscal policy, the President has suggested that Congress review its procedures for changing tax rates. He has suggested that, for the immediate future, it might be desirable to give the President discretion to remove the surtax in whole or in part, subject to congressional veto. For the longer run, he suggests that Congress might give the President continuing limited authority to adjust tax rates up or down as needed for stabilization purposes, again subject to congressional veto. Or, alternatively, the Congress could reform its own procedures in such a way as to assure a prompt verdict—either way—on a Presidential request for stabilizing tax legislation.

I know this committee has studied these issues long and hard over the years. I think, in light of the experience of the past 2 years, another look at this important issue is in order.

With appropriate fiscal action, we look forward to a healthy but moderate advance in 1969. For the 4th year in a row, the unemployment rate should remain below 4 percent. Real incomes should advance generally, and prosperity should be extended. We should witness a moderation of import demand, a reduction of pressures in financial markets, and gradual moderation in price and wage increases.

We cannot, however, expect rapid or dramatic improvement in the trend of prices. The price-wage spiral simply cannot be halted within a single year.

ROAD TO PRICE STABILITY

Rather, we must look toward a gradual return to reasonable price stability in a prosperous environment. This will require first and foremost, high standards of fiscal and monetary policy. But those policies cannot do the job alone. They will need to be reinforced by measures to enlist voluntary restraint in the price and wage decisions of large corporations and strong unions. They will need to be reinforced by measures to improve the structural efficiency of the economy. In chapter 3 of the Council's report, we spell out a variety of private and public actions that may help to improve the price performance of a prosperous economy. These are an agenda for exploration rather than a program of specific reforms or legislative proposals. We do want to stress that the battle against inflation must be fought on many fronts. It must include steps to improve mobility and efficiency of our labor markets,

to continue on the course of freer world trade, and to strengthen productivity and competition in our industries.

OTHER ISSUES

The Council's report also contains a detailed discussion of the international monetary system and of many proposals for further improvement in its operation. We hope our analysis will contribute to the careful and intensive dialog which must precede the adoption of any reforms.

Our report also analyzes the problem of poverty in our prosperous economy. The number of Americans below the poverty income line has declined from roughly 40 to 22 million between 1960 and 1968. We have a considerable way to go, but our recent progress certainly argues for redoubling our efforts rather than relaxing in the war on poverty. When we are at a position where 1 percent of our gross national product, if handed out individually to all the people who are poor, would be sufficient to bring them up to the poverty line, it seems a shame to have a continuing major blemish of poverty among 11 percent of our citizens.

Finally, let me point to the report of the Cabinet Coordinating Committee on Economic Planning for the End of Hostilities in Vietnam. It summarizes the studies made over the past 2 years to provide some guidance on how the Nation can best make the economic transition to peace. When that welcome day arrives, fiscal and monetary policy will be confronted by demanding challenges, but they should be equal to the task of promoting a reasonably smooth transfer of resources from the uses of war into the service of peace.

Thank you.

Chairman PATMAN. Thank you, sir.

Our next witness is Charles J. Zwick, Director of the Budget. We are glad to have you, sir, and you may proceed in your own way.

STATEMENT OF HON. CHARLES J. ZWICK, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. ZWICK. Thank you, Mr. Chairman.

First, let me second the comments of my colleagues. I found the exchanges with this committee to be both productive and gracious. I think they were important to policy formulation, and in leaving, we leave with the greatest of respect for this committee.

I have a prepared statement, Mr. Chairman, but in the interest of time I would be happy to paraphrase it and submit it for the record, if acceptable.

Chairman PATMAN. Without objection, so ordered.

We will also include Secretary Barr's prepared statement in the record along with the supplementary materials.

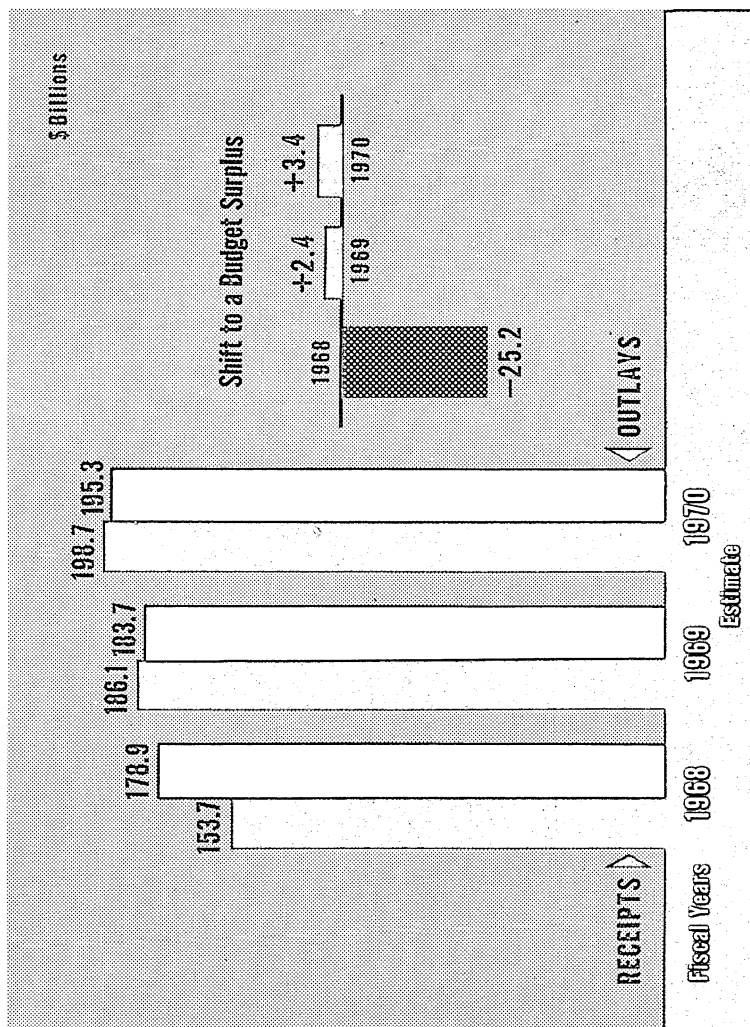
Mr. ZWICK. I would like to make a few comments and work from a set of charts that you have labeled the "1970 Budget Charts." You have some charts also from the Treasury there if you can distinguish between them.

Chairman PATMAN. Would you like to have it in the record at this point?

Mr. ZWICK. Yes.

(The "1970 Budget Charts" referred to follow:)

Budget Totals, 1968-1970



Executive Office of the President / Bureau of the Budget

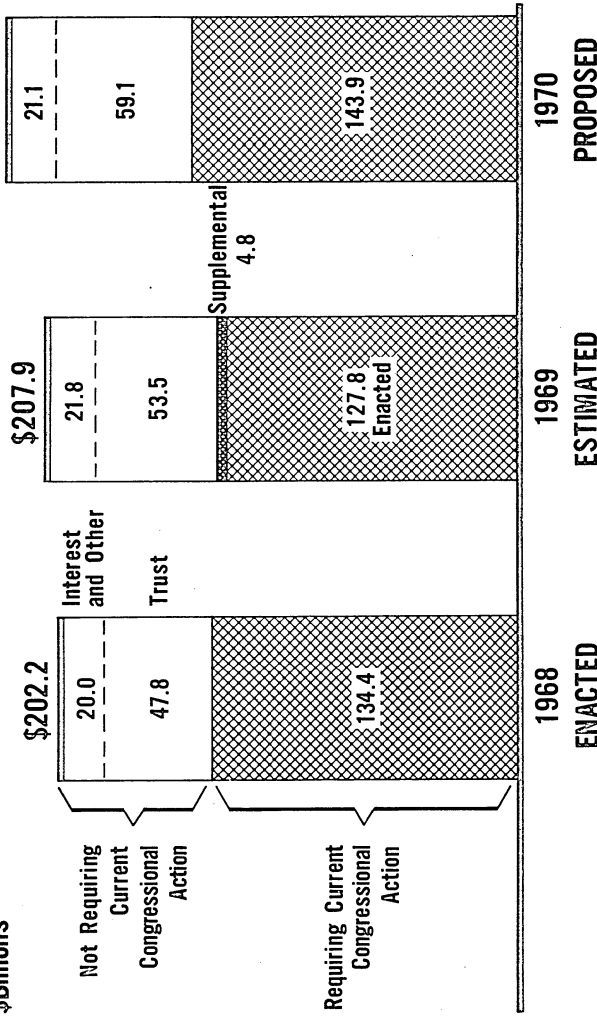
BUDGET AUTHORITY AND OUTLAYS FOR 1969—RELATIONSHIP TO PUBLIC LAW 90—364

\$ Billions

Description	January 1968 estimate	Current estimate	Change
BUDGET AUTHORITY			
Programs excepted from Public Law 90—364 limitation	\$98.4	\$104.6	+\$6.1
Remainder—covered by Public Law 90—364 limitation	103.3	90.1	—13.2
Total budget authority	201.7	194.6	—7.1
BUDGET OUTLAYS			
Programs excepted from Public Law 90—364 limitation	92.6	98.6	+6.0
Remainder—covered by Public Law 90—364 limitation	93.5	85.1	—8.3
Total budget outlays	186.1	183.7	—2.4

Budget Authority

\$Billions



NOTE: Amounts have not been Adjusted for:

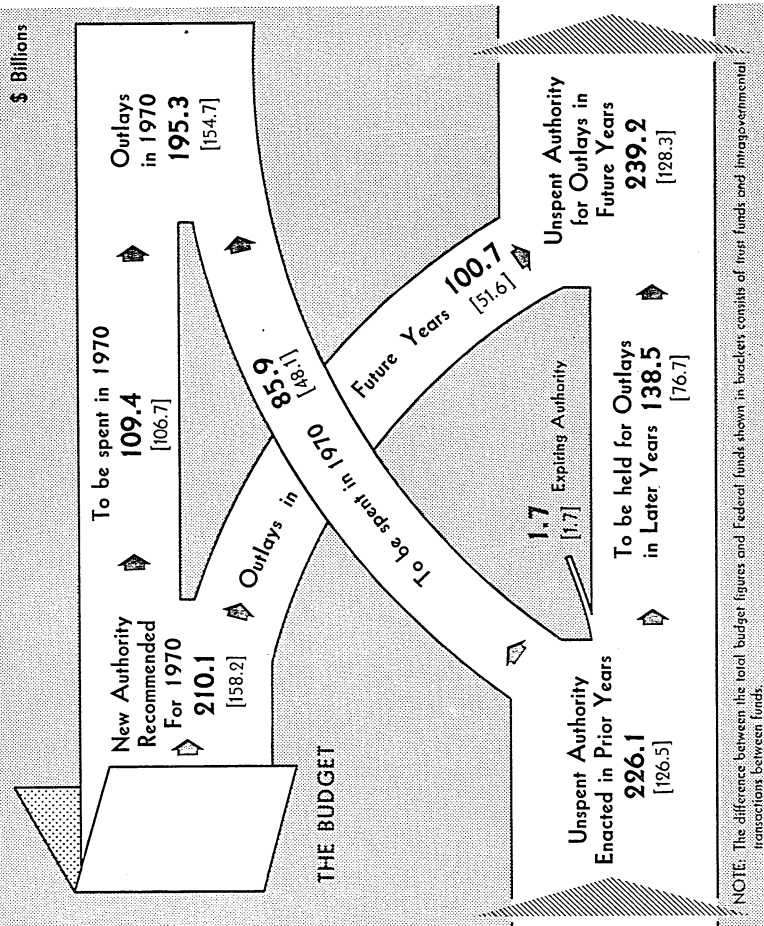
INTERFUND AND INTRAGOVERNMENTAL TRANSACTIONS

PROPRIETARY RECEIPTS FROM THE PUBLIC

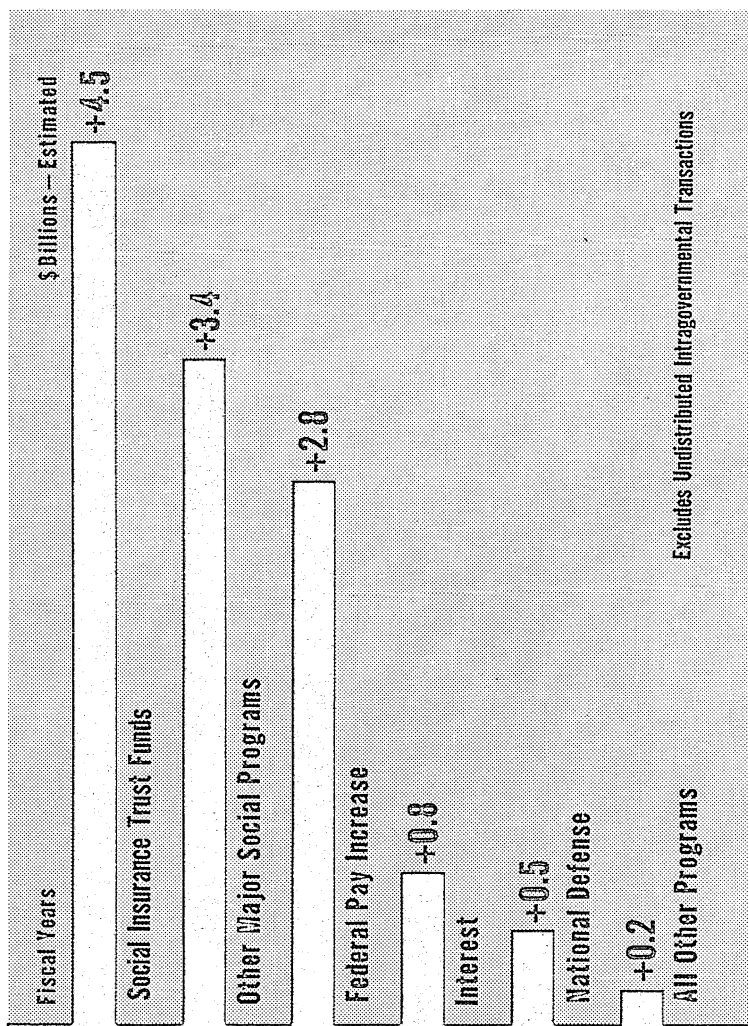
Executive Office of the President • Bureau of the Budget

1970 Budget — Relation of Budget Authority to Outlays

Figures in brackets represent Federal funds only

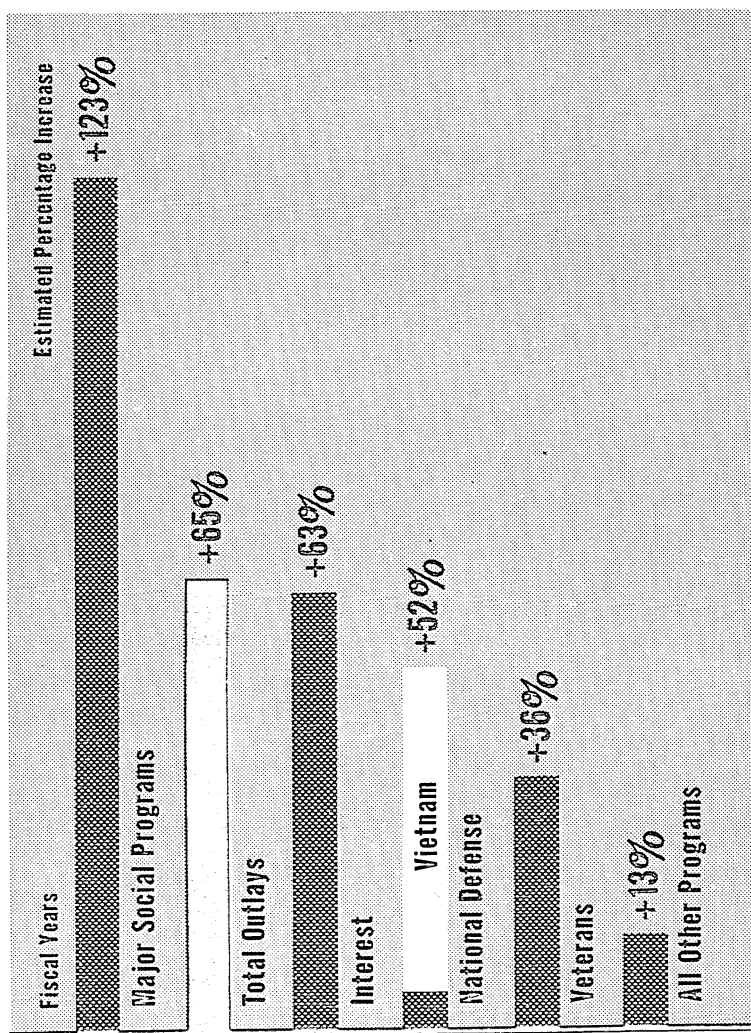


Change in Budget Outlays, 1969-1970



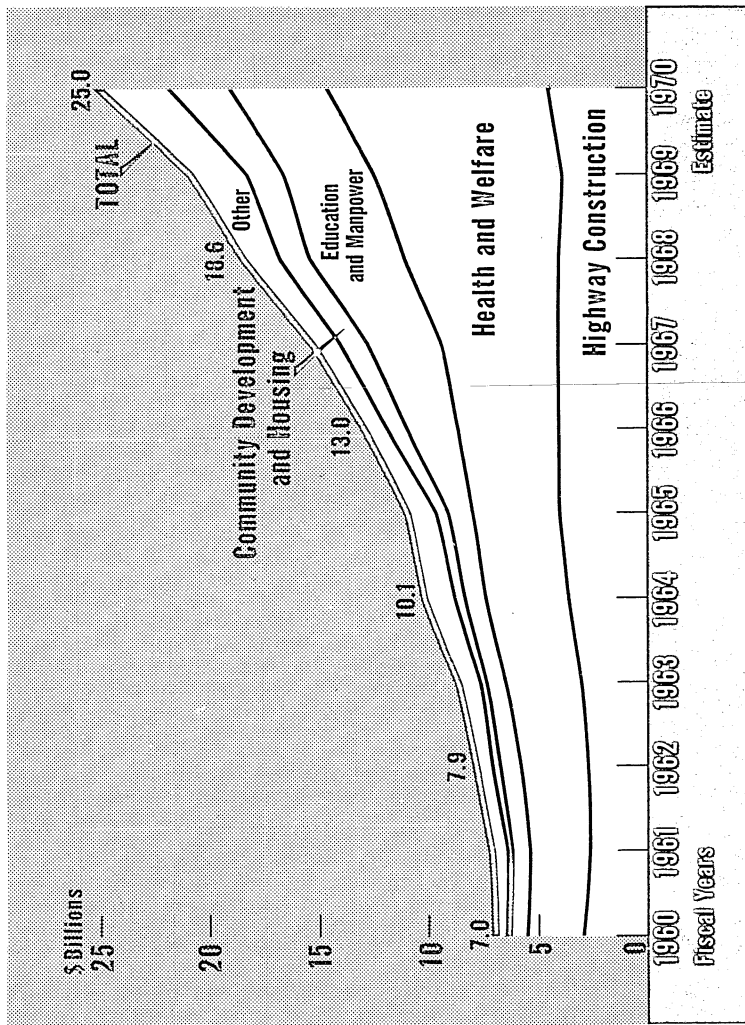
Executive Office of the President / Bureau of the Budget

Trends in Federal Budget Outlays, 1964-1970



Executive Office of the President / Bureau of the Budget

Federal Aid to State and Local Governments



Executive Office of the President / Bureau of the Budget

Secretary BARR. Mr. Chairman, the charts that were presented in my statement, may they be included in the record, too?

Chairman PATMAN. Yes, sir, they may be included with your statement.

Mr. ZWICK. The first chart gives the budget totals and the deficit-surplus situation. I would like to make three quick points with regard to this chart.

First, as the chart shows, there is a desirable turnaround from a big deficit in fiscal 1968 to a surplus for both fiscal years 1969 and 1970. A surplus of \$2.4 billion is predicted for 1969 and another of \$3.4 billion is estimated for fiscal 1970. As my colleagues have said, we believe this is appropriate to the economic and fiscal situation we are now facing.

The second point I would like to make is that the 1969 expenditures and revenue estimates are at this point, we believe, quite firm. We are 6 months through the year. Absent any major events—and, of course, something like a Middle East explosion could change this—but absent any major unforeseen events, we think these are pretty accurate estimates. I first draw your attention to the \$183.7 billion expenditure estimate for fiscal 1969. That compares with the \$186.1 billion we projected a year ago this time and the \$184.4 billion level that we projected in the midyear review last September.

Now, briefly, we have 5 months of objective information available to us, from July through November of this year. On the basis of those 5 months, if you adjust for the seasonality in the agricultural programs and construction programs—for example, the Corps of Engineers spends about 60 percent of its money in the first 6 months of any fiscal year because the work is done in the summer and the bills are paid in the fall—if you adjust for seasonality, outlays have been running in the first 5 months of this fiscal year at a rate of \$181 billion. So, therefore, from here on out, the new administration can have outlays running at a rate of about \$187 billion for the rest of the year and still meet the estimated expenditure level of \$183.7 billion.

Second, we do have a preliminary estimate for Defense for the month of December. It will be about another week before the Monthly Treasury Statement comes out for the month of December but we do have a preliminary estimate for the Defense and military assistance for the month of December. On the basis of that preliminary estimate, we believe that Defense and military assistance expenditures for the first 6 months of this year will be \$38½ billion.

Now, the 1970 budget estimates Defense expenditures for fiscal year 1969 as a whole at \$78.4 billion. In other words, the new administration can spend another \$40 billion and still meet the \$183.7 billion target that we are talking about. So, we think, absent any major change of events, and a continuation of the policies and procedures we have instituted, that the \$183.7 billion is a fairly firm estimate of where we should be coming out in expenditures in 1969.

Similarly, data on 1969 revenues are pretty advanced and, therefore, the \$2.4 billion surplus ought to be a quite good number.

The third point I would like to make with regard to this chart is that if you look at the increase in expenditures over the 2-year period 1968–1970—there has been some distortion in the 1969 figures because of the Revenue and Expenditure Control Act of 1968—if you look

over the 2-year period, 1968 to 1970, you will find that expenditures have gone up from \$178.9 to \$195.3 billion, an increase of \$16.4 billion, or, on the average, \$8.2 billion a year. That is a fairly modest increase, I would say. Of that \$16.4 billion, about \$7 billion is trust fund increases. So, if you subtract out the trust fund increases, you have had an increase over 2 years of a little over \$9 billion for Federal funds, an increase of \$4½ billion a year.

Now, there is something like between 3 and 4 percent growth, about half as fast as the economy is growing. Therefore, this is indeed, in our estimation, a very tight budget.

The second chart, very briefly, is a table which shows what has happened under the Revenue and Expenditure Control Act of 1968 (Public Law 90-364). There were two mandatory provisions, as you are aware, with regard to appropriations and expenditures. One was that appropriations should be cut by at least \$10 billion and the other was that expenditures should be reduced by \$6 billion—in both cases excepting certain programs. The first bank of this table says that the Congress, plus reestimates, accomplished the first requirement of the law. Budget authority for the programs covered by the law is cut by \$13.2 billion, so the administration did not have to take any further actions.

The second bank of figures on the chart says that we are not only cutting \$6 billion but we are cutting \$8.3 billion in the expenditures covered by the law, and that comes about through a series of special circumstances.

At the time of the midyear review, when we appeared before this committee, we were estimating a cutback in expenditures of about \$6½ billion. At that time, as I indicated to you, we were assuming we had to absorb the increased costs of public assistance and CCC payments with the extra large worldwide crop this year.

Subsequent to that, Congress exempted the CCC overruns, the public assistance overruns, and \$100 million for impacted school aid. It also enacted two laws which allowed the banks for cooperatives and the intermediate credit banks to convert to private ownership and therefore fall outside of the budget. The special circumstances associated with all of those actions and other smaller charges brought us up to about an \$8.8 billion reduction in expenditures. We did put some money back into HEW and Agriculture as we promised we would if Congress enacted the exemptions for public assistance and CCC. So the net of all these factors led to an estimated reduction of \$8.3 billion in expenditures.

The next two charts are technical charts on the appropriations process. I would suggest we skip them and go to a fourth chart which gives a breakdown as to what the changes are in the 1969-70 budget situation.

Chairman PATMAN. All of them will be placed in the record.

Mr. ZWICK. Thank you, sir.

Briefly, this chart points out that of the \$11.6 billion increase in outlays between 1969 and 1970, \$4½ billion is in the social insurance trust funds; \$2.9 billion of that increase is under existing law. The remaining \$1.6 billion increase assumes the enactment of the social security improvements that President Johnson recommended both in the state of the Union message and in his budget message.

Outlays for other major social programs are up by \$3.4 billion. The major programs here include Model Cities, JOBS program—job training programs in general, but the JOBS program in specific—the program with the National Alliance of Businessmen, is doubled; it goes from 70,000 positions in 1969 to 140,000 positions in 1970. Medicaid and public assistance are also increasing. Community facilities, health, education, all of these are up from 10 to 15 percent. Feeding programs are also up. Across the board, total food assistance for the poor is up 44 percent from 1969 to 1970.

The other increases, then, are \$2.8 billion for the Federal pay increase coming in July 1969, \$800 million for interest, national defense up \$500 million, and all other programs up \$200 million.

Now, within that \$200 million, however, there are a number of ups and downs. In fact, there are \$2.2 billion of ups and \$2 billion of downs. Programs for crime control are up about 35 percent. Overall, the budget anticipates close to \$900 million for crime control programs.

There are expansions in the highway program, and an expansion in the airports and airways facilities programs, assuming that user charge legislation is passed. We have two elements in the FAA budget: One, about \$45 million that we consider essentially a baseline increase in FAA, and then another \$150 million for airways development contingent on the enactment of user charges to pay for these facilities. So that you do have a number of ups, almost offset by downs for the postal deficit, the space program and other decreases.

But I think this chart indicates the priorities that the Johnson administration has followed in putting this budget together.

Now, the next chart takes a look at the six budgets that President Johnson has submitted during his Presidency. The 1970 budget being his last budget, we thought it was appropriate to summarize the priorities of the entire period, and the result looks very similar to the chart you just looked at. If you look over those six budgets from 1964 through 1970, the total of outlays—the total budget—goes up by 65 percent. Major social programs go up almost twice as fast, 123 percent. Interest is up 63 percent. National defense is up 52 percent, the major part of that being for Vietnam. Veterans programs are up 36 percent. All other programs increased by 13 percent. So, I think the record is quite clear as to the priorities that the Johnson administration has set over the six budgets it submitted.

Lastly, let me say a few words about a subject on which I think there needs to be some clarification—Federal aid to State and local governments. The last chart in this series, I think, indicates quite dramatically the expansion in these aids, going from a \$10.1 billion level in 1964 to a \$25.0 billion level in this budget, a 2½ times increase. Compared with 1969, there is a \$4.2 billion increase in fiscal 1970 for Federal aid to State and local governments.

This has meant a number of things. First, it means that State and local governments are now more dependent than ever on Federal revenues for carrying out their programs. In 1964, approximately 15 percent of the revenues available to State and local governments came from Federal grant programs. That now has increased to 18 percent. So, in other words, almost 20 percent of the money available to State and local governments to carry out their programs comes through

grant-in-aid programs from the Federal Government. There has been a significant increase in these grant programs in recent years.

Second, there has been a major shift from rural to urban areas. I am sorry that Senator Javits is not here, His earlier comments were similar to those in the New York Times editorial yesterday on this subject.

I think if you would look at the Special Analyses volume of the budget you will find a sharply different picture than offered in that editorial. While total grants to State and local governments have gone up significantly, they have gone up even more rapidly to urban areas. Federal grants to metropolitan areas have gone from \$5.6 billion in 1964 to \$16.7 billion in 1970, roughly tripling over this period. In the 1970 budget, 67 percent of Federal aid programs are going to urban areas. That happens to be just about equal to the percentage of the total population that lives in urban areas. So there has been a major shift over these last 5 years in aid programs to urban areas.

Now, you can argue whether this shift has been fast enough or too fast, but there has clearly been a major shift from rural to urban emphasis. In 1964, 55 percent of Federal aid funds went to urban areas. Now 67 percent goes to urban areas.

Lastly, I think it is important to indicate two additional sources of support for urban areas. First, the tax expenditure analysis that Secretary Barr gave you earlier indicated a major investment in urban areas through tax credits, and secondly, the President recommended, and we think this is of critical importance, in his state of the Union message and in his budget message, the creation of an Urban Development Bank, a bank whereby moneys can be raised in the private market and channeled at lower interest rates to urban areas.

