SUMMER REVIEW OF THE 1969 BUDGET

428

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETIETH CONGRESS

SECOND SESSION

SEPTEMBER 12, 1968

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WITNESSES AND STATEMENTS

SUMMER REVIEW OF THE 1969 BUDGET

THURSDAY, SEPTEMBER 12, 1968

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

The Joint Economic Committee met at 10:05 a.m., pursuant to notice, in room S-407, the Capitol, Hon. William Proxmire (chairman of the joint committee) presiding.

Present: Senators Proxmire, Javits, and Percy; and Representative Bolling.

Also present: John R. Stark, executive director.

Chairman PROXMIRE. The committee will come to order.

This morning's hearing continues the practice begun in 1967 in which the Director of the Bureau of the Budget submits to the Joint Economic Committee revised budget estimates for the upcoming fiscal year as soon after it begins as possible.

Last year these hearings took place on Thursday, August 24, with the Honorable Charles L. Schultze, then Director of the Budget, as our witness. This year the budget review is completed and released on Monday, September 9, preliminary to today's hearing, at which our witness will be Dr. Schultze's successor, the Honorable Charles J. Zwick, Director of the Bureau of the Budget.

Members have had an opportunity to study the revised estimates, a copy of which will be made a part of the record of this hearing at this point.

(The revised budget estimates referred to follow:)

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

SEPTEMBER 1968: SUMMER REVIEW OF THE 1969 BUDGET

This review presents current estimates of the Federal budget for fiscal year 1969 (July 1, 1968–June 30, 1969), taking account of developments as of the time the Congress adjourned in early August—to reconvene on September 4. Since congressional action on appropriations was not completed at that time, the estimates in this review are necessarily tentative and will require later adjustment. Moreover, they are overall estimates by agency, rather than the item-by-item results of a detailed examination such as is made in preparing the annual budget.

In revising the January budget estimates, consideration was given to the latest congressional action, reestimates of workloads, program trends, and the requirements of the Revenue and Expenditure Control Act of 1968.

BUDGET TOTALS

The following are the currently estimated totals of budget receipts and outlays compared with those estimated in the budget last January.

TABLE 1.—BUDGET RECEIPTS AND OUTLAYS

[Fiscal years; in billions of dollars]

Description	1968 actual	1969 January estimate	1969 Current estimate	1969 Change
Expenditure account:				
Receipts	153.5	178.1	179.4	+1.3
Expenditures	173.0	182.8	182.3	−.5
Expenditure deficit (−)	−19.5	−4.7	−2.9	−1.8
Loan account: Net lending	5.9	3.3	2.1	−1.2
Total budget:				
Receipts	153.5	178.1	179.4	+1.3
Outlays (including net lending)	178.9	186.1	184.4	−1.7
Budget deficit (−)	−25.4	−8.0	−5.0	−3.0

As shown in table 1, the budget deficit for fiscal year 1969 is currently estimated at $5 billion, down $3 billion from the January estimate and $20.4 billion below the deficit incurred in the preceding fiscal year. This substantial year-to-year improvement in the Government's deficit position will contribute to a significant reduction in inflationary pressures and, in turn, to an improvement in our balance of international payments and a further relaxation of pressures in our financial markets.

Receipts are currently estimated to be $1.3 billion above the estimate of last January, combining the effects of (1) a later-than-assumed enactment of the income tax surcharge and other tax proposals and (2) reestimates based on actual experience with collections in 1968.

Total budget outlays are estimated $1.7 billion below the January estimate. Programs covered by the Revenue and Expenditure Control Act of 1968 are down $6 billion, while those excepted from the act's limitation on outlays are up by $4.4 billion.

On the basis of incomplete congressional action, budget authority for fiscal year 1969 is currently estimated at $194.5 billion, which is $7.2 billion below the January estimate. To date, completed congressional action on appropriation and other acts affecting budget authority has resulted in a net reduction of $1.6 billion compared with the January budget.

Five regular appropriation bills—comprising over half of total budget authority—still await final action this year. However, all of these bills have been passed by at least one House or action has been taken on related authorization bills. Based on these actions to date, it is estimated that the Congress will reduce the remaining appropriations by a total of around $9.3 billion. When action is completed, further reductions required to comply with the provisions of the Revenue and Expenditure Control Act of 1968 will be determined by the President.

The current estimates include amounts which will need to be requested at a later date. Requests are expected to be required for expansion of various food programs, for military credit sales under the military assistance program, for public assistance grants (including medicaid), and for the U.S. share of a replenishment of the International Development Association's resources.

TABLE 2.—BUDGET AUTHORITY TOTALS FOR FISCAL YEAR 1969

[In billions of dollars]

Description	January estimate	Current estimate	Change
Requiring current action by Congress:			
Enacted to date:			
Appropriation acts	19.6	17.2	−2.5
Other acts	2.4	3.4	+.9
Awaiting final action: Appropriation acts	117.8	108.5	−9.3
Estimated to be required later:			
Pay increase of July 1, 1968	1.6	1.6	
Other (necessary additions and contingencies)		1.8	+1.8
Available without current action by Congress (permanent authorizations)[1]	73.1	75.8	+2.7
Deductions for interfund and intragovernmental transactions and applicable receipts	−12.9	−13.7	−.9
Total	201.7	194.5	−7.2

[1] Totals consist mainly of trust funds and interest.

Note: Details in the table may not add to totals due to rounding.

Summary of Effect of Revenue and Expenditure Control Act of 1968

The Revenue and Expenditure Control Act of 1968, signed by the President on June 28, 1968, provides specific limitations on 1969 budget authority and outlays which are $10 billion and $6 billion, respectively, below the levels estimated in the 1969 budget sent to the Congress by the President on January 29, 1968. Under these provisions, budget authority must be held to $191.7 billion and budget outlays to $180.1 billion in 1969—with certain specific exceptions.

The act (hereafter referred to as Public Law 90–364) excepted the following programs from the required reductions—thereby permitting the above totals to be exceeded: (1) special support of Vietnam operations, (2) interest, (3) veterans benefits and services, and (4) Social Security Act trust funds. In a subsequent act, the Congress added to this excepted group the portion of the Tennessee Valley Authority's activity which is financed from power proceeds and borrowing.

Under Public Law 90–364, the Congress has the first opportunity to reduce the budget through its traditional appropriations process. If the Congress fails to accomplish the requisite amount of reduction in authority and outlays, the law requires the President to make up the difference—a task made more difficult by a current estimated increase of over $1 billion in outlays fixed by law for farm price supports and public assistance.

Budget authority.—Table 3 summarizes the effects of Public Law 90–364 on budget authority for fiscal year 1969, as currently estimated. The figure in the table on congressional action is necessarily incomplete, since—as noted earlier—the Congress has not yet enacted five of the regular appropriation bills for fiscal year 1969 (including the appropriations for the Departments of Defense and Health, Education, and Welfare, and for the foreign assistance program). The figures shown in table 3 therefore represent the best overall estimate which can be made at this time as to the final outcome of congressional consideration of these bills. When the precise outcome is known, it will be possible to make a specific determination as to the extent of further reductions in budget authority necessary to comply with Public Law 90–364 and where they will be made.

Budget authority for the programs excepted from the requirements of Public Law 90–364 is currently estimated to be $0.9 billion higher than the January estimate. The relatively small reduction for Vietnam operations is in the programs of the Agency for International Development.

Of the remainder, which is covered under Public Law 90–364, the total reduction estimated to occur from final congressional action is $10.5 billion. Action on appropriation bills is estimated to reduce authority covered under the act by about $11.1 billion, but some offsetting increases have taken place in bills which carry budget authority of a type other than appropriations.

The $10.5 billion total includes $2.2 billion representing reductions of proposed authorizations for sales of participation certificates (PC's) on loans of the Department of Housing and Urban Development, the Farmers Home Administration, and the Small Business Administration. (An additional $0.5 billion reduction in PC sales authority of the Veterans' Administration is reflected in the figure shown in the table for veterans benefits and services.)

TABLE 3.—BUDGET AUTHORITY FOR FISCAL YEAR 1969—SUMMARY OF EFFECT OF PUBLIC LAW 90–364

[In billions of dollars]

Description	January estimate	Current estimate	Change
Programs excepted from Public Law 90–364 limitation:			
Special support of Vietnam operations	25.4	25.3	−0.1
Interest	14.4	15.3	+.9
Veterans benefits and services	7.8	7.6	−.2
Social Security Act trust funds	41.8	42.0	+.3
Old-age and survivors insurance	(27.2)	(27.4)	(+.2)
Disability insurance	(3.7)	(3.7)	
Health insurance	(6.8)	(7.2)	(+.4)
Unemployment insurance	(4.1)	(3.7)	(−.3)
TVA (portion financed from power proceeds and borrowing)			
Subtotal, excepted programs	89.4	90.3	+.9
Remainder—covered by Public Law 90–364 limitation	112.3	104.2	−8.1
Estimated reduction from congressional action			(−10.5)
Other changes			(+2.4)
Total	201.7	194.5	−7.2

Note: Details in the table may not add to totals due to rounding.

Apart from congressional action, increases of $2.4 billion over the budget estimate are now anticipated. Over half of this amount is in the form of permanent contract authority for the Commodity Credit Corporation, reflecting greater than anticipated price support operations. Other major increases are for highway trust fund programs; for public assistance, including medicaid; for increased loan authority provided by recent legislation for the Federal intermediate credit banks; and for expansion of various food programs.

Outlays.—Procedures put into effect at the time of passage of Public Law 90–364 call for the establishment of outlay reduction targets for all agencies, to comply with the aggregate limitations in the law. Each agency is responsible for preparing a detailed plan to meet its target, subject to approval by the President.

Targets have now been given to the agencies, representing the best current judgment as to the magnitudes of the reductions which will be required. While they are the basis for present planning, they are, of course, subject to adjustment for differences from the current assumptions on final congressional action and for other unforeseeable developments. The outlay amounts for each agency are shown in table 7. The following table presents an overall summary of the effect of Public Law 90–364 on budget outlays.

TABLE 4.—BUDGET OUTLAYS IN FISCAL YEAR 1969—SUMMARY OF EFFECT OF PUBLIC LAW 90-364

[In billions of dollars]

Description	January estimate	Current estimate	Change
Programs excepted from Public Law 90–364 limitation:			
Special support of Vietnam operations	26.3	28.6	+2.3
Interest	14.4	15.3	+.9
Veterans benefits and services	7.3	7.7	+.4
Social Security Act trust funds	36.0	36.7	+.7
Old-age and survivors insurance	(24.6)	(24.7)	(+.1)
Disability insurance	(2.6)	(2.7)	(+.1)
Health insurance	(5.8)	(6.3)	(+.5)
Unemployment insurance	(3.1)	(3.1)	(+.1)
TVA (portion financed from power proceeds and borrowing)	.1	.1	([1])
Subtotal, excepted programs	84.1	88.5	+4.4
Remainder—Covered by Public Law 90–364 limitation	101.9	95.9	−6.0
Total	186.1	184.4	−1.7
Increase due to reestimates			(+5.0)
Reduction estimated from congressional action			(−3.1)
Presidential Public Law 90–364 reductions			(−3.5)

[1] Less than $50,000,000 increase.

Note: Details in the table may not add to totals due to rounding.

For the budget as a whole, a reduction of $1.7 billion is estimated for total outlays. This change includes upward reestimates of $5 billion, mostly in programs excepted from the spending limitation. The best judgment at this time is that congressional action will result in a reduction of $3.1 billion, including $2.1 billion for the Department of Defense and military assistance. To attain the reduction required under Public Law 90–364, it will be necessary for the President to make further cutbacks totaling $3.5 billion. An allowance of $300 million is included in the current estimates to provide for possible future increases not now foreseen.

As table 4 shows, estimated outlays for the group of programs excepted from the terms of the act are up by $4.4 billion from the estimate made last January. The largest single increase is $2.3 billion for special Vietnam support, with defense outlays up slightly less than the amount announced on March 31, and AID outlays in Vietnam also down somewhat. Interest outlays are now estimated above the amount included in the January budget, because of higher interest rates and because the debt at the start of the fiscal year was at a higher level than originally assumed. Veterans' benefits will be higher than estimated last January, mainly because Congress enacted more costly compensation and pension rate increases than had been proposed and did not enact certain reforms in veterans' programs recommended by the President. Outlays of the Social Security Act trust funds are also revised upward, mostly for medicare.

For the remainder of the budget—the portion which is covered by the required reduction under Public Law 90–364—total outlays are currently estimated to be $6 billion below the January budget estimate. The overall $6 billion reduction in covered programs will be made approximately half in the Department of Defense and half in the civilian agencies of the Government. In determining the targets needed to accomplish a total reduction of $3 billion for civilian agencies, the policy followed was the one noted in the President's statement when he signed Public Law 90–364: "In carrying out these congressional mandates, I will do my best to fulfill our most urgent priorities and to continue the essential operations of Government." To the extent possible, key social programs were shielded from further reduction below congressional enactment—including, for example, manpower training, low-income housing, antipoverty activities, education of the disadvantaged, and safe streets and crime control.

To arrive at the $3 billion cut in outlays of civilian agencies, allowance had to be made for two significant upward reestimates in uncontrollable programs. The current estimates for Commodity Credit Corporation price support activities and for public assistance are more than $1 billion higher than the January budget estimates. The target figures for the Departments of Agriculture and Health, Education, and Welfare call for them to absorb these increases—in effect, holding these two agencies to their January estimates for programs covered by the Public Law 90–364 limitations. Accordingly, the $3 billion reduction will have to be made in the other civilian agencies' covered programs.

Of this amount, over $1 billion is planned in loan programs, such as those of the Farm Credit Administration, the Export-Import Bank, and the Small Business Administration. Increasing reliance will be placed on the private market for these activities, made possible in part by fiscal policy actions reducing pressures on the money market.

Construction activities will have to be guided by an even more restrictive policy than recommended last January. For example, the targets for water resource projects represent the levels passed by the House of Representatives, rather than the larger amounts enacted by the Congress as a whole. A reduction of $200 million is planned for the Federal-aid highway program.

NASA outlays—outside of those for the manned lunar landing—will be held to a level $100 million below that resulting from congressional action.

As a general rule, both construction and developmental activities can bear short-term deferral of benefits without substantial loss of long-term gains to a much greater extent than can on-going operating programs.

No cutback of the magnitude required by Public Law 90–364 can be accomplished without difficulty. The current estimates represent strong efforts to make the decisions in light of needs and priorities and in the Nation's best interests.

Budget Receipts

The current estimate of budget receipts in fiscal year 1969 is $179.4 billion, up $1.3 billion from the January estimate.

Basis of the current estimates.—The fiscal year 1969 budget assumed that a 10-percent tax surcharge on individual and corporation incomes would be enacted promptly and would become effective as of April 1, 1968, and January 1, 1968, respectively. The surcharge was not enacted until late June, however, and tax withholding and corporation payments under it did not begin until July. Partly because of the later effective date of this fiscal restraint, economic activity during the first half of calendar 1968 was greater than was projected in the January budget and the level of activity for the entire year is expected to be somewhat higher than assumed in January.

ECONOMIC ASSUMPTIONS, CALENDAR YEAR 1968

[In billions of dollars]

	January projection	Current projection [1]
Gross national product	846	854
Personal income	675	683
Corporate profits before taxes	87	89

[1] Recent upward revisions by the Commerce Department in the estimates of national income and gross national product account for part of the increases in the current projections over the January projections.

Note: Change in budget receipts: The increase of $1,300,000,000 in total receipts over the estimates made last January reflects mainly the impact on collections of the delay in the enactment of the tax proposals included in the January budget (with retroactive collection of receipts that would have been realized in the previous fiscal year), offest in part by downward revisions in the estimated yield of the existing tax system.

TABLE 5.—EFFECT OF TAX LEGISLATION ON BUDGET RECEIPTS

[Fiscal years; in billions of dollars]

	1968		1969	
	January estimate	Actual	January estimate	Current estimate
Income taxes:				
Surcharge:				
Individual income taxes	0.9		6.9	7.8
Corporation income taxes	1.0		2.9	3.7
Acceleration of corporation income tax payments	.8		.4	1.0
Subtotal, income taxes	2.7		10.2	12.5
Excise taxes:				
Automobiles	.2	0.1	1.5	1.6
Telephone service	.1	.1	1.2	1.2
Subtotal, excise taxes	.3	.2	2.7	2.8
Total effect of tax legislation	3.0	.2	12.9	15.3

Note: Details in the table may not add to totals due to rounding.

The budget last January proposed—

A surcharge of 10 percent on income tax liabilities effective April 1, 1968 for individuals and January 1, 1968 for corporations, terminating on June 30, 1969.

An acceleration of corporation tax payments;

Extension of excise tax rates on automobiles and telephone services at 7 and 10 percent, respectively, through June 30, 1969; and

Transportation and other user charges.

Enactment of these proposals was estimated to result in added revenues of $3 billion in fiscal year 1968. However, the proposed surcharge and corporate tax acceleration were not enacted in time for any collections to occur before June 30, 1968. The surcharge as enacted carries the same effective dates as proposed, on a retroactive basis, so most of the $1.9 billion that would have been received as a result of the surcharge in fiscal year 1968 will instead be collected in fiscal year 1969.

The acceleration of corporate tax payments, as enacted, will also shift into fiscal year 1969 most of the collections originally estimated to occur in 1968. A slower schedule was enacted than had been proposed for eliminating the present exemption on the first $100,000 of corporate tax liability from the requirement of payment on a current quarterly basis. The budget proposal called for this to be accomplished over a 5-year period; the enacted legislation allows 10 years, reducing the exemption from $100,000 to $5,500 in the first 5 years and providing for complete elimination over the next 5 years. Legislation also increased from 70 to 80 percent the percentage of estimated tax to final liability which must be paid currently, as recommended in the budget. Collections in fiscal year 1969 will be about $0.2 billion lower than they would have been under the proposed legislation.

The excise taxes on automobiles and telephone services were extended at 7 and 10 percent, respectively, through December 31, 1969, but the delay in enactment increased by $0.1 billion the amount to be collected in fiscal year 1969.

The transportation user charge proposals are still pending in the Congress. Delay in enactment of this legislation has reduced estimated receipts in fiscal year 1969 by $0.1 billion.

In addition to these changes attributable to legislation, there were changes from the January figures as a result of revisions in the basic revenue estimates. The current estimates are associated with revisions in the underlying economic data and assumptions and in the yield of the tax system based on the latest actual experience. These estimates are shown in the following table.

TABLE 6.—CHANGES IN BUDGET RECEIPTS, BY SOURCE (FISCAL YEARS)

[In billions of dollars]

Source	1968 actual	1969			Of which—	
		January estimate	Current estimate	Total change	Effect of tax legislation	Other
Individual income taxes	68.7	80.9	81.8	+0.9	+0.9	
Corporation income taxes	28.7	34.3	34.8	+.5	+1.4	−0.9
Employment taxes	29.2	34.2	34.4	+.2		+.2
Unemployment insurance	3.3	3.6	3.2	−.3		−.3
Premiums for other insurance and retirement	2.0	2.3	2.3			
Excise taxes	14.1	14.7	14.7	(1)	+.1	−.1
Estate and gift taxes	3.0	3.4	3.3	−.1		−.1
Customs	2.0	2.1	2.1			
Miscellaneous receipts	2.4	2.7	2.7			
Total	153.5	178.1	179.4	+1.3	+2.4	−1.2

[1] Less than $50,000,000 increase.

Note: Details in the table may not add to totals due to rounding.

Budget Outlays

In total, including both programs covered and excepted under Public Law 90–364, budget outlays are currently estimated at $184.4 billion, down $1.7 billion from the January estimate of $186.1 billion. Congressional action when finally completed is estimated to result in net reductions totaling $3.1 billion. Largely as a result of upward revisions in estimated outlays for programs excepted from the provisions of Public Law 90–364 and for uncontrollable covered programs, total reestimates—upward and downward—indicate a net increase over the original budget estimate of $5 billion. The current agency target reductions under Public Law 90–364 total $3.5 billion to reach the required $6 billion cutback.

Table 7 shows the estimates and changes for each agency in total.

Major *decreases* from the January estimates, based on assumptions concerning incomplete congressional action, are:

[Millions of dollars]

Department of defense (military) and military assistance: Estimated congressional appropriation reductions in military personnel, operation and maintenance and procurement will be more than offset by the upward reestimate of outlays for Vietnam. An additional reduction is planned, under the Public Law 90–364 requirements, in non-Vietnam outlays—including steps already taken to inactivate 50 Navy ships and 8 naval air squadrons, to close 23 Army Nike-Hercules air defense sites and 7 Army headquarters installations, and the decision not to complete activation of the 6th Infantry Division	—542
Corps of Engineers: Congressional reductions and the target Public Law 90–364 reduction will hold the corps' water resource projects to the level of outlays indicated by the action on appropriations by the House of Representatives	—100
Housing and Urban Development: Almost all of the reduction reflects reestimates, including (1) an *increase* for FNMA mortgage purchases and financing of FHA sales, reflecting mortgage market conditions, more than offset by decreases for (2) an earlier than originally expected completion of the transfer of FNMA's secondary market operations to private ownership, (3) the transfer of the urban mass transit program to the Department of Transportation, and (4) slower than estimated outlays in other grant and loan programs	—414
Interior: The decrease represents mainly (1) reductions by the Congress for the Bureau of Reclamation, the land and water conservation fund, Indian programs, and other activities and (2) a higher estimate of receipts from mineral leases on the Outer Continental Shelf, which are offset against the Department's disbursements	—415
Post Office: The reduction reflects a decrease by Congress, a reestimate of transportation costs, and further administrative reductions made possible through additional improvements in operating efficiency	—100
Transportation: Congressional reductions are largely for the supersonic air transport and for the highway beauty and safety programs. An upward reestimate is included for the transfer of the urban mass transit program from HUD. The major Public Law 90–364 reduction is for highway construction	—300
Foreign economic assistance: The decrease mainly represents anticipated congressional action and a slower rate of outlays in Vietnam because of slower progress in AID programs caused by the Tet offensive	—201

Office of Economic Opportunity: Most of the decrease is based on anticipated congressional action. The balance of the reduction is the result of a reestimate	−85
Atomic Energy Commission: Most of this reduction results from completed congressional appropriations action	−100
National Aeronautics and Space Administration: About 70 percent of the estimated reduction reflects anticipated congressional action. The remainder represents a planned further reduction under Public Law 90–364 to be accomplished in areas other than the manned lunar landing effort	−350
Export-Import Bank: An upward reestimate of the rate of disbursements under existing loans will be more than offset by an estimated reduction in net outlays based on plans to sell more loans abroad and at home. Sales abroad will contribute to lowering the balance-of-payments deficit as well as reducing budget outlays	−300
Farm Credit Administration: This reduction is estimated to result from (1) holding loans by the Federal intermediate credit banks which are outstanding at the end of fiscal year 1969 to the levels forecast in the budget for the end of the fiscal year 1968 and (2) holding the increase in loans by the banks for cooperatives in 1969 to about one-half the level forecast in the budget	−650

Major *increases* over the January estimates are:

[Millions of dollars]

Health, Education, and Welfare: The estimated increase is for the Social Security Act trust funds, mainly health insurance, which are excepted from Public Law 90–364. HEW's Public Law 90–364 reduction target will require curtailment of other programs because of upward reestimates for public assistance, including the increases resulting from a postponement for 1 year of the freeze on aid to families with dependent children—also provided in Public Law 90–364	+651
Treasury: An upward reestimate of interest costs, because of higher interest rates and a higher than assumed debt at the start of the year, more than offsets scattered reductions	+875
Veterans' Administration: The increase reflects mainly congressional enactment of more liberal compensation and pension rates than proposed in the budget, coupled with nonenactment of certain reforms in benefit programs which were recommended in the budget	+405

As table 7 shows, no change from the January estimate is currently being made for the Department of Agriculture. Congressional reductions in that Department's appropriations, largely for Public Law 480 activities, are more than offset by a substantial upward reestimate of Commodity Credit Corporation outlays due to larger than anticipated crop yields and lower exports. The Department's target reduction under Public Law 90–364 assumes that cutbacks in other programs will be made to hold total outlays to the estimate in the January budget.