So, I think the record is quite clear that there has been a dramatic and important shift to urban areas during this administration. Whether it was enough or too much is obviously a matter on which we probably have as many opinions as we have people in the room. Mr. Chairman, that summarizes my statement.

(The prepared statement of Mr. Zwick follows:)

PREPARED STATEMENT OF DIRECTOR OF THE BUREAU OF THE BUDGET CHARLES J. ZWICK

Mr. Chairman and Members of the Committee, my colleagues have discussed the basic fiscal policy governing our overall tax and program recommendations for the fiscal year 1970. Let me just run through briefly the budget totals and some of the highlights of the budget outlay figures.

Given the uncertain outlook at this time with respect to Vietnam and the continued need for positive action to foster a return to relative price stability, we believe that the appropriate policy is to plan for surpluses in the Federal budget in the current and upcoming fiscal years. As you know, we ran a \$25.2 billion budget deficit in fiscal year 1968. As a result, the Federal Government's borrowing requirements were exerting an extreme upward push on interest rates.

Now, for fiscal year 1969, we expect a sharp swing to a budget surplus of \$2.4 billion. The budget recommendations for 1970 should produce a further surplus of \$3.4 billion, with a restrictive expenditure policy and extension of the income tax surcharge and current automobile and telephone excise tax rates for another year. The fiscal restraint embodied in these surpluses—along with appropriate monetary policy and restraint by business and labor in their price and wage decisions—should contribute to an easing in the upward pressure on interest rates, further improvement in our basic balance of payments position, and a return to a sustainable rate of economic growth.

For fiscal year 1969, our estimates of outlays are, of course, influenced by the restriction placed on us by the limitation on some outlays included in the Revenue and Expenditure Control Act of 1968 (P.L. 90-364). Total outlays in 1969 are now estimated at \$183.7 billion, compared with the \$184.4 billion we estimated last September in our Summer Review of the Budget. Actual data available for the year so far indicate that in the first five months—July through November—outlays ran at an annual rate of \$181 billion, after correcting for the seasonality of agricultural and construction programs. Therefore, we could have a rate of about \$187 billion for the rest of the year, and still hit the budget estimate.

BUDGET TOTALS

[Fiscal years. In billions]

Description	1968 actual	1969 estimate	1970 estimate
Budget receipts.....	\$153.7	\$186.1	\$198.7
Budget outlays.....	178.9	183.7	195.3
Budget surplus (+) or deficit (—).....	—25.2	+2.4	+3.4

We have a preliminary December figure for defense, including military assistance, which gives us a half-year defense total of about \$38.5 billion. The estimate for the entire current fiscal year is \$78.4 billion, so, again, defense could run at a higher rate in the last half of the fiscal year—up to \$40 billion—and we would still make the estimate in the budget.

There are always unknowns in estimating, but all in all, we believe the 1969 estimates are sound. I might just add that for the programs excepted from P.L. 90-364, outlays are now estimated \$6 billion higher than last January's budget. For those covered by P.L. 90-364, we are showing a decline of \$8.3 billion from the original estimate, so that we are achieving the reduction required in the law and allowing leeway for unforeseen increases in the months ahead.

Turing to fiscal year 1970, I think the policy which guided us in our program recommendations can best be summed up by quoting a statement from the President's budget message:

"This Nation can and must bear the cost of the defense of freedom and must at the same time move ahead in meeting the pressing needs we face at home. But caution and prudence require that we budget our resources in a way which enables us to preserve our prosperity, strength the U.S. dollar, and stem the increased price pressures we have experienced in the past few years."

The estimates for 1970 reflect a restrictive expenditure policy generally, and have also had to take into account distortions which have arisen as a result of the ceiling on outlays for 1969, which followed on a statutory percentage formula reduction in agency obligations enacted for 1968. We believed it would be unwise to try to correct these distortions all in fiscal year 1970, and have therefore found if necessary to continue a policy of outlay management in developing our 1970 estimates.

Within these constraints, the budget makes reasonable provision for ongoing programs, including reductions wherever possible, and proposes some selective expansions in urgent domestic activities which the Administration has stressed as a means of improving the lives of all Americans—for example, education, health, manpower training, housing, community development, greater security for the elderly, food assistance, and crime control.

In total, budget outlays are estimated to increase by \$11.6 billion between 1969 and 1970. Of this amount, major social programs will be up by \$7.9 billion, including \$4.5 billion in the social insurance trust funds. A part of the trust fund increase reflects recommended legislation to raise overall social security benefits by 13% effective January 1, 1970, including at least a 10% increase for almost all beneficiaries, an increase in the minimum to \$80 a month, an increase in the earnings limit before benefits are lost, and other improvements in the system. Other than through trust funds, outlays for major social programs are estimated to rise by \$3.4 billion, including—

A doubling of the JOBS program, from 70,000 slots in 1969 to 140,000 in 1970.

A continuation of efforts under the 10-year housing program, with a goal of starting about 500,000 low and moderate income housing units next year.

An increase of over \$450 million for the Model Cities program.

Substantial increases for health, education, welfare, and other community development programs.

Thus, the 1970 budget will maintain the momentum in key social programs, while holding down other parts of the budget.

The Federal pay raise due to take effect in July 1969 accounts for \$2.8 billion of the overall increase. Interest costs will be up by \$0.8 billion, while national defense outlays are estimated to rise by \$0.5 billion, reflecting—for the first time in several years—an increase for forces not committed to Southeast Asia support, substantially offset by reductions in outlays for Vietnam.

Outlays for all other programs will increase, net, by only \$0.2 billion. This net rise reflects both increases—totaling about \$2.2 billion—and decreases—totaling about \$2 billion. Major increases are provided for such activities as the highway program, the recently-enacted safe streets program, and a proposed expansion in our airways system contingent on enactment of increased aviation user charges. Among the decreases are a reduction in the postal deficit based on proposal postal rate adjustments, reductions for Commodity Credit Corporation price support operations and P.L. 480 shipments, and a continued decline in outlays for the space program.

CHANGING STRUCTURE OF FEDERAL BUDGET OUTLAYS

[Fiscal years. In billions]

Program	1964 actual	1968 actual	1969 estimate	1970 estimate	Change 1964-70
National defense.....	\$53.6	\$80.5	\$81.0	\$81.5	+\$28.0
(Special Southeast Asia support).....		(26.5)	(28.8)	(25.4)	(+25.4)
Major social programs:					
Social insurance trust funds (excluding medicare).....	22.7	30.2	33.3	37.2	+14.4
Welfare payments and services.....	3.4	4.6	5.3	6.1	+2.6
Education and manpower training.....	1.6	6.4	6.5	7.2	+5.6
Health (including medicare).....	1.8	9.7	11.4	13.0	+11.2
Low and moderate income housing.....	(1)	.9	.9	1.1	+1.1
Community and regional development.....	.8	1.8	2.4	3.3	+2.4
Subtotal, major social programs.....	30.4	53.7	59.8	67.8	+37.4
Interest.....	9.8	13.7	15.2	16.0	+6.1
Veterans benefits and services.....	5.7	6.9	7.7	7.7	+2.0
All other programs.....	22.1	28.6	25.0	24.9	+2.8
Allowances for pay increase and contingencies.....			.1	3.2	+3.2
Undistributed intragovernmental transactions.....	-2.9	-4.6	-5.1	-5.7	-2.8
Total.....	118.6	178.9	183.7	195.3	+76.7

¹ Less than \$50,000,000.

The priorities implicit in the 1970 budget can be sharpened by looking at the trends in outlays over the 6-year period covering the years of the Johnson Administration budgets. Between 1964 and 1970, total outlays will have risen by 65%. However, within that total, major social programs show an increase of 123%, more than doubling since 1964. This is twice the rate of increase for any other category of Government programs. Interest is up 63% in these years. National defense outlays, including special Southeast Asia support, are up 52%. Veterans benefits and services will have risen by 36% between 1964 and 1970. All the other programs of the Government show a growth of about one-eighth in this 6-year period, clearly reflecting, I believe, the policy of holding down on programs of less urgency and reducing outlays to the extent feasible, while giving highest priority to efforts to meet urgent domestic needs.

In these efforts, the Federal Government is increasingly relying on State and local governments, through rising amounts of Federal financial aid. Grants to State and local governments, are estimated to total \$25 billion in 1970, compared with \$20.8 billion in the current fiscal year. Since 1964, grants have doubled in amount and now make up more than one-fifth of total Federal spending for civilian domestic programs. Federal-aid outlays now represent about 18% of State and local revenues, compared with about 15% in 1964.

Of particular interest is the fact that within the total of Federal grants, there has been a major shift to urban metropolitan areas, where almost two-thirds of all Americans live. A considerable amount of direct Federal outlays goes into these areas in the form of transfer payments to individuals, such as social security benefits, or through construction projects, such as post offices. However, in addi-

tion, Federal grant programs have been increasingly focused on urban areas. In 1964, an estimated \$5.6 billion, or 55%, of total Federal grants to State and local governments went to metropolitan areas. The 1970 budget provides \$16.7 billion for aid to these areas, triple the amount in 1964, and representing about 67% of total Federal grants estimated for 1970.

Looking to the future, the President is recommending establishment of an Urban Development Bank to provide substantial amounts of long-term financing of public facilities in urban communities through the combined efforts of Federal, State, and local governments and private enterprise. This Bank would raise funds primarily by issuing federally guaranteed bonds to the public and, in addition to financial aid, would provide technical assistance to the Nation's urban areas.

In conclusion, I believe that the 1970 budget represents an appropriate response to the fiscal policy requirements for maintaining a healthy and vigorous economy and provides for continuing the progress we have made in meeting both the Nation's military needs and high priority domestic objectives.

Chairman PATMAN. Thank you very much, sir. Without objection, we will continue the traditional policy that this committee has had a long time of recognizing each member for 10 minutes to question our witnesses until each member present has had an opportunity to interrogate the witnesses.

Now, I will ask you gentlemen three questions here and I will ask you to answer them when you go over your transcript of the record of this proceeding. If that is satisfactory, we will save a little time that way.

We have very disturbing distortions in our economy. The excessive level of interest rates, the highest in our history, is threatening the housing industry and the small businessman. It is always the weakest who are hurt by tight money.

Do you not believe, as a responsible public official, that we have to do something about it and do it quickly?

(The following reply was submitted by the Council of Economic Advisers:)

COUNCIL OF ECONOMIC ADVISERS RESPONSE TO CHAIRMAN PATMAN

I would certainly agree that high interest rates and tight money create disturbing economic distortions. As you suggest, these bear down inequitably on particular groups in our economy such as homebuilders and home buyers. The only appropriate remedy and preventive strategy for countering these trends is greater reliance on fiscal policy for economic restraint. Relieving the pressure on financial markets was a key objective of the administration's tax proposals in 1967 and early 1968, and it is an important reason for extending the surcharge this year. If fiscal policy does not provide the needed restraint, tight money may become the only alternative to an inflationary boom which would be even more dangerous and more inequitable.

Under present circumstances, it would be unrealistic to expect a rapid reversal and decline of interest rates. It will take clear and distinct evidence of an economic slowdown to convince both borrowers and lenders that financial conditions will relax and to alter inflationary expectations which tend to raise interest rates. A bipartisan consensus in the Congress on supporting extension of the surcharge would have favorable effects on financial markets. With the stabilization program that we are proposing, the Federal Reserve should be able to reduce the restraint from monetary policy gradually within 1969.

(The following reply was submitted by the Treasury:)

TREASURY DEPARTMENT RESPONSE TO CHAIRMAN PATMAN

Interest rates are extremely high by historical standards. In key areas, they stand well above the peaks reached at the time of the "credit crunch" in 1966. However, while credit is expensive, it is much more generally available than during the 1966 period of stringency. It is hoped that a satisfactory degree of

credit availability can be maintained and that there will be no repetition of the 1966 experience when home financing and construction, as well as other areas of the economy, experienced a heavy burden of adjustment.

The shift to fiscal restraint embodied in the Revenue and Expenditure Control Act of 1968 had as one of its important objectives the maintenance of adequate flows of credit and the avoidance of undue reliance upon monetary tightening. For the present, a degree of monetary and fiscal restraint is required in order to achieve a necessary moderation of inflationary pressure. But, the fiscal measures now in place should gradually ease the existing pressures on credit markets and allow monetary policy a needed degree of flexibility.

The improved Federal financial position resulting from the surcharge and expenditure control will be an important factor easing the strains on private credit markets. On the unified budget basis, there was a net Federal credit demand—borrowing from the public—of \$23.1 billion in fiscal year 1968. In fiscal 1969, there is to be a repayment of \$3.1 billion, and in fiscal 1970 a repayment of \$4.0 billion. The Federal Government has shifted from being a net demander of funds from private credit markets and has become a net supplier of funds. In terms of immediate pressures on the markets, it is particularly significant that between mid-March and June 30 of this year the total public debt will be reduced about \$8 billion. Since the trust funds will be acquiring some debt, the payoff to private markets during this period will exceed \$8 billion by a considerable margin.

In addition to its very important effect on the Federal finances, fiscal restraint is expected to exert a substantial impact on the economy in early 1969. A further moderate slowing in the overall pace of expansion should lead to some scaling down of private credit demands. This would further reduce the degree of pressure being placed on private credit markets.

(The following reply was submitted by the Bureau of the Budget:)

RESPONSE FROM BUDGET DIRECTOR ZWICK TO MR. PATMAN'S QUESTION CONCERNING
INTEREST RATES

During the period of debate about the income tax surcharge, the Administration repeatedly called attention to the unfair burdens which rising interest rates create for small businessmen, farmers, the housing industry, and State and local governments, which depend heavily on the money markets for financing. A major reason for requesting the surcharge was to reduce these burdens. And it is a major reason for proposing, in the 1970 budget, that fiscal restraint be continued through fiscal year 1970.

In the absence of a policy of fiscal restraint, monetary policy would have to carry an undue share of the load of restraining the economy. We learned well in 1966 the consequences of relying too heavily on monetary policy—exceedingly tight credit, soaring interest rates, and inequitable restrictions on those sectors of the economy noted above. With fiscal restraint continuing through fiscal year 1970, a less restrictive monetary policy than is now necessary should be possible, and the high interest rates we are now experiencing should recede as the supply of funds becomes more plentiful relative to the demand for them.

A year ago, the Federal Government was a heavy borrower in the money markets and, thereby, a direct contributor to the upward push on interest rates. This year, and in the year ahead, the Government will be essentially neutral, since outlays in both years will be financed entirely from current revenues.

I would like each of you to comment on that as suggested.

Now, the Urban Development Bank mentioned by the Director of the Budget, I think, is a very interesting proposal and I am very much impressed with it. That will give us an opportunity in considering that proposal to consider whether or not we should have tax-exempt bonds or whether or not the Federal Government should pay the portion that the local communities would benefit from by tax-exempt bonds and get rid of them so it will help our entire economy and raise the amount of taxes very much and help the cause of tax reduction—if it is handled just exactly right and it could result in a much lower scale, lower interest rates for housing loans.

(The following material was subsequently submitted by the Treasury Department in response to Chairman Patman's suggestion:)

The enclosed copy of the draft Urban Development Bank Act of 1969 and the letter transmitting the proposed bill to the Speaker of the House are provided in further response to the question raised by Chairman Patman. Enclosed also are excerpts from three addresses by Under Secretary Deming and an address by Assistant Secretary Surrey bearing on the Urban Development Bank proposal. As stated in the letter transmitting the Urban Development Bank proposal to the Congress, the funds appropriated for payments to the Bank to reduce the Bank's lending rate would not involve a net cost to the Federal budget. Added tax revenues stemming from the fact that the Bank would issue taxable securities would offset the cost of the payments made to the Bank.

Also, as stated in the transmittal letter, the tax exempt market would continue to be available to State and local governments as a source of financing after the Urban Development Bank is established. Indeed, by tapping a broader segment of the capital market for loan funds to finance the public facilities needs of State and local governments, the Bank, by its operations, will reduce the growing pressure on the tax exempt market, and therefore indirectly help those governmental bodies which continue to utilize tax exempt securities to finance their capital needs.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE SECRETARY,
January 17, 1969.

HON. JOHN W. MCCORMACK,
Speaker of the House of Representatives, Washington, D.C.

DEAR MR. SPEAKER: Enclosed are five copies of a proposed bill "To establish an 'Urban Development Bank' to assist in broadening the sources and decreasing the cost of capital funds for State and local governments." Also enclosed are five copies of a section-by-section summary of the bill.

This proposed legislation would implement recommendations made by the President in the State of the Union and Budget messages. Enactment of the legislation will help the Nation, through a partnership of Federal, State and local governments, working with private enterprise, to move forward to meet the massive needs of our cities and their people.

It is now clear that we are undergoing a tremendous expansion in borrowing by State and local governments for capital expenditures. It is estimated that in the next ten years State and local governments may need to borrow over \$200 billion to finance essential public facilities the communities of the Nation must have to provide a suitable living environment for their citizens.

A consensus of concern has arisen over the capacity of the capital markets, as now structured, to cope with the essential credit needs of State and local governments. Even at present levels of borrowing, the municipal bond market is strained from time to time and is not efficient and effective:

- interest rates are inordinately high on State and municipal obligations;
- maturities are unrealistically short for many development projects;
- the range of investors is narrow, primarily commercial banks, and the market is particularly inadequate in times of credit stringency;
- the rating system denies many communities the financing they need for essential facilities on reasonable terms; and
- smaller communities whose issues are in small amounts or are not familiar to investors find no market.

These defects in the existing market can be expected to be magnified by many times in future years as State and municipal government credit needs increase and indeed may render the adequate financing of State and local public facilities impossible. We believe it should be a prime national concern to assure the continued availability of private financing for State and local capital needs. This proposed legislation is designed to expand the capital market available to States and localities by providing an additional financial mechanism which will help them to secure, on reasonable terms, the financing they need to enable them to construct essential public facilities. It would establish a federally chartered bank—an Urban Development Bank—to finance the capital cost of State and local government public works and community facilities.

The activities of the Bank would be directed by a 17-member Board of Directors, the Chairman of which would be the president of the Bank. This official

would be appointed by the President of the United States by and with the advice and consent of the Senate. The other 16 members of the Board of Directors would consist of not more than three Federal officials or employees appointed by the President of the United States; three representatives of local or State governments appointed by the President of the United States; and ten directors elected by three distinct groups of stockholders in the bank. Of these ten elected directors, four would be elected by State stockholders, four by local governments, and two by private corporations and individuals who subscribe to stock in the Bank.

An initial Board of Directors, to serve at least one year, would be appointed by the President of the United States, by and with the advice and consent of the Senate. Members of this initial Board of Directors would represent Federal, State, local and private interests.

The Bank would secure funds necessary to finance its lending activities by selling its obligations in the private capital markets. To help protect holders of the Bank's obligations against possible losses of principal and interest and to assure the Bank adequate access to the capital market at reasonable interest rates, the Bank would also be authorized to borrow from the Treasury. This is the highly successful approach initially used to insure investor confidence in the Federal National Mortgage Association.

Interest on obligations sold by the Bank to finance its lending activities would be fully taxable. To enable the Bank to lend to State and local governmental bodies at favorable interest rates, however Federal payments would be made to the Bank to cover the difference between the Bank's borrowing cost and the amount of interest it receives on its loans.

The amount of those payments and the volume of Bank lending would be controlled by the Congress. The funds appropriated for payments to the Bank to reduce the Bank's lending rate, however, would not involve a net cost to the Federal budget. Added tax revenues stemming from the fact that the Bank would issue taxable securities would offset the cost of the payments made to the Bank.

The tax exempt market would continue to be available to State and local governments as a source of financing after the Urban Development Bank is established. Indeed, by tapping a broader segment of the capital market for loan funds to finance the public facilities needs of State and local governments, the Bank, by its operations, will reduce the growing pressure on the tax exempt market, and therefore indirectly help those governmental bodies which continue to utilize tax exempt securities to finance their capital needs.

The Bank would serve as an instrument to advance the welfare of our Nation's citizens while permitting each State and local government to pursue its developmental policies in the manner it deems best suited to the needs of its citizens. We believe this proposal exemplifies creative federalism at its best. The mechanism it creates to meet a national problem enlists the financial support and participation of all levels of government—Federal, State and local—as well as the private sector in a joint enterprises to enable communities to provide needed public facilities.

In summary, we believe creation of the Bank will further three broad purposes—

First, and foremost, it will make possible a greater allocation of capital to the development of needed public facilities.

Second, it will help to stimulate the construction of public facilities which will contribute to economy, efficiency and the comprehensively planned development of the area in which the facility is to be located.

Finally, it should help prevent disruption of the capital markets likely to result from the efforts of State and local governments to borrow funds to finance the large increase in public facilities expenditures which will take place in the next decade.

The financial problems of our State and local communities are both urgent and growing. The early establishment of an Urban Development Bank is both feasible and desirable. We recommend early action by the Congress.

The Bureau of the Budget advised on January 16, 1969 that there is no objection to the submission of this draft legislation to the Congress and that its enactment would be in accord with the program of the President.

Sincerely yours,

JOSEPH W. BARR,
Secretary of the Treasury.

ROBERT C. WOOD,
Secretary of Housing and Urban Development.

A BILL To establish an Urban Development Bank to assist in broadening the sources and decreasing the costs of capital funds for State and local governments, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Urban Development Bank Act of 1969."

FINDINGS AND DECLARATION OF PURPOSE

SEC. 2(a). The Congress hereby finds and declares that the sound and orderly development of the Nation's communities, as well as the creation of new communities and the expansion and enlargement of existing communities which must take place to accommodate our growing population, requires the adequate and timely provision of a wide variety of public works and community facilities, such as streets, water, sewers, schools, hospitals, libraries, airports, facilities for liquid and solid waste disposal, mass transit, recreation and other facilities which serve community needs.

The Congress further finds that the sources of funds currently available to State and local government to finance such public works and facilities are already strained and that there will be an increasing demand for such funds as State and local governments seek to meet their growing need for public works and facilities.

The Congress further finds that to meet the anticipated financial needs of our growing communities will require the full mobilization of the resources and skills of all levels of government, State, local and Federal, as well as the private sector in a coordinated and joint effort and that public investment in our Nation's communities, when efficiently planned and carried out, will add to the wealth of individual communities as well as of the Nation.

(b) It is the purpose of this Act to establish, with State and local governments and the private sector, an Urban Development Bank to make long-term development loans and to provide technical assistance to State and local governments and their agencies to help them meet needs for essential public works and community facilities, including the acquisition of land necessary thereto.

CREATION OF BANK

SEC. 3. There is hereby created a body corporate to be known as the Urban Development Bank, which shall have succession until dissolved by Act of Congress. The Bank, which shall not be an agency of the United States Government, shall maintain such offices as may be necessary or appropriate in the conduct of its business.

BOARD OF DIRECTORS

SEC. 4(a). The Bank shall have a board of directors which shall consist of seventeen persons, one of whom shall be the president of the Bank. The President of the United States, by and with the advice and consent of the Senate, shall appoint six directors, not more than three of whom shall be officers or employees of the United States and three of whom shall be persons identified with or representative of State or local government. Of the remaining members of the board, four shall be elected by the class A stockholders, four shall be elected by the class B stockholders, and two shall be elected by the class C stockholders. If at the time of any election of directors the aggregate par value of outstanding class C stock is less than \$50 million, the President shall appoint one class C director, who shall be identified with or representative of persons qualified to subscribe for class C stock.

(b) Those directors who are officers or employees of the United States shall serve at the pleasure of the President and until their successors have been appointed and have qualified. Each such director may designate an alternate who shall be an officer or employee of the United States, to serve as director in his absence. The remaining directors shall each be appointed or elected for a term ending on the date of the next annual meeting of the common stockholders of the Bank. Any appointive seat on the board which becomes vacant shall be filled by appointment of the President. Any elective seat on the board which becomes vacant after the annual election of the directors shall be filled by the board, but only for the unexpired portion of the term. Any director who is a full-time officer or employee of the United States shall not receive compensation for his services as director.

(c) The board of directors shall meet at the call of its chairman, who shall require it to meet not less often than once each month.

(d) The President, by and with the advice and consent of the Senate, shall appoint a president of the Bank, who shall serve at the pleasure of the President. The president shall be chairman of the board of directors. Subject to the general policies of the board, the management of the Bank shall be vested in the president and he shall be the chief executive officer of the bank.

INITIAL BOARD OF DIRECTORS

SEC. 5. The initial members of the board of directors shall be appointed by the President, by and with the advice and consent of the Senate, for an initial term ending on the date of the first annual meeting of the common stockholders of the Bank representing all classes of common stock, but not less than one year. Members of the board appointed by the President for such terms shall be representative of Federal, State, local, and private interests.

INITIAL EXPENSES

SEC. 6. In order to facilitate the formation of the Bank, the Secretary of Housing and Urban Development is authorized to pay initial organizing and operating expenses. There is authorized to be appropriated a sum not to exceed \$1,000,000, which sum shall be available for the purposes of this section for a period of three years from the date of enactment of this Act.

FUNCTIONS

SEC. 7(a). The Bank is authorized, subject to the provisions of this section, to make commitments to purchase and to purchase, service, or sell, on terms and conditions determined by the Bank, any obligation or participation therein, of a State or local government.

(b) Loans made by the Bank shall be in accordance with sound and prudent development banking principles. No commitment shall be entered into, and no purchase shall be made, unless the Bank determines that the proceeds of any such purchase will be used by the borrower to finance capital expenditures for public works and community facilities serving community needs.

(c) The Bank shall develop criteria to assure that projects assisted by it are not inconsistent with comprehensive planning for the development of the community in which the projects to be assisted will be located or disruptive of Federal programs which authorize Federal assistance for the development of like or similar categories of projects.

(d) Any loan made pursuant to this section may be in an amount not exceeding the total capital cost of the project to be financed with the loan; shall be secured in such manner and be repaid in such period, not exceeding 40 years, as may be determined by the Bank; and shall bear interest at a rate determined by the Bank which shall not be less than two-thirds the current average yield on outstanding obligations of the Bank as of the last day of the month preceding the date on which the loan is made.

COMMON STOCK

SEC. 8(a). The Bank shall have common stock, having a par value of \$1,000 per share, which shall be divided into three classes—

(1) Class A stock, which shall not be transferable, to be issued by the Bank from time to time to each local government which is a member of the bank to evidence any capital subscriptions made by such member as required by subsection (e), and to be subscribed for in any amount by any local government;

(2) Class B stock, which shall not be transferable, to be issued by the Bank from time to time to each State which is a member of the Bank to evidence any capital subscriptions made by such member as required by subsection (e), and to be subscribed for by the States in any amount but not less than an amount for any State which bears the same proportion to \$100,000,000 as the population of that State bears to the population of all States; and

(3) Class C stock to be subscribed for by any private individual, partnership, corporation, foundation, society, association, or other organization, profit or nonprofit, in an amount at any time of not less than 10 shares.

(b) All classes of common stock shall be vested with all voting rights, each share being entitled to one vote with rights of cumulative voting at all elections of directors, except that any class C stock held by a stockholder in excess of 1,000 shares shall be nonvoting.

(c) Class B stock, except stock issued in return for capital subscriptions required by subsection (e), may be subscribed for upon payment of one-fifth of the price, with the remainder payable in equal installments over the succeeding four years.

(d) All moneys received by the Bank in return for its common stock shall be accumulated in a capital surplus account. All net earnings from the operations of the Bank shall annually be transferred to its general surplus account. Such dividends as may be declared shall be paid by the Bank to the holders of its common stock and shall be charged against the general surplus account, but in any one fiscal year dividends shall not exceed 6 per centum of the par value of the common stock issued and outstanding and shall be payable out of the net earnings of the Bank for that year.

(e) Each seller of obligations to the Bank pursuant to section 7 shall be a member of the Bank and shall be required to make payments of nonrefundable capital subscriptions, equal to not more than 2 per centum nor less than 1 per centum of the principal amounts of obligations purchased or to be purchased by the Bank from such seller. In addition, the Bank may impose charges or fees for its services with the objective that all costs and expenses of its operations should be within its income derived from such operations.