TABLE 7.—CHANGES IN BUDGET OUTLAYS, BY AGENCY

[Fiscal years, in millions of dollars]

Agency	1968 actual	1969: January estimate	1969: Current estimate	1969: Total change	Of which—: Restimates	Of which—: Estimated congressional action	Of which—: Further Public Law 90–364 reductions
Agriculture	7,326	7,167	7,167		+710	−243	−467
Commerce	800	853	885	+32	+62	−25	−5
Health, Education, and Welfare	41,048	45,769	46,420	+651	+972	+59	−380
Housing and Urban Development	4,088	3,216	2,802	−414	−398	−13	−3
Interior	259	923	508	−415	−291	−114	−10
Justice	430	555	533	−22	+8	−26	−4
Labor	3,268	3,800	3,864	+64	+98	−31	−3
Post Office	1,084	767	667	−100	−24	−31	−45
State	420	439	428	−11	+1	−12	
Transportation	5,731	6,282	5,982	−300	+150	−220	−230
Treasury	14,719	15,425	16,300	+875	+890	−9	−6
Corps of Engineers	1,284	1,287	1,187	−100	+14	−65	−49
Foreign economic assistance	1,835	2,224	2,023	−201	−51	−150	
Office of Economic Opportunity	1,888	2,000	1,915	−85	−35	−50	
Atomic Energy Commission	2,464	2,546	2,446	−100	+24	−95	−29
General Services Administration	417	493	503	+10	+32	−10	−12
National Aeronautics and Space Administration	4,722	4,573	4,223	−350		−250	−100
Veterans' Administration	6,878	7,382	7,787	+405	+91	+314	
Export-Import Bank	790	566	266	−300	+50		−350
Farm Credit Administration	519	701	51	−650			−650
All other civilian agencies	5,670	5,082	5,101	+19	+281	−60	−202
Subtotal, civilian agencies	105,640	112,050	111,058	−992	+2,584	−1,031	−2,545
Department of Defense, military, and military assistance	77,847	77,112	76,570	−542	+2,505	−2,058	−989
Allowances for:							
Pay increase of July 1, 1968		1,600	1,600				
Contingencies		350	300	−50	−50		
Undistributed intragovernmental payments [1]	−4,596	−5,048	−5,120	−72	−72		
Total	178,892	186,062	184,408	−1,654	+4,967	−3,089	−3,534

[1] Represents Government contributions for employee retirement and interest received by trust funds.

Note: Details in the table may not add to totals due to rounding.

Chairman PROXMIRE. I had a chance last night, Dr. Zwick, to read your opening statement. It is a fine statement, summarizing the information contained in the press release of Monday, September 9.

We welcome you to this hearing and you may proceed with your statement.

STATEMENT OF HON. CHARLES J. ZWICK, DIRECTOR OF THE BUREAU OF THE BUDGET, ACCOMPANIED BY SAMUEL M. COHN, ASSISTANT DIRECTOR FOR BUDGET REVIEW

Mr. ZWICK. Thank you. Good morning, gentlemen.

I am pleased to be here today to discuss with you the revised estimates of the budget for fiscal year 1969.

I would like to read the statement because I think it does set the background for a dialog on the budget as we see it today.

Certainly periodic updatings of the budget estimates obviously are valuable, particularly when circumstances change significantly after the budget is released. That is clearly the case this year, with the enactment of the Revenue and Expenditure Control Act of 1968 as well as other developments. However, it is understandably difficult to make precise estimates when congressional action on legislation and appropriations is incomplete.

Our revised figures are based on congressional action up to the time of adjournment for the conventions. At that time, five regular appropriation bills—covering more than half of the total budget authority for fiscal year 1969—were still not enacted. Nevertheless, it has been necessary to provide guidance to the agencies on how to achieve the $6 billion cutback in outlays required under the Revenue Expenditure Control Act of 1968.

The current estimates must be viewed as tentative. In addition to changes which will occur as a result of the normal problems of estimation, there will undoubtedly be later revisions when Congress completes action and when the President reviews and approves the individual agency cutback plans. Nevertheless, they do represent our best appraisal at this time of the overall budgetary outlook.

Before turning to questions, I would like to discuss briefly several aspects of the Revenue and Expenditure Control Act of 1968. When I testified before this committee in February, I stressed the urgent need for a temporary and modest tax increase to help pay the added costs of Vietnam responsibility and thereby to—

Lessen inflationary pressures;
Improve the balance of payments; and
Stem the upward pressure on interest rates.

At that time, the clear consensus among analysts of economic conditions was that recent and foreseeable trends in the economy indicated the need for the fiscal restraint proposed by the President in August 1967 and again last January. Subsequent events confirmed the accuracy of this diagnosis.

During the spring of this year, prices and interest rates continued to rise at disturbingly rapid rates, and our international trade position continued to weaken. Confidence in the dollar waned as doubts arose both here and abroad concerning the willingness of the United States to take the fiscal measures necessary to slow the advance of economic activity to a reasonable speed and to restore balance to its economic growth. Indeed, we had begun to run a serious risk of overstimulating the economy into an unsustainable boom leading to a tragic bust, with its inevitable, costly high unemployment of manpower and other resources.

The passage of the tax surcharge provisions of the Revenue and Expenditure Control Act of 1968 toward the end of June was a major step toward putting our economic house in order. Because the Act has been in effect for only 2 months, it is still too early to see the full impact of this fiscal restraint in the Nation's economic statistics. Some results are evident, however.

Most types of interest rates began to recede from their May peaks in anticipation of passage of the act and are now very substantially below those peaks. The presence of strong fiscal restraint has significantly reduced the needed degree of monetary restraint. Wholesale prices of industrial commodities show signs of having slowed their rate of rise. And confidence in the dollar as a basic currency in international transactions has been restored. We are looking forward to significant slackening in the upward movement of retail prices in the months ahead. And we expect the stabilizing effects of the Revenue and Expenditure Control Act to assist in improving our international trade performance.

The intent of the fiscal restraint proposed by the President was to moderate the growth of demand, thereby easing the inflationary pressures confronting the Nation, and to finance in a more equitable manner a substantial part of the costs of our Vietnam operations. As administration spokesmen pointed out repeatedly, a return to relative price stability was not expected to occur immediately following passage of the proposed legislation. The upward force of existing cost pressures is too great, and restraint on aggregate demand will, and should, occur over a period of months rather than instantly. But passage of the legislation has set us on the road to reasonable price stability and a balanced economic expansion at a rate commensurate with our rising productive resources.

In addition to raising taxes, the Revenue and Expenditure Control Act of 1968 includes provisions to reduce the number of Federal employees and the amount of budget outlays in the President's budget of last January. I would like to describe for you briefly the current status of these provisions.

Reduction in Federal employment. With respect to employment, the act introduced certain limitations on hirings in the executive branch, designed ultimately to reduce the number of Federal employees to the June 1966 level. The main provisions are that—

In the case of *full-time employment in permanent positions*, the number of appointments—whether to new positions or to fill vacancies—must not exceed 75 percent of the vacancies occurring after July 1, 1968.

In the case of *temporary and part-time employment*, the number of appointments must be restricted so that such employment is no greater than during the corresponding month of 1967.

The first of these restrictions—on full-time permanent employment—will remain in effect until the June 30, 1966, employment level is reached, although at that point hirings will still have to be limited in such a way as to keep employment from rising above that level. The second restriction—on temporary and part-time employment—would continue indefinitely under the terms of the law.

The administration opposed this employment rollback. It involves a reduction of more than 250,000 full-time permanent employees, despite a 25-percent increase in workload, even after the $6 billion cut. In recognition of the various difficulties created by the arbitrary nature of the provision, legislative exemptions have already had to be provided for the Postal Field Service, TVA power activities, the FBI, and the FAA air traffic control system. Under these exemptions about 20 percent of the Government's employment is no longer covered by the law. An additional exemption has been proposed for employees of the Department of Agriculture who are paid from non-Federal sources—such as employees involved in inspection and grading of agricultural products.

Management problems can be expected to continue, demonstrating the weakness of such a blanket approach to a complex problem. For example, recently enacted legislation expanding Federal activity in the field of housing and community development will require additional employees to get the job done. Moreover, if we are to take a population census in April 1970, in accordance with the constitutional requirement for a decennial census, extra temporary employees will

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be needed in the Bureau of the Census over and above the employment level prevailing in April 1967.

Although this provision was adopted as part of an economizing measure, its impact is, in some cases, contradictory to efforts to economize. For example, a reduction in the employment of the Internal Revenue Service will cost us, in taxes foregone, several times the annual salary of the employees. Reimbursable work done for non-Federal customers does not cost the U.S. taxpayer any money and, in some instances, can result in payments by other governments which would help our overall balance of payments; however, such work is covered by the provision. Reductions in employment financed by assessments on the credit institutions—as in the case of the Federal Home Loan Bank Board, the Farm Credit Administration, the Comptroller of the Currency, and the Bureau of Federal Credit Unions—have no effect upon net budget outlays and provide no savings for taxpayers, but could have an adverse effect on legally required Government surveillance over the supervised institutions.

Despite the problems and drawbacks, the administration is executing the law in accordance with the wishes of the Congress. The Bureau of the Budget has issued regulations to all executive agencies prescribing procedures for carrying out the hiring restrictions in the law. Some leeway is provided in the form of authority given to the Budget Director to transfer vacancies which can be filled under the law where necessary because of the creation of new functions, changes in functions, or requirements for efficient operation of Government activities. In accordance with instructions from the President, I have followed a very restrictive policy in reviewing requests for relief under this transfer authority. While many of the individual requests have obvious merits and can be justified individually, the situation I face is that every request I approve results in an increased burden on other agencies trying to do bigger jobs with fewer people. The limited authority granted under the law does not permit me to exempt any agency; it permits me only to reassign vacancies from one agency to another.

The urgent need to get started on the new "Safe Streets" program as well as various hardship situations have required me to grant some relief to the Justice Department and a few other agencies, amounting to about 600 positions. This means that all the other agencies must contribute this number of vacancies in addition to the reductions which the 75-percent replacement policy requires of them.

After careful review of the situation, I have recently directed all agencies subject to the limitation with more than 50 full-time employees to limit replacements to 70 percent of vacancies occurring on or after September 1, thereby making available for reassignment to other agencies the difference between 70 percent and 75 percent of their separations. This step was necessary to enable us to begin new programs and maintain other essential Government operations.

In accordance with the law, we will be making quarterly reports on employment to the Congress. Beginning this fall when data for the July-August-September quarter are available, the first report will be submitted. At present, we have figures only for the month of July. They indicate that temporary and part-time employment of the departments and larger agencies was more than 14,000 below the required level. Full-time permanent employment in the civilian departments and larger agencies was around 550 less on July 31 than the level permitted by the law, while the Department of Defense exceeded the statutory target by about 9,500. A few of the individual civilian agencies also exceeded their targets although the total was below target. I believe that the overruns largely reflect transitional difficulties, such as personnel commitments made prior to July 1 and problems of communications to field offices, and that with additional time they will be ironed out. Also, a few questions of interpretation of the act have yet to be resolved. I have written to the head of each agency which exceeded its employment target in July to take whatever steps are necessary to control employment actions so that his agency complies with the law.

Reduction in outlays. Turning now to budget outlays, the Revenue and Expenditure Control Act sets a limitation for fiscal year 1969 outlays, with exemptions for Vietnam operations, interest, veterans' benefits and services, and the Social Security Act trust funds. Another law subsequently exempted the operations of the Tennessee Valley Authority which are financed from power proceeds and borrowing. In effect, the law requires a $6 billion reduction from the January estimates to be made in all the other programs of the Government—both defense and civilian. The portion of budget outlays which is covered by the act was estimated at $101.9 billion in the January budget—about 55 percent of the total.

Mr. Chairman, I think I will depart from my prepared statement here and just run through this table for you on this matter, because it is a little complex.

(The table referred to follows:)

ESTIMATED 1969 OUTLAYS

[In billions of dollars]

	Total outlays	Exempt from Public Law 90–364	Affected by Public Law 90–364
January budget estimate	186.1	84.1	101.9
Amendments and reestimates	+5.0	+4.1	+.9
Total	191.1	88.2	102.8
Estimate of congressional action on total budget	−3.1	+.2	−3.3
Further reductions required by Public Law 90–364	−3.5		−3.5
Current estimate	184.4	88.5	95.9
Current estimate compared with January estimate	−1.7	+4.4	−6.0

Note: Details in the table may not add to totals due to rounding.

We start out with the January estimate of $186.1 billion, which most people think of when they think of the January number. Congress exempted the programs I mentioned: $36 billion of social security trust funds; special costs of Vietnam, which were $26.3 billion; interest, which was $14.4 billion in the budget; veterans' benefits, which came to $7.3 billion; and the power operations of TVA, amounting to $0.1 billion. The total of the exemptions, if I did my arithmetic correctly, is $84.1 billion, so that in effect the tax bill applied to $101.9 billion. It said that this amount has to be reduced by $6 billion, down to $95.9 billion. That is essentially the requirement of the tax bill.

Since January we have had a net increase of about $900 million in the estimates for the part of the budget covered by the act, the biggest increase being Commodity Credit Corporation payments, which are now up around $700 million, and are reestimates of public assistance and medicaid costs of $400 million, excluding congressional action.

Overall we had increases from the January estimate of $2.3 billion, and decreases of $1.4 billion, so the net is an increase of $900 million in terms of reestimates. Therefore, in fact, we have to cut not $6 billion but $6.9 billion—actually it turns out to be $6,864 million—to live with the provisions of the tax law.

Chairman PROXMIRE. That is because the Congress didn't mandate a $6 billion cut. They simply put a limit on the amount that you could spend.

Mr. ZWICK. That is right; they set a limit, exempting certain programs.

Chairman PROXMIRE. So, if there are increases, you have to make additional reductions.

Mr. ZWICK. That is right. We are facing a situation where we really have to cut a $6.9 billion rather than $6 billion, and it is in those programs which are covered by the law rather than in the total.

Our best estimate at this point is that Congress will cut the affected programs by $3.3 billion. With appropriation bills still outstanding, we could be wrong, but this is our best guess. That means we have to make up the remaining $3.5 billion, and that gives you a total cut of $6.9 billion, allowing for rounding.

Chairman PROXMIRE. In terms of the amounts of expenditures, it really doesn't matter, does it, whether Congress makes the cut or not?

Mr. ZWICK. That is right; we have to do it.

Chairman PROXMIRE. You will have to make your reductions. If Congress fails to cut, you have to cut more.

Mr. ZWICK. That is right. If Congress cuts $2 billion rather than $3.3 billion, then we have to cut $4.9 billion. If Congress cuts more than $4 billion, then we will have to cut less. The total has to come down to $95.9 billion.

Chairman PROXMIRE. So that that part of your estimate is fairly firm and doesn't rely—doesn't depend—on what Congress does in the next month.

Mr. ZWICK. That is right. Unless Congress changes the law, we have got to bring the total of these covered programs down to $95.9 billion.

Now, I wanted to go through that, because there is some confusion. If you then take the exempted programs where you have had increases—$2.3 billion for Vietnam, veterans' programs up about $400 million, Social Security Act trust funds up about $700 million, interest up $900 million, and a small increase for the exempted part of TVA—you get a net increase of $4.4 billion in the exempted programs. You take that $4.4 billion away from the $6 billion cut in the covered programs and you find the total budget has been cut from $186.1 billion to $184.4 billion, or only $1.7 billion. And people say, "What has happened to the $6 billion?"

Well, what happened to the $6 billion was these increases that were clearly expected when the tax bill was passed, because on March 31 the President had announced the Vietnam costs were going to be up $2.6 billion in fiscal year 1969.

Chairman PROXMIRE. And it is conceivable that the President might request, or the Congress might provide, additional spending in the exempted areas?

Mr. ZWICK. That is correct.

Chairman PROXMIRE. And that would erode.

Mr. ZWICK. That would erode it.

Chairman PROXMIRE. The estimates that you have on the expenditure side.

Mr. ZWICK. That is right. In fact, the Senate passed, as you know, last Friday the impacted school aid entitlement for 1968 of $91 million, and it will show up on the exempted side.

Chairman PROXMIRE. On the exempted side?

Mr. ZWICK. Yes, and the total reduction in outlays will drop to $1.6 billion.

Chairman PROXMIRE. Right.

Mr. ZWICK. So to the extent that that happens, the total budget will keep growing and we will still be living with the change requiring us to hold the programs covered by the law to $95.9 billion; which incidentally is $2.5 billion less than these programs were held to during fiscal 1968. So this is a real cut in these programs that are covered by the law—in fiscal 1968, they ran at a rate $2.5 billion higher than the law requires us to hold them to in 1969.

I may overlap a few of the comments we made there, but I will continue to read my statement.

The first responsibility to reduce this $101.9 billion by the required $6 billion rests with the Congress through the regular appropriations process. To the extent that this process does not produce $6 billion of cutbacks in outlays, the President must determine where the remaining reductions will be made. As I noted earlier, a substantial portion of the appropriations has not yet received final congressional action and we have therefore not made final specific determinations of the further reductions which will be required. However, the machinery needed to accomplish the objectives of the act has been set in motion and tentative targets established for the agencies.

Briefly, our procedures—as outlined in Bureau of the Budget Bulletin No. 68-16—call for the Bureau to provide all agencies with planning figures. This has been done. Each agency is then required to prepare a plan for carrying out the reductions needed to come down to the planning figure. Where appropriations are not yet enacted, these plans are based on a judgment of the final outcome of congressional action, with revised information to be submitted after the appropriations involved are passed.

The preliminary steps have already been taken. The Bureau of the Budget is now in the process of reviewing the agency plans for conformity with the goals and priorities of the President. Following decisions by the President on the limitations to be applied, each agency head will be notified of these decisions and will be responsible for insuring that the limitations are not exceeded. Agency performance will be reviewed regularly throughout the year.

As you know, the figures for July 1968 are now available. Total outlays in that month—the first in fiscal year 1969—showed a significant drop from June and were even below the level in July of a year ago.

So the only hard data that are currently available clearly indicate that total Government expenditures are coming down. Practically every agency had outlays lower than in June, which demonstrates that the agencies have been carrying out the instructions given them by the President in a memorandum to the agency heads the day he signed the Revenue and Expenditure Control Act of 1968. In that memorandum, the President called for caution in obligating funds even before the procedures I have described could be put into effect, so that the necessary adjustments could be made under the law in an orderly manner. He also stated, "This must not be a mechanical, across-the-board exercise. All decisions should be made in the light of agency-wide priorities." We have also applied Government-wide priorities in developing our current planned cutbacks beyond those estimated to be accomplished by the Congress. The applicable figures are shown in the following table.

(The table referred to follows:)

ESTIMATED 1969 OUTLAYS AFFECTED BY THE REVENUE AND EXPENDITURE CONTROL ACT OF 1968

[In billions of dollars]

	Total	DOD, military, and military assistance	Civilian
January budget estimate	101.9	51.3	50.6
Amendments and reestimates	+.9	+.1	+.8
Subtotal	102.8	51.4	51.4
Estimate of congressional action	−3.3	−2.1	−1.3
Further reductions required under the act	−3.5	−1.0	−2.5
Current estimate	95.9	48.4	47.5
Current estimate compared with January estimate	−6.0	−3.0	−3.0

As the table shows, our best judgment at this time is that congressional action will result in a reduction of $2.1 billion in expenditures for the non-Vietnam military activities of the Department of Defense and for military assistance. We have revised upward by $0.1 billion the estimate of military assistance outlays. Our current cutback estimates call for an additional $1-billion reduction for defense programs apart from Vietnam, so that approximately half of the required $6 billion reduction would fall in defense and the other half in the civilian agencies.

In determining our plans for arriving at a $3-billion reduction for civilian programs, we have required all the agencies to share in the difficult job of reducing operations and services. We have, of course, taken into account the reductions already made or anticipated through congressional action. Overall, these reductions are estimated at $1.3 billion.

To achieve the remaining $1.7 billion of required administrative reductions in civilian programs, it will actually be necessary to impose cutbacks of about $2.5 billion because we will have to offset a substantial upward reestimate. The total reestimate reflects both increases and decreases, but is heavily influenced by increases of over $1 billion for farm price supports and public assistance grants to States—programs for which 1969 outlays are fixed by law.

As a general policy, we have tried to protect key high priority social programs such as manpower training, antipoverty activities, education of the disadvantaged, low-income housing, and crime control.

In anticipation of reduced pressures on financial markets as the effects of the tax surcharge are increasingly felt in the economy, a reduction of $1.2 billion is planned in loan programs of various agencies, such as the Farm Credit Administration, the Export-Import Bank, and the Small Business Administration. Greater reliance will be placed on private financing of these activities.

Outlays for the Federal-aid highway program and other construction activities will be cut back by a total of $300 million, including $200 million for highways and most of the remainder for water resources projects. The budget last January had called for a restrictive policy on Government construction. However, with the current budgetary stringency we believe it is necessary to be even more restrictive in this area, in which short-term deferrals are not as serious as in some operational service activities.

The space program, under current plans, will be reduced by $100 million beyond the cuts anticipated to result from congressional action. These reductions are expected to be accomplished in activities other than the manned lunar landing effort.

Present plans require the Departments of Agriculture and Health, Education, and Welfare to hold outlays for their programs which are covered by the statutory limitation to the amounts estimated in the January budget. Because of increases for farm price support activities and public assistance, these two departments will have to make substantial reductions in other programs. The specific areas to be reduced are presently under study.

Our cutbacks are planned to be applied throughout the Government, reflecting workload considerations, program needs, the effects of the employment rollback, and other factors.

In formulating the January budget, the President followed a tight expenditure policy with the objective of holding the budget down as much as possible consistent with urgent national priorities. We still believe the fiscal policy in that budget was proper for the Nation's needs. The deep budget reductions required by the Congress will inevitably cause some hardship and loss of Government services. However, we are making every effort to fulfill the mandate of the Congress in the best and most orderly way we can devise.

Chairman PROXMIRE. Thank you very much, Mr. Zwick.

As I say, this was an excellent statement. You are very responsive to the kind of thing that we are interested in.

What is your anticipated GNP for fiscal year 1969?

Mr. ZWICK. We used $854 billion for calendar 1968.

Chairman PROXMIRE. Can you break it down by quarters? Can you or did you?

Mr. ZWICK. No; I don't have those data here. Generally we look at half year projections.

Chairman PROXMIRE. You have that in your chart?

Mr. ZWICK. Yes; the annual figures are in the summer review.

Chairman PROXMIRE. That was increased as I recall.

Mr. ZWICK. Yes; by $8 billion over what we assumed in January.

Chairman PROXMIRE. Why do you make that?

Mr. ZWICK. Roughly half of that increase of $8 billion, a little more than half actually, is associated with the level adjustment that the Office of Business Economics made in July of this year. The other increase of roughly $4 billion reflects a higher estimate than we had in January. The first two quarters of this year have run at a rate higher than we anticipated. We had two $20 billion quarters. So, a little more than half of the increase is just an adjustment in level due to the technical adjustment by OBE The other half, around $4 billion, is associated with a little stronger first half than we anticipated.

Chairman PROXMIRE. Can you break that down at all in terms of how much of it is real growth and how much of it is inflation?

Mr. ZWICK. It has been running about 50–50, so I presume you might take 50 percent of that. In other words, of the $4 billion growth, apart from the OBE adjustment, we probably have a little more real growth than we anticipated in January—let us say, $2 to $2½ billion real growth.

Chairman PROXMIRE. You have got a little more inflation, too.