OBLIGATIONS OF THE BANK

Sec. 9(a). The Bank is authorized, with the approval of the Secretary of the Treasury, to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the Bank. Such obligations may be redeemable at the option of the Bank before maturity in such manner as may be stipulated therein. The aggregate amount of obligations of the Bank outstanding at any one time shall not exceed \$2,000,000,000, which amount shall be increased by \$5,000,000,000 on July 1, 1970, and by \$5,000,000,000 on July 1 of each of the three succeeding years. The Bank shall insert appropriate language in all of its obligations issued under this subsection clearly indicating that such obligations, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the Bank. The Bank is authorized to purchase in the open market any of its outstanding obligations.

(b) In addition to the obligations of the Bank authorized to be outstanding in subsection (a) of this section, the Bank is authorized to issue obligations to the Secretary of the Treasury. The Secretary of the Treasury is authorized to purchase any such obligations in order to insure the financial integrity of the operations of the Bank, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act as now or hereafter in force, are extended to include such purchases. Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturities. The Secretary of the Treasury may sell, upon such terms and conditions and at such price or prices as he shall determine, any of the obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations under this subsection shall be treated as public debt transactions of the United States.

FEDERAL PAYMENTS TO THE BANK

Sec. 10(a). With respect to such amounts of loans of the Bank as may be specified in Appropriation Acts, the Secretary of Housing and Urban Development is authorized to make, and to contract to make, annual payments to the Bank in such amounts as are necessary to equal the amount by which the dollar amount of interest paid by the Bank on account of its obligations exceeds the

dollar amount of interest received by the Bank on account of loans made by it pursuant to section 7 of this Act.

(b) There are hereby authorized to be appropriated to the Secretary of Housing and Urban Development such sums as may be necessary to carry out the provisions of the Act, including such sums as may be necessary to make the annual payments required by contracts entered into by the Secretary pursuant to subsection (a) of this section.

GENERAL POWERS

SEC. 11. The Bank shall have power:

(a) To sue and be sued, complain and defend, in its corporate name and through its own counsel.

(b) To adopt, alter, and use the corporate seal, which shall be judicially noticed.

(c) To adopt, amend, and repeal by its board of directors bylaws, rules, and regulations as may be necessary for the conduct of its business.

(d) To conduct its business, carry on its operations, and have offices and exercise the powers granted by this Act in any State without regard to any qualification or similar statute in any State.

(e) To lease, purchase, or otherwise acquire, own, hold, improve, use or otherwise deal in and with any property, real, personal or mixed, or any interest therein, wherever situated.

(f) To accept gifts or donations of services, or of property, real, personal or mixed, tangible or intangible, in aid of any of the purposes of the Bank.

(g) To sell, convey, mortgage, pledge, lease, exchange and otherwise dispose of its property and assets.

(h) To appoint such officers, attorneys, employees and agents as may be required, to determine their qualifications, to define their duties, to fix their salaries, require bonds for them and fix the penalty thereof.

(i) To enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

TECHNICAL ASSISTANCE

SEC. 12. (a) The Bank is authorized to provide technical assistance to State and local governments in the preparation and implementation of comprehensive development projects and programs, including the evaluation of priorities and the formulation of specific project proposals. The Bank may charge appropriate fees for its services under this subsection.

(b) The Bank is also authorized to undertake research and information gathering, and to facilitate the exchange of advanced concepts and techniques relating to municipal growth and development among State and local governments.

AUDIT OF FINANCIAL TRANSACTIONS

SEC. 13. The financial transactions of the Bank shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States. The audit shall be conducted at the place or places where the accounts are normally kept. The representatives of the General Accounting Office shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Bank and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians.

The expenses of any audit performed under this section shall be borne out of appropriations to the General Accounting Office, and appropriations in such sums as may be necessary are authorized. The Bank shall reimburse the General Accounting Office for the full cost of such audit as billed therefor by the Comptroller General, and the General Accounting Office shall deposit the sums so reimbursed into the Treasury as miscellaneous receipts.

AUDIT REPORT TO CONGRESS

SEC. 14. A report of each such audit for a fiscal year shall be made by the Comptroller General to the President and to the Congress and not later than six months following the close of such fiscal year. The report shall set forth the

scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep Congress informed of the operations and financial condition of the Bank, to gether with such recommendations with respect thereto as the Comptroller General may deem advisable, including a report of any impairment of capital or lack of sufficient capital noted in the audit. A copy of each report shall be furnished to the Secretary of Housing and Urban Development, the Secretary of the Treasury, and to the Bank.

TAX EXEMPTION

SEC. 15. The Bank, its property, its franchise, capital, reserves, surplus, security holdings, and other funds, and its income shall be exempt from all taxation now or hereafter imposed by the United States or by any State or local taxing authority; except that (1) any real property and any tangible personal property of the Bank shall be subject to Federal, State, and local taxation to the same extent according to its value as other such property is taxed and (2) any and all obligations issued by the Bank shall be subjected both as to principal and interest to Federal, State, and local taxation to the same extent as the obligations of private corporations are taxed.

OBLIGATIONS AS LAWFUL INVESTMENTS, ACCEPTANCE AS SECURITY

SEC. 16. All obligations issued by the Bank shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under authority or control of the United States or of any officer or officers thereof. All stock and obligations issued by the Bank pursuant to this Act shall be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission, to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States.

PREPARATION OF OBLIGATIONS

SEC. 17. In order to furnish obligations for delivery by the Bank, the Secretary of the Treasury is authorized to prepare such obligations in such form as the board of directors may approve, such obligations when prepared to be held in the Treasury subject to delivery upon order by the Bank. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Bank shall reimburse the Secretary of the Treasury for any expenditures made in the preparation, custody, and delivery of such obligations.

UNITED STATES NOT LIABLE

SEC. 18. The United States shall not be liable for any debts, defaults, acts, or omissions of the Bank.

ANNUAL REPORT

SEC. 19. The Bank shall, as soon as practicable after the end of each fiscal year, transmit to the President and the Congress an annual report of its operations and activities.

AMENDMENTS RELATING TO FINANCIAL INSTITUTIONS

SEC. 20. (a) The sixth sentence of the seventh paragraph of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by inserting "or obligations of the Urban Development Bank," immediately after "or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association,".

(b) Section 5200 of the Revised Statutes, as amended (12 U.S.C. 84), is amended by adding at the end thereof the following new paragraph: "(14) Obligations of the Urban Development Bank shall not be subject to any limitation based upon such capital and surplus."

(c) The first paragraph of section 5(c) of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464(c)), is amended by inserting "or in obligations

of the Urban Development Bank;" in the second proviso immediately after "any political subdivision thereof;"

(d) Paragraph (2) of section 14(b) of the Federal Reserve Act, as amended (12 U.S.C. 355) is further amended by inserting "or any obligation of the Urban Development Bank" immediately before the period at the end thereof.

DEFINITIONS

SEC. 21. As used in this Act—

(a) The term "Bank" means the Urban Development Bank created by section 3 of this Act.

(b) The term "State" means the States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Trust Territory of the Pacific Islands, or any agency or instrumentality of a State.

(c) The term "local government" means any county, municipality, or other political subdivision of a State, or agency or instrumentality thereof, or any school or other special district created by or pursuant to State law.

(d) The term "member of the Bank" means and State or local government which has sold its obligations to the Urban Development Bank pursuant to section 7 of this Act.

(e) The term "obligation" means any bond, note, debenture, or other instrument evidencing debt.

SEPARABILITY

SEC. 22. If any provision of this Act or the application thereof to any person or circumstance, is held invalid, the validity of the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected.

AUTHORIZATION FOR APPROPRIATIONS

SEC. 23. There are authorized to be appropriated, without fiscal year limitation, such sums as may be necessary to carry out the purposes of this Act.

SECTION-BY-SECTION SUMMARY OF THE URBAN DEVELOPMENT BANK ACT OF 1969

Section 1: This section provides for the Act to be cited as the "Urban Development Bank Act of 1969."

Section 2. Findings and declaration of purpose.—This section states the findings that the sound and orderly development of our Nation's communities requires the timely provision of a wide variety of public works and community facilities and that the present source of capital funds to finance these projects is inadequate, and states the purpose of the Act to establish an Urban Development Bank to make long-term development loans at reasonable interest rates and to provide technical assistance to State and local governments to help them meet needs for public works and community facilities.

Section 3. Creation of Banks.—This section would establish the Urban Development Bank as a non-Federal corporation and would authorize the Bank to establish regional or metropolitan offices.

Section 4. Board of Directors.—This section would provide for a 17-member board of directors to consist of the president of the Bank, not more than three Federal officials or employees appointed by the President, three members appointed by the President representative of State or local government, four members elected by local governments holding class A stock of the Bank, four members elected by the States holding class B stock, and two members elected by private persons or organizations holding class C stock. Class C stockholders would elect only one director if their aggregate holdings were less than \$50 million, the President to appoint the remaining director. The term of non-Federal members would be one year, and members who were Federal officials would serve at the pleasure of the President. The board would meet at least monthly and would determine general policies of the Bank. The president of the Bank would be appointed by the President and would be chairman of the board of directors.

Section 5. Initial Board of Directors.—This section would authorize the President to appoint all directors for an initial term until all classes of common stock were represented, but not less than one year. The President's appointments would be representative of Federal, State, local, and private interests.

Section 6. Initial expenses.—This section would authorize an appropriation not exceeding \$1 million, to remain available for three years, for the Secretary of Housing and Urban Development to pay initial organizing and operating expenses of the Bank.

Section 7. Functions.—This section would authorize the Bank to make loans, or participations in loans, to a State or local government to finance capital expenditures for public works and community facilities. Loans could not exceed the capital cost of the project, have a maturity exceeding 40 years, or an interest rate less than two-thirds the current average yield on the Bank's outstanding obligations. Projects financed by the Bank would not be inconsistent with comprehensive planning for the community, or disruptive of Federal programs assisting similar or like projects.

Section 8. Common stock.—This section would provide for three classes of common stock, class A to be issued to local governments; class B to be subscribed for the States; and class C to be subscribed for by private individuals and organizations, in a minimum of \$10,000. Each share of stock would be entitled to one vote, except that any class C stock held by one person in excess of \$1,000,000 would be non-voting. Borrowers from the Bank would be required to make non-refundable capital subscriptions in amounts of not less than 1 nor more than 2 percent of the amount of the loan. The Bank would be authorized to impose fees for its services to meet costs and expenses. Dividends declared by the Bank, limited to six percent annually, could be paid to the stockholders out of any net earnings.

Section 9. Obligations of the Bank.—This section would authorize the Bank to raise funds through the issuance of bonds or other debt instruments. The Bank's issues would be required to receive the prior approval of the Secretary of the Treasury. Obligations issued by the Bank would state that they are not guaranteed by the United States and do not constitute an obligation of the United States. The aggregate amount of outstanding obligations would be limited to \$2 billion, which amount would be increased by \$5 billion on July 1, 1970, and by \$5 billion on July 1 of each of three succeeding years. In addition to these obligations, the Bank could issue other obligations which the Secretary of the Treasury would be authorized to purchase in order to insure the financial integrity of the operations of the Bank.

Section 10. Federal payment to the Bank.—This section would authorize the Secretary of Housing and Urban Development to make, and to contract to make, annual payments to the Bank in amounts necessary to equal the amount by which the dollar amount of interest paid by the Bank on its obligations exceeds the dollar amount of interest received by the Bank on loans made by it. For this purpose, the amount of loans that could be made by the Bank would be approved in Appropriation Acts.

Section 11. General powers.—The section would provide the Bank with general corporate powers.

Section 12. Technical assistance.—This section would authorize the Bank to render technical assistance to State and local governments in the preparation and implementation of projects, and to gather and facilitate the interchange of advanced concepts relating to municipal development.

Section 13. Audit of financial transactions.—This section would require the financial transactions of the Bank to be audited by the General Accounting Office. The Bank would reimburse the Government for the cost of any audit.

Section 14. Audit report to Congress.—This section would require a report of each audit to be made by the Comptroller General to the President and the Congress, with copies of each report to the Secretary of Housing and Urban Development, the Secretary of the Treasury, and the Bank.

Section 15. Tax exemption.—This section would generally exempt the Bank and its income from all taxes. However, any real and personal property of the Bank would be subject to taxation and all obligations issued by the Bank would be subject both as to principal and interest to Federal, State, and local taxation to the same extent as obligations of private corporations.

Section 16. Obligations as lawful investments, acceptance as security.—This section would make obligations issued by the Bank lawful investments and acceptable as security for all fiduciary, trust, and public funds, and its stock exempt from SEC requirements.

Section 17. Preparation of obligations.—This section would authorize the Secretary of the Treasury to prepare, hold, and deliver obligations for the Bank on a reimbursable basis.

Section 18. United States not liable.—This section provides that the United States shall not be liable for any debts, defaults, acts, or omissions of the Bank.

Section 19. Annual report.—This section would require the Bank to transmit to the President and Congress an annual report of its operations and activities.

Section 20. Amendments relating to financial institutions.—This section would permit Federal Reserve banks, national banks, and Federal savings and loan associations to invest in or deal in obligations of the Bank.

Section 21. Definitions. This section would provide definitions.

Section 22. Separability.—This section would make the provisions and validity of the Act separable if any provision is held invalid.

Section 23. Authorization for appropriations.—This section would authorize appropriations necessary to carry out the purposes of the Act.

EXCERPT FROM REMARKS BY HON. FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS AT THE NATIONAL CONVENTION OF THE BANK ADMINISTRATION INSTITUTE, ATLANTA, GA.

THE SHORT AND LONG OF IT

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Financing public requirements over the longer term

The preceding discussion clearly suggests that, over the near-term future, the pressure on the securities market exerted by the public section should, in the aggregate, diminish very markedly. The technical task of financing these requirements, moreover, should not present undue difficulties.

When we look ahead to the longer term, however—for the next ten years or beyond—the picture is different. For here, the financing requirements that can be envisaged are truly formidable, and there is a pressing need for finding more imaginative and efficient means of mobilizing the needed capital.

The area that presents the greatest challenge relates to the financing of what I call the infrastructure for social welfare. In this area, needs have risen with dramatic force in the recent past—and promise to advance even more sharply in the years ahead. I include in this category urban redevelopment and renovation of ghettos, enlargement of public housing, restructuring of public transportation facilities, combatting air and water pollution, and enlarged and improved education and health facilities.

Some of these tasks involve continuation of past activities. Others are essentially new in character. But, in the total, the magnitude of the financing requirements will be massive. It may almost be said that the change in quantity is prospectively so great as to make the financing problem a change in kind, as well as in amount.

Some of the activities I have cited may be undertaken and financed entirely by State and local governments. Some others may be wholly within the sphere of Federal responsibility. But, for the most part, these activities will require some form of Federal assistance to, and Federal partnership with, the State and local governments.

What is needed now—and is, indeed, beginning to take place—is a searching and comprehensive look as to how this partnership can be developed in the most effective and satisfactory fashion. It will require a proper balance between orderly over-all direction and financial discipline and ample scope for local independence and flexibility. It will call for broad decisions on the absolute and relative amounts of the new needs to be financed directly from taxation and the extent to which they can be met initially by borrowing. Where taxation is involved, an optimum sharing of the burden between the Federal Government and States and localities is required. In the case of borrowing, questions arise as to the optimum mix between direct Federal borrowing, traditional State and local debt financing, and resort to other, and partly new, types of borrowing arrangements.

In all cases, there is a need to search for the most efficient, economical, and equitable means of financing—means that will optimize the benefits and minimize the overall costs to the taxpayer, means to permit the raising of funds in the capital markets at the lowest cost feasible, and means that can be flexibly adapted to changing needs. And, in my judgment, it is important that the

financing procedure be clear and visible, so that intelligent choices among alternative methods can be made and subsidy elements can be clearly identified.

Let me concentrate here on those spending needs that are likely to be financed, at least in the first instance, largely through the issuance of debt, rather than by tax funds. Clearly, a major share of the emerging needs will have to be financed in this way. That does not mean, of course, that the Federal share can be met without a significant contribution from the tax side. This tax-financed contribution may come about in the form of debt service grants, involving payments of interest or of capital—or both—on locally issued debt; it may entail outright tax-financed Federal subsidies granted for projects that also require large public borrowing; it may result simply because States and localities can issue tax-exempt securities.

How large are the capital needs of the types considered here that are likely to arise over the next few years? How can they best be financed? And what impact is such financing likely to exert on capital markets generally?

The magnitude of the task

In 1947, net State and local debt was less than \$15 billion. By 1957, it had grown to \$47 billion; and, last year, it stood at \$113 billion. A mere continuance of this growth trend would raise the level of outstanding State and local debt ten years from now my about \$120 billion—to a level of \$240 billion.

But this is only part of the story. On top of the normal growth projected, it appears that there will be a very substantial increase in State and local debt as a result of new and expanded programs involving Federal financial assistance. Estimates of the likely magnitude of this increase vary widely, not only because the costs of different programs to solve our urgent social and environmental problems are often very difficult to project, but also because of different assessments as to how fully the States and localities will actually seek to meet these problems.

Let me just cite one type of calculation that illustrates this point. In 1968, the Congress enacted, or came close to enacting, provision for Federal capital assistance in the form of debt service grants for a series of new or greatly expanded State and local programs. It is useful to look at the Congressional authorizing legislation for such assistance and then to calculate what it implies for the growth of State and local debt financing.

For example, Congress authorized additional debt service grants for public housing of \$150 million a year for the next two years. This will make possible a total of about \$3 billion a year in additional local debt financing for this purpose. If one assumes that additional Congressional authorizations will be maintained at the same level over the next decade, the total added debt from this program alone would come to \$30 billion. I am not including projected Federal assistance to low income housing under this heading—this would be a much larger sum, since it would encompass private as well as public housing.

Using similar calculations for three other program areas on which Congress completed action in 1968, one finds a potential net increase in State and local debt over the next decade of about \$20 billion for college housing, academic facilities, and the vocational education program, although some of this will presumably be for private nonprofit institutions.

The debt service grant approach was also authorized for the anti-water pollution program in legislation which passed both the House and the Senate this year, though it did not survive the adjournment rush. Assuming a continuation of the annual level of new dollar authorizations in the enabling legislation, the potential increase in State and local debt for these purposes over the next decade is \$40 billion.

In addition, the Senate passed a bill in 1968 which authorized debt service grants on obligations issued by State and local bodies, as well as nonprofit institutions, for hospital modernization. The needs in this area have been estimated at over \$10 billion.

Thus, assuming that the Congress follows through on the debt service grant approach in just these six program areas, the potential increase in State and local debt over the next decade is about \$100 billion.

To this amount, one would need to add new financing requirements for mass transit, other urban redevelopment activities, municipal airports, anti-air pollution efforts, and other areas in which Federal programs have been established and are expected to be increased. Taking all this into account, it is not at all difficult to visualize a total rise in State and local debt over the next ten

years of \$150 billion or more, *in addition* to the "normal" growth of \$120 billion cited earlier. That would mean that, in ten years, State and local debt would be rising by \$30 to \$35 billion or more a year, rather than by \$10 billion, or less, as at present.

To some extent, the new programs cited may substitute for what I have counted as "normal" growth. But this overlap may not be large; the new programs cited will deal essentially with new types of needs. Also, the annual new dollar authorizations which Congress has now provided for the next few years may not be continued at the same level for a decade. Given the pressure of underlying needs, however, it seems at least as likely that, on the balance, we will see increases rather than reductions in Congressional authorizations as the decade progresses.

In citing these potentially very large figures, it has not been my purpose to suggest that the indicated requirements cannot be financed through debt issues. My hunch is, in fact, that, in a strongly growing economy and with continued progress in tapping new sources of savings, the task will, in the end, prove manageable. If the economy expands at a rate in real terms of 4 to 4½ percent over the next decade—which is quite practicable under intelligent economic policies in both public and private sectors working together—we would have a GNP in 1978 of some \$1.3 trillion, which would generate a lot more tax revenues and a lot more savings. But there can be no doubt that, even so, the task will be more manageable only if we have major improvements in methods of mobilizing capital.

The need for new financing approaches

In calling for such improvements, I assume that the traditional means of financing State and local government needs will have a continued role, particularly in the financing of tasks that have customarily been entirely in the province of such governments. But I do not think that these means alone will be adequate to cope with the huge additional demands generated by new types of programs or that they can fully satisfy the criteria of maximum efficiency and economy.

As I have indicated previously, by far the most promising approach for mobilizing the needed new capital in a more efficient manner would seem to lie in the establishment of a new central financing institution for domestic development—such as a National Urban Development Bank.

Many different proposals for such a central development financing institution have recently been offered, and the need is to reach agreement on the more precise characteristics of such an institution.

As I see it, the new institution would issue its own securities, backed by Federal guarantee, and relend the proceeds to program agencies—either to Federal lending agencies or directly to State and local bodies, depending on Congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal contribution, to the extent necessary and desirable, could come from clearly identified interest rate subsidies given borrowers from the institution and provided by direct Congressional appropriations.

The advantages of the new approach would be manifold.

First, the new institution could develop one efficient marketing instrument—or family of instruments—with broad appeal to various investor classes. It could thus tap a much wider market than the many instruments now being issued by a great variety of Federal agencies and State and local agencies receiving Federal assistance. The market for such instruments would also be likely to attain much greater depth than alternative financing means for urban development purposes. Thus, secondary markets should develop which would allow ready "shiftability" of the securities among investors. In speaking of "one" efficient marketing instrument, I do not necessarily mean that the institution would issue only a single type of instrument. It could offer a number of closely related types of securities, but tailored in ways that broaden the range of reachable investors, similar to the spectrum of offerings now used in Federal debt management, itself. But these instruments should be carefully designed to fit into a coherent whole. Probably variations in types should be relatively few for some time; and their relation to the Treasury's debt, itself, would have to be carefully considered.

Second, in contrast to the present fragmentation of financing efforts, the new institution would automatically provide for coordination of issues and control over programs requiring finance. Thus, a central financing institution would have the greatest flexibility in going to market at the best time and with the volume, maturities, and other terms and conditions which would enable it to borrow at a significantly lower interest rate than could be obtained by several smaller, special purpose institutions, each with its own special problems of timing, seasonal factors, and other program considerations.

I do not think, incidentally, that the answer to the financing problems over the next decade will be to establish a separate new institution for each problem area, such as an education bank, a pollution control bank, a transportation bank, etc. The difficulty with this approach—in addition to the duplication of effort and the problem of finding that much financing talent—is the proliferation of financing instruments which would develop and the problem of coordinating these issues in the market. Of course, even a central financing institution could decentralize its lending activities, either in terms of loan purpose or geographic region. But I think there is a persuasive case for a centralized approach to mobilizing capital funds.

Third, the new approach permits the most economical financing of the growing new needs, looked at either from the viewpoint of the Federal Government or from the viewpoint of State and local governments.

If all of these new needs were to be financed in the tax-exempt municipal bond market, which, by its very nature, is limited in capacity, the additional volume of financing would tend to have the effect of significantly increasing State and municipal borrowing costs, not only for these new programs but across-the-board for all State and municipal government programs. The proposed new institution would avoid these problems by operating in a far broader market. The net cost to the Federal budget, moreover, would be minimized through the use of the proposed development bank, which would issue taxable securities.

These considerations give the Federal Government and State and local governments a community of interest in finding the financing means that will be most economical for all levels of government combined. And I am confident that means can be found which will not impinge in any way on the ultimate fiscal independence of State and local governments, which now rely mainly on the tax-exempt concept.

Some implications for capital markets

Even if the burgeoning new needs that we now envisage are financed in a much more efficient fashion than is now the case, such financing will be bound to have a major impact on capital and securities markets generally. Added to continuing large private requirements—and notably the likelihood that new housing needs will exert much greater pressures on the general capital markets than in the past—it will almost certainly mean that the average level of long-term interest rates will be higher than in the 1950's and early 1960's, when they were quite low.

This is not to imply that rates will not come down from their very high recent levels. But it does raise questions as to how long we can afford to continue accepting attitudes and practices that were essentially developed in periods when average interest rates were substantially below the levels indicated for the future. It suggests that continued maintenance of the statutory $4\frac{1}{4}$ percent ceiling on long-term Government bonds could become an increasingly troublesome obstacle to sound Federal debt management.

CONCLUDING COMMENT

So there you have the short and long of it. For the short-run, the pressure of Federal finance demand will diminish sharply, with consequently less pressure on interest rates. Over the longer run, the needs for social welfare infrastructure will place very heavy demands on the capital markets.

I welcome the lessened short-run pressure and wish my successors well in meeting the hard financial problems of the future.

EXCERPT FROM REMARKS BY HON. FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS, AT THE 50TH ANNIVERSARY CONVENTION OF THE AMERICAN GAS ASSOCIATION, PHILADELPHIA, PA., OCTOBER 7, 1968

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FINANCIAL PROBLEMS OF THE FUTURE

During the next ten years, two major problem areas of finance will challenge the best efforts of the United States and one, perhaps both of them, will require concentrated attention by other advanced countries of the world.

For the United States, the first problem—bigger by far than the second in terms of financial requirements—is to find ways to provide capital finance for public purposes designed to strengthen and improve what might be called social welfare infrastructure. By this term, I mean urban redevelopment, the renovation of the ghettos, the provision of public housing, the enlargement of public education and health facilities, the restructuring of transportation facilities, the provision of clean water and air.

In one sense, the problem is not a new one; in a more realistic sense, it is a brandnew one by virtue of its recognition and by virtue of the very size of its financial requirements. Let me give you some indication of its size.

Net State and local debt in 1947 was less than \$15 billion. Last year, it was \$113 billion—almost \$100 billion larger than 20 years earlier. Mere continuance of that trend would make it \$240 billion ten years from now. Add in the new programs noted above, and it is not difficult to visualize another \$150 billion requirement. It is clear that requirements of this order of magnitude will demand the most efficient, imaginative, and sound means of mobilizing capital that we can devise.

I have spoken elsewhere of one approach to this problem—a National Urban Development Bank. Other suggestions have been made—for a Municipal Bond Guarantee Corporation; for a Community Development Bank; for a Domestic Development Bank. Each is aimed at the basic objective of providing an efficient means of mobilizing the Nation's capital resources. We shall need to come to a consensus on a particular approach.

That approach should embody two basic principles:

Development of one efficient marketing instrument with broad investment appeal.

Coordination of issues and control over programs requiring finance.

A development institution would issue its own securities, backed by Federal guarantee, and relend the proceeds to program agencies—either Federal lending agencies or directly to State and local agencies, depending on Congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal Government contribution, to the extent necessary and desirable, could come from interest rate subsidies—clearly identified—provided by direct Congressional appropriations.

The second problem, which will affect both the United States and other advanced countries, is to find ways to provide increased developmental capital finance for the less-developed countries of the world—both for infrastructure and for expansion of the agricultural and industrial base.

The financial requirements for the United States, or for any other country, are significantly less than those for domestic social welfare infrastructure, but there are other problems—perhaps most notably the balance of payments problem. Methods must be devised to fit these financing needs into the balance of payments adjustment process so that, when a country is in surplus, it can export more capital to developing countries, and when in deficit, it can export less. At the same time, it is desirable to increase the total amount of capital export and assure that volume for a period of time.

The United States proposed an approach of this type in the current replenishment of funds for the International Development Association. The Organization for Economic Cooperation and Development, composed of some twenty countries, suggested, in a 1966 report on the adjustment process, that surplus countries open their capital markets more freely to borrowings by international financial

institutions, such as the World Bank or the regional development banks. Both of these approaches need further development and implementation through international agreement. Both will lead to more multilateralization of development finance, which should be more efficient, both in terms of raising the capital and in terms of channeling it where it can do the most good.

Finally, I should note two points. Both of these financial problems—domestic social welfare infrastructure and development finance—can be resolved only within a framework of a strongly expanding domestic and world economy. That is an absolute requirement to generate the savings and the tax revenues for the needed finance. And growing economies, themselves, need the thrust of dynamic new investment, which, itself, requires high savings.

REMARKS BY HON. STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY,
BEFORE THE FIFTH MUNICIPAL CONFERENCE, INVESTMENT BANKERS ASSOCIATION,
NEW ORLEANS, LA., SEPTEMBER 27, 1968

THE FINANCING OF NEW SOCIAL PROGRAMS—AND TAX EXEMPTION

The Investment Bankers Association is to be congratulated on staging this forum on "The Federal Government's Role in State and Local Financing—Taxable or Tax Exempt?" The topic is one of direct and important concern to many—the Federal Government, State and Local Governments, those who invest in securities, and those like yourselves who participate in the marketing of securities. Unfortunately, most discussions which involve the sensitive subject of Federal-State relationships and the super-sensitive aspect of that relationship—tax exemption for State and local securities—proceed with a maximum of emotion, accusation and platitudes and a minimum of hard, objective analysis. Your desire for a forum with just the opposite approach is commendable and I trust my remarks will be seen as in keeping with your desire—for they certainly are so intended.