Mr. ZWICK. Yes, sir; a little more inflation and a little more real growth. As you know, we anticipated the tax increase earlier than we got it, and we think part of this extra GNP and extra inflation is associated with the delay in the tax increase.

Chairman PROXMIRE. What is the anticipated price performance that you expect?

Mr. ZWICK. We expect and hope that the tax increase and expenditure reductions will "turn the corner" on the price increases—the rate at which they are accelerating—sometime this fall. As we go into calendar 1969, we still have price inflation, no doubt about it, but we don't expect to——

Chairman PROXMIRE. Yes; but in arriving at this $854 billion GNP. You had to make certain assumptions on what happens to the price level in the remainder of the fiscal year.

Mr. ZWICK. Yes.

Chairman PROXMIRE. Between now and next July 1.

Mr. ZWICK. Yes. I think we held the deflator pretty close to what we had during the first half of the year, when I think the implicit GNP deflator was running around three and a half percent.

Chairman PROXMIRE. Three and a half percent.

Mr. ZWICK. A little more than that.

Chairman PROXMIRE. That is a slowdown, then, in inflation that you anticipate in the closing 9 months or so?

Mr. ZWICK. We would expect, we would hope, that we have hit the peak in this acceleration process that has been taking place since last August. And we would hope that starting sometime this fall we would see the first hopeful signs of a slowing down in the rate of price increases. It is too early to tell, and always dangerous to latch on to one statistic. However, the first hopeful sign is that the Wholesale Price Index for industrial commodities remained level in August. But it is just one statistic out of a whole range of statistics, and I don't want to place that much weight on it.

Chairman PROXMIRE. You expect a real growth rate of about three and a half percent?

Mr. ZWICK. For the year as a whole?

Chairman PROXMIRE. Fiscal year as a whole?

Mr. ZWICK. A little more than that, I believe.

Chairman PROXMIRE. Four?

Mr. ZWICK. No, I don't think we have a number as high as four. It would be somewhere between three and a half and 4.

Chairman PROXMIRE. In a way, that is disappointing, you know. Looking at it from an overall economic policy standpoint, this committee estimated that we ought to have real economic growth of between 4 and four and a half percent. The feeling on the part of many of the people on our staff and members of the committee was that four and a half percent would be pretty much optimum. Four percent is on the low side.

Mr. ZWICK. That is right.

Chairman PROXMIRE. Of what we would like to have.

Mr. ZWICK. Yes.

Chairman PROXMIRE. And you say it is going to be less than that?

Mr. ZWICK. Yes, that is correct. I think the issue, as I stated in my testimony, is whether we have to pay something for the lateness that we had in taking fiscal restraint. I think what we are concerned about is that we do not want to return to a period like the 1950's, where we had essentially a boom-and-bust situation, where we had real growth rates of under two and a half percent when averaged over the business cycle, and where we had higher unemployment rates on the average. I think the issue is whether we can follow a flexible fiscal policy, which over some extended period of time will give us a better performance than looking at any 6-month period, and say, "That isn't the four to four and a half percent real growth, that we would hope for."

Chairman PROXMIRE. But if we are going to slow down much below the four and a half or 4 percent economic growth, real growth, it suggests that we are going to increase our level of unemployment. Now unemployment is low.

Mr. ZWICK. Yes.

Chairman PROXMIRE. We just have a report that it bounced down again to three and a half percent, which is a 17-year low.

Mr. ZWICK. That is correct.

Chairman PROXMIRE. It has been that low several times recently but it hasn't been lower than that.

Mr. ZWICK. Yes.

Chairman PROXMIRE. You would anticipate we would have increased unemployment?

Mr. ZWICK. Yes.

Chairman PROXMIRE. How much?

Mr. ZWICK. We would not expect it to hit 4 percent by the end of this year, but we would expect it to go up above the three and a half percent level we now have. Again, the argument is what sort of levels you can maintain over an extended period of time. The only history we have is the 1950's and more recently the beginning of the 1960's during which we went up and down, but averaged out at a higher rate of unemployment. What we are trying to do is avoid the sort of situation where over a period of 5, 6, 8 years you find that you have had peaks and valleys in the unemployment rate, but that the average rate was more than 4 percent and frequently over 5 percent, as it was in the 1950's. But clearly as you look at the last half of calendar year 1968, unemployment will be going up somewhat.

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Chairman PROXMIRE. Well, now, we look at the unemployment problem that we have, the nature of it, and it is concentrated in some areas that just have all kinds of social dynamite. As you know, we have minority groups that are heavily unemployed.

Mr. ZWICK. That is right.

Chairman PROXMIRE. Teenagers?

Mr. ZWICK. That is right.

Chairman PROXMIRE. Who have a very serious problem, idleness and crime being very closely associated, and we are going to get an increase in this unemployment, according to the expectation of the administration. Isn't this going to contribute to the situation? Isn't it going to make it much harder, to make our attempts to provide jobs for the disadvantaged more difficult?

Mr. ZWICK. Certainly within the next 6 months you are correct. Our argument is that this is——

Chairman PROXMIRE. Especially if you have to cut back as you say.

Mr. ZWICK. As you know, we have tried as much as possible——

Chairman PROXMIRE. Tried to protect them?

Mr. ZWICK. To protect these programs.

Chairman PROXMIRE. At least you can't move ahead in this area?

Mr. ZWICK. To some extent, that is right. We believe this is a long-term structural problem which will be better served by avoiding a boom-and-bust situation. As you know, if we get a recession and unemployments rates go up markedly, the first group that feels the pinch are the people you are talking about.

Chairman PROXMIRE. They are feeling it now.

Mr. ZWICK. That is right, but the question is what is a sustainable level of unemployment. Are we better doing this on a more steady as-you-go basis, or are we better off trying to squeeze the level down now and maybe putting ourselves into a recession and having it jump up later. Again, there is room for argument. I cannot disagree with what you are saying, Senator, on the next 6 months. But I think the case is made, both on empirical grounds, if we look at the 1950's, and on the basis of economic theory and logic, for keeping some sort of a more stable rate of economic growth. This may mean in some short periods of time that you are running at a little higher unemployment rate than otherwise would be desirable.

Chairman PROXMIRE. I was glad to see that you cut down some of the programs, the space program, the highway program, and so forth. Do you anticipate cutting the space program $100 million below what Congress cut it?

Mr. ZWICK. Yes.

Chairman PROXMIRE. And Congress cut it sharply.

Mr. ZWICK. That is right.

Chairman PROXMIRE. And yet, although you are trying, it would seem to me that we could put even more emphasis and have to put more emphasis in this area. Here are the areas where it seems to be that Government spending can be inflationary, where you are hiring people who are skilled, who are in short supply, buying materials that are in short supply, and so forth. The manpower training programs, where it would take a little while, but that is an area where you are getting people who are if not unemployable——

Mr. ZWICK. That is right.

Chairman PROXMIRE. It is hard for them to find jobs. But it would seem that if you could put much greater emphasis than you are putting on shifting the expenditures as much as possible out of the public works programs, the highway building programs, and the space programs, and that kind of thing, and much more heavily into the social programs which we have discussed.

Mr. ZWICK. Yes.

Chairman PROXMIRE. It is not just a matter of protecting negatively.

Mr. ZWICK. Surely.

Chairman PROXMIRE. But moving ahead.

Mr. ZWICK. I understand. It seems to be there are two issues involved here. One is a question of priorities and how different individuals rank the priorities of these programs, and there are obviously disagreements on that issue.

And then the second issue which I would argue today——

Chairman PROXMIRE. I am talking not about priorities, about political priorities or any other kind. What I am talking about now is the economic impact.

Mr. ZWICK. All right.

Chairman PROXMIRE. Where you have heavy unemployment among disadvantaged people.

Mr. ZWICK. That is right.

Chairman PROXMIRE. With lower skills on the one hand and you have a shortage of personnel in the other areas. It would seem from an economic standpoint, disregarding all the value judgments which I think also come down hard on the side of the social programs, that we should shift pretty drastically and dramatically.

Mr. ZWICK. The point I would make I think is supportive of what you are saying, but maybe doesn't lead to the same policy conclusions, namely, if you look at the rate at which NASA has come down from an expenditure level of well over $4 billion last year——

Chairman PROXMIRE. Were they at their high over $6 billion?

Mr. ZWICK. Yes, at one point they had gotten up to $6 billion. They were up to $6 billion in expenditures and we got them down to $4 billion, with budget authority currently estimated at $3.8 billion. So, you have had a tremendous swing. The NASA press release, which they put out on August 8 saying how they would operate under this reduction, talks about reducing civil service employment by 1,600, and contractor support effort by 2,000. This does involve some of the same people that you are talking about giving jobs to, and does result in local economic impact. Even though in the total NASA effort this is a small statistic and in total employment figures it is small, I can assure you this is causing an economic burden in particular geographic locations. There is an issue of an orderly transition here, and I think we have brought NASA down very rapidly.

You are shutting down production lines. You are terminating the SATURN 5 production line. You are taking fairly drastic steps. It is easier to say cut out a billion dollars in the abstract—and I think we are getting from the abstract on this $6 billion cut now to the specifics—than it is when you look at production lines and people and facilities and so forth.

So I think we have had a fairly dramatic decline, and if you went much more rapidly, I think you might even be hurting the case that you are making to move out of this program and into some other programs.

Chairman PROXMIRE. Now, how about the defense sector? You are going to cut, say, half out of defense and half out of nondefense?

Mr. ZWICK. That is right.

Chairman PROXMIRE. And just superficially that might seem quite fair. But on the other hand, we know that we have had an enormous buildup in defense. The *Congressional Quarterly*, which is very responsible, had a thorough and comprehensive analysis of defense, said that we could cut $10.8 billion out of it, $10.8 billion of appropriations, which would be a substantial amount of expenditures, and have a better defense position than we have now, at least in terms of combat readiness. It would mean we would have to reduce logistic operations considerably. How realistic do you feel this is?

Mr. ZWICK. Well, again, the question of whether you can cut more in civilian programs or defense programs involves priority issues, and how individuals weigh them. But if you just look at the expenditures in the two groups of programs, as I have outlined them in my testimony, you had roughly in the 1969 budget the same amount of money estimated to be spent in the two areas, $51.3 billion in DOD, military, and military assistance other than Vietnam, and $50.6 billion in civilian programs. If you look at controllable obligations, it was a little heavier in defense than it was in the civilian area.

If you look at the problems in cutting, which we tried to do, this $3 billion—$3 billion outcome made sense. We didn't do it quite as simplistically as it might appear at first blush.

Looking at defense directly, we are anticipating, as my testimony indicates, congressional cuts of $2.1 billion. This is basically based on the assumption that the House mark would carry in the Senate. We are assuming that.

Chairman PROXMIRE. You may be a little optimistic on that. It is very, very difficult for the Congress to cut defense.

Mr. ZWICK. I understand.

Chairman PROXMIRE. Especially in view of the Russian invasion of Czechoslovakia and so forth.

Mr. ZWICK. I understand.

Chairman PROXMIRE. Unless the executive takes the initiative—the Commander in Chief tells us that he can do with a little less—it is hard for a Member of Congress not to give the boys in Vietnam and elsewhere in the world what the Commander in Chief says they have to have. It is up to you fellows in this area of discussion.

Mr. ZWICK. The President, it seems to me, on this, Senator Proxmire. has been quite clear. A, he first would prefer his January budget rather than this budget, but, B, if he has to live with this budget, he will take $3 billion out of defense and $3 billion out of civilian programs.

Now, I don't see how Congress could ask for a more clear statement from the President as to how he sets priorities.

Chairman PROXMIRE. Let me ask you, do you project a budget surplus for the second half of the fiscal year?

Mr. ZWICK. Yes, sir.

Chairman PROXMIRE. How big?

Mr. ZWICK. Well——

Chairman PROXMIRE. Can you break that down by quarters?

Mr. ZWICK. I don't have the statistics on that basis.

Chairman PROXMIRE. Can you break it down by half years?

Mr. ZWICK. We would expect on a NIA basis—are you talking about NIA?

Chairman PROXMIRE. You have three budgets; give us first the unified budget.