At present there are about \$120 billion of outstanding State and local tax-exempt obligations and about \$15 billion in new obligations are being issued annually (for a \$9 or \$10 billion net annual growth). I am *not* discussing these obligations or the merits of their tax exemption. I am *not* here to turn back any clocks or reverse history. I am here to consider what will happen if the clocks suddenly start to race madly forward.

My remarks relate to the enormous increase in new issues of these obligations that now looms up before us and the effects of adding this new huge volume of tax-exempt obligations to the present market. My concern and my message can be briefly summarized:

The possible high level of new issues of tax-exempt State and local bonds over the next decade raises very serious problems for State and local governments and for the equity of our Federal tax system. This high level can come about under the enormous financing requirements of the vast social programs so vitally necessary to meet our domestic needs.

The basic problem is that piling more and more reliance on the tax-exempt privilege as a way of helping States and localities to meet these financing requirements creates a powerful buyer's market for tax exempts. The State and local governments pricing their bonds on the basis of this exemption as a consequence will get less and less for it—that is, they will have to pay closer to the market rates of interest on taxable bonds—and their financing costs must inexorably rise. At the same time, the buyers would still get the tax exemption with even greater tax savings.

Those who are anxious to preserve the strength of State and local governments in the Federal system should give serious thought to these problems.

We should all consider whether *new financing techniques* are available and appropriate to avoid these problems—techniques which at the same time, and I stress this, preserve the independence of action on the part of State and local governments in our national system to which the principle of tax exemption has contributed.

Projections of State-Local Credit Demands

Let us first consider the rate of growth of new State and local issues that looms ahead. The Joint Economic Committee in 1966 made a projection of the likely level of growth capital needs and thus of State and local bond issues through

1975. The JEC figures themselves suggested that this growth would be in line with the likely growth in GNP. Since the supply of savings should also grow at about the GNP rate, the general conclusion would be indicated that the marketability of State and local bonds should not change markedly relative to other bonds.

But the Joint Economic Committee report itself emphasized one reservation about this outlook, namely, the heavy reliance placed on commercial bank takings. They recognized that if commercial banks, for example, were attracted more heavily into mortgages (e.g., by the much touted housing boom of the 1970's) there would be problems for State and local governments in floating even a level of State and local issues that was growing in line with GNP.

Another set of qualifications should be added to this forecast of marketability of State and local bonds. The JEC projections basically assumed a development of current programs. They did not make much allowance for new programs.

The expansion of Federal programs that lies ahead is likely to induce even more substantial increases in State and local government borrowing than may have been anticipated in the study. The Congress has already considered a wide range of new Federal programs in a variety of areas, such as pollution control and housing. In addition, pressures on the Federal budget have recently caused attention to be focused on the potentialities of debt service grants to State and local governments, as are now used in the public housing area, rather than the lump-sum grants that have been more traditional. From a financial viewpoint, these debt service grants would shift the financing of the Federal share of local project costs from the taxable market (i.e., away from the Federal bonds that provide the funds for the lump sum grants) to the tax-exempt market to absorb the local bonds that would be issued to finance the project (the debt service grants would help defray the interest and principal on these tax-exempt bonds).

Another factor that may well have been underestimated in the JEC work is the size of replacement needs. For example, much of the physical plant in our urban school system is aged and inadequate to the school needs of urban children. Replacement will be very expensive. These replacement needs alone could cause the annual net increase in State and local bonds to double in the next five to ten years.

In summary, the growth of new programs especially Federally aided ones, the increasing reliance on debt service grants to shift Federal debt to State and local debt, and exploding replacement needs could increase the annual net growth in State and local debt from the present \$9 or \$10 billion as high as \$30 billion a year in 10 years. *This would represent a rate of growth twice as high as the rate of growth of the savings supply.*

If State and local governments are to sell this enormous increase in tax-exempt bonds, then they will be commanding a larger share of the savings flow. To do so they will have to compete more sharply with other borrowers, such as home owners and corporations. The question is whether tax exemption is an efficient instrument with which to conduct this competition. We can take as a fact of life the exemption on tax-exempt bonds in the present market. The experts say that this exemption is "inefficient" in the sense that State and local governments get less benefit from it in lower interest costs than the Federal Government gives up in lost tax revenues. As I said earlier this could, however, be regarded as the price paid for the independence of decision-making that the interest exemption offers in general to State and local governments. What we need now to do, however, is to give serious thought to the question of how this will work out if State and local governments suddenly try to become much heavier borrowers.

The Market for Tax-Exempt Bonds

To understand the significance of this enormous potential growth in tax-exempt bonds, it is necessary to remember that the institution of tax-exempt interest has an impact not only on Federal tax returns but also on bond markets. It does save State and local governments money by reducing interest rates on their bonds, but it does so by narrowing the range of customers for those bonds. It narrows the range to groups that find tax exemption valuable. You don't find exempt pension trusts buying tax-exempt bonds.¹

The rate on tax exempts is determined, like any other price, by demand and supply. If the supply of tax exempts is limited, they can be sold to the buyers

¹ Tax-exempt entities have purchased tax-exempt obligations in the past and still do because of legal limitations on their investment powers. These limitations, however, are rapidly being removed.

who are most anxious to get them. If more tax exempts are to be sold, the price of those tax exempts will have to fall, i.e., their interest rate must increase. The price fall will be necessary to get existing buyers to take more tax exempts (and thus less of other investments) and to induce new buyers to enter the tax-exempt market.

It is significant that interest of all kinds—taxable and tax exempt together—is a modest component of the income of upper income individuals. That income consists mostly of dividends and capital gains, reflecting the fact that the wealth position of these individuals inclines them to the higher risk-higher return features of equity investment (which features are also associated with favorably taxed capital gains and untaxed unrealized appreciation). Inducing these investors into the relatively safe investment of State and local government bonds through tax exemption is in a sense swimming against the tide.

By and large since the most distinctive feature of these State and local bonds is their tax exemption, the process of selling more bonds must involve widening the market by appealing to taxpayers with lower marginal tax rates than those now acquiring tax-exempt bonds. The appeal must involve the process of selling tax-exempt bonds at rates more closely comparable to those on taxable bonds, so as to make the exempt bonds attractive to those who get less tax advantage from the exemption.

The Inevitable Increase in Interest Rates on Tax Exempts—and Higher Costs to Local Governments

It is not possible to say exactly how much tax-exempt bond interest rates would rise with an increase in the relative share of tax exempts in the market. Obviously, it depends for one thing on the levels of general interest rates, which are subject to a great many forces. We can make some progress if we assume the present level of rates and talk about the differential between high grade municipals and high grade corporates. Presently, high grade municipals sell at close to 70 percent of the rate on similar high grade corporates.

In 1945-46 the level of outstanding municipals, as well as new municipal issues, was very low. Municipals constituted only 3.2 percent of net public and private debt, and the interest yield on outstanding municipals was only 40 percent of the yield on corporate Aaa bonds. By 1954 the State and local indebtedness had risen to about 5.8 percent of net debt, and the yield ratio had risen to 70 percent of the corporate bond yield. The yield ratio has hovered about this level since 1954, rising to about 80 percent in 1957 and averaging about 67 percent in January-August, 1968. The large item accounting for the recent pattern of a wider spread despite a still increasing State and local debt share (now 8.0 percent of net debt) is the sharp growth in holdings of municipals by commercial banks (associated with some pause in the growth of demand for mortgage money between the immediate post-World War II housing boom and the coming housing boom that will be associated with the World War II baby boom) and the unusual spurt in corporate bond flotations.

I am including a Table—Table 1—that presents some estimates of the possible response of the State and local bond rate to future developments. The table covers a range of possibilities respecting the size of State and local borrowing and the role of commercial banks in the market, since they are now the dominant institutional investor in municipal bonds. The future course of that role is of obvious importance—can the banks continue that role, keeping in mind that business loans are their primary function? What happens when they reach the limits of their taxable income, as some are now doing, so that the use of expenses, in fact allocable to tax-exempt issues, against taxable income as now permitted no longer produces tax savings?

Table 1 shows that the interest rate increases resulting from a high volume of tax-exempt securities could be put as likely to be about one-half point (keeping in mind that it might come to a full point). At current levels of State and local debt issuance (\$15 billion gross) this would mean an increased annual interest cost of around \$75 million on one year's issues. This annual cost would of course cumulate if the increase persisted for subsequent new issues. With new issues rising at 10 percent a year, a persistent increase in the State and local bond interest rate of one-half point would increase the annual cost by about \$500-\$600 million in seven years. This increased cost, remember, does not include the increased debt service itself, which would be something in addition. The increased cost is just the cost of the interest rate increase caused by the increased debt. It is the increase in cost caused by going to the well too often.

This is a substantial burden to put on local property taxpayers.

The Inevitable Increase in Interest Rates on Tax Exempts—and Higher Tax Savings to Buyers

This is not the full story, however. This process of bidding up the interest rates on tax-exempt bonds means that their benefits will automatically become much larger to those upper bracket taxpayers who are already buying them and would, of course, continue to do so under such higher interest rates. In addition, the higher interest rates will bring more and more lower rate taxpayers into a position where the exemption makes holding State and local bonds attractive even at their lower marginal rates.

Table 2 shows for taxpayers at various effective rate brackets the value of tax exemption for investment in State and local bonds which yields \$100 of exempt interest at current rates. The taxpayer in the 70 percent tax bracket who earns \$100 in exempt interest when the exempt interest rate is 70 percent of the corporate rate is in effect initially sacrificing \$43 of before-tax yield. But he is then rewarded by the larger after-tax benefits. Thus, if he had obtained a taxable bond paying \$143 (of which 70 percent is \$100), he would have paid a tax of \$100 and would net \$43. The purchase of a tax-exempt bond instead thus already produces a saving of \$57 for every \$100 he receives in exempt interest.

We can now see the increased benefits for taxpayers when the State and local governments go to the well too often. The increased interest cost indicated in Table 1 is an increased payment on bonds that would have been sold anyway to the present buyers. The result therefore is an automatic increase in the tax savings enjoyed by the present group of buyers of tax-exempt bonds, which they enjoy because the market discount on the bonds is less than the tax savings the bonds provide. Thus, if the interest rate on exempt bonds rises to 85 percent of the corporate bond rate, the net saving of \$57 for a taxpayer in the 70 percent bracket will rise to \$78—a gain of 37 percent.

TABLE 1.—SOME PROJECTIONS OF THE SPREAD BETWEEN STATE AND LOCAL (S. & L.) BOND RATES AND CORPORATE RATES¹

Rate of growth of State and local bonds outstanding	Rate on high grade S. & L. bonds as a percent of corporate rates		Difference in points between high grade S. & L.'s and corporates		Rate on high grade S. & L. bonds (in percent)	
	With S. & L. market favorable ³	With S. & L. market unfavorable	With S. & L. market favorable	With S. & L. market unfavorable	With S. & L. market favorable	With S. & L. market unfavorable
GNP rate (6 percent) ²	70	75	1.8	1.5	4.4	4.7
Moderate rate (10 percent).....	75	80	1.5	1.2	4.7	5.0
High rate (20 percent).....	80	87	1.2	.9	5.0	5.3

¹ Assumes corporate AAA rate at 6.2 percent. The 70-percent relationship used as a base point here reflects the typical relationship of recent years rather than the 67-percent current relationship.

² This would be a sharp slowdown for State and local government borrowing.

³ The favorable-unfavorable distinction involves the role of commercial banks in this market. Rates will be favorable to State and locals if commercial banks remain a large holder. They will be unfavorable if commercial banks hold a smaller share.

Looking down Table 2 one can see that as the relative interest rate on State and local bonds rises, taxpayers at lower marginal tax rates come into the position where they would be saving more in taxes from the exemption than they would lose on the interest differential; that is, their tax savings (which is the Federal Government's revenue loss) would be greater than the savings in interest to the State and local governments. If the State and local rate rises to 85 percent of the corporate bond rate, even a taxpayer whose marginal tax rate is over 15 percent would find these bonds a good investment.

In summary, the penalties for excessive reliance on the tax-exempt privilege to finance new programs are substantial. These penalties will be visited upon State and local governments through increasing the interest rate on all the bonds they sell, including the basic school bonds that they will have to sell anyway. The result occurs because the advantage of the present tax-exempt privilege of State and local bond interest works in a limited market than can be swamped by overuse of the tax exemption.

TABLE 2.—VALUE OF TAX EXEMPTION FOR VARIOUS TAXPAYER SITUATIONS BEFORE AND AFTER A RISE IN EXEMPT BOND RATE RELATIVE TO CORPORATE RATE

Marginal tax rate (in percent)	Net advantage of tax exemption on an investment of \$2,300 ¹ when the exempt rate relative to the corporate rate is—		
	70 percent	80 percent	85 percent
70.....	\$57	\$71	\$78
60.....	43	57	64
48.....	26	40	47
30.....	0	14	21
20.....	-14	0	6
15.....	-22	-3	0

¹ An investment of \$2,300 was chosen because it produces exactly \$100 of exempt interest at current rates.

At the same time the tax savings to present buyers of bonds will rapidly pyramid and new groups of buyers will be drawn to these tax benefits. This expansion of the tax preference will be coming at a time when the patience of many with existing tax preferences is becoming exhausted—as is shown by the rapid and widespread rise in sentiment for a minimum income tax to counteract the effect of tax preferences that now permit many taxpayers with high annual incomes to pay little or no Federal income taxes.

State and local governments should look carefully at their “friends” who want to maximize the use of tax-exempt bonds in meeting the costs of new programs. These data would indicate that such maximization is really more likely to help bond buyers and to hurt the bond sellers—who are the State and local governments.

The recent experience with arbitrage bonds and industrial development bonds should cause some moments of quiet reflection for those who up to now have adamantly refused even to talk about these disturbing possibilities or consider solutions for them that would alter the traditional patterns. There were those who saw no abuses or dangers whatsoever when the volume of industrial development bonds suddenly skyrocketed last year and the size of such issues rose to \$100 million and \$150 million figures. When the Treasury Department called attention to this situation and to the severe effects that could occur if larger and larger volumes of private business financing were converted into tax-exempt financing, there were those who sought only to characterize its concern as an attack on the tradition of tax exemption.

The more perceptive—and your organization merits high marks in this regard—recognized however that the Treasury attitude and its subsequent action were designed to prevent a distortion of that tradition that could all too easily cause its erosion or destruction. And now that these large industrial issues have passed from the scene under the recent legislation and the local government bond market will not have to absorb the corporate bond market, even the voices that had called doom and calamity when the Treasury acted are now admitting to “abuses” they had not been able to see before. But in the meantime, that attitude of head in the sands, of see or speak or hear no evil, did not make it any the easier to shape the needed corrective steps. The task—difficult enough in itself—of structuring those steps, of meeting the many technical problems that corrective tax measures inevitably entail, is certainly not made any the lighter if those with knowledge of the operative facts choose to withhold their experience and refuse constructive cooperation in favor of an adamant stance that denies there is anything to worry about.

As a result, one would hope that there can be a calm appraisal of these possible new developments I have described and their consequences. And if they are likely to occur—as many believe—one would hope there can be a calm analysis of possible new financing techniques to avoid those consequences. Let us therefore turn to this phase of the discussion.

Possible New Financing Techniques—Local Taxable Bonds

In a talk on June 13, 1968 before the Municipal Forum of New York I described one possible new financing technique—that of local taxable bonds. I gave the example of a local project—it could be an anti-pollution project, an airport, an urban development project, and so on—as to which Federal assistance would be provided not through the traditional initial capital grant but through a system of paying part of the debt service of a bond issued by the locality to meet the

cost of the project. The Federal share of the debt service—as respects both principal and interest—would be paid periodically over the life of that bond. I then indicated that instead of having the local bond a tax-exempt obligation, there could be used instead a *local taxable* obligation with two attributes: the Federal Government would fully guarantee the bond and, in addition, would use the tax revenue gained through the taxable status to pay to the local government an interest subsidy that would bring the interest cost to it down to a level lower than, or at least comparable to, the interest rate on a tax-exempt bond. This interest subsidy would be in addition to the share of the annual debt service provided by the Federal Government.

I described this approach as a new type of joint venture by the Federal and State and local governments for these social projects, with a method of financing that would benefit both governments. This was the approach presented earlier this year by the Administration as a way to start an increased number of anti-pollution projects.

The State and local government groups in general responded negatively—in a positive way!—and opposed the Administration's proposal, stating that the local bonds should be of the traditional tax-exempt type. Another suggestion was for a two-bond approach—a *taxable bond* issued by the local government for the Federal share and paid off by Federal funds, and a *tax-exempt bond* issued by the local government for its share.

Our bond experts then went to work to evaluate the comparative costs of the three approaches—single taxable bond, single tax-exempt bond, and two-bond approach. The crucial issue in this comparison is the cost to the local government.²

Here our experts believe that a tax-exempt approach either as a single bond or part of a two-bond suggestion, would cost the local government more than would the single taxable bond. Under their analysis the effect of the enlarged volume of these new tax-exempt issues on the interest rates for tax-exempts generally—the point I have discussed earlier—would involve a higher cost to the local government on its overall borrowings than would the issuance of taxable bonds after the interest subsidy. Hence, a Mayor faced with paying for both a new school and a new social project would save his community money by choosing a single taxable bond for the social project rather than using a tax-exempt bond in whole or in part.

There are two questions in this analysis that deserve careful attention. The first is the possible rise in interest rates on tax-exempt securities if that market really faces the enormous increase in load I have earlier described; the second is the rates at which *local taxable bonds* would sell. I have the feeling that knowledgeable persons could reach a consensus on the first of these questions and that such consensus is likely to be along the disturbing lines our experts foresee. There may be a wider range of disagreement on the second question.

Some private analysts may doubt that the market prospects for *local taxable bonds* would be as good as our experts expect. They may believe that interest, especially bank interest, in local small, long-term serial issues would be limited to tax-exempt issues. The taxable local bond would be a new type of obligation—a new animal—and some analysts believe that the new animal would not be readily accepted by the market for a long time to come, if ever. Since the marketability of obligations depends on their ability to be readily sold and bought, this lack of ready acceptability could be an adverse factor. They say a bank that would buy a tax-exempt bond of City A won't buy a taxable bond of that city even if the taxable rate is adequate to cover the absence of tax exemption.

The impact on interest rates of the future pressures on local financing will therefore be less in their judgment if the local governments were to meet these pressures by using obligations of established acceptability rather than breaking new ground. They concede that a full Federal guarantee for the local taxable bonds could go a considerable way to counteract these attitudes since the guarantee would meet concerns as to credit and rating. But still they believe the

² As respects the Federal Government, the cost of a tax-exempt approach, whether it be as a single bond or a part of the two-bond suggestion, is greater in view of the loss of the tax revenue that would come from using a tax-exempt bond. This loss is greater than the interest savings to the local government and therefore greater than the interest subsidy that would have to be paid to equalize the local government's borrowing costs. And we must remember that the cost of the debt-service approach is greater to the Federal Government than the initial capital grant approach, since the interest on taxable local obligations would be greater than the rate at which the Federal Government can borrow directly to cover the capital grant.

newness of the local taxable bonds would affect their marketability and cause their interest rates to be higher than our experts have assumed—and indeed perhaps to cause a rise in the whole range of market interest rates.

I am not here to weigh these doubts or come to a decision on the differing predictions. Rather, I wish to bring the questions to your attention and to urge their serious consideration. That consideration requires a careful effort to describe with particularity the weaknesses in the use of local taxable bonds, if weaknesses there be. The next step in the process must then be to ask whether other financing techniques could meet those weaknesses. For, if our belief that reliance on the traditional tax-exempt approach to meet the enormous future load on local financing has its own serious problems, to say that the taxable approach may have its weaknesses cannot end the inquiry—so does the tax-exempt approach and its weaknesses seem to be by far the greater.

Possible New Financing Techniques—a Central Financing Institution

Those who have doubts about the local taxable bond approach in large part place their concern on the difficulties of marketing these small novel issues. Would that concern disappear if a central institution took over the financing on a taxable basis? This possibility calls attention to recent Treasury discussion³ of a National Urban Development Bank—a concept suggested by Vice President Humphrey on July 2, 1968 to help solve the problem of financing the needs of American cities.

In brief, as one possible framework, such a Bank would be a non-Federal institution financed initially by an appropriation of Federal funds and then through subscription of non-Federal funds. It would issue its own obligations in the market, and these would be taxable. They would be guaranteed by the Federal Government. The obligations could involve maturities, characteristics and amounts that would make them marketable at competitive interest rates. Congressional control could be assured by requiring regular approval by the Congress of the dollar volume of obligations issued by the Bank.

The Bank, as one of its activities, could then accept obligations of local governments issued to meet their financing requirements for the new social projects. It could utilize affiliated regional banks for this purpose. It could accept such obligations at interest rates that would involve a subsidy so as to provide interest costs to the local governments lower than, or at least comparable to, the interest rates on tax-exempt bonds—the parallel to the subsidized local taxable bond approach. The cost to the Bank of this subsidy could be met by Federal appropriations to the Bank, with these appropriations in turn being financed ultimately (not earmarking necessarily) by the increase in revenue to the Federal Government through having the obligations of the Bank taxable, as compared with the revenue loss if traditional tax-exempt local financing were used.

Federal assistance for the local projects, such as the partial annual debt service grant I described earlier, could of course be a part of the arrangement. The terms of that assistance could be established under the particular substantive Federal legislation governing the social programs involved—anti-pollution, urban development, etc. The mechanics of that assistance could be handled through the Bank, thereby avoiding a proliferation of the channels of assistance. The financing of that assistance could be through Federal appropriations to the Bank. The Bank, of course, could make loans and provide assistance to private groups as well.

Such an Urban Development Bank—Community Development Bank might be a more descriptive term since it could handle rural as well as urban programs—would appear to meet the problems some may see in the local taxable bond approach previously discussed. The Bank, in effect, permits a pooling of the various local government obligations, so that the disadvantages of issue size, of lack of a ready market in which the local taxable bonds could be sold and bought, and of novelty are all eliminated. The bank instead would be raising the funds involved in the private market on a centralized taxable basis, in a volume sufficiently large and with a Federal guarantee so that the rate of its obligations would be as comparable as possible to taxable Treasury bonds. The financing

³ See Remarks of Frederick L. Deming, Under Secretary for Monetary Affairs, Graduate School of Banking, University of Wisconsin, August 27, 1968 (Treasury release F-1339); Remarks of Under Secretary Joseph W. Barr, California Savings & Loan League, Anaheim, California, September 18, 1968 (Treasury release F-1349); Remarks of Frank W. Schiff, Deputy Under Secretary for Monetary Affairs, Municipal Treasurers Association, Washington, D.C., August 21, 1968.

of the social programs would thus be made at a lower cost to the Federal Government than would be involved in the local taxable bond approach—where the size of the annual debt service grants of the Federal Government would be governed by the *local taxable* bond rate and not the rate on Federal obligations.

Finally, the State and local governments could participate directly in the management and control of the Bank itself. Use of the Bank would be on a voluntary basis however—any State or local government could still finance projects directly through its own obligations. Hence the accommodation to independence of State and local governments, that factor which these governments see as the essence of the tax-exemption privilege, can be achieved through a proper structuring of the Bank.

I commend the concept of a Development Bank to you for your close study and consideration. Here also you have the opportunity through objective analysis to weigh the possibilities of this new approach and then if it offers promise, to use your experience and wisdom to shape its structure and its future.⁴

Conclusion

In conclusion, let me return to the summary I gave you at the outset:

The possible high level of new issues of tax-exempt State and local bonds over the next decade—a level required to meet the huge financing requirements of the vast array of needed social programs—raises very serious problems for both State and local governments and the Federal Government. The price for the State and local governments in the use of tax-exempt bonds on such a greatly increased basis under those programs will be in very sizable increases in their interest costs. The price for the Federal Government will be in serious inroads on the equity of its tax system.

Those anxious to preserve the strength of State and local governments should seek to develop new financing techniques that avoid such a high price.

Two possible new financing techniques are offered for consideration: One is the use of local taxable bonds placed directly on the market. The second is a pooling of local obligations through a central non-Federal new financial institution which would raise its funds in the private market on a taxable basis.

Both approaches involve Federal guarantees for the obligations to be issued, and both permit the local governments to receive an interest subsidy to offset their departure from the use of the tax-exemption privilege. But also permit the social projects initiated by the local governments to receive Federal assistance for those projects according to the particular substantive programs affecting them. Finally, both approaches permit that independence of local government which is now obtained through the tax-exemption privilege, but do so without the inefficiency and consequent wastage of funds now associated with that historical solution to one of the problems of our Federal system.

In sum, there are paths to be explored by those who are willing to face this serious problem in a constructive way. That very exploration can in turn open up still other avenues for consideration. The proper Federal role and the proper State and local government role in the necessary Federal-State-local partnership required to meet the fast growing credit demand for new public facilities and social projects can thus be structured in the light of our pressing present needs.

For we are at a crucial crossroads. One way, a blind following of the past, could financially weaken State and local governments and thereby weaken the independence of these governments though outwardly preserving the trappings of independence. The other way, utilizing our knowledge of newly developed credit tools and the new financial institutions to operate them, can preserve and advance that independence.

⁴ One financing technique *not* suggested here is that of Federal tax incentives to private industry. This is not to say that Federal assistance to industry may not be part of the overall program to provide the needed social projects. It is to say that such assistance could far better come through direct Federal outlays, in the form of payments for industry services, or loans or grants. It is believed that such a direct approach rather than "back door" financing through tax incentives, with its inefficiencies and waste and non-disclosure in the Federal Budget, is far more appropriate. Indeed, for many similar reasons the direct approach of the financing techniques suggested in the text is presented as offering advantages over the tax route of tax-exempt obligations. But this is not the occasion to discuss tax incentives at length. Those interested may consider my remarks before the Dallas Chapter of the Financial Executives Institute, Dallas, Texas, *Taxes and the Federal Budget*, February 13, 1968 (Treasury release F-1161).

EXCERPT FROM REMARKS BY HON. FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS, AT THE GRADUATE SCHOOL OF BANKING, UNIVERSITY OF WISCONSIN, MADISON, WIS., AUGUST 27, 1968

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FINANCING NEW NEEDS

But, if life is easier now and prospects are for lesser problems in Treasury and agency finance throughout fiscal 1969, there are some major financing problems that lie ahead of us. I have referred to the problems of the urban areas; obviously, we must find ways to meet them and to meet them in sound financial style.

In a talk I gave in St. Louis in November, 1965, I discussed in some detail problems of coordinating the offerings of the multiplicity of Federal agencies dealing directly with the market, each with its own scheduling problems and each with fairly specific financing objectives or requirements. I also discussed the growth and diversity of the underlying Federal credit assistance activities which gave rise to these agencies. I suggested that we give pretty free rein to the imagination in considering alternative approaches to improve the coordination of the financing of these activities and, thus, to minimize the financing costs and the impact on financial markets.

In October, 1966, in New York, Under Secretary Barr also spoke of the problem of coordinating the financing of the myriad Federal credit program agencies. He suggested that perhaps the next step in this area might be the establishment of a new central Federal lending corporation, which would obtain funds for programs economically and efficiently by issuing its own obligations in the private market.

On July 2, 1968, Vice President Humphrey suggested the establishment of a National Urban Development Bank to help solve the central problems of financing the needs of American cities. This would be essentially a program for Federal underwriting of loans. The Bank would be financed initially by an appropriation of Federal funds and then through subscription of private funds. It would issue its own obligations in the market and would make loan funds available through affiliated regional banks at varying interest rates to help finance publicly-sponsored projects, especially, but not exclusively, in the inner cities. Federal appropriations would be provided to cover the differential between the interest rate paid in the market by the Bank and the subsidized rate to the borrowers.

I believe that such an approach offers a basic solution to the long-standing problem of providing effective Federal financial aid to State and local public bodies. The interest on obligations issued in the market by the Bank would be subject to Federal income taxation without involving the direct taxation by the Federal Government of obligations issued by States and localities themselves. This is the way we conduct our present programs of direct loans—since these programs are, in effect, financed in the market with taxable Treasury bonds—except that direct Federal loans require immediate Federal budget outlays.