Mr. ZWICK. On the unified budget basis, there will be a surplus for the second half year of—I was going to say $4 billion. Mr. Cohn says $3 to $4 billion. You get more receipts, of course, in the second half of the fiscal year. On the NIA basis, it would be less than that.

Chairman PROXMIRE. NIA?

Mr. ZWICK. It would be probably less than $1 billion in the second half of the fiscal year on an NIA basis. We expect that clearly we will be moving in the direction of restraint.

Chairman PROXMIRE. Then that means that in the first half of the fiscal year, you have how large a deficit?

Mr. ZWICK. The first half of this fiscal year?

Chairman PROXMIRE. Do a little arithmetic.

Mr. ZWICK. Well, let me try it this way. The expenditure account of the unified budget was so organized to approximate the NIA deficit. The expenditure account deficit is estimated at $2.9 billion for the fiscal year; and if we have a $4 billion surplus in the spring, that means it would average out to be a deficit of about $7 billion for the first half of fiscal 1969, which is the last half of calendar 1968. In other words, in the first 6 months we have just been talking about, there would be about a $7 billion deficit in the expenditure account. I just don't have the NIA number; but I would guess it would be a little less than that around $5 billion. So you are swinging from a $7 billion expenditure account deficit in this half of the year to a surplus position in the first half.

Chairman PROXMIRE. Isn't that a pretty decisive economic shift?

Mr. ZWICK. Yes, sir.

Chairman PROXMIRE. That is the reason you expect increased unemployment, I take it?

Mr. ZWICK. Yes, sir; but we would also hope that the private sector is going to pick up some of that.

Chairman PROXMIRE. The administration has shifted its views on the estimates, because you asked for the surtax; that is true?

Mr. ZWICK. Yes.

Chairman PROXMIRE. But you did not ask for the mandatory hold-down on spending?

Mr. ZWICK. That is right.

Chairman PROXMIRE. And that gives you about a 60-percent greater restraint in your budget. You are saying this is going to give us balanced economic expansion and it is going to result in just about the kind of economic picture you want. Does this mean the administration didn't ask for enough restraint, that it was too inflationary in its request last January?

Mr. ZWICK. No, sir. I think we have taken the following position:

First, that the risks are on the overkill side, now, not on the underkill side, and we are playing a very complex and uncertain analysis very closely here.

Second, there have been some increases that we didn't anticipate in January, so that, although NIA expenditures are down from what we assumed in January, the decline is nowhere near as large as the $6 billion cutback in the unified budget. As you see, we have taken some out of the loan programs which don't affect the NIA figures.

There is some increased risk in this model from what we assumed in January, and I think we have been clear on this. Chairman Okun has stated this on a number of occasions, when talking about broad fiscal policy.

Chairman PROXMIRE. Yes.

Mr ZWICK. And we also have real program problems with this cut. As I indicated earlier, if the President had his wishes today, he repeats he would like that $186.1 billion budget that he asked for.

Chairman PROXMIRE. Do you agree it is a little early to make much of a real judgment on the impact of something as important as this big tax increase and the spending picture?

Mr. ZWICK. Yes, sir; I think that is right.

Chairman PROXMIRE. As I understand it, all the testimony we had is that people change their spending patterns slowly.

Mr. ZWICK. That is correct.

Chairman PROXMIRE. This tax increase has only been in effect for 2 months.

Mr. ZWICK. That is correct.

Chairman PROXMIRE And that is very little really to make a judgment. Next January when you have an increase in the social security taxes——

Mr. ZWICK. That is correct. Walter Heller's newsletter 2 days ago——

Chairman PROXMIRE. Would that be included in your swing, the budget swing?

Mr. ZWICK. That is right. We have in there the social security tax increase.

Chairman PROXMIRE. Walter Heller, you said?

Mr. ZWICK. In his newsletter 2 days ago, which I just read, he was drawing an analogy to the 1964 tax cut, and how there were several anxious months before we started to get any feel that the tax cut was having the stimulating effect that we expected it to have. But now I think it is generally concluded that it did, in fact, accomplish the task.

Chairman PROXMIRE. So the restraint effect is yet to come, as I understand it.

Mr ZWICK. That is correct. We do have the loosening up in the financial markets, which I think you can already see.

Chairman PROXMIRE. Several times on the floor of the Senate—you may be aware of this—Senator John Williams of Delaware said that you preferred not to have exceptions to your holddown in personnel, and the requirement that you not fill the vacancies to the extent that they occur fully.

Mr. ZWICK. Yes; that is right.

Chairman PROXMIRE. Three quarters can be filled and one quarter cannot be.

Mr. ZWICK. Yes.

Chairman PROXMIRE. Than you would prefer to have the discretion to move employees from one agency to another. Now, I have just been through a losing battle on the floor, on which I got no help at all from the administration, to try to unfreeze the Renegotiation Board. Here is a board that has an enormous increase in backlog. They have only 185 people, an agency that had 740 in the Korean war.

Mr. ZWICK. That is right.

Chairman PROXMIRE. Higher procurement now than then. Here is an agency that brings in $18 for every dollar they cost.

Mr. ZWICK. Yes.

Chairman PROXMIRE. That is the personnel situation. They applied to you and you turned them down on August 21 in a letter which you said that you could not give them more personnel. It seems to me to be something that contradicts the position of John Williams, who was one of the authors of this holddown.

Mr. ZWICK. That is right, I did turn them down.

Chairman PROXMIRE. It certainly contradicts the position, it seems to me, that it makes good fiscal sense, if you are going to bring in $18 for every $1 you spend. I can't understand why you can't find 25 people, that is all they were asking.

Mr. ZWICK. Yes.

Chairman PROXMIRE. In the whole executive branch, to move into the Renegotiation Board and pick up funds that we need so urgently.

Mr. ZWICK. Let me comment in two parts on this.

First, my position, which I think has been somewhat obscured in this discussion, was that no exceptions would be preferable to the Senate provision. I think you have to remember what the Senate provision was.

The Senate provision exempted Defense, Post Office, TVA, CIA, FBI, and some small agencies. But it exempted them in a way which was not clear, because you will remember this provision was put in on the floor of the Senate, not in the committee, and there was no report to guide us.

There was one of two interpretations of that provision. One interpretation which was clear in the bill was that all the other agencies would have to absorb the increases in the exempted agencies.

Now, this meant that you would never have gotten down to the June 1966 level.

Chairman PROXMIRE. When the exceptions were made, however, it was made clear that you could disregard the increase.

That is right?

Mr. ZWICK. But I am saying the Senate bill as passed did not do that. And furthermore, one interpretation of the Senate bill could have been that the other agencies had to absorb in their reductions the increases, the vacancies, in the exempted agencies.

In other words, as employment in Defense, Post Office, and other exempted agencies went up, the remaining agencies of the Government would have had to find vacancies to transfer to them.

Now, it was patently obvious that employment in Defense and Post Office and the other exempted agencies was going up faster than the agencies under control of the bill could possibly be going down. And when we looked at that, we said that you would find that the other agencies, such as the Renegotiation Board, just could not help out the Defense Department or the Post Office. It was quite clear as the Senate enacted the bill it was putting an unreasonable burden on the remaining agencies.

I said then, and I would repeat it again today, that preferable to the Senate bill I would rather have a bill with no exemptions, and that is what came out of the conference. But now we are getting exemptions which Congress has been enacting in a way that doesn't put the additional burden on agencies like the Renegotiation Board.

Chairman PROXMIRE. And you turned down the Renegotiation Board—

Mr. ZWICK. Yes, sir. Now let me come to the Renegotiation Board. First, the amount of discretion I have is very limited, and I think if you read the report of the managers of the tax bill, you will see this. There is a paragraph that says that they so interpret that discretion to say that generally I will, when agencies reach their June 1966 level, hold them at that level. In other words, I will transfer vacancies to them.

This came out of a dialog on the floor of the House of Representatives the day they were debating the so-called Burke amendment to make the cut $4 billion rather than $6 billion.

The question was what was going to happen to the Veterans' Administration when it got below the June 1966 level. At that time Congressman Mills stated that the conference had no intention of cutting the Veterans' Administration below the June 1966 level. The report of the managers clearly states that.

I have sent a letter to Congressman Mills saying I have read the report of the managers, and I would not take the Veterans' Administration below its June 1966 level until the overall criterion of more efficient operation of the Government made it necessary. I further stated that if I did that, I would so notify the Congress. So that the amount of flexibility I have in this bill is very limited.

Every time I give relief to any agency I have to take it away from another agency and I have had requests for something like 25,000 positions, and I have had no offers so far of positions to be given up.

Chairman PROXMIRE. When you include the Agriculture Department and all the other departments not exempt, how many employees are there?

Mr. ZWICK. About 2 million.

Chairman PROXMIRE. 2 million?

Mr. ZWICK. Yes.

Chairman PROXMIRE. You have only permitted 600?

Mr. ZWICK. Yes.

Chairman PROXMIRE. And in the case of the Renegotiation Board John Williams himself has said 210 or 220 may be necessary. I just can't understand why you can't find 25 out of 2 million employees.

Mr. ZWICK. Well, I would like to address the question of the Renegotiation Board directly. I have got requests for a total of over 25,000 vacancies. I have had no offers. I cannot direct Secretary Freeman to fire people in Agriculture to make 25 people available. I have to deal with vacancies. We did not know on July 1 how many vacancies were going to become available because we knew nothing about turnover rates except past experience before the tax bill.

Second, Congress has been changing the bill almost daily, so I didn't know how many agenices were going to be exempted, and I couldn't transfer vacancies against them.

Third, I just had to get a better feel for where the problems were. And while you are certainly correct that there is merit to the argument of the Renegotiation Board, I make the following argument.

There is also merit to John Horne's request for relief for the Home Loan Bank Board, and he has got more money tied up in S. & L.'s in trouble that he needs to supervise than is involved in the Renegotiation Board.

I also think it is completely obvious that reducing employment in the Internal Revenue Service is going to lose more revenue for the Federal Government than the Renegotiation Board.

Chairman PROXMIRE. They pick up $6 for every dollar they cost.

Mr. ZWICK. That is right.

Chairman PROXMIRE. The Renegotiation Board has a better record, $18.

Mr. ZWICK. We are talking about thousands of people in the IRS which I can't find.

Chairman PROXMIRE. Yes.

Mr. ZWICK. Lastly, I would be happy to submit the chairman's request for exemption for the record. I don't think he made a persuasive case in that letter. He may have a persuasive case, and in my letter back to him I said we would like to have more information on what the Board is now doing with existing staff.

(The letters referred to were subsequently submitted and appear below:)

WASHINGTON, D.C., *July 26, 1968.*

Hon. CHARLES J. ZWICK,
Director, Bureau of the Budget,
Executive Office of the President,
Washington, D.C.

DEAR MR. ZWICK: It is imperative that 37 vacancies be reassigned to the Renegotiation Board under the provisions of Paragraph 6 of Bureau of the Budget Bulletin 68–15, dated June 28, 1968. This request is well justified on the basis of our current and projected workload, as well as the increased responsibilities to be assumed by the Board under proposed amendments to the Renegotiation Act of 1951.

Most Government agencies can eliminate, modify, or defer one or more of the several programs in their charge, as circumstances require. But the Renegotiation Board, with only a single program to administer, has no such choice; the Board has no control over its workload. The Board's workload—and its need for personnel—is directly related to the level of military procurement.

The procurement of military equipment and supplies has stepped up sharply in recent years. From $28.0 billion in fiscal 1965, prime contract awards by the Department of Defense rose to $44.6 billion in fiscal 1967 and are estimated to have run even higher in fiscal 1968. During the same period, the volume of defense subcontracting experienced an even sharper rise, from $8.5 billion to $15.5 billion.

The increase in military procurement has a marked effect upon the Board's workload, as evidenced by increases in the renegotiable sales reviewed, the filings received, and the assignment made to the regional boards:

	1966 actual	1967 actual	1968 actual	1969 estimate
Renegotiable sales reviewed	31.8	33.1	40.3	44.5
Filings received	3,387	3,737	4,552	4,800
Assignments to regional boards	444	634	827	875
Completed by regional boards	402	421	567	[1] 570
Regional backlog	464	678	938	[1] 1,243
Productivity (field)	5.5	5.6	7.2	
Average man-years (field)	73	74.1	78.8	

[1] These are estimates of our status unless the Board secures relief from the 1966 personnel ceiling.