The proposed new Urban Bank may require initial Federal contribution but would then require budget outlays only as necessary for interest subsidy payments over the term of the Bank's borrowings. Since the Bank would not require actual Federal stock ownership, it would not be included in the Federal budget.

This broad-purpose Urban Bank would go a long way in meeting the financing needs of the cities. It also would help avoid further proliferation of Federal lending agencies and would have the advantages of size and flexibility in its marketing operations which would assure orderly financing at the lowest possible borrowing rates.

The Urban Bank proposal may also suggest the proper future Federal role in the necessary Federal-State-local partnership to meet the growing credit demands for public facilities. I believe that the Federal role should be primarily that of guarantor. There is no reason why the Federal Government, itself, should be getting ever deeper into the essentially administrative chores of loan origination and servicing which can be performed just as well or better by existing private financial institutions or by new non-Federal institutions such as the proposed Urban Bank. Nor is it necessary or practical for the Federal Government itself to build up a large portfolio of loans. The essential Federal con-

tribution can be provided in the form of debt service subsidies over the term of the loans and Federal assumptions of the unusual loan risks.

While a Federal backstop behind the Bank's obligations is an appropriate means of assuring the investor in these obligations against loss and thus minimizing the Bank's borrowing costs, the Federal guarantee should not be expected to be used, or looked upon as a means of providing further subsidy of protection to the local communities themselves. The defaults on State and local bonds over the past several decades have been virtually nonexistent, and I believe this record should be maintained. The Bank can serve as a useful channel for Federal interest and other subsidies for the benefit of local community projects; these subsidies should be in predetermined amounts sufficient to make the local projects economically viable. Any loan made by the Bank should have a reasonable assurance of repayment. The management and staffing of the Bank should be of the highest caliber. I think these principles are essential to the establishment of the Bank in the private market on a business-like and fully self-supporting basis.

The Bank should also not be viewed as a substitute for sources of credit already available in the private market. As the Vice President stated in his July 2 speech, the funds of the Bank would be available for programs which cannot be financed through other means.

There should be firm control by the Congress over any subsidies provided to local communities through the Bank. While it would be essential to the efficient marketing of the Bank's obligations to provide advance assurance that Federal interest subsidies will be forthcoming in a timely manner to meet the Bank's own debt service requirements, this can be done without any loss of Congressional control by requiring regular approval by the Congress of the dollar volume of new obligations issued by the Bank with a Federal commitment to pay part of the debt service.

Chairman PATMAN. In fact, it has many advantages, I think.

Mr. ZWICK. If I can just interrupt briefly, the bill we will submit for the Administration anticipates exactly that course.

Chairman PATMAN. I am pleased to hear that. You know, the commercial banks that manufacture their money under the Government's credit bought 94 percent of all tax-exempt bonds last year. And so if they were not using the Government's credit to buy tax-exempt bonds, we would have plenty of money for housing. So that is a fine giant step in the right direction.

I think it is an amazing record to change the budget situation from a big deficit to a surplus in 1 year. This is certainly good news. However, I think we all want to be sure that it is a realistic budget and that we will not find later on that it is too low, and I will ask you gentlemen to comment on that when you look over your transcript.

(The Council of Economic Advisers supplied the following:)

RESPONSE FROM COUNCIL OF ECONOMIC ADVISERS

The estimated increase in Federal revenues (excluding employment taxes) for the fiscal year 1970 is indeed a strikingly low figure. That rise of a little over \$7 billion seems small not only in relation to the huge increase of fiscal 1969 but also to the normal growth that might be expected. As the Treasury response points out in detail, there are two principal sets of factors that account for this result. First, the retroactive features of the surcharge and the acceleration of corporate tax payments produced a non-recurrent addition to the level of receipts in fiscal 1969. Although this does not lower the *level* of receipts in fiscal 1970, it does make the *increase* from fiscal 1969 to fiscal 1970 smaller than would otherwise be the case. Second, the prospective moderation in the advance of economic activity, and particularly the very modest further increase expected in corporate profits, holds down the estimated growth of revenues during fiscal 1970.

(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-

creases are provided for strengthening our defense forces and for expanding urgent domestic programs designed to further the economic and cultural advancement of disadvantaged groups within our society. The overall rise in outlays of \$11.6 billion, estimated from 1969 to 1970, provides substantial increases for improving education, expanding health and welfare services, aiding our cities, enlarging the housing available to low and moderate income families, and combating crime and disorder. These increases have been made possible by selective restrictions or reductions in programs elsewhere.

The priority choices which had to be made were difficult, but necessary. Limited budget resources, mandatory program requirements, and the need for responsible fiscal and economic policy were important in determining those choices. Given these considerations, the 1970 budget represents a sound and realistic program for the current and coming fiscal years. Continued economic growth, restraint over budget outlays, and extension of existing levels of income and excise taxes, as recommended in the budget, can reasonably be expected to produce the surpluses estimated for both fiscal years 1969 and 1970.

Chairman PATMAN. Why is the increase in tax receipts for 1970 so small? \$5½ billion of this is social security taxes, so it leaves just about \$7 billion for the normal increase from year to year. This figure has been higher in recent years.

Does this mean that you expect a sharp slowdown in the second half of 1969?

So, if you will answer that, please.

(The reply from the Council of Economic Advisers follows:)

The estimates for Federal expenditures in fiscal year 1969 should be reasonably firm. Those for fiscal year 1970 necessarily involve greater uncertainty, but they are down-the-middle estimates consistent with the recommendations of the Johnson Administration. Mr. Zwick's reply covers these issues in detail.

(In reply, the Treasury Department answers:)

Unified budget receipts in the fiscal year 1970 are estimated at \$198.7 billion, as compared with estimated receipts of \$186.1 billion in fiscal 1969 and actual receipts of \$153.7 billion in 1968. The increase from 1968 to 1969 is thus \$32.4 billion; from 1969 to 1970, \$12.6 billion. Excluding employment taxes, the increases in receipts are \$26.8 billion in fiscal 1969 and \$7.5 billion for 1970.

The much smaller increase for 1970 is due in part to the reduced rate of economic gain estimated for calendar 1969—the period most important in determining fiscal 1970 receipts—in comparison with the economic gain realized in calendar 1968, the period most important in determining fiscal 1969 receipts. The \$60.3 billion GNP rise projected for calendar 1969 is less than the \$71.0 billion rise realized in calendar 1968. Moreover, the relative composition of the income gains also reduces the rise in tax liabilities in calendar 1969 below that for calendar 1968. The corporate profits share of the projected economic gain in calendar 1969 is 6.1 percent. This is much smaller than the 15.1 percent share in 1968.

Although the effect on receipts of economic growth is less in fiscal 1970 than in fiscal 1969, the major reason for the substantially smaller increase in receipts (excluding employment taxes)—\$7.5 billion for 1970 as compared with \$26.8 billion in fiscal 1969—is the difference in the effects of legislation in the two years. As shown below, legislation and miscellaneous factors increased receipts in 1969 by \$14.5 billion over fiscal 1968. In fiscal 1970 these factors reduced receipts as compared to 1969 by \$1.7 billion. The major reason for this difference is that the income tax surcharge enacted in 1968 increased tax rates, whereas the proposed continuation keeps tax rates unchanged. The surcharge continuation does produce additional revenues in fiscal 1970 but the increase is not as large as in fiscal 1969. The additional revenues produced by the surcharge in 1970 are less than the additional revenues produced in 1969 because of the retroactive nature of the 1968 legislation.

The change in receipts for fiscal 1969 and 1970 is shown in detail below.

[Dollars in billions]

	Increase in receipts		Change	
	Fiscal year 1969	Fiscal year 1970	1969 and 1968	1970 over 1969
Other than employment taxes:				
Surcharge (enacted and proposed):				
Individual.....	+8.4	+8.0	+8.4	0.4
Corporation.....	+4.3	+3.3	+4.3	-1.0
Total.....	+12.7	+11.3	+12.7	-1.4
Acceleration of corporation payments (1968 act).....	+1.0	+0.3	+1.0	-0.7
Total.....	+13.7	+11.6	+13.7	-2.1
Excise taxes.....	+0.2		+0.2	-0.2
Total, 1968 act.....	+13.9	+11.6	+13.9	-2.3
Other proposed:				
Quarterly payments of unemployment taxes.....		+0.3		+0.3
User charges.....		+0.4		+0.4
Miscellaneous (legislation prior to 1968 and change in payments patterns).....			+0.6	-0.2
Total other than economic growth.....			+14.5	-1.7
Economic growth.....			+12.3	+9.2
Total other than employment taxes.....			+26.8	+7.5
Employment taxes.....			+5.6	+5.1
Total receipts, unified budget.....			+32.4	+12.6

Most of the increase in tax receipts due to economic growth is due to increases in income taxes, individual and corporate. The increase in individual income tax receipts in fiscal 1969 is \$7.3 billion. This is 12.8 percent of the increase in personal income, calendar 1968 over 1967, of \$57.0 billion. The gain in individual income tax receipts drops to \$6.4 billion in 1970 because the increase in personal income projected for calendar 1969 falls to \$50.2 billion. The receipts gain is 12.7 percent of the income gain, almost exactly the same as estimated for fiscal 1969.

Corporation income tax receipts in a given fiscal year reflect, for the most part, the profits of the calendar year ending in the fiscal year. A significant amount, however, arises from the first two payments of estimated tax for the current year. Thus, receipts in the fiscal 1969 depend primarily on profit levels for calendar 1968 and to some extent on profits for calendar 1969. Receipts in fiscal 1970 are derived mostly from calendar 1969 but also from calendar 1970 profits.

Corporation profits before tax are estimated at \$92.3 billion for calendar 1968. The gain over 1967 is \$10.7 billion. Corporation tax receipts in fiscal 1969 reflect the large increase in profits. The increase in receipts due to economic growth is \$3.7 billion. Profits projected for calendar 1969 are \$96.0 billion, an increase of \$3.7 billion. Primarily as a result of this much smaller increase in profits, the increase in corporation income tax receipts in fiscal 1970 falls to \$1.8 billion.

The two income taxes produce \$11.0 billion of the \$12.3 billion increase in fiscal 1969 receipts due to economic growth (excluding employment taxes) and \$8.2 billion of the \$9.2 billion increase in fiscal 1970. Other revenue sources produce \$1.3 billion in receipts due to economic growth in 1969 and \$1.0 billion in 1970. The difference of \$0.3 billion is attributable to customs. Imports are not expected to show as sharp an increase in 1970 as in 1969 and further steps in the Kennedy Round duties reductions will limit customs receipts.

Chairman PATMAN. Now, we often talk about, before the Joint Economic Committee and Banking and Currency and other related committees, the great financial institutions like the commercial banks, State banks, national banks, Federal Reserve System, and savings and loan associations, but you seldom mention one great financial institution that has been growing by leaps and bounds in this country the last few years. Today we have over 20 million members of credit unions in the United States. The major States have more than 1

million each, many more than 1 million each. So they are doing a great service in my book, and should not be further overlooked. They have assets aggregating more than \$14 billion and the work that they are doing to my mind, is next to the church in importance to the people of this Nation. And I have been urging an independent agency.

They are administered by civil service employees in one of the departments. In other words, we are almost treating them like they are stepchildren. And we should have a special independent agency for credit unions, I think. And I have been urging Mr. Barr to give consideration to this as Secretary of the Treasury and in my own time I will read a letter I have just received from him, dated January 17, 1969, because this is a matter of great importance, I think, to our Nation.

DEAR MR. CHAIRMAN: This is in response to your request for views on H.R. 2, "to amend the Federal Credit Union Act so as to provide for an independent Federal agency for the supervision of federally chartered credit unions and for other purposes." And I am in favor of the objective of providing an independent agency to supervise federally chartered credit unions.

Time has not permitted a detailed analysis of the provisions of the bill and in view of the need for expedition, this report has not been cleared with the Bureau of the Budget in the course of customary procedures.

Sincerely yours,

JOSEPH W. BARR.

Thank you very much, Mr. Barr.

Now, I yield to Mr. Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

First, to you, Mr. Secretary, Joe, we hate to see you go.

Mr. BARR. Thank you, sir.

Representative WIDNALL. As a colleague in the House, we always appreciated your ability, and your contributions. We admired and respected you and that admiration and respect has continued through your job as Under Secretary and now as Secretary. You have made a very fine contribution and all of it has been done with good humor and an understanding of the legislative process, which some in the agencies do not have. And I for one know that all of us wish you the very best, and we hope you are never foolish enough to make enough money now so that you have to divest yourself when you come back into the Government. [Laughter.]

To you, Mr. Secretary, the President's Economic Report states that our international accounts were in balance in 1968 for the first time since 1957, but this balance has been achieved through "special transactions" such as inducing foreign central banks to purchase U.S. Government securities. I understand in 1968 Germany purchased \$500 million to help offset costs of U.S. troops in that country and Canada purchased a little more than \$1 billion.

Are not special transactions merely forms of window dressing to achieve an accounting balance and not indicative of underlying U.S. competitiveness in world markets?

Secretary BARR. Mr. Widnall, I think that in the Economic Report and in Mr. Deming's statement to this committee it was emphasized that the United States must not take too much comfort in the fact that we achieved a balance on both standards of accounting, the liquidity measure and the official settlements measure.

As you point out, part of the balance was achieved through so-called special transactions. I will return to them in a second. The other part was achieved, however, for three reasons.

We had a huge inflow of capital into our stock markets, into our banks and into real estate investments, starting about April or May. Mr. Widnall, I think no one knows exactly why capital moves from country to country. We have asked our colleagues in other nations why this flow occurred, and they gave us three reasons.

No. 1. The U.S. Congress had the courage to raise taxes in an election year to cure the huge deficit we were running and demonstrated to the world that we did possess the courage to enforce fiscal discipline on ourselves.

No. 2. The disturbances in France caused somewhat of a tremor throughout the investment world.

And lastly, No. 3, the invasion of Czechoslovakia by Russia seemed to create a feeling in the world that perhaps Europe was not as safe as some had thought.

These were the answers that we received from our colleagues. I cannot improve on them, sir, and I only submit that a man who buys \$10 million generator from Westinghouse or General Electric cannot sell it immediately. Usually he has to find a buyer. If he buys \$10 million in their stock, he can reverse it in an hour. That is the difference in the flaws between a surplus in the trade accounts and in the capital accounts, Mr. Widnall.

So I say we cannot take too much comfort from these figures. Although they are accurate, they are accepted as traditional accounting procedures. The statistics, however, do not always give you the precise situation.

Now, as to the special transactions. One of the things that has really troubled me, and Secretary Fowler, and Secretary Dillon, and Mr. Okun, and his predecessors, Mr. Ackley, and Mr. Heller, all of us, and before that, the last Republican Secretary of the Treasury, Mr. Robert Anderson, was the terrible problem of how are we going to meet our security arrangements in the world? How are we going to keep the 7th Army in Europe as our share of the NATO defense, how are we going to keep the 6th Fleet in the Mediterranean, with the huge exchange costs that they both entail because we pay our troops in dollars? These dollars are spent overseas. The dollars are converted into deutsche marks or French francs or Italian lire which in turn can become a potential call on our gold reserves.

Now, we have attempted in every way we know to find a way as we put it, to "neutralize" the foreign exchange impact of these military deployment expenses. In other words, we are trying to find a way so that we can do what is proper and right for this country to do in sharing the military burden of keeping the peace of the world without bankrupting the international financial reserves of the U.S. Treasury.

One device we have hit on to cover part of the difference between the cost of our forces and the cost of military equipment other countries buy here—I do not insist it is the best but it is working at this time—is the so-called special transaction. For example when our forces spend money in Germany the dollars go to the German Central Bank and could be put to us for gold. However, the Germans have agreed

to add these dollars to their reserves and not take our gold in exchange for dollars. What they will do is buy a medium-term U.S. Government obligation.

Now, I do not contend, Mr. Widnall, that this is the best answer in the world. I do not think it is as good as if they were neutralizing the full cost of our troops by buying military equipment as they used to. But that seems to have been nonnegotiable up to this time.

I submit, Mr. Widnall, you have hit on one of the most difficult issues that I know of, and my successor, Mr. Kennedy, is going to be wrestling with this problem. All of you are going to be wrestling with it. If you do not find an answer, I guess the only answer is to redeploy—pull back those troops.

Representative WIDNALL. I understand from your answer that you are saying that at the present time, we can expect these items to recur in the near future.

Secretary BARR. Maybe—I would hope that all of you can ponder and worry about this matter because it is crucial. It is one of the most difficult issues. It has been attacked by some of the best minds I know in this country and I will be frank to admit I do not think the answer is completely satisfactory. It puts us in the position—as one Member of Congress said to me publicly—of looking as though we are borrowing money from the Germans for the delicious pleasure of protecting them.

Now, that is putting it in the worst possible light. But it is a light that a tough politician can put it in, Mr. Widnall. The best light is that we are fulfilling our military obligations to keep peace in Europe and we are doing the best we can to prevent the Treasury's financial resources from being seriously impaired by doing so.

I am sorry this is a long answer, but you hit on a question that really troubles me.

Representative WIDNALL. I would like to ask you something important that goes along with that. Although these bonds are technically long-term nonliquid securities, is it not true that if either Germany or Canada found itself in balance-of-payments difficulties we would not refuse to redeem them?

Secretary BARR. Oh, that is quite correct, sir. There is an agreement we have worked out with them. If their reserves drop, I cannot remember the precise level, by a certain amount, they can get their money any time they want.

Representative WIDNALL. Was not the Canadian agreement to buy certain U.S. Government securities predicated on our exempting Canada from our controls on capital flows?

Secretary BARR. That is correct, Mr. Widnall. The Canadian situation is a much better one. I feel good about that. I like the Canadian arrangement and my only recommendation is that you try to keep it.

Here is the position we are in. It is a political situation really, and you gentlemen can understand it better than anyone. We are sitting here on a continent with a political boundary dividing two nations, Canada and the United States. Now, in effect, we have one economy. I hope my friends in Canada are not offended, but you cannot split the economy. The economy does not pay any attention to the political boundary.

What we have worked out with the Canadians, Mr. Widnall, is an arrangement whereby we allow investment, lending, borrowing to flow pretty freely across the border without restraints under our balance-of-payments program. The Canadians agreed to make sure that any U.S. funds that came in would not flow on to other countries and in that way evade our restraints and that they would put all of the dollars that came into their reserves except those they need for day-to-day working balances into long-term U.S. securities. This is why we got the billion-dollar investment from Canada. It will not be the Canadians' intention to build up their reserves by borrowing from us. This is the best way—this I am very happy with. I would say do not change it. I do not know of any better way to improve it although it is unique to Canada. There is not an economic barrier, even though national boundaries exist between the two countries.

My recommendation is to keep this. If you can improve on the German offset, do so. I certainly would, and I think there is room for improvement.

Representative WIDNALL. Thank you, Mr. Secretary.

Mr. Chairman, my time is up.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. First, I want to compliment you, Secretary Barr, for your charts on the comparisons of the budget outlays and tax function. We have needed this for a long time and I think it underlines the importance of our being careful about providing further tax credits, and so forth, which have a superficial appeal but which really have the same effect on our budget as expenditures do.

Secretary BARR. That is correct.

Senator PROXMIRE. The suggestion that Chairman Mills made, I think, that we find some way of incorporating this into the budget, I think is very good.

Secretary BARR. I agree.

Senator PROXMIRE. Very helpful if we had some kind of a separate budget so we would have them both in the congressional eye.

Secretary BARR. If we had more time I think we might have got it into the budget. We were a little bit late this year, but I support your recommendation.

Senator PROXMIRE. Now, I am very concerned—and except for the timing I would have gotten into this exchange with Senator Javits—I am very concerned about what happened to the tax reform package. In February of last year Secretary Fowler assured this committee that we would have the tax reform recommendations in 1968. We did not get them in 1968. And later on at another time the indication was if we passed the surtax, it would come shortly after that. It did not come shortly after that, or at all. Now it will come as I understand it, to the Senate Finance Committee and the House Ways and Means Committee, but not to the Joint Economic Committee.

I hope this is not a precedent because we need that in this committee. It is very important to this committee. And I hope it will not be a precedent with either President Nixon or in 1973 with President Kennedy. [Laughter.]

If this committee does not have that kind of information it is going to be very, very difficult for us to serve our purpose which is to advise the Congress on economic policy.

Secretary BARR. May I respond, Senator? I think you are aware—at least as I am aware as an ex-member of this club—of the great dangers in moving on congressional prerogatives. Now, under the Constitution—and you know I need not tell you how jealously the House guards this and the Ways and Means Committee guards it—they have the right to receive tax recommendations and act on them, sir.

Now, I quite agree that this committee needs this information, and I have worked out an orderly procedure, as I indicated, with Chairman Mills; and the Ways and Means and Finance Committees have agreed that next week, when Ways and Means is organized, they will instruct the chairman to request this information from Secretary-designate Kennedy. He has agreed to transmit it.

Senator PROXMIRE. Well, I understand that.

Secretary BARR. And at that time they will make the committee print available to all.

Senator PROXMIRE. What I am saying is I hope this will not be viewed as taking the Joint Economic Committee out of the action on tax reform recommendations or anything of the kind in the future.

Secretary BARR. No, sir.

Senator PROXMIRE. We have to have it.

Secretary BARR. May I comment?

Senator PROXMIRE. And it is just as essential to us as it is to the Ways and Means or Finance Committee.

Secretary BARR. I agree. I am not sure they do, but I do. [Laughter.]

Representative GRIFFITHS. Mr. Chairman, if you will yield, I do not know how the Senate Finance Committee got a copy.

Secretary BARR. They do not have a copy.

Representative GRIFFITHS. Or why they will get a copy. [Laughter.]

Secretary BARR. Well, I will be very candid here. The discussion in the joint committee was that the proper way to proceed was for the House to move first. The House is not organized. It was agreed that the Senate could get it. Senate Finance is an appropriate committee. But they did agree that in accord with the age-old procedures that have been followed in this Congress, that the House would move first. I am satisfied because we have a commitment. I am not going to comment, Mrs. Griffiths, on the procedures of the Congress of the United States since I am no longer a Member.

Senator PROXMIRE. Mr. Okun, you speak of the need for fiscal restraint. At the same time, you concede the enormous impact of the defense expenditures. The engine of inflation that you refer to in my view, is largely fueled by military expenditures and there is evidence that defense programs are loaded with fat. The last year's Congressional Quarterly—late last year, in November—indicated that there was \$10.8 billion which they felt could be excised from the defense budget and I thought they made an excellent specific case in saying just where it ought to come out.

Now, the Economic Report hardly discusses defense expenditures. In view of its importance, do you not think the Council should analyze the economics of defense spending?

Mr. OKUN. Senator Proxmire, I think we do take up the economic impact of defense spending. The very serious problems in the efficiency of the defense program and the planning of it are, I think, rightfully

in the province of the budget message and the Budget Bureau. I do not feel that the Council really has the competence to evaluate these in detail. We did have some—

Senator PROXMIRE. You certainly have the only competence in Government as I see it, to evaluate the economic impact in detail, to tell us what defense spending is doing. For instance, yesterday we had testimony from Assistant Secretary Charles of the Defense Department, in which he conceded that there was extraordinary inflation in those industries in which we have a great deal of defense procurement, and I am convinced that the principal reason for this extraordinary inflation is because of the impact of our procurement policies and practices with the kinds of contracts we have, and so forth. This is something that seems to me in view of the problem of inflation that the Council of Economic Advisers should tell us about, explain to us, give us some recommendations on.

Mr. OKUN. We do call attention to that in chapter 3 of our Report.¹ We speak of the importance of efficiency in procurement practices and talk about some of the reforms and improvements there. I call your attention to pages 113 and 114 of the Council's Report.

Senator PROXMIRE. But at no place do you as I understand it, or perhaps the Council has and I missed it, recommended fiscal restraints on the defense budget.

Mr. OKUN. We feel that the estimate of defense expenditures in the budget has been reviewed and is the administration's view on what a minimum necessary budget is for that purpose. Obviously, any program is subject to further refinement and greater efficiency and if that can be achieved, all to the better. But I think our job has to begin by taking the figure that my colleague and his staff and the people in the Defense Department develop, present to the President, get his approval on it, as the desirable minimum defense needs of the country.

Senator PROXMIRE. Let me ask Mr. Zwick: the Subcommittee on Economy in Government has been holding hearings, Mr. Zwick, on military procurement, which is the largest single item, as you know, in the military budget. It is \$40 or \$43 billion, depending on precisely how you define it. Testimony has shown that there is widespread mismanagement and waste and inefficiency in defense purchasing. Mr. Charles, who some people feel wrote the book in the Air Force area on procurement, a very competent man, agreed yesterday with what Admiral Rickover had estimated—and others—that when we procure on a noncompetitive basis, we pay 30 to 40 percent more than if we procure on a competitive basis and, of course, the overwhelming amount of our procurement is noncompetitive.

Furthermore, Admiral Rickover estimates that at least \$2 billion per year is wasted exclusive of that from procurements because of high profits. So I would like to ask you this question: Does the Bureau of the Budget scrutinize the defense budget with the knowledge of the immense waste in this program? [Laughter.]

Mr. ZWICK. Let me comment several different ways. Let me first join with all in our interest in efficient government and efficient management. A major responsibility of the Bureau of the Budget is this

¹ "Economic Report of the President, Transmitted to the Congress, January 1969. Together with the Annual Report of the Council of Economic Advisers," available from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

area of management efficiency. Second, let me go directly to the general charges of waste. They are obviously easy to make. The Congressional Quarterly study in particular is one that both Secretary Clifford and I commented on last fall when you asked for our comments on them. I find a great number of items in which I certainly cannot concur. It is not only waste we are dealing with, but an issue of national security.

Senator PROXMIRE. That is why I asked Mr. Okun about the Congressional Quarterly. I would wholeheartedly agree that the Congressional Quarterly recommendations which I support are a matter of defense strategy in part, although they said that half of their recommendation was to reduce military personnel which they say was wasted so badly. They point out, for example, that we have 20 officers in Vietnam for every command post; that we have the greatest ratio of logistical supply to supply troops in the history of mankind by far in Vietnam. But I am asking you about whether or not the defense budget is scrutinized as carefully as, for example, dollar for dollar, as the OEO budget and HUD budget, and so forth.

Mr. ZWICK. This is a replay on our discussion last September. Defense is a big department. We obviously do not get into as great detail in that Department as we do in some other departments. This varies from department to department.

The analogy—the counterexample I gave you last September—was the Post Office. At that time the Postmaster General was about to close down certain fourth-class post offices because of the Revenue and Expenditure Control Act employment rollback provision.

I do not try to second guess the Postmaster General as to how to reduce personnel. Similarly, I do not try to second guess the Joint Chiefs of Staff as to the need for support personnel in Vietnam. Obviously, that is related to providing essential equipment to the people in the field, and we have to think a little bit about effectiveness in support of our people.

I cannot say to you that we give equal, evenhanded treatment to all agencies. But I think it is a mistake to say that we treat Defense in one fashion and all other agencies in another fashion.

Senator PROXMIRE. I will be back. My time is up.

Chairman PATMAN. Mr. Rumsfeld?

Representative RUMSFELD. Mr. Zwick, I would like to turn the conversation from a discussion of simply the quantitative approach which seems to be the focus of much of the material before us, and ask some questions about the qualitative aspects of some of this.

I notice in one of your budget documents, the smaller one,¹ on pages 66 and 67, that you have a budget outlay by function and subfunction.

Mr. ZWICK. Yes.

Representative RUMSFELD. Now, obviously these subfunctions cut across different departments and agencies. Some programs that are tabulated there with dollar figures for fiscal years 1959 through 1970 are in one department, some in another, within the same function. Is that correct?

Mr. ZWICK. That is correct.

¹ "The Budget in Brief, Fiscal Year 1970," available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

Representative RUMSFELD. Now, to compile that information you use computers and feed in figures that have come from various agencies after you have decided which functional category you want to use. Then you ascertain which activities in each department or agency fit within that function or subfunction. Is that right?

Mr. ZWICK. Yes.

Representative RUMSFELD. So somewhere you have a list of all the programs by statute that comprise each one of the aggregate figures in each function and subfunction. Right?

Mr. ZWICK. We have all the appropriation accounts classified by function and subfunction.

Representative RUMSFELD. Right. But I mean arranged by function and subfunction.

Mr. ZWICK. Yes.

Representative RUMSFELD. Community development and housing; education and manpower is another function.

Mr. ZWICK. Yes.