It will be noted that the number of assigned cases (those involving the possibility of excessive profits) has grown steadily. It will also be noted that, with substantially the same number of field employees, case completions have also increased. Nevertheless, despite a dramatic increase in productivity during 1968, the regional boards were unable to cope with the increased number of assignments. As a result, the pending backlog of 938 assignments has already reached critical proportions. In view of the fact that new assignments involve a proportionately greater number of refunds, a further increase in productivity cannot be forecast. Unless the Board obtains the additional people requested, it will fall further behind in 1969.

In addition to the foregoing, there is a need at Headquarters for at least 5 additional positions because of current amendments to the Renegotiation Act which will impose additional burdens on the Board's staff. The Committee on Finance has completed its consideration of H.R. 17324 to extend and amend the Renegotiation Act of 1951, and has reported favorably thereon with certain amendments. These are substantially the same as the amendments which have already passed the House, and therefore will undoubtedly become law. The major changes pertinent here involve the standard commercial article exemption. First, a new requirement provides that contractors who self-apply the standard commercial article exemption must report this fact to the Board where such self-application brings the contractor below the $1 million floor. Heretofore such contractors have not been required to submit a report. Obviously, the new provision will require additional staff for policing purposes. Another amendment provides that an article cannot qualify for exemption unless the price charged the Government does not exceed the lowest price at which the article is sold in similar quantity for civilian, commercial or industrial use. This new provision in the exemption will also require additonal personnel.

The Renegotation Act expressly provides that, unless the Board completes a case within 2 years from the date renegotiation is commenced, the contractor is discharged of all liability. By this limitation provision Congress recognized that expeditious settlement is of great importance to the defense industry; for dividend, credit and other corporate purposes, a business concern should know its final profit position as soon as possible after the close of its fiscal year. The 2-year period for completion may be extended by agreement with the contractor, but such extensions should be the exception and not the rule. Therefore we must have additional personnel if we are to comply with the clear mandate of Congress.

The Board's need for additional personnel has been recognized by the Congress in recent appropriation legislation. The Board requested a $480,000 increase in its appropriation for 1969. The House approved a $400,000 increase, but the Senate, after the passage of the Revenue and Expenditure Act, granted the full amount. The issue is now in conference.

The purpose of the increased appropriation for fiscal 1969 was to enable the Board to increase its staff to 210. Unless this request is approved, the Board will be required to reduce its staff from 185—the number of employees now on its rolls—to 173.

Although the Renegotiation Board is not a revenue-collecting agency, it has always recovered for the Government far more than it has cost the taxpayer. It can be stated unequivocally that if we are permitted to employ more people, we will recover more excessive profits in 1969 and 1970 than we would have with the present staff. Refusal to the Board of the people it needs to carry on its work cannot be justified in the name of economy.

We consider this an urgent request and your favorable consideration will be appreciated.

Sincerely yours,

LAWRENCE E. HARTWIG, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., August 21, 1968.

HON. LAWRENCE E. HARTWIG,
Chairman, Renegotiation Board,
Washington, D.C.

DEAR MR. CHAIRMAN: Your letter of July 26, 1968, requesting the assignment to the Renegotiation Board of 37 full-time permanent personnel vacancies beyond those to which you would be entitled by the operation of Section 201 of the Revenue and Expenditure Control Act (Public Law 90-364, approved June 28, 1968) has been carefully examined.

After considering your needs, along with requests from other agencies, I have concluded that it is impossible at this time to assign to the Renegotiation Board any of the additional vacancies which you have requested.

In order to provide positions for newly created agencies and to meet other essential requirements, I must limit the rate at which your Agency may appoint full-time employees to permanent positions to 70 percent of the positions becoming vacant on and after September 1, 1968, because of resignation, removal, retirement, or death. This change does not affect your authority to make appointments up to the 75 percent level of positions becoming vacant for the above causes after June 30 and before September 1.

I realize that these restrictions present a difficult administrative problem for you, as they do for all of us. However, every additional vacancy granted to one agency above that allowed it by the law must be offset by the loss of a vacancy by another agency. At the present time, it is simply not possible to impose on other agencies in the Government the additional cutbacks which your request would necessitate.

We shall continue to review the overall Government employment situation, and we shall be glad to give further consideration to your request at the start of the October–December quarter. However, we would suggest that, in placing it before us again, you give special attention to demonstrating that your request complies with the guidelines set forth in paragraph 7 of the Bureau of the Budget Bulletin No. 68–15.

Sincerely,

CHARLES J. ZWICK,
Director.

Chairman PROXMIRE. I wish you would give us all the information you can. I think you ought to have some kind of action on the part of the Congress to clarify this situation. I am sure you are acting with the best possible intent and you are a very able and competent man. But you have a situation here where you have agencies like the Renegotiation Board. You have had two other fine examples in the Internal Revenue Service and the Home Loan Bank Board that just ought to have more personnel.

Mr. ZWICK. Yes.

Chairman PROXMIRE. And if they don't, it is ridiculous. It is against the public interest. We are losing money. There is not a conservative or liberal in the Congress who wouldn't agree with that position.

Mr. ZWICK. I agree.

Chairman PROXMIRE. So that if you can make your position clear it seems to me that the Congress will take whatever action is necessary to unshackle you, so that you can provide the personnel to the agencies that absolutely have to have them.

Mr. ZWICK. Well, our position——

Chairman PROXMIRE. Because that was the only argument that I got from Senator Williams, and it was persuasive enough so that we lost the amendment. We weren't able to unfreeze the Renegotiation Board. But you had the power to do it, that you could do it, that you could somehow find 25 people.

Mr. ZWICK. That is right; that is correct.

Chairman PROXMIRE. Who could do this?

Mr. ZWICK. But I have also got requests for 25,000 other vacancies.

Chairman PROXMIRE. I understand.

Mr. ZWICK. And I would also indicate that the House Ways and Means Committee itself recognized that there were going to be transitional problems, because before they went home for recess, they voted out a bill to give me a pool of 14,000 vacancies to solve some of these problems. But Congress did not take action on that bill to give me 14,000 vacancies.

Chairman PROXMIRE. I want to come back. I have taken too much time.

Mr. ZWICK. I really have to interpret as clearly as I can the statement of the conference managers. If on November 15 the Veterans' Administration goes below its June 1966 level, I have got to provide 800 more positions a month. Now, that may not be the highest priority use of those 800 positions. Maybe the VA should get 775 and 25 should be given to the Renegotiation Board. But the House-Senate conference report is quite clear on this point, the floor debate is quite clear on it, and I concurred in it on a letter on this action.

Now, I cannot ignore that legislative history.

Chairman PROXMIRE. I would like to review it a little more carefully, but it would seem to me you can act in these cases where you have a relatively modest number required and where there is an enormous amount of money involved and where procurement has increased so greatly to where it is now a level of $45 billion of procurement and only 185 people handling the entire renegotiation process, and it yields so very much for the Federal Government.

Mr. ZWICK. You can make a distinction between IRS in this case and Renegotiation Board?

Chairman PROXMIRE. The distinction I would make is that the Renegotiation Board brings in more money for each man you hire, although I am all for the IRS. They only bring in 6 bucks for every buck you spend. That is fine. But it is $18 the other way.

I yield to Senator Percy. I will be back.

Senator PERCY. Thank you, Mr. Chairman.

I would like to have some clarification on the $6 billion figure.

Mr. ZWICK. Yes.

Senator PERCY. There is a lot of conflict in the press and misunderstanding perhaps among ourselves.

Mr. ZWICK. Yes.

Senator PERCY. I had seen a press report recently that the administration really intended to go after $7 billion.

Mr. ZWICK. That is correct.

Senator PERCY. Rather than $6 billion. I have heard in the press also, I think as recently as this morning, that the $6-billion reduction is not going to be a real reduction. It is just sort of a delay and a series of back door reductions, that actually will not cut money out, and will not therefore have an impact on the inflationary effect of the size of the budget, which is what we are after.

This morning Senator Williams indicated to me that he had heard the administration might even send up a message indicating that they would want relief from the $6 billion, that they cannot make it. I wonder in the light of all of that conflict whether you can clarify this.

Mr. ZWICK. Yes, sir.

Senator PERCY. Once again what the position of the administration is.

Mr. ZWICK. Yes, sir.

Senator PERCY. And what we can expect.

Mr. ZWICK. Yes, sir; let me try by working from this chart which I brought with me today, Senator Percy. I think it is the easiest way to explain the situation.

(See the table on p. 5.)

We started off with a January budget of $186.1 billion. The tax bill exempted four items from the budget limitation—special costs of Vietnam, Social Security Act trust funds, veterans' benefits, and interest. Another bill excluded TVA activities financed from power process and borrowing.

The amounts involved were \$36 billion for social security, \$26.3 billion for Vietnam, \$14.4 billion for interest, \$7.3 billion for veterans' benefits, and \$0.1 billion for TVA. If my arithmetic is correct that adds up to \$84.1 billion.

In effect the law reads that we must reduce the remainder, or \$101.9 billion, which is what you get—allowing for rounding—if you subtract \$84.1 from \$186.1. So, the law essentially says you must reduce this \$101.9 billion to \$95.9 billion, or \$6 billion.

Indeed this is the control. We have got to hold these programs to a \$95.9 billion level. That is the literal translation of the law.

Now, we are doing that. Let's go through the \$7 billion and the noncuts and so forth.

First, since January we have had a number of reestimates associated with these programs. There is a total increase due to reestimates of \$2.3 billion, while other programs are now reestimated down by \$1.4 billion, so they net out to an increase of \$900 million.

The major increases in the overall \$2.3 billion upward reestimates are CCC payments and public assistance and medicaid payments. We are now estimating CCC payments at around \$700 million higher than in January, and indeed there was a crop report 2 days ago which even looks a little more optimistic. You may want to add another \$100 million for that.

Public assistance, including medicaid, is up \$500 million due to a number of factors, including not only reestimates, but also the tax bill which suspended for 1 year the freeze on public assistance AFDC; that added \$125 million to estimated expenditures. There was also the "Man in the house" rule by the Supreme Court, which is a very tough one to cost out, but we think will require about \$75 million more than the budget. So \$200 million of the total increase for public assistance is essentially either due to congressional action or Supreme Court decisions.

The big upward reestimates that we have heard about are for CCC and public assistance. Now, as you know, the House Appropriations Committee, when it passed its resolution. the so-called \$10- \$8- \$4-billion resolution, put CCC and public assistance into the uncontrollable exempt category, and the conference rejected that and put them back under the limitation in the bill. If the House Appropriations Committee recommendation had been followed in the conference report, CCC and public assistance would have been exempt, and as you know, there is considerable sentiment to do that now.

Now, against those ups, we have got some downs, and when you net everything, you are only up \$900 million for reestimates, not \$1 billion. But that is the \$7 billion that people are basically talking about. And we do have to cut that \$6.9 billion, or \$7 billion. Either Congress cuts it or we have to cut it.

Our best guess at the moment is that Congress is going to cut about \$3.3 billion in these programs.

Senator PERCY. That is in what, defense?

Mr. ZWICK. No; that is in the programs that are covered by the law, so it is the non-Vietnam part of defense, and all the civilian agencies except for social security, veterans' benefits, interest, and part of TVA. For the covered programs, we are estimating a $3.3-billion cut by Congress. Therefore we are estimating we are going to have to cut an additional $3.5 billion, and that gives you the total cut. It is actually $6,864 million or $6.9 billion. This is what the law says, $101.9 billion has to come down to $95.9 billion, and that is the $6 billion cut required by the law.

If our reestimates of a net increase of $900 million is right, then the total cut will be $6.9 billion, and somebody is going to have to make up the $6.9 billion. Either Congress is going to have to do it, and failing that, we will have to do it.