Representative RUMSFELD. Commerce and transportation; natural resources; right?

Mr. ZWICK. Right.

Representative RUMSFELD. Now, if you have that material then you also have material that would indicate what the cost or funding for each one of those statutory programs might be, regardless of the department, arranged by function, and so forth.

Mr. ZWICK. Right; yes.

Representative RUMSFELD. Then, you also have information which would indicate the units of some kind of a benefit or goal. For example, if it is housing, the number of housing units. If it is training, the number of hours of training per person; right?

Mr. ZWICK. You are, of course, defining the planning, programing, and budgeting system.

Representative RUMSFELD. Right.

Mr. ZWICK. I will be happy either to interrupt at this point and say what we are doing—

Representative RUMSFELD. You have that?

Mr. ZWICK. We have attempts at this type of information. Again, I think it would be unfair to leave the impression that we have somewhere down in the Executive Office nice, neat, benefit-to-cost ratios so that you can just array all programs and then slice the line at some point, and "above" they go in and "below" they go out. Let me give you an example.

Representative RUMSFELD. No. Let me go on a minute. I want to make sure I understand exactly what you do and do not have. You have had this information broken down roughly by the types of people that benefit, for example, by sex, by age group?

Mr. ZWICK. That is right; in some cases.

Representative RUMSFELD. By race, by the area they live in, urban, suburban, rural, that kind of information. You have all of that?

Mr. ZWICK. No; I am sorry.

Representative RUMSFELD. You have part of it?

Mr. ZWICK. We are making attempts to gather that information. The certainty with which you are saying this is what is making me nervous. The concept——

Representative RUMSFELD. The last thing I want to do is make you nervous at one of your last appearances.

Mr. ZWICK. The concept is fine. The detail and accuracy I still question.

Representative RUMSFELD. You talked about all the money you are going to spend in crime, as I recall, when you were responding to one of the questions.

Mr. ZWICK. Right.

Representative RUMSFELD. Do you have a function on crime here?

Mr. ZWICK. We have a new special analysis on crime reduction in the "Special Analysis" volume of the 1970 Budget. I think again, it is a very good example of the point you are making. We thought this was a very important new cross-cutting look which we ought to take at the budget.

Representative RUMSFELD. What is the name of that book?

Mr. ZWICK. "Special Analysis of the 1970 Budget"¹ We have for the first time an analysis of crime control programs in the Federal Government, across agencies and by activities within the agencies. Now, again, that is a preliminary first start. Hopefully, next year it will be better, and the year after that it will be still better. But certainly we agree in spirit, I think, with what you are saying.

Representative RUMSFELD. Well now, with regards to the kinds of data I have just described, what percentage of input into this system do you have? In other words, where are you, for example, in natural resources, commerce and transportation, by these broad functions? Do you have 50 percent of the data you need to present an intelligible analysis of what we are doing with the taxpayers' money or do you feel we are down around 30 percent total?

Mr. ZWICK. The best way I can answer that question is to try to measure the progress we have made. I do not quite know what the base is but I know the progress we have made and I am——

Representative RUMSFELD. We started from a very low base.

Mr. ZWICK. I am quite clear that we have made significant progress. I think over the last 3½ years since the planning-programing-budgeting system has been put in, we have demonstrated to my satisfaction the applicability of this approach across the Government. In some areas we have better data; in other areas, poorer data. A composite index that says that it is 58 or 72, I just do not know how to construct that. You will also find, Mr. Rumsfeld, in this special analyses volume for the first time, we have a new analysis which lays out the analytical program structures of the PPB system, the first time you have it available to the Congress. This analysis shows, by agency, the program structure and requested appropriations and other budget authority. It is the very last analysis, starting on page 258, and you will note the first word is "selected," but I think that

¹ Available from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

"selected" covers roughly 95 percent of the budget authority, so that I think I can say we have made substantial progress. I would be less than candid if I did not say we have got a very, very long way to go in this area.

Representative RUMSFELD. OK.

Mr. ZWICK. But the dialog has been improved significantly.

Representative RUMSFELD. You have seen the data so you can make a judgment as to how far we have to go. I would be curious to know how far we have to go. You have just described the information that you have by function and subfunction and you have indicated you have some of the data, and you do not have some. Taking "natural resources" as a function, or even as one of these subfunctions, if I asked you for the kinds of information that you do have, how it affects people, areas, types of people, and costs and unit benefit, could you supply that information to this committee?

Mr. ZWICK. We have worked with all committees. Again, what I would not like to provide you—let me tell you what I would not want to provide.

Representative RUMSFELD. Can you provide the data I just asked for.

Mr. ZWICK. We would provide all useful data. There are some first runs on benefit-cost analysis which I do not believe answers all you want.

Representative RUMSFELD. I understand that.

Mr. ZWICK. All I am trying to say is what I think is the most—

Representative RUMSFELD. What you think is reasonably accurate—

Mr. ZWICK. Surely.

Representative RUMSFELD (continuing). You could supply it in the format that I described?

Mr. ZWICK. Yes. All agencies work with their appropriations committees now and given them that sort of information. So that I do not think there is any problem.

Again, I went through a similar dialog with Chairman Proxmire last September. I do not think the problem is information downtown compared with information uptown. I think the problem is intellectual. We do not understand some of these things. The problem is just plain hard work. We have got to collect data, clean up data, et cetera.

Representative RUMSFELD. There is a great deal I do not understand.

Mr. ZWICK. I think it is really a mistake to think the problem is what data one side of the Government has and the other side of the Government does not have. It is just that we have a long way to go in developing data.

Let me just give you one very specific example in the manpower area.

Representative RUMSFELD. In a minute a piece of paper is going to be put in front of me saying my 10 minutes are up, and before that happens I would like to request that the chairman suggest that your Bureau, supply the committee with the data that you do have and that you say you would be happy to make available.

Chairman PATMAN. We have an understanding oftentimes that the member can submit the question in writing.

Representative RUMSFELD. I do not have a question. I have a request.

Chairman PATMAN. Well, you can get it up and including the request. And the—

Representative RUMSFELD. I am making the request. It is a simple one. I would like to see the data in each of these functions and sub-functions arrayed the way that you have just described you have it, supplying only the data you feel is accurate.

Chairman PATMAN. Is that information indicated on a certain page of a certain document?

Representative RUMSFELD. Only he has the document. We do not have it. It is not in any of these books he has provided.

Chairman PATMAN. If you could be more specific—

Mr. ZWICK. Mr. Rumsfeld, I first suggest that most of it is in these documents. You know, the budget document consists this year of six different items. One, the message and the rest of the budget document that you normally think of. Two, the special analytic studies—

Representative RUMSFELD. I can count but you—

Mr. ZWICK. And there is—

Representative RUMSFELD. It is not arrayed the way that you just indicated you have it.

Chairman PATMAN. Mr. Zwick, will you try to provide that information when you look over your transcript of the testimony here?

Mr. ZWICK. I would be happy to.

Chairman PATMAN. To the best of your knowledge and ability.

Mr. ZWICK. Subject to two constraints. One, it is not easy because the question of what data is good and what data is bad is a very tough one and, two, I will not be here after Monday noon. [Laughter.]

So, I want to be quite clear on the question that you are asking and the cavalier spirit with which I can say surely, we will give you all the information that we have available. [Laughter.]

Representative RUMSFELD. You are not suggesting that you do not understand my question.

Mr. ZWICK. I am saying that your statement that it is a simple question was incorrect. I do not think that is a simple thing to do.

Representative RUMSFELD. First, I asked you if you had it, and you said yes, so if you have it I cannot imagine why it would be difficult for you to supply it.

Mr. ZWICK. The question is "it" and you qualified "it" as reasonable material, not all material, but reasonable material, and that is the difficult part of it. I am not trying to—

Representative RUMSFELD. You said you did not want to send out any information you did not feel was accurate. That is fine. Do not.

Mr. ZWICK. Fine, but I am saying sorting through—

Representative RUMSFELD. If it ends with a function for "Natural Resources" with a blank paper then we will know exactly on what

the Bureau of the Budget feels they have good data. Nothing. And if it is 50-percent full, we will know that you feel it is 50-percent accurate. Do you follow me?

Mr. ZWICK. Yes; I follow you very well.

Representative RUMSFELD. You make the judgment, I do not make the judgment.

Mr. ZWICK. I follow you very clearly.

Representative RUMSFELD. There is that slip.

Chairman PATMAN. And if you can supply it, his successor will be available, I am sure, after Monday.

(The following material was subsequently supplied by the Bureau of the Budget in response to the suggestion of the Chairman:)

MATERIAL SUBMITTED BY BUDGET DIRECTOR ZWICK

As I indicated during my appearance before the Committee, dollar figures and reliable program information underlying each function and subfunction used in the functional classification of the budget are generally available, either in the budget documents printed by the Bureau of the Budget or in the extensive justification materials provided by the agencies to the Appropriations Committees of Congress.

Table 17 of the regular budget document (pages 527-530) summarizes budget outlays by function and subfunction. Code numbers are shown for each function and subfunction. Table 14 of the budget (pages 513-524) moves to a greater level of detail, showing the agencies included under each subfunction. A still more detailed breakdown is provided in Part 4 of the budget (pages 173-479), where each appropriation account of the Government is shown, by agency, with the subfunctional code number identified for each account.

A discussion of the program content of each function is included in the budget in Part 3, "Federal Activities by Function" (pages 67-171). Part 3 describes, through text and tables, the programs covered by the budget, classified by function, including relevant tables and charts on beneficiaries, workloads, or other available output measures. Samples of these tables are enclosed as Attachment A.

Additional information of this type is presented in the Appendix volume of the budget, and, as noted above, in the agency justification materials.

The Special Analyses volume contains various cross-cutting views of Federal programs which are more comprehensive than the functional categories and cover *all* activities in particular fields, even if the activity has a different primary purpose. Among the fields covered are education, manpower, health, and crime reduction.

As in the case of Part 3, these Analyses, through text and tables, portray the programs involved in each field and—to the extent available—provide data on numbers and characteristics of the beneficiaries. Samples of tables printed in the Special Analyses are enclosed as Attachment B.

In the 1970 Special Analysis volume of the budget, a new Analysis is printed entitled "Selected Agency Budgets by Program Categories." This Analysis, a copy of which is also enclosed, presents for the first time the budget authority of most Government agencies classified in terms of the program structures used in their Planning-Programming-Budgeting (PPB) systems.

As part of the PPB system, staff of the Bureau of the Budget and other executive branch agencies are using available data on benefits and beneficiaries of various programs in an attempt to identify the most efficient approaches to achieving program objectives. As the system progresses, there is every reason to expect that the agencies will continue their efforts to obtain more reliable data and improve the methods of measuring the efficiency of alternative means of reaching specified goals.

ATTACHMENT A
SELECTED TABLES FROM THE BUDGET ACCOUNT

FEDERAL ACTIVITIES BY FUNCTION

75

SUMMARY OF ACTIVE FORCES

Description	Actual		Estimated	
	June 30, 1961	June 30, 1968	June 30, 1969	June 30, 1970
Military personnel (in thousands):				
Army.....	859	1,570	1,534	1,508
Navy.....	627	765	771	772
Marine Corps.....	177	307	313	315
Air Force.....	821	905	869	861
Total, Department of Defense.....	2,484	3,547	3,487	3,455
Selected military forces:				
Strategic forces:				
Intercontinental ballistic missile squadrons:				
Minuteman.....		20	20	20
Titan.....		6	6	6
Atlas.....	5			
Polaris submarines/missiles (in commission)....	5/80	41/656	41/656	41/656
Strategic bomber squadrons:				
FB-111.....				5
B-52.....	39	34	30	24
B-58.....	6	6	6	6
B-47.....	80			
Manned fighter interceptor squadrons.....	42	24	19	19
Bomarc interceptor missile squadrons.....	7	6	6	6
Army air defense missile battalions.....	49½	20¼	15	14½
General purpose forces:				
Army divisions.....	11	18	18	18
Army maneuver battalions.....	124	218	217	218
Army aviation units.....	67	212	235	235
Army special forces groups.....	3	7	7	7
Warships (in commission):				
Attack carriers.....	15	15	15	15
Antisubmarine warfare carriers.....	9	8	7	6
Nuclear attack submarines.....	13	33	41	47
Other.....	328	328	299	279
Amphibious assault ships (in commission).....	110	157	157	141
Carrier air wings/groups (attack and ASW).....	28	23	21	20
Marine Corps divisions/aircraft wings.....	3/3	4/3	4/3	4/3
Air Force tactical forces squadrons.....	93	144	147	138
Airlift and sealift forces:				
Airlift aircraft squadrons:				
C-5A.....				2
C-130 through C-141.....	16	44	44	41
C-118/C-124 and C-7.....	35	17	12	7
Troopships, cargo ships, and tankers.....	101	130	124	124
Addenda:				
Active aircraft inventory (all programs):				
Army.....	5,564	10,465	11,622	12,018
Navy.....	8,793	8,491	8,594	8,452
Air Force ¹	16,905	15,327	15,058	14,993
Helicopters included in service aircraft, above.....	4,047	10,188	11,468	12,014
Commissioned ships in fleet (all programs).....	819	932	906	895

¹ Includes aircraft provided for support of allies.

LOW AND MODERATE INCOME HOUSING PROGRAMS—ADMINISTERED BY
FARMERS HOME ADMINISTRATION

[Estimated units started or acquired. In thousands]

Program	1968 actual	1969 estimate	1970 estimate
New construction.....	22	36	80
Rehabilitation.....	3	3	12
Purchase and repair of existing housing.....	8	6	7
Rural rental housing.....	2	3	3
Subtotal, new or rehabilitated housing.....	35	47	102
New or rehabilitated housing with aid from homeownership program ¹		1	10
Subtotal, new or rehabilitated.....	35	48	112
Purchase of existing housing.....	8	6	8
Total, housing for low- and moderate-income families.....	43	54	120

¹ Funded by the Department of Housing and Urban Development and included in the community development and housing function.

MAIL VOLUME

	1965 actual	1966 actual	1967 actual	1968 actual	1969 estimate	1970 estimate
Millions of pieces.....	71,873	75,607	77,858	79,800	82,266	84,798
Percent increase from previous year.....	3.2	5.2	3.0	2.5	3.1	3.1

LOW AND MODERATE INCOME HOUSING

[Estimated units started. In thousands]

Program	1968 actual	1969 estimate	1970 estimate
Low rent public housing	51	75	130
Rent supplements	12	21	20
Rental assistance program		7	84
Homeownership assistance		9	93
Loans for low and moderate income housing (GNMA special assistance)	44	50	32
Housing for the elderly	7	8	7
Rehabilitation loans and grants	8	16	35
Other housing in rural communities ¹	35	47	102
Total	157	233	503

¹ Funded by the Farmers Home Administration and discussed in the agriculture and agricultural resources function.

ELEMENTARY AND SECONDARY EDUCATION PROGRAMS FOR DISADVANTAGED

Program indicator	1968 actual	1969 estimate	1970 estimate
Education of children from low-income families:			
Obligations (millions)	\$1,187	\$1,123	\$1,226
Number of children participating (thousands)	9,000	9,000	9,000
Preschool and school classes for the handicapped:			
Obligations (millions)	\$14	\$29	\$29
Number of children participating (thousands)	24	182	182
Special bilingual and dropout prevention projects:			
Obligations (millions)		\$12	\$34
Number of children participating (thousands)		10	35
Head Start and Follow Through:			
Obligations (millions)	\$336	\$348	\$398
Number of children in Head Start programs (thousands):			
Full year classes	218	218	235
Summer classes	477	477	477
Parent and Child Centers	4	4	4
Number of children in Follow Through classes (thousands)	15	31	64

SELECTED MANPOWER TRAINING PROGRAMS

Program indicator	1968 actual	1969 estimate	1970 estimate
Job Opportunities in the Business Sector (JOBS):			
Outlays (millions)	\$4	\$121	\$239
Total individuals served (thousands)	33	167	220
Individuals aided with Federal funds (thousands) ¹	16	80	160
Percent less than high school graduates	90	92	95
Percent male	60	75	80
Work Incentive (WIN) program:			
Outlays (millions)		\$90	\$163
Number of States participating		38	50
Individuals served (thousands) ¹		130	175
Percent female		80	80
Children receiving child care (thousands)		50	146
Job Corps:			
Outlays (millions)	\$318	\$277	\$283
Number of centers	108	113	113
Individuals served (thousands) ¹	65	70	70
Percent less than high school graduates	88	90	92
Concentrated Employment Program (CEP):			
Outlays (millions)	\$71	\$163	\$193
Areas served	62	82	82
Individuals served (thousands) ¹	54	105	115
Percent male	48	55	65
Percent less than high school graduates	78	78	78

¹ The number of individuals served is greater than the number of "slots" or "job opportunities" because several individuals may receive training through a single federally funded position.

HEALTH RESOURCES

[Dollars in millions]

Program indicator	1960 actual	1964 actual	1968 actual	1969 estimate	1970 estimate
General hospitals:					
Cumulative number of beds meeting construction standards at end of year.....	(1)	(1)	535,000	560,000	580,000
Total number of beds constructed or modernized during year.....	(1)	(1)	28,000	30,000	28,000
Number of beds aided by Hill-Burton program during year.....	14,057	14,834	15,708	17,000	15,000
Outlays.....	\$149	\$142	\$134	\$159	\$160
Long-term care facilities:					
Cumulative number of beds meeting construction standards at end of year.....	(1)	(1)	480,000	510,000	535,000
Total number of beds constructed or modernized during year.....	(1)	(1)	56,000	55,000	54,000
Number of beds aided by Hill-Burton program during year.....	4,412	8,106	8,495	10,000	9,000
Outlays.....	\$18	\$35	\$57	\$49	\$49
Community mental health centers:					
Federally aided centers (cumulative).....			331	443	556
Outlays for:					
Construction aid.....			\$12	\$25	\$44
Staffing support.....			\$24	\$17	\$38
Population served (millions).....			51	69	86
Medical and osteopathy schools:					
Number in the Nation.....	91	92	100	104	106
Number federally aided (construction).....			10	9	15
Federal outlays for construction.....			\$41	\$61	\$85
Physicians and osteopaths:					
Total number of students enrolled.....	31,984	33,901	36,438	36,900	37,900
Number graduated.....	7,508	7,690	8,395	8,301	8,500
Number of students receiving Federal scholarships or loans.....	1,500	3,263	15,582	16,276	16,688
Outlays for scholarships and loans.....	\$0.9	\$2	\$19	\$19	\$19
Nurses:					
Total number of students enrolled.....	115,057	124,744	141,948	146,000	150,000
Number of students graduated.....	30,113	35,259	40,000	38,700	39,200
Number of students receiving Federal scholarships or loans.....	(1)	(1)	24,532	27,000	29,000
Outlays for scholarships and loans.....	(1)	(1)	\$18	\$20	\$24

1 Comparable data not available.

SELECTED FEDERAL HEALTH CARE PROGRAMS

[Dollars in millions]

Program indicator	1960 actual	1964 actual	1968 actual	1969 estimate	1970 estimate
Medicare (millions):					
Number of aged individuals.....			19.8	20.1	20.5
Covered by hospital insurance.....			19.6	19.8	20.1
Using insurance during the year.....			3.9	4.1	4.2
Covered by insurance for doctor bills.....			18.2	18.8	19.1
Using insurance during the year.....			7.7	8.2	8.5
Outlays (trust funds).....			\$5,332	\$6,222	\$6,851
Medicaid: ¹					
Number of States and jurisdictions participating.....			42	47	54
Number of individuals served (mil- lions).....	2.6	4.1	8.6	9.5	10.2
Total Federal, State, and local pay- ments.....	\$420	\$1,144	\$3,686	\$4,612	\$5,797
Federal outlays.....	\$197	\$538	\$1,806	\$2,384	\$2,971
Maternal and child health:					
Crippled children served (thousands) ..	372	423	485	500	500
Number of maternity centers.....			53	53	54
Admissions to maternity centers (thousands).....			162	187	190
Number of youth care centers.....			58	58	59
Number served at youth care centers (thousands).....			220	285	400
Number of federally aided family plan- ning participants (thousands).....			420	850	1,325
Outlays.....	\$38	\$58	\$164	\$193	\$216
Indians:					
Number eligible (thousands).....	362	380	390	404	408
Admissions to hospitals (thousands) ..	77	90	92	95	96
Outpatient visits to hospitals and field clinics (thousands).....	1,130	1,294	1,575	1,660	1,775
Outlays.....	\$54	\$66	\$84	\$105	\$110
Other beneficiaries:					
Number eligible (thousands).....	379	399	404	414	418
Admissions to hospitals (thousands) ..	52	51	50	50	50
Outpatient visits to hospitals and field clinics (millions).....	1.2	1.4	1.7	1.8	1.9
Outlays.....	\$50	\$53	\$75	\$82	\$80

¹ Numbers prior to 1968 refer to medical assistance for the aged and general medical assistance provided under public assistance programs.

SOCIAL INSURANCE

Program indicator	Number of beneficiaries (thousands)			Payments ¹ (millions of dollars)		
	1968 actual	1969 estimate	1970 estimate	1968 actual	1969 estimate	1970 estimate
Social Security:						
Retired workers and their dependents.....	15,085	15,526	15,951	14,837	16,996	17,715
Disabled workers and their dependents.....	2,141	2,366	2,524	2,088	2,521	2,658
Survivors of deceased workers..	5,535	5,853	6,185	5,423	6,191	6,430
Disabled children of retired and deceased workers.....	219	232	247	160	194	209
Benefits to noninsured persons age 72 and over.....	729	679	598	318	329	282
Railroad Retirement:						
Retired workers and their dependents.....	542	542	541	849	914	922
Disabled workers and their dependents.....	99	99	99	179	192	194
Survivors of deceased workers..	315	320	325	326	362	370
Supplemental annuities.....	34	49	62	25	38	45
Civil Service:						
Retired workers and their dependents.....	432	451	470	1,285	1,418	1,566
Disabled workers and their dependents.....	174	182	190	380	419	463
Survivors of deceased workers..	260	271	283	291	321	355
Unemployment Insurance:						
Workers receiving compensation:						
Unemployed workers insured under State accounts.....	4,336	5,000	5,000	2,074	2,210	2,290
Unemployed railroad workers.....	296	174	170	76	96	93
Unemployed Federal civil servants.....	71	71	71	47	49	51
Unemployed ex-servicemen..	148	149	149	58	62	64

¹ Does not include increases of \$1.6 billion in social security benefits and \$19 million in railroad retirement benefits which will result from proposed legislation.

PUBLIC ASSISTANCE

[Dollars in millions]

Program indicator	1968 actual	1969 ¹ estimate	1970 ¹ estimate
Old age assistance:			
Average number of recipients (thousands)	2,055	2,099	2,084
Payments to recipients:			
Total, Federal, State, and local	\$1,700	\$1,833	\$2,030
Federal share	\$1,137	\$1,204	\$1,308
Aid to the blind:			
Average number of recipients (thousands)	82	83	84
Payments to recipients:			
Total, Federal, State, and local	\$89	\$92	\$99
Federal share	\$52	\$54	\$5
Aid to the permanently and totally disabled:			
Average number of recipients (thousands)	646	715	785
Payments to recipients:			
Total, Federal, State, and local	\$620	\$726	\$850
Federal share	\$367	\$434	\$499
Aid to families with dependent children: ²			
Average number of recipients (thousands):			
Families	1,308	1,504	1,702
Children	4,013	4,594	5,196
Recipients: Children and adults	5,349	6,146	6,956
Payments to recipients:			
Total, Federal, State, and local	\$2,536	\$3,232	\$3,944
Federal share	\$1,395	\$1,731	\$1,847
Emergency assistance:			
Average number of recipients (thousands)		15	37
Payments to recipients:			
Total, Federal, State, and local		\$11	\$32
Federal share		\$6	\$16
Total: ³			
Average number of recipients (thousands)	8,132	9,058	9,955
Payments to recipients:			
Total, Federal, State, and local	\$4,945	\$5,894	\$6,955
Federal share	\$2,950	\$3,428	\$3,730

¹ Includes Federal payments for intermediate care which will amount to \$33 million in 1969 and \$82 million in 1970. Total Federal, State, and local payments will amount to \$61 million in 1969 and \$149 million in 1970.

² Freeze on AFDC caseload assumed in effect as of July 1, 1969.

³ Excludes a reduction of \$81 million in outlays which will result from proposed legislation increasing social security benefits.

SERVICE-CONNECTED COMPENSATION

Program indicator	1968 actual	1969 estimate	1970 estimate
Veterans:			
Disability 30% or less:			
Average number of beneficiaries (thousands)	1,437	1,441	1,438
Total payments (millions)	\$606	\$624	\$641
Average annual payment	\$422	\$433	\$446
Disability 40%-100%:			
Average number of beneficiaries (thousands)	566	574	582
Total payments (millions)	\$1,348	\$1,460	\$1,568
Average annual payment	\$2,382	\$2,544	\$2,694
Survivors:			
Average number of beneficiaries (thousands)	365	369	373
Total payments (millions)	\$517	\$526	\$532
Average annual payment	\$1,416	\$1,425	\$1,426

NON-SERVICE-CONNECTED PENSIONS

Program indicator	1968 actual	1969 estimate	1970 estimate
Veterans:			
Average number of beneficiaries (thousands)	1,170	1,146	1,143
Total payments (millions)	\$1,272	\$1,286	\$1,293
Percent for pensioners with \$1,000 or less outside income	43.5	43.8	44.2
Average annual payment	\$1,088	\$1,123	\$1,131
Survivors:			
Average number of beneficiaries (thousands)	1,049	1,106	1,170
Total payments (millions)	\$779	\$850	\$905
Percent for pensioners with \$1,000 or less outside income	60.9	61.0	61.1
Average annual payment	\$743	\$769	\$773

LIFE INSURANCE

Program indicator	1968 actual	1969 estimate	1970 estimate
Veterans life insurance trust funds:			
Number of policies (thousands)	4,814	4,745	4,664
Insurance in force (billions)	\$31.2	\$30.7	\$29.9
Payments to policyholders and beneficiaries (millions)	\$846.1	\$903.1	\$942.3
Veterans life insurance revolving funds:			
Number of policies (thousands)	899	895	888
Insurance in force (billions)	\$7.5	\$7.5	\$7.5
Payments to policyholders and beneficiaries (millions)	\$37.9	\$46.1	\$53.3
Servicemen's group life insurance:¹			
Number of policies (thousands)	3,800	3,800	3,800
Insurance in force (billions)	\$37.8	\$37.8	\$37.8
Payments to policyholders and beneficiaries (millions)	\$202.9	\$217.0	\$186.0

¹ Funded under the Department of Defense, in the national defense function.

FEDERAL ACTIVITIES BY FUNCTION

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EDUCATION AND TRAINING

Program indicator	1968 actual	1969 estimate	1970 estimate
Veterans education and training (GI Bill):			
Higher education:			
Average number of trainees (thousands)	169	244	289
Payments (millions)	\$335	\$466	\$513
Below college level:			
Average number of trainees (thousands)	135	177	199
Payments (millions)	\$93	\$120	\$156
Vocational rehabilitation for disabled veterans:			
Average number of trainees (thousands)	7	10	12
Payments (millions) ¹	\$23	\$31	\$38
Children of deceased or totally disabled veterans:			
Average number of trainees (thousands)	17	18	18
Payments (millions)	\$38	\$38	\$38
Widows of deceased or totally disabled veterans:			
Average number of trainees (thousands)		1	9
Payments (millions)		\$1	\$17

¹ Includes subsistence payments classified under other veterans benefits and services.

VA HOSPITAL SERVICES

Program indicator	General hospitals				Psychiatric hospitals			
	1968 actual	1969 esti- mate	1970 esti- mate	Percent change, 1970 over 1969	1968 actual	1969 esti- mate	1970 esti- mate	Percent change, 1970 over 1969
Number of patients treated (thousands).....	643	652	665	1.9	119	115	110	-4.1
Average daily patient load (thousands).....	54	52	52	- .8	44	42	40	-4.1
Estimated length of stay (days).....	31	29	28	-2.7	134	132	132	-----
Average cost per day of care (dollars).....	39	43	46	7.1	20	22	24	7.0
Cost per patient treated (dollars).....	1,198	1,267	1,320	4.1	2,634	2,918	3,122	7.0
Total cost (millions of dol- lars).....	770	827	878	6.2	314	335	343	2.6

TREASURY PROGRAMS

[Budget authority in millions]

Program indicator	1968 actual	1969 estimate	1970 estimate
Collection of internal revenue and customs duties	\$747.8	\$815.8	\$867.5
Number of returns processed by Internal Revenue (millions)...	107.6	110.3	112.8
Number of returns examined and disposed of (millions).....	2.9	2.7	3.0
Number of formal import entries filed (millions).....	2.3	2.4	2.6
Number of persons arriving in United States (millions).....	213.8	225.0	238.0
Administration of Government finances	\$98.6	\$107.0	\$110.4
Number of savings-type securities issued (millions).....	130.1	144.1	148.2
Number of savings-type securities retired (millions).....	112.7	116.8	126.4
Number of checks issued (millions).....	440.4	459.9	472.1
Manufacture and distribution of coins, currency, and other fi- nancial instruments	\$14.2	\$15.2	\$19.4
Currency produced and shipped (billions of pieces).....	2.1	2.4	2.6
Coins produced (billions of pieces).....	5.9	5.6	7.5
Special law enforcement	\$63.5	\$73.1	\$86.4
Number of investigations and cases completed (thousands)...	149.5	150.0	171.6

ATTACHMENT B
SELECTED TABLES FROM SPECIAL ANALYSES VOLUME

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Table J-6. NUMBER OF CHILDREN ENROLLED IN PROGRAMS FOR THE DISADVANTAGED (in thousands)

Federal program	1968 actual	1969 estimate	1970 estimate
Education of children from low-income families.....	9,000	9,000	9,000
Special classes for the mentally and physically handicapped.....	24	182	182
Head Start:			
Full year.....	218	218	235
Summer.....	477	477	477
Parent and Child Centers.....	4	4	4
Follow Through classes.....	15	31	64
Dropout prevention projects and classes for children from non- English-speaking homes.....		10	35

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Table J-7. NUMBER OF TEACHERS IN TRAINING OR RETRAINING

Federal program	1968 actual	1969 estimate	1970 estimate
Office of Education:			
Education Professions Development Act:			
Short-term.....	23,010	26,580	30,300
Full-year graduate fellowships.....	3,941	5,145	5,240
Short-term trainees under grants to States.....		9,000	9,000
Teachers of the handicapped:			
Short-term.....	8,938	11,184	11,184
Full-year graduate fellowships.....	4,331	5,306	5,173
Civil Rights Educational assistance:			
Short-term.....	8,468	8,468	12,410
Teacher Corps members in service.....	1,873	1,979	2,389
Subtotal, Office of Education.....	50,561	67,662	75,696
Office of Economic Opportunity: Head Start:			
Short-term training.....	50,000	50,000	50,000
National Science Foundation: Short-term.....	44,915	41,613	41,996
Total, teachers in training.....	145,476	159,275	167,692

Table J-8. NUMBER OF SECONDARY SCHOOL STUDENTS IN VOCATIONAL EDUCATION (in thousands)

Vocational program	1968 actual	1969 estimate	1970 estimate
Occupational education:			
Basic grants to States.....	2,775	3,300	4,150
Cooperative school employer programs.....			98
Exemplary vocational projects.....			45
Subtotal, occupational.....	2,775	3,300	4,293
Homemaking and consumer education.....	2,000	2,000	2,000

Table J-9. NUMBER OF CHILDREN PARTICIPATING IN SPECIAL FEDERAL PROGRAMS (in thousands)

Program	1968 actual	1969 estimate	1970 estimate
Enrolled in overseas dependents schools.....	166	191	197
Federally "connected" children in "impacted area" schools.....	2,564	2,688	2,688
Enrolled in Department of the Interior Indian schools.....	56	58	60
Enrolled in Trust Territory, Guam, and Samoan schools.....	53	56	61

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Table J-12. NUMBER OF UNDERGRADUATE STUDENTS RECEIVING STUDENT AID, AND AVERAGE AMOUNT PER RECIPIENT, BY MAJOR PROGRAM AND STUDENT FAMILY INCOME QUARTILE: 1966-67 (number of students in thousands; average amount of aid in dollars)

Student aid program	Highest family income quartile		Lowest family income quartile		Total, all family income quartiles	
	Number of students	Average amount of aid	Number of students	Average amount of aid	Number of students	Average amount of aid
State and private aid administered by institutions.....	83	\$169	231	\$628	660	\$400
Federally supported student aid:						
Work-study.....	13	462	97	1,052	184	826
Educational opportunity grants.....	4	250	56	589	134	433
Veterans benefits.....	32	990	20	990	157	990
Student loans, NDEA.....	63	635	125	552	376	588
Guaranteed loans.....	159	874	65	800	430	837
All student aid programs—estimated students, unduplicated.....	274	847	285	1,477	1,171	1,035
Total full-time undergraduate students in U.S. institutions.....	1,940		302		4,058	
Percent undergraduates receiving aid.....	14		94		29	

Source: Adapted from tables 10, A-18 and A-21, *Students and buildings*, Office of Education Planning Document 68-2, May 1968.

Table J-14. UNDERGRADUATE STUDENT SUPPORT¹
(Outlays in millions of dollars; number of awards in thousands)

Sublevel and agency	Total outlays			Grants			Loans		Work-study		
	1968 actual	1969 estimate	1970 estimate	1968 actual	1969 estimate	1970 estimate	1968 actual	1969 estimate	1968 actual	1969 estimate	1970 estimate
Total.....	1,059	1,300	1,454	1,062	1,269	1,379	864	1,093	349	349	344
2-year institutions.....	245	307	360	298	357	375	172	243	56	56	56
Other undergraduate.....	814	993	1,094	764	912	1,004	692	850	293	293	289
Defense.....	17	18	20	12	14	15					
Health, Education, and Welfare:											
Office of Education.....	390	462	530	243	259	309	2 839	2 1,066	349	349	344
Health Services and Mental Health Administration and NIH.....	19	239	25	8	10	12	25	27			
Social Security Administration.....	306	368	392	341	381	413					
Veterans Administration.....	323	425	482	3454	3 601	3 627					
Other.....	5	5	5	4	3	3					

¹ Involves some duplication because students may be assisted under more than one program.

² Includes insured loans: 474 thousand in 1968; 690 thousand in 1969; and 850 thousand in 1970.

³ Total number of individual students aided which differs from the average number of veterans in training during the year used in other references in the 1970 Budget

Note.—Number of awards is based on outlays and may not be consistent with data based on budget authority in other parts of the budget.

Table J-15. GRADUATE STUDENT SUPPORT¹ (excludes graduate support for elementary and secondary teachers shown on p. 120)
(Outlays in millions of dollars; number of awards in thousands)

Sublevel and agency	Total outlays			Fellowships, traineeships and other grants			Loans		
	1968 actual	1969 estimate	1970 estimate	1968 actual	1969 estimate	1970 estimate	1968 actual	1969 estimate	1970 estimate
Total.....	396	452	481	213	250	264	106	126	133
Graduate and professional.....	315	366	395	203	236	251	106	126	133
Post-doctoral.....	81	86	86	10	14	13			
Health, Education, and Welfare:									
Office of Education.....	49	50	54	29	29	30	2	106	2
Health Services and Mental Health Administration and NIH.....	183	198	207	81	88	98			133
Other.....	8	8	9	3	3	3			
Veterans Administration.....	118	154	174	485	4118	4122			
National Science Foundation.....	22	25	25	9	8	8			
Other ³	16	15	13	6	5	4			

¹ Number of awards may involve some duplication because students may be assisted under more than one program.

² Includes insured loans; 41 thousand in 1968; 60 thousand in 1969; and 74 thousand in 1970.

³ Includes AEC, NASA, DOT, HUD, and DOD.

⁴ Total number of individual students aided which differs from the average number of veterans in training during the year used in other references in the 1970 Budget.

Note.—Number of awards is based on outlays and may not be consistent with data based on budget authority in other parts of the budget.

Table K-1. FEDERAL OUTLAYS AND INDIVIDUALS SERVED BY PROGRAM

(dollars in millions, individuals in thousands)

Program	Outlays				Individuals served ¹			
	1964 actual	1968 actual	1969 est.	1970 est.	1964 actual	1968 actual	1969 est.	1970 est.
Job Opportunities in the Business Sector (JOBS)-----		4	121	239		16	80	160
Concentrated Employment Program (CEP)-----		71	163	193		54	105	115
Work Incentive Program (WIN)-----			90	163			130	175
Vocational Rehabilitation-----	84	281	369	509	179	335	415	505
MDTA Institutional and OJT training-----	98	321	338	330	78	272	290	290
Job Corps-----		318	277	283		65	70	70
Neighborhood Youth Corps (NYC) ² -----		336	321	321		538	490	490
U.S. Employment Service (ES)-----	181	312	341	378	(³)	(³)	(³)	(³)
Other programs-----	40	395	421	448	21	242	220	230
Subtotal-----	403	2,038	2,441	2,864	278	1,522	1,800	2,035
Civilian skill training—Defense-----	332	570	595	630	(³)	(³)	(³)	(³)
Grand total-----	735	2,608	3,036	3,494	278	1,522	1,800	2,035

¹ Individuals served for each program are estimated new participants during a fiscal year and are greater than the number of "slots" or "job opportunities" because several individuals may receive training through a single federally funded position. Persons served by several programs are counted only once. Agency data for individuals served by program are not always comparable, and several of the above entries are derived figures.

² Amounts for summer programs reported in this analysis are on a calendar year basis.

³ Data for this program are not comparable to other programs.

Table K-2. INSTITUTIONAL TRAINING PROGRAM LEVELS

(dollar amounts in millions, individuals in thousands)

Program	Outlays			Budget authority 1970 est.	Individuals served		
	1968 actual	1969 est.	1970 est.		1968 est.	1969 est.	1970 est.
MDTA Institutional Training-----	254	268	260	239	147	160	160
Job Corps-----	318	277	283	280	65	70	70
WIN and CEP-----	30	112	171	199	19	80	90
Other-----	24	24	42	51	27	35	45
Total-----	626	681	756	769	258	345	365

Table K-3. ON THE JOB TRAINING PROGRAM LEVELS
(dollar amounts in millions, enrollees thousands)

Program	Outlays			Budget authority 1970 est.	Individuals served		
	1968 actual	1969 est.	1970 est.		1968 actual	1969 est.	1970 est.
JOBS.....	4	121	239	420	16	80	160
MDTA Regular OJT.....	67	70	70	66	125	130	130
New Careers ¹	24	35	38	47	12	15	20
Industry Incentive.....	6	12	14	20	3	5	10
Other.....	12	63	91	97	26	55	50
Total.....	113	301	452	650	182	285	370

¹ Includes estimated portion of CEP funding for New Careers.

SPECIAL ANALYSES

Table K-4. REHABILITATION PROGRAM LEVELS
(dollar amounts in millions, enrollees in thousands)

Program	Outlays			Budget authority 1970 est.	Individuals served		
	1968 actual	1969 est.	1970 est.		1968 est.	1969 est.	1970 est.
Vocational rehabilitation.....	281	369	509	564	335	415	505
Veterans vocational rehabilitation.....	23	31	38	38	9	15	15
Total.....	304	400	547	602	344	430	520

Table K-5. WORK SUPPORT PROGRAM LEVELS
(dollar amounts in millions, enrollees in thousands)

Program	Outlays			Budget authority 1970 est.	Individuals served		
	1968 actual	1969 est.	1970 est.		1968 est.	1969 est.	1970 est.
NYC school and summer ¹	193	185	185	188	413	375	375
NYC out of school.....	143	136	136	134	125	115	115
Operation Mainstream.....	31	38	38	42	13	15	15
WIN and CEP.....	25	97	118	134	22	125	170
Other.....	184	121	75	76	165	110	105
Total.....	576	577	552	574	738	740	780

¹ Persons served by both school and summer programs are counted only once.

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INDICATORS OF THE LEVEL OF EFFORT

Table K-7. INDIVIDUALS AND MAN-YEARS BY MAJOR APPROACH
(in thousands)

Approach	Individuals served		1970 Average duration (months) est.	Man-years	
	1968 est.	1970 est.		1968 est.	1970 est.
On-the-Job Training.....	182	370	6.3	53	205
Institutional training.....	258	365	5.3	114	170
Disability rehabilitation.....	344	520	12.9	389	560
Work Support:					
School.....	531	475	3.4	241	180
Post-school.....	207	305	5.1	127	140
Total.....	1,522	2,035	-----	924	1,255

TABLE K-8. 1970 PARTICIPANT AND MAN-YEAR UNIT COST ¹

Approach	Man-year cost est.	Partici- pant cost est.	Estimated distribution of participant cost by percent		
			Allow- ances	Educa- tion and training	Other
On-the-job training.....	\$2,500	\$1,300	14	10	76
Institutional training.....	4,750	2,100	34	31	35
Disability rehabilitation.....	1,200	1,300		32	68
Work support:					
In-school.....	1,550	450	85	2	13
Post-school.....	2,300	1,000	51	16	33

¹ Includes State and local cost sharing.

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Table K-9. ESTIMATED CHARACTERISTICS OF GENERAL LABOR FORCE, ADULT POVERTY POPULATION, AND MANPOWER PROGRAM PARTICIPANTS—(in percent)

Characteristics	Total U.S. work force 1967 (age 16-64), civilian, non- institutional	Poverty population 1966 (age 16-64), civilian, non- institutional	Manpower programs, individuals served 1968 (age 14 and above) ¹
Aged 21 or less.....	14	22	64
Aged 55 or more.....	14	20	4
Male.....	63	39	57
Less than high school education.....	³ 39	(2)	80
8th grade education or less.....	³ 19	(2)	11
Poor.....	11	100	86
Welfare recipients.....	1	15	23
Nonwhite.....	11	35	44

¹ Agency data are not always comparable and all of the entries are estimates.² Not available.³ For work force age 18-64.

Table K-10. ESTIMATED CHARACTERISTICS OF ENROLLEES BY APPROACH IN 1968—(in percent)

Approach	Poor	Less than high school	Non-white	21 or younger	Male	Welfare recipient
OJT.....	53	50	41	30	68	8
Institutional.....	80	68	63	57	62	19
Rehabilitation.....	68	58	23	22	56	12
Work support:						
In-school.....	98	98	50	100	56	28
Post school.....	99	80	52	55	50	45
Total.....	86	80	44	64	57	23

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Table L-2. FEDERAL OUTLAYS FOR HEALTH RESEARCH (in millions of dollars)

	1968 actual	1969 estimate	1970 estimate
Basic and targeted research.....	1,482	1,417	1,564
Selected targeted research:			
Cancer research.....	(181)	(155)	(171)
Cardiovascular research.....	(158)	(140)	(153)
Mental health research.....	(46)	(52)	(52)
Neurological diseases and blindness research.....	(113)	(95)	(109)
Air pollution and environmental research ¹	(63)	(76)	(90)
Research facilities construction.....	65	59	75
Research, total.....	1,547	1,476	1,639

¹ HEW only. Estimates for other agencies not available.

Table L-3. FEDERALLY AIDED HEALTH TRAINING AND EDUCATION

	Outlays (in millions of dollars)			Numbers (in thousands) ¹		
	1968	1969	1970	1968	1969	1970
Degree or certificate training:						
Research training.....	106	120	118	13.7	14.3	13.5
Physician training.....	82	112	133	26.2	31.5	27.1
Completing training.....				4.3	4.8	3.4
Dentist training.....	15	24	33	9.5	10.5	9.6
Completing training.....				2.3	2.4	2.1
Nurse training.....	53	57	56	38.9	45.0	42.6
Completing training.....				16.2	18.6	16.6
Other health professions training.....	58	71	80	14.5	18.8	19.5
Completing training.....				5.3	6.4	6.9
Paramedical training.....	8	9	10	6.7	9.2	9.7
Completing training.....				19.8	25.3	27.6
All other training.....	305	359	381	79.4	117.5	126.1
Total.....	626	752	812	236.8	304.3	304.7

¹ Numbers in any given year may reflect the impact of expenditures in prior years.

Table L-4. **FEDERALLY AIDED HEALTH PROFESSIONS SCHOOL CONSTRUCTION**

	Outlays (in millions of dollars)			First-year spaces added ¹		
	1968	1969	1970	1968	1969	1970
Medical schools.....	43	60	81	450	279	439
Dental schools.....	9	15	19	200	114	180
Other health professions schools.....	1	3	4	164	94	149
Nursing schools.....	8	11	17	1,336	1,235	570
Allied health professionals schools.....	*	*	*	337	400	-----
Total.....	61	89	121	-----	-----	-----

*Less than \$500 thousand.

¹ Numbers reflect the impact of obligations in given years.

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Table L-5. **HILL-BURTON PROJECTS APPROVED, COMPLETED, AND IN OPERATION, JULY 1, 1947-JUNE 30, 1968**

Type of facility	Total projects approved			Projects completed and in operation		
	Beds or (projects)	Cost (millions)		Beds or (projects)	Cost (millions)	
		Total	Federal share		Total	Federal share
Total.....	413,797	\$10,048	\$3,108	333,518	\$7,486	\$2,376
General hospitals.....	305,310	7,446	2,246	250,923	5,657	1,759
Long-term care.....	80,021	1,178	395	55,371	759	252
Mental hospitals.....	21,042	247	78	19,850	221	74
Tuberculosis hospitals.....	7,424	75	27	7,374	74	27
Diagnostic or treatment centers.....	(927)	482	158	(738)	314	108
Rehabilitation facilities.....	(454)	327	107	(360)	231	78
Public health centers.....	(1,189)	244	85	(1,084)	190	69
State health labs.....	(38)	49	12	(34)	41	9

Table L-6. HOSPITAL AND HEALTH FACILITY CONSTRUCTION

	Outlays (in millions of dollars)			Numbers of beds or (projects) ¹		
	1968	1969	1970	1968	1969	1970
Federally supported construction of hospitals and other facilities:						
General hospitals.....	138	168	173	15,906	17,053	15,224
Long-term care facilities.....	75	71	74	8,495	10,000	9,128
Community mental health centers.....	12	25	44	(62)	(86)	(86)
Sewer and sanitation facilities.....	80	140	156	-----	-----	-----
Other.....	60	25	78	-----	-----	-----
Federal hospitals and health facilities:						
Hospitals.....	70	105	144	2,607	8,486	3,671
Nursing homes.....	5	2	1	1,709	662	-----
Other facilities.....	30	59	58	-----	-----	-----
Total outlays.....	470	595	728	-----	-----	-----

¹ Numbers in any given year may reflect the impact of expenditures in prior years, and include beds added, modernized, and replaced.

Table L-8. PROVISION OF HOSPITAL AND MEDICAL SERVICES

	Outlays (in millions of dollars)			Numbers treated (in thousands)		
	1968	1969	1970	1968	1969	1970
Provision of direct Federal hospital and medical services.....	2,738	2,896	2,996	-----	-----	-----
Inpatients treated.....	1,905	2,031	2,095	2,240	2,297	2,331
Clinic and physician visits.....	833	864	901	65,971	68,969	71,361
Payments for hospital and medical services.....	8,025	9,622	10,981	-----	-----	-----
Inpatients treated.....	5,530	6,598	7,666	6,803	7,345	7,686
Clinic and physician visits.....	2,496	3,024	3,316	(¹)	(¹)	(¹)
Total.....	10,764	12,518	13,977	-----	-----	-----

¹ Not available.

Table L-9. SELECTED INFANT MORTALITY RATES ¹

	Infant mortality rate per 1,000 live births			
	1964	1965	1966	1967
Nationwide.....	24.8	24.7	23.7	22.1
Major cities with maternity and infant care projects:				
Baltimore.....	² 31.0	28.4	28.0	26.8
Chicago.....	² 30.4	33.3	32.5	29.4
District of Columbia.....	34.5	² 34.7	35.3	32.6
Houston.....	28.4	25.0	² 26.4	22.1
New York City.....	² 26.9	25.7	24.9	23.9

¹ Years shown are calendar years.² Indicates year projects began operation.

Table L-10. ESTIMATED HEALTH CARE OUTLAYS BY POPULATION AND INCOME GROUPS (in millions of dollars)

	1967	1968	1969	1970
Total, all recipients	7,831	10,764	12,518	13,977
Aged (65 and over).....	4,379	6,619	7,765	8,677
Other adults (19-64).....	2,535	2,783	3,105	3,392
Children and youth (0-18).....	917	1,362	1,648	1,907
Indigent, total ¹	3,178	4,122	4,998	5,791
Aged (65 and over).....	1,968	2,654	3,153	3,586
Other adults (19-64).....	850	804	979	1,149
Children and youth (0-18).....	360	664	866	1,056
Nonindigent, total	4,653	6,642	7,520	8,186
Aged (65 and over).....	2,411	3,965	4,612	5,091
Other adults (19-64).....	1,685	1,979	2,126	2,243
Children and youth (0-18).....	577	698	782	852

¹ Indigency as defined by OEO poverty guidelines.

Table L-12. REPORTED CASES OF SELECTED DISEASES ¹

	1960	1964	1967
Red measles.....	441,703	458,083	62,705
Polio.....	3,190	122	41
Whooping cough.....	14,809	13,005	9,718
Rheumatic fever, acute.....	9,022	7,491	3,985
Typhoid.....	816	501	396

¹ HEW, Morbidity and Mortality, Annual Supplement, Summary, 1967.

Table L-13. AUTOMOBILE EMISSION CONTROL ¹ (in millions of tons per year)

	1966	1967	1968	1969	1970	1971
Auto emissions removed by control devices:						
Hydrocarbons.....	1	2	3	4	5	7
Carbon monoxide.....	(²)	1	6	11	18	25
Auto emissions released to the atmosphere:						
Hydrocarbons.....	10	11	11	11	10	10
Carbon monoxide.....	62	65	66	67	66	59

¹ Unpublished data furnished by the National Center for Air Pollution Control, HEW.

² Less than 500 thousand tons.

Table L-14. ESTIMATED OBLIGATIONS FOR FAMILY PLANNING SERVICES, RESEARCH, AND TRAINING (in millions of dollars)

	1968	1969	1970
Health, Education, and Welfare:			
Childrens Bureau	6.5	18.5	31.5
Medicaid and public assistance	9.5	13.0	17.0
National Institutes of Health	8.5	10.1	13.6
Health Services and Mental Health Administration	1.2	1.7	2.4
Food and Drug Administration	.7	.8	1.1
Office of Education	2.8	3.2	3.5
Total, Health, Education, and Welfare	29.2	47.3	69.1
Office of Economic Opportunity	9.6	13.0	15.0
Department of Defense	4.0	4.7	4.8
Total, domestic	42.7	65.0	88.9
Agency for International Development	34.6	49.7	50.0
Department of State	.7	1.3	4.1
Total international	35.1	51.0	54.1
Total estimated family planning obligations	78.0	116.0	143.0

Table L-16. **FEDERALLY FUNDED HEALTH CENTERS**

	1968	1969	1970
Total Federal outlays (millions)	\$119.7	\$191.5	\$245.1
Number of centers funded	502	622	754
Number of centers in poverty areas	300	352	415
Number of persons served in year (thousands)	1,125	1,742	2,400

Table L-17. **FEDERAL OUTLAYS FOR MEDICAL AND HEALTH-RELATED ACTIVITIES BY CATEGORY** (in millions of dollars)

	1960 ¹	1963	1964	1965	1966	1967
Development of health resources, total	1,016.9	1,528.9	1,806.1	1,806.9	1,955.7	2,430.2
Health research	509.5	892.1	1,069.2	1,040.1	1,167.3	1,363.7
Training and education	217.4	256.5	298.4	316.9	410.4	593.6
Construction of hospitals and health facilities	290.0	380.3	438.5	449.9	378.0	391.0
Improving the organization and delivery of health services ²						81.9
Provision of hospital and medical services, total	2,164.8	2,783.0	2,904.4	2,935.8	3,520.8	7,831.0
Direct Federal hospital and medical services	1,701.3	1,877.3	1,971.4	2,022.0	2,199.0	2,551.7
Hospital and medical services, indirect	463.5	905.7	933.0	913.8	1,321.8	5,279.3
Prevention and control of health problems, total	325.6	346.1	392.8	417.6	451.0	539.8
Total outlays from Federal and trust funds	3,507.3	4,658.0	5,103.3	5,160.3	5,927.5	10,801.0

¹ Report of the Committee on Government Operations, U.S. Senate; "Coordination of Federal Agencies" programs in biomedical research and in other scientific areas," report No. 142, Mar. 30, 1961.

² Not tabulated in 1960-66 as a separate subcategory.

Table M-2. INCOME REPLACEMENT PROGRAMS: BENEFIT OUTLAYS AND BENEFICIARIES, BY PROGRAM

Program	Benefit outlays (millions)			Number of beneficiaries (thousands)		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Income replacement programs:						
Social Security:						
OASI.....	\$20,737	\$23,711	\$24,636	21,863	22,597	23,254
DI.....	2,088	2,434	2,624	2,258	2,441	2,600
Railroad Retirement.....	1,388	1,527	1,553	1,039	1,045	1,050
Federal employee retirement systems:						
Military.....	2,095	2,441	2,720	624	695	760
Civil Service.....	1,957	2,158	2,384	866	904	943
Coast Guard.....	48	52	56	13	14	14
Foreign Service.....	11	13	15	2	2	2
PHS officers.....	6	7	10	1	1	1
Judiciary.....	4	4	4	1	1	1
ESSA officers.....	1	1	1	†	†	†
Special annuities (CSC).....	1	1	1	1	1	1
Unemployment insurance (including compensation for Federal employees and ex-service-men).....	2,181	2,321	2,406	4,555	5,220	5,220
Railroad unemployment.....	76	97	93	296	174	170
Employees compensation.....	82	85	87	27	28	28
Veterans programs:						
Disability and dependents indemnity compensation.....	2,471	2,610	2,741	2,369	2,385	2,393
Life insurance (Federal funds).....	29	33	36	28	32	35
Life insurance (trust funds).....	427	443	457	410	427	440
Other benefits.....	82	81	84	252	266	278
Proposed legislation.....			1,519			
Total, income replacement programs.....	33,684	38,019	41,427	134,605	136,233	137,190

† Less than 500.

‡ Totals include duplication due to program overlap. Estimated unique totals are 31 million, 32 million, and 33 million.

Table M-3. RETIREMENT BENEFITS: BENEFIT OUTLAYS, BENEFICIARIES, AND AVERAGE PAYMENTS, BY PROGRAM

Program	Benefit outlays (millions)			Number of beneficiaries (thousands)			Average monthly payments ¹		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Retirement benefits:									
Social Security (OASI)-----	\$15,208	\$17,247	\$18,064	16,047	16,464	16,849	\$79	\$87	\$89
Railroad Retirement-----	969	1,065	1,082	669	666	664	121	133	136
Federal employee retirement systems:									
Military-----	1,707	2,005	2,244	499	559	613	285	300	306
Civil Service-----	1,285	1,418	1,566	432	451	470	248	262	278
Coast Guard-----	41	45	48	10	10	11	338	356	358
Foreign Service-----	10	11	13	1	1	2	609	679	677
PHS officers-----	6	7	10	1	1	1	592	607	739
Judiciary-----	3	3	3	†	†	†	(²)	(²)	(²)
ESSA officers-----	1	1	1	†	†	†	730	787	817
Special annuities (CSC)-----	1	1	1	1	1	1	71	73	74
VA retired officers pay-----	2	2	2	†	†	†	220	226	227
Total, retirement benefits	19,233	21,805	23,034	³ 17,660	³ 18,153	³ 18,611	-----	-----	-----

† Less than 500.

¹ Payments per beneficiary, may differ from payments per retiree.

² Not available.

³ Totals include duplication due to program overlap. Estimated unique totals are 17 million, 17 million, and 18 million.

Table M-4. **DISABILITY BENEFITS: BENEFIT OUTLAYS, BENEFICIARIES AND AVERAGE PAYMENTS, BY PROGRAM**

Program	Benefit outlays (millions)			Number of beneficiaries (thousands)			Average monthly payments ¹		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Disability benefits:									
Social Security (DI)	\$2,088	\$2,434	\$2,624	2,258	2,441	2,600	\$77	\$83	\$84
Railroad Retirement (permanent disability)	73	77	78	42	40	39	144	160	167
Railroad unemployment (temporary disability)	34	44	43	88	92	90	² 51	² 63	(³)
Federal employee retirement systems:									
Military	380	426	466	119	129	139	266	275	280
Civil Service	380	419	463	174	182	190	182	192	203
Coast Guard	7	8	8	3	3	3	208	216	212
Foreign Service	1	1	1	†	†	†	750	750	750
Employees compensation	52	54	56	13	14	14	332	321	332
Veterans programs:									
Disability compensation	1,954	2,084	2,209	2,004	2,015	2,020	81	86	91
Life insurance (Federal funds)	3	3	3	5	5	5	-----	-----	-----
Life insurance (trust funds)	20	21	22	38	39	40	-----	-----	-----
Other benefits	8	8	8	2	1	1	-----	-----	-----
Total, disability benefits	5,000	5,579	5,981	44,746	44,961	45,141	-----	-----	-----

† Less than 500.

¹ Payments per beneficiary, may differ from payments per disability case.² Average weekly payments.³ Not available.⁴ Totals include duplication due to program overlap. Estimated unique totals are about 3 million for each year.

Table M-5. SURVIVORS BENEFITS: BENEFIT OUTLAYS, BENEFICIARIES, AND AVERAGE PAYMENTS, BY PROGRAM

Program	Benefit outlays (millions)			Number of beneficiaries (thousands)			Average monthly payments ¹		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Survivors benefits:									
Social Security (OASI).....	\$5,529	\$6,464	\$6,572	5,816	6,133	6,405	\$79	\$88	\$85
Railroad Retirement.....	347	385	394	340	352	358	85	91	92
Federal employee re- tirement systems:									
Military.....	8	10	10	6	7	8	107	108	109
Civil Service.....	291	321	355	260	271	283	93	99	104
Coast Guard.....	*	*	*	†	†	†	71	77	83
Foreign Service.....	1	1	1	†	†	†	250	278	278
PHS officers.....	*	*	*	†	†	†	157	151	153
Judiciary.....	1	1	1	†	†	†	327	(²)	(²)
ESSA officers.....	*	*	*	†	†	†	(²)	(²)	(²)
Special annuities (CSC).....	*	1	1	†	†	†	91	108	112
Employees compen- sation.....	31	31	32	14	14	14	183	186	188
Veterans programs:									
Dependents in- demnity com- pensation.....	517	526	532	365	369	373	118	119	119
Life insurance (Federal funds).....	26	30	33	23	27	30	-----	-----	-----
Life insurance (trust funds).....	407	422	435	372	388	400	-----	-----	-----
Other benefits.....	72	71	74	250	265	277	-----	-----	-----
Total, survivors benefits.....	7,230	8,263	8,440	7,446	7,826	8,148	-----	-----	-----

* Less than \$0.5 million.

† Less than 500.

¹ Payments per beneficiary, may differ from payments per surviving family.² Not available.³ Totals include duplication due to program overlap. Estimated unique totals are 6 million, 7 million, and 7 million.

Table M-6. UNEMPLOYMENT BENEFITS: BENEFIT OUTLAYS, BENEFICIARIES, AND AVERAGE PAYMENTS, BY PROGRAM

Program	Benefit outlays (millions)			Number of beneficiaries (thousands) ¹			Average weekly payments		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Unemployment benefits:									
Workers insured under State laws.....	\$2,074	\$2,210	\$2,290	4,336	5,000	5,000	\$40	\$42	\$44
Federal employees and ex-servicemen.....	107	111	116	219	220	220	44	45	46
Railroad unemployment.....	42	52	50	233	92	90	50	62	(²)
Total, unemployment benefits.....	2,223	2,373	2,456	4,788	5,312	5,310	-----	-----	-----

¹ Number of "first claims" paid.

² Not available.

Income support programs.—The two major programs which base benefits on current need are public assistance and veterans pensions.

Table M-7. INCOME SUPPORT PROGRAMS: BENEFIT OUTLAYS, RECIPIENTS, AND AVERAGE PAYMENTS, BY PROGRAM AND RECIPIENT GROUP

Program and recipient group	Benefit outlays (millions)			Recipients (thousands)			Average monthly payments ¹		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Income support programs:									
Public assistance (Federal share):									
Old age assistance.....	\$1,137	\$1,204	\$1,308	2,055	2,099	2,084	\$69	\$71	\$76
Aid to the blind.....	52	54	59	82	83	84	90	91	96
Aid to the permanently and totally disabled.....	367	434	499	646	715	785	80	83	87
Aid to families with dependent children.....	1,395	1,731	1,847	5,349	6,146	6,965	40	44	48
Total, public assistance (Federal share) ²	3,052	3,320	3,719	8,132	9,058	9,955	-----	-----	-----
Total (State and local share).....	(1,996)	(2,467)	(3,286)	-----	-----	-----	-----	-----	-----
VA pensions:									
Veterans.....	1,272	1,286	1,293	1,170	1,146	1,143	91	94	94
Survivors.....	779	850	905	1,049	1,106	1,170	62	64	64
Total, VA pensions.....	2,051	2,135	2,198	2,219	2,252	2,313	-----	-----	-----
Assistance to refugees.....	25	37	49	36	47	62	-----	-----	-----
General assistance to Indians.....	9	7	9	21	22	22	-----	-----	-----
Proposed legislation.....	-----	-----	-87	-----	-----	-----	-----	-----	-----
Total, income support programs.....	5,137	5,499	5,888	10,408	11,379	12,352	-----	-----	-----

¹ Total payments, including State and local contributions where applicable.

² Categorical financial data are obligations and do not add to total because of collections and adjustments.

³ Includes recipients of emergency assistance not itemized above.

Table M-8. AVERAGE MONTHLY PAYMENT LEVELS FOR PUBLIC ASSISTANCE, BY CATEGORY

Public assistance category	July 1968 payment levels (per recipient)		
	National average	Average in lowest State	Average in highest State
Old age assistance.....	\$68.40	\$36.00	\$107.00
Aid to the blind.....	91.45	45.35	138.85
Aid to the permanently and totally disabled.....	81.80	44.45	128.85
Aid to families with dependent children.....	42.15	8.50	71.00

Table M-9. BENEFITS IN KIND: OUTLAYS AND RECIPIENTS FOR SELECTED PROGRAMS

Type of benefit and program	Outlays (millions) ¹			Recipients (thousands) ²		
	1968 actual	1969 est.	1970 est.	1968 actual	1969 est.	1970 est.
Health care:						
Medicaid (Federal outlays).....	\$1,806	\$2,364	\$2,971	8,600	9,500	10,200
Medicaid (Total Federal, State, and local payments).....	3,686	4,612	5,797			
Food and nutrition:						
Food stamps.....	187	273	338	2,488	3,630	3,950
Child nutrition.....	217	246	367	18,800	19,400	22,300
Special milk.....	104	104	15	17,000	17,500	-----
Removal of surplus commodities.....	385	598	725	25,500	26,000	29,000
Housing:						
Public housing.....	³ 290	³ 335	³ 456	2,600	2,800	3,200
Rent supplements.....	2	14	30	⁴ 3	⁴ 19	⁴ 45

¹ Includes benefits and administrative expenses.² Total number of individuals benefited.³ Benefits only.⁴ Number of households (number of individuals not available).

SPECIAL ANALYSIS R

**SELECTED AGENCY BUDGETS
BY PROGRAM CATEGORIES**

Reprint of Pages 253 to 273 From
Special Analyses, Budget of the United States, 1970

Detail will not necessarily add to totals because of rounding

SPECIAL ANALYSIS R

SELECTED AGENCY BUDGETS BY PROGRAM CATEGORIES

The tabulations shown in this analysis reflect for 3 years—1968, 1969, and 1970—the programs of selected agencies as classified in the categories and subcategories used in the agency Planning-Programming-Budgeting (PPB) systems.

While program structures have hitherto been published for most of the major agencies, this is the first time that data on budget authority have been presented in these terms. Since all agencies have not reached an equal stage of PPB development, some executive agencies in the Federal Government are not covered in this analysis.

THE PPB SYSTEM IN THE FEDERAL GOVERNMENT

Installation of the Planning-Programming-Budgeting system on a Government-wide basis was initiated by the President in August 1965. PPB is an effort to promote more systematic use of modern management tools that have been demonstrated to be of value in Government. The PPB approach was employed to enable the Government agencies and the President to:

- Identify national goals with greater precision and determine which goals are the most urgent;
- Develop and analyze alternative means of reaching goals most efficiently;
- Provide information on the total long term systems cost of programs on a basis that can be related to the benefits derived from each program;
- Set out specific proposed plans for several years ahead to achieve stated objectives; and
- Permit better control over programs and budgets by strengthening measurement and analysis of program performance in relation to costs.

PROGRESS UNDER THE PLANNING-PROGRAMMING-BUDGETING SYSTEM

While the impact of PPB is still of modest proportions in the civilian agencies, its effects are becoming evident.

- Most major agencies have created a PPB System to carry out the President's directive. Many of these agencies have dedicated staff resources specifically to the PPB process.
- These agencies, with only a few exceptions, have established end purpose-oriented PPB program structures, as illustrated in the tables, enabling them to classify their funds by major program categories and subcategories. These program structures were used, in varying degrees, in the decisionmaking process leading to the budgets for 1968, 1969, and 1970.
- Major program issues are being identified in advance of the time when budget decisions have to be made and subjected to systematic analysis.
- The introduction of PPB has provided an impetus toward increased use of formal analysis in the decisionmaking process. The development and consideration of alternatives has been

stepped up, both in the programing stage and at the budget decision stage. The emphasis on cost effectiveness analysis as part of the analytical effort has drawn attention to ways of achieving given objectives at least cost, or attaining maximum results from given outlays. Benefit/cost analysis, which had been previously practiced chiefly in the military agencies and the water resources field, is now underway on various programs in most major agencies of Government.

- As experience has been gained, the various elements of the PPB approach and the annual budget process gradually are being more effectively interrelated, so that the analytical results of PPB are playing a greater role in decisionmaking for the annual budget.

PROGRAM DISTRIBUTION OF BUDGET AUTHORITY

The following tables for each agency distribute budget authority by PPB program category and, in many cases, by subcategory. In preparing the 1970 budget, a substantial portion of the budget review process was carried out in these program structure terms. However, the budget is presented to and acted upon by Congress in terms of the appropriation structure as presented in the Budget Appendix. The amounts shown by program category and subcategory in this analysis are derived by distribution of the appropriation totals. This distribution is only as precise as the underlying agency accounting system permits. Statistical allocations have been used where necessary to distribute the appropriation amounts to the program structure.

Not all budgetary items are covered by the program structure. For example, adjustments to agency budget authority totals for proprietary receipts from the public are usually not related to the program structure. Each table, however, reconciles the total amounts shown in program structure terms to total budget authority for the agency—identifying items excluded from the program structure and any necessary adjustments.

Seventeen agencies are covered by this special analysis; they account for \$200.2 billion, or 95 percent of the total proposed budget authority of \$210.1 billion for 1970 for the entire Federal Government. The budget authority not covered in this analysis is largely accounted for by numerous smaller agencies, most of which have not been required to install a PPB system. Many of the agencies not included, however, are employing PPB techniques in varying degrees.

DEPARTMENT OF AGRICULTURE

The programs of the Department of Agriculture seek to provide an adequate supply of food, fiber, and timber; maintain farm income; improve the nutritional level and protect the health of the entire population; and promote the continuing development of rural areas. To achieve these goals the Department performs research, education, conservation, marketing, regulatory, domestic and foreign food aid, agricultural adjustment, credit, insurance, national forest management and rural development activities.

The program structure shown below consists of a set of subcategories representing the major missions of the Department. The subcategories are grouped under four major categories representing the broad unifying goals that provide a focus for the Department's program planning efforts, and one general support category.

Table R-1. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Income and abundance:			
Farm income.....	3,359.1	5,358.5	4,023.2
Agricultural production capacity.....	606.1	586.6	496.4
Agricultural marketing and distribution system.....	108.4	114.6	113.4
Category total.....	4,073.7	6,059.7	4,632.9
Growing nations—new markets:			
Food for Freedom.....	1,606.6	301.1	1,017.7
Export market development.....	79.9	88.8	28.1
Agricultural development.....	6.2	3.5	11.5
International agricultural services.....	7.2	7.4	7.5
Category total.....	1,699.9	400.9	1,064.8
Dimensions for living:			
Diets and nutrition.....	912.0	1,041.8	1,102.7
Health and safety.....	84.4	110.8	134.1
Education and training.....	21.7	22.5	23.5
Services for living.....	44.5	44.9	45.7
Category total.....	1,062.6	1,220.0	1,305.9
Communities of tomorrow:			
Community development services.....	29.1	31.0	40.0
Housing.....	253.0	29.7	62.6
Public facility and business expansion.....	430.2	354.6	371.6
Resource protection and environmental improvement.....	245.7	215.6	204.3
Recreation, wildlife, and natural beauty.....	60.7	63.6	67.9
Timber.....	326.6	333.4	337.3
Category total.....	1,345.3	1,027.8	1,083.8
General support:			
General administration.....	4.6	4.8	5.1
Program support.....	38.8	39.9	45.4
Category total.....	43.4	44.7	50.4
Total distributed to programs above.....	8,224.8	8,753.2	8,137.8
Deductions for offsetting receipts.....	-395.4	-415.1	-435.0
Total budget authority, Department of Agriculture.....	7,829.4	8,338.1	7,702.8

DEPARTMENT OF COMMERCE

The statutory functions of the Department of Commerce are to foster, promote, and develop the foreign and domestic commerce and the manufacturing and shipping industries of the United States. Related functions include the promotion of area and regional economic development and performance of Government scientific and technical activities. These programs are conducted in appropriate relation to the overall requirements of business and industry as well as to the broad social and economic objectives of the Nation.

The Department's functions are grouped into eight program categories as shown in the following table:

Table R-2. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Business development:			
International business development.....	16.4	20.0	28.5
Promotion of travel to the United States.....	3.0	4.5	6.0
Business assistance.....	7.8	8.3	8.7
Export control.....	5.4	5.5	5.5
Foreign direct investment control.....		3.7	4.7
Category total.....	32.5	41.9	53.4
Area and regional development:			
Areas.....	156.1	117.0	94.5
Districts.....	26.0	53.5	84.1
Urban areas.....	20.3	16.7	25.0
Special problem areas.....	17.9	18.4	18.7
Indian areas.....	18.4	30.0	31.5
Regional development.....	21.1	26.2	35.7
General administration.....	19.8	20.4	22.0
Category total.....	279.6	282.2	311.5
General purpose data production, analysis, and statistical services:			
Data production.....	34.1	42.8	167.4
National income and product accounts.....	2.9	3.1	3.3
Statistical assistance and services.....	2.6	3.0	3.0
Data processing equipment and systems development.....	4.2	.2	.2
Category total.....	43.9	49.1	174.0
Physical environment:			
Weather and marine forecasts and warning services.....	77.7	83.8	90.5
River and flood prediction and warning services.....	3.9	4.1	4.6
Earth description, mapping, and charting services.....	12.5	13.0	13.9
Marine description, mapping, and charting services.....	18.0	19.3	20.9
Telecommunications and space services.....	3.6	4.2	3.9
Environmental satellite services.....	30.6	22.5	12.3
Environmental data services.....	4.8	5.6	5.5
Research.....	13.6	13.3	13.8
Retired pay, commissioned officers.....	1.0	1.2	1.2
Category total.....	165.7	166.9	166.6
Physical measurements and standards program:			
Basic measurements and standards.....	11.0	13.1	14.2
Materials measurements and standards.....	15.8	17.5	18.7
Technological measurements and standards.....	5.0	5.8	7.2
Category total.....	31.7	36.4	40.0
Marine transportation:			
Active foreign trade capability.....	364.7	345.8	247.6
Research and development.....	9.4	6.9	11.3
Reserve capability for emergency needs.....	5.4	5.5	5.4
General support.....	14.8	14.2	15.8
Category total.....	394.3	372.4	280.0

Table R-2. **PROGRAM DISTRIBUTION OF BUDGET AUTHORITY—Con.**
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Technology:			
Intellectual-industrial property protection.....	38.8	42.5	46.1
State technical services.....	6.5	5.3	5.8
Information dissemination.....	3.0	4.3	4.6
Innovation policy and encouragement.....	.2	.2	.2
Category total.....	48.6	52.4	56.8
General administration	4.7	5.2	5.8
Total distributed to programs above.....	1,000.9	1,006.4	1,088.1
Deductions for offsetting receipts.....	-26.3	-21.3	-21.8
Intragovernmental transactions.....	-4.7	-6.8	-5.7
Total budget authority, Department of Commerce.....	969.9	978.3	1,060.5

DEPARTMENT OF DEFENSE—MILITARY

The military programs of the Department of Defense provide for the security of the United States. Forces are grouped—regardless of the branch of military service—according to the national security missions or programs to be accomplished as shown below:

Table R-3. **PROGRAM DISTRIBUTION OF BUDGET AUTHORITY**
(in millions of dollars)

Program category	1968 actual	1969 estimate	1970 estimate
Strategic forces.....	7,364.5	8,309.6	9,087.4
General purpose forces.....	31,124.3	29,606.0	29,856.3
Intelligence and communications.....	5,492.4	5,697.2	5,832.4
Airlift and sealift.....	1,813.0	1,402.0	1,889.2
Guard and Reserve forces.....	3,166.0	2,565.5	2,848.6
Research and development.....	4,395.4	4,598.0	5,500.3
Central supply and maintenance.....	8,175.4	8,662.8	8,848.8
Training, medical, and other general personnel activities.....	9,358.3	9,481.7	9,967.8
Administration and associated activities.....	1,292.1	1,404.3	1,407.3
Support to other nations.....	1,736.8	2,450.7	2,408.8
Retired pay.....	2,095.0	2,450.0	2,735.0
Total distributed to programs above.....	76,013.0	76,627.8	80,381.8
Undistributed nonprogram financing adjustments.....	415.5	-132.9	-144.3
Total budget authority, Department of Defense.....	76,428.5	76,494.9	80,237.5

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

The Department has responsibility for the administration of a broad range of Federal health, education, and welfare programs.

Its programs have been grouped into four program categories and an overall management category as shown in the table below. Each program category is further divided into subcategories according to major purpose.

Table R-4. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Education:			
Development of basic skills.....	2,389.0	2,289.3	2,179.0
Development of vocational and occupational skills.....	269.3	268.3	304.1
Development of academic and professional skills.....	1,330.9	966.2	1,020.7
Library and community development.....	87.9	86.8	96.0
General research (nonallocable research).....	25.7	25.6	31.1
General support.....	35.5	41.3	45.3
Category total.....	4,138.3	3,677.5	3,676.2
Health:			
Development of health resources.....	2,315.0	2,185.7	2,395.6
Prevention and control of health problems.....	457.1	480.8	480.5
Provision of health services.....	7,345.7	9,980.3	10,739.0
General support.....	48.5	54.9	64.4
Category total.....	10,166.5	12,701.8	13,679.4
Social and rehabilitation services:			
Improving individual capability for self-support.....	408.9	596.4	853.6
Improving the social functioning of individuals and families.....	225.7	321.5	399.2
General development of social and rehabilitation resources.....	114.6	127.9	132.6
General support.....	32.0	37.7	43.1
Category total.....	781.3	1,083.5	1,428.5
Income maintenance:			
Aged assistance.....	18,476.8	21,339.4	24,787.0
Disability assistance.....	3,207.0	4,196.6	4,842.6
Other individual and family support.....	7,755.5	9,500.6	10,769.6
General support and increasing knowledge.....	236.4	277.0	327.3
Category total.....	29,675.7	35,313.6	40,726.5
Executive direction and management (Office of the Secretary).....	24.0	25.0	35.2
Total distributed to programs above.....	44,785.8	52,801.5	59,545.8
Net deductions for interfund transactions and receipts from the public not distributed above.....	-97.5	-964.4	-522.3
Total budget authority, Department of Health, Education, and Welfare ¹	44,688.2	51,837.1	59,023.5

¹ While the budget authority for the Department of Health, Education, and Welfare agrees with that shown in the budget document, there may be minor differences in the distribution among categories and subcategories. These result from some differences in classification of budget authority. For example, emergency health in Part 3 is classified as National Defense and is therefore excluded from the health tally in Part 3. It has however been included in the budget authority shown above.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Department has the responsibility for administering the principal Federal programs which provide assistance for housing and for the development of the Nation's communities; assisting the President in coordination of Federal activities which affect urban community, suburban, or metropolitan development; encouraging local and private solution of housing and urban development problems; promotion of interstate, regional, and metropolitan cooperation; and increasing the efficiency of the private homebuilding and mortgage lending industries. These activities are grouped below in five major program categories plus supporting services.

Table R-5. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Assuring decent housing for all Americans:			
Assuring an adequate supply of low- and moderate-income housing.....	3, 148.3	1, 300.8	746.2
Promoting the efficient functioning of private housing markets.....	1, 062.9	296.5	2.5
Category total.....	4, 211.2	1, 597.3	748.7
Assuring adequate and efficient local public and private facilities and services.....	402.3	202.8	195.7
Improving the physical environment of urban communities.....	850.0	1, 062.5	1, 112.2
Improving the social environment of urban communities:			
Creating model neighborhoods in demonstration cities.....	212.0	312.5	750.0
Assuring equal opportunity in access to housing and other facilities.....		4.0	14.5
Category total.....	212.0	316.5	764.5
Improving management of community development activities:			
Improving governmental planning and executive management of community development.....	45.0	43.8	65.0
Improving urban information and technical assistance support to State and local governments.....	2.2		5.0
Additional education and training for efficient urban development and management.....	3.5	3.5	9.0
Category total.....	50.7	47.3	79.0
Improving management of departmental programs and resources:			
Research and demonstrations in urban technology.....	10.0	18.3	32.7
Provide executive direction and general support.....	50.1	57.0	74.1
Category total.....	60.1	75.3	106.8
Total distributed to programs above.....	5, 786.3	3, 301.7	3, 006.9
Intragovernmental transactions and other adjustments, net.....	— .5	— 58.5	
Total budget authority, Department of Housing and Urban Development.....	5, 785.9	3, 243.2	3, 006.9

DEPARTMENT OF THE INTERIOR

The Department of the Interior is concerned with the management, conservation, and development of the Nation's water, energy, minerals, fish, wildlife, forest, and outdoor recreation resources. It also has major responsibilities for Indian and territorial affairs. The Department's functions are grouped into the following nine major program categories:

Table R-6. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY
(in millions of dollars)

Program category	1968 actual	1969 estimate	1970 estimate
Water supply and control.....	671.7	652.8	667.6
Energy production, distribution, and supply.....	218.3	209.5	223.6
Minerals exploration, production, and supply.....	42.0	40.2	41.6
Land-forage-timber.....	118.7	121.2	118.3
Aquatic living commercial resources.....	50.0	49.5	51.4
Recreation use and preservation.....	366.5	429.0	422.3
Indians.....	361.4	351.0	359.4
Territories.....	58.2	55.8	69.2
Other programs.....	85.6	93.8	97.5
Total distributed to programs above.....	1,972.4	2,002.9	2,050.8
Deductions for offsetting receipts.....	-1,518.1	-1,477.2	-1,568.2
Intragovernmental transactions.....	-38.9	-32.0	-----
Total budget authority, Department of the Interior.....	415.3	493.7	482.6

DEPARTMENT OF JUSTICE

The chief purposes of the Department of Justice are to provide means for the enforcement of the Federal laws, including those pertaining to immigration and naturalization; to furnish legal counsel in Federal cases; to construe the laws under which other departments act; and to provide assistance to States and localities in law enforcement. It conducts all suits in the Supreme Court in which the United States is concerned, supervises the Federal penal institutions, and investigates and detects violations against Federal laws. It represents the Government in legal matters generally, rendering legal advice and opinions, upon request, to the President and to the heads of the executive departments. The Attorney General supervises and directs the activities of the U.S. attorneys and marshals, in the various judicial districts, and coordinates much of the Federal activity which seeks to assure civil rights. The Department's programs are grouped into 11 major categories as shown below.

Table R-7. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Reduction of crime:			
Organized crime.....	15.1	18.4	20.1
Interstate crime.....	45.4	50.9	52.5
Federal crime.....	62.8	67.5	69.2
Crime prevention.....	1.3	1.7	1.8
Category total.....	124.6	138.6	143.7
Law enforcement assistance:			
Improvement of State and local law enforcement planning....	1.7	19.0	20.0
Improvement of State and local law enforcement operations....	3.3	29.0	230.0
Research and development of devices, systems, and procedures....	.3	3.0	22.8
Support to law enforcement personnel for education and training.....	25.0	36.4	49.8
General support.....	.5	2.2	3.8
Category total.....	30.7	89.6	326.3
Correction of offenders:			
Custody and physical security of offenders.....	12.3	12.1	14.2
Inmate care and maintenance and operation of institutions....	38.3	37.5	49.1
Rehabilitation of offenders.....	14.1	13.7	17.1
Assistance to non-Federal correctional systems.....		.1	2.6
Research.....	.2	.4	1.1
General support.....	.9	.8	.9
Category total.....	65.8	64.6	84.9
Control of narcotics and dangerous drug abuse:			
Identification of dangerous drugs.....		.3	.4
Control of traffic in narcotics and dangerous drugs.....	6.0	16.5	20.7
Treatment of narcotics and dangerous drug offenders.....	.2	.9	3.3
Law enforcement assistance.....		.2	.4
Public education.....		.1	.4
Research.....	.4	.9	1.3
General support.....	.3	1.8	2.8
Category total.....	7.0	20.7	29.3
Internal security and governmental integrity:			
Integrity of Government personnel.....	19.6	21.6	22.3
Security of Government, Government programs, and Government property.....	1.2	1.3	1.3
Security of Government international affairs.....	.5	.6	.6
Identification, exposure, and control of subversive movements....	26.2	28.2	28.9
General support.....	.1	.1	.1
Category total.....	47.6	51.7	53.2
Civil rights and community relations:			
Equal employment opportunity.....	1.7	2.0	2.1
Housing.....	.4	.9	1.2
Public education.....	1.2	1.4	1.6
Interference with civil rights.....	11.7	13.3	13.8
Voting.....	1.4	1.7	1.7
Federally assisted programs.....	.4	.4	.5
Public accommodations and facilities.....	.6	.2	.2
Community relations assistance.....	2.0	2.3	3.7
Category total.....	19.4	22.0	24.8

Table R-7. PROGRAM DISTRIBUTION OF BUDGET AUTHORITY—Con.
(in millions of dollars)

Program category and subcategory	1968 actual	1969 estimate	1970 estimate
Competition in the American economy:			
Anticompetitive conduct.....	4.0	4.3	4.6
Anticompetitive market structures.....	3.2	3.5	3.7
Governmental intervention and influence.....	.9	1.0	1.1
Category total.....	8.2	8.8	9.4
Legal representation and advice to Federal officers and agencies:			
Integrity of the revenue system.....	7.1	7.6	8.1
Defense of monetary claims.....	5.6	6.2	6.6
Recovery of money owed the United States.....	5.1	5.9	6.4
Integrity of administrative action.....	4.1	4.6	5.0
Land acquisition.....	2.8	3.0	3.3
Protection and development of natural resources.....	1.2	1.4	1.6
Category total.....	25.8	28.7	30.9
Support of the Federal judicial system:			
Recommendations of judicial appointments.....	.1	.1	.1
Facilitation of litigation.....	17.0	18.4	19.8
Protection of the integrity of the judicial system.....	1.2	1.4	1.6
General support.....	1.1	1.2	1.3
Category total.....	19.5	21.0	22.8
Immigration and naturalization:			
Control of persons entering the United States.....	45.3	48.0	50.3
Control of aliens in the United States.....	25.4	26.0	27.1
Naturalization.....	4.5	4.9	5.0
Central information record.....	7.1	7.4	8.0
General support.....	4.6	4.9	5.0
Category total.....	87.0	91.3	95.4
General support:			
Executive direction.....	2.4	2.5	3.3
Personnel.....	.4	.5	.5
Information.....	.5	.7	.7
Administrative services.....	2.9	3.2	4.2
Category total.....	6.2	6.8	8.7
Total distributed to programs above.....	441.9	543.7	829.4
Deductions for offsetting receipts.....	-4.4	-4.6	-4.6
Total budget authority, Department of Justice.....	437.5	539.1	824.8

DEPARTMENT OF LABOR

The basic goals of the Department of Labor are to increase the employment and productive potential of the civilian labor force, particularly the disadvantaged; to minimize the effects of unemployment by providing income support; and to promote and protect the rights and interests of all Americans who are actual or potential members of the work force.