We are estimating Congress is going to cut $3.3 billion and we will have to cut $3.5 billion. If Congress cuts $3 billion, we will cut $3.9 billion. If Congress cuts $2 billion, we will have to cut $4.9 billion, and if Congress cuts $4 billion, we will cut the remainder. That is the way the law reads.

Senator PERCY. So the policy of the administration is very clear?

Mr. ZWICK. Very clear.

Senator PERCY. You are going to do what is necessary.

Mr. ZWICK. We are living with the law and we are not expecting to send up a message asking for any relief from this provision. There have been reports that we have asked for relief because of the CCC-public assistance situation. We have not. Our position was quite clear that this was an unwise provision. We still think it is an unwise provision. The President said so when he signed the tax bill on June 28. But we wanted the tax bill and we signed it and we will live with the cutback provisions.

Congress should be aware of what they are doing, though, and if Congress wants to make exemptions we certainly don't object to it, because we have said all along it is an unwise provision. But we are not recommending it. I think that should be quite clear. We are not going to send up any messages asking for relief.

The problem then comes, where is the $6 billion cut? Are we living with it? The total comes down from $186.1 to $184.4 billion, only a cut of $1.7 billion. What has happened? That is the confusion which I think there is among the public. What has happened, of course, which shouldn't surprise anybody, is that there have been revised estimates for the exempted program. When the tax bill was enacted by both Houses, the President already had announced on March 31 that Vietnam costs were going to be up $2.6 billion in fiscal 1969. We are now estimating the increase at $2.3 billion, not $2.6 billion. You also already knew that interest costs would be up because of the delay in enacting the tax bill.

We also knew that the veterans' benefits were going to be up because the conference itself changed the Senate version of the tax bill. As you remember, the Senate passed the tax bill, excluding only those veterans' programs enacted prior to the tax bill. In the conference itself they changed the bill to exclude all veterans' programs. And Congress then went ahead and enacted higher veterans' benefits than the administration had asked for and that has caused an increase of $0.2 billion over the January budget.

I think anybody who looked at the arithmetic and added it up should never have expected the total budget to be $180.1 billion, because we were already over the estimate by $2.6 billion for Vietnam, we were clearly over the estimate by a significant amount on interest. You knew you were going to be over on veterans' benefits, and so forth. So this is the confusion. But I hope the administration's position is clear. We know the number that we have to live with in the tax bill, and if, for example, the reestimates go up to $3 billion, we will have to cut $9 billion, and we will.

Senator PERCY. From the standpoint of the objectives of Congress to try to mitigate the effect of the budget on inflation and take the pressure of that excess spending off of the economy, I take it is your clear policy that you are in accord with that desire. You are fearful of inflation?

Mr. ZWICK. Yes.

Senator PERCY. And that there is going to be no toleration by you of so-called back-door methods of getting figures that look like reduction, but which have no effect whatsoever on the impact on the economy?

Mr. ZWICK. No, sir. I went through a dialog a moment ago with Senator Proxmire on this specific issue. We believe the general fiscal policy as embodied in the January budget was appropriate and still is appropriate. We think that this cutback, as we now have it planned, has a little more restraint in it than that January budget.

We think that the risks at this point, if there are risks, are on the side of maybe a little bit too much restraint rather than too little, so that we are not concerned about a lack of restraint here. We are talking about a very complicated system, our economic system, and when you start arguing that small differences mean you have got too much or too little, equally competent people can disagree in that range of error. So we think that there is sufficient restraint. And if you had to ask me what am I most worried about, I would say I am worried about too much restraint. But I am also worried about too little. I worry no matter which way it comes out.

Senator PERCY. One further point, Mr. Chairman. I have always been concerned that the cost of Vietnam is considerably greater than the hard budget figures that are pulled out and shown, whatever it is.

Mr. ZWICK. Yes, sir.

Senator PERCY. $26 or $28 billion. In an attempt to find out the true cost, this committee asked Mr. Schultze to give his appraisal of what the effect on the budget would be if the war did end, and he indicated in testimony that it would reduce the budget by $15 to $20 billion.

Since he has left office, as I understand it, he has modified that position that he had taken, and had indicated that it would not release substantial funds for other purposes, once the war was over, that there are so-called pent-up demands that would have to be met, delayed research possibly, that defense would come in for more, for longer range projects and so forth. As I understand it, Under Secretary Barr has also confirmed this viewpoint. Could you give us your feeling, and if your feeling confirms the fact that there will not be a reduction, is the cost of the war really truly stated, then, when we are foregoing so many other things that we should be doing?

Mr. ZWICK. Let me break my answer in two parts, if I may, Senator Percy.

First, the costs of Vietnam.

We are now carrying the cost at—and I will take only DOD and leave out AID, which is a half billion dollars, roughly—we said $25.8 billion in the January budget for fiscal 1969. We have now added $2.4 billion, so we are now carrying $28.2 billion for DOD expenditures in Vietnam. I would pause and point out this is the first time that we have reduced the estimated cost of Vietnam. The President said on March 31 it would be an added $2.6 billion. We are now estimating that add-on at $2.4 billion rather than $2.6 billion.

We are now using a total of $28.6 billion, including economic assistance. On this basis, the summer review shows an increase of $2.3 billion for Vietnam. We have a $100 million decrease in economic assistance, because commodities did not go in during the Tet offensive. Excluding AID, we are using an estimate for DOD and military assistance for Vietnam of $2.4 billion over the January budget, or a total of $28.2 billion.

Now, there have been estimates up as high as $30 billion and $32 billion essentially for that same program. Here you get into a cost accounting problem, and I think different cost accounting approaches give you slightly different answers.

We, for example, have tried in our estimating to get at the "additional costs" from fiscal year 1965 in Southeast Asia. In other words, to give you a good example, we try to allocate the extra costs of the war on Okinawa. Okinawa support has several purposes. It has a strategic purpose as well as support of Vietnam. So we have tried to put in the added costs of Vietnam taking that into account. People who get slightly higher numbers put in all of some of these programs, and so that can push the cost up.

On the other side, if you get down to an estimate of $20 billion, it is again a costing question. Some of the B–52's, ammunition, and equipment that we are now charging to Vietnam would have become obsolete and would have been replaced, some aircraft would have crashed in training missions, and some losses would have been incurred anyway. So that you do have a costing problem here.

There has been some drawdown in inventories. I think that is correct. So that when you talk about the difference between $28.2 and $30 billion, I think as long as you have a consistent way of measuring this, I wouldn't argue very hard about it. I have a bias for the way we do it, different accounting procedures will lead to slightly different levels; but the important issue is how this is changing through time.

The estimate of how much defense will come down when Vietnam ends depends an awful lot on what sort of deployment posture you assume in Southeast Asia after Vietnam. And it also depends on what level of training you assume, and what sort of obsolescence rates you have.

The other point that you raised toward the end of your question, when I think you referred to Mr. Schultze and Under Secretary Barr's statements, is that there are defense programs other than Vietnam that are claimants for scarce budget dollars, in the strategic area and in the general purpose forces. And that issue, as I read what Under Secretary Barr said, and what Mr. Schultze has said, is going to be a public policy debate of significant importance. And if it comes out in one direction, we could be spending elsewhere in Defense most of the $17 to $20 billion budget relief that will in fact be coming from an end of the war in Vietnam. If the debate comes out in another direction, you will be getting some budget leeway for other programs. That is a public policy decision that is ahead of us.

Senator PERCY. Just to wrap it up, could I ask you this question, then. In your judgment as of the day the war ends, what could we expect then in the way of budget reductions? How much could that budget be reduced, so that funds would be available for other purposes, such as rebuilding of the cities?

Mr. ZWICK. After the troops are brought home and discharged and everything, because almost immediately you are going to get nothing obviously in the way of savings.

Senator PERCY. Oh, yes.

Mr. ZWICK. I think it is in the $20 billion range.

Senator PERCY. You do?

Mr. ZWICK. Yes.

Senator PERCY. Thank you, Mr. Chairman.

Chairman PROXMIRE. Congressman Bolling?

Representative BOLLING. Mr. Chairman, I am not sure I have any questions, but I have a couple of comments.

I voted for the tax bill with this idiocy attached to it because I thought it was an absolute economic necessity that we have a tax bill for objective economic reasons and also for psychological reasons that affected our credibility in the world. But I think, Mr. Zwick, that you probably have the most unpleasant and hopeless job that I have ever seen given to a public servant in 20 years in Congress.

The Congress in its wisdom provided you with no target because you still haven't got all the appropriations enacted. And then having seen how smart they were, they then proceeded to change the target that existed. So you have been shooting at a target that doesn't exist in its complete form, and watching it change before your eyes.

I think what it really boils down to is a very excellent illustration that there is no way really, much as the Congress would like to do it, for it to abdicate its responsibility to do what the Constitution says it is to do; and that is to appropriate money.

There is no way on earth rationally for us to exercise gross cuts and make it possible for the administration to function effectively; and I hope that this kind of an approach will have the same fate as one of the many sanctimonious provisions of the LaFollette-Monroney Act of 1946, the legislative budget, which was tried once and forgotten. It is still on the statute books, it is still a law. But I hope that the one thing that we on the Hill will learn is that this is no way to conduct our business, and that there is no way to evade our very specific responsibility for appropriating the funds.

What we have done is we have evaded the decision on roughly $3.5 billion of cuts that we say we desire. And I insist that whether anybody likes it or not, that that is an irresponsible way to do business.

And Mr. Zwick, I would only like to congratulate you on your endeavors to comply with the impossible.

Mr. ZWICK. Thank you, Mr. Bolling. There are very few people who have taken that viewpoint of my endeavors lately, and so I certainly appreciate it.

Chairman PROXMIRE. Senator Javits?

Senator JAVITS. Mr. Zwick, let's get a refreshing change of pace.

Chairman PROXMIRE. We just had one.
Mr. ZWICK. Yes; up to this point it hasn't been that way.
Senator JAVITS. I will give Mr. Zwick a chance to give us a change of pace.
How do you view the economic outlook for the coming 6 to 12 months, based upon the budget ideas, which after all have to balance income against outgo?
Mr. ZWICK. Well, sir, as I just indicated to Senator Percy, we view the situation after the tax enactment to be a significant improvement over the situation before the enactment of the tax bill. We have no second thoughts that we shouldn't have signed the tax bill when it was enacted. We think that was the correct policy, and therefore we believe there has been a significant improvement.
The only really interesting question is, what are the prospects as we look out, as you say, 6 to 12 months. Our feeling is that we have set the stage for balanced economic growth and significant improvement in the general set of economic indicators that people look at. If there are any risks, there are more risks probably on the overkill side than on the underkill side, as I said to Senator Percy. But I worry about both of them. I just worry a little bit more on the overkill side.
The last half of this year we are going to have to pay some price—Senator Proxmire and I have had a dialog on this—in terms of a slowing down of the economy to get the price situation under control. After the first of the year, it really depends on what is going to happen in housing, what is going to happen to monetary policy, what is going to happen to plant and equipment. Significantly enough, we have time to take policy actions, if our worse fears come out. We are not sanguine; we are never sanguine. But we certainly think we are in a much better position today than we were 3 months ago when we didn't have a tax increase.
Senator JAVITS. Would you advocate an easing in monetary policy in view of the fact that you think these budget arrangements might be a little overrestrictive?
Mr. ZWICK. Well, as you are aware, we have had a significant easing of the monetary situation, and as I read the signs, I would hope that this would continue, because I think it is very important from a general fiscal policy point of view, but more importantly from a social point of view that we get on with some of the housing programs that are needed. This then also feeds back on inventories and plant and equipment expenditures.
Senator JAVITS. Now, I was very interested in your answer to Senator Percy about the overall impact of an end to the Vietnam war as releasing an order of magnitude of $20 billion a year. In view of the fact that the tax surcharge imposed would expire on June 30, 1969; and in view of the fact that I feel and I gather Senator Percy felt the same way, though I don't wish in any way to impute any thoughts to him, that we should use this money to take up some of the slack in public expenditures, in schools, in hospitals, in job training, and the renewal of the cities which we, some of us at least, are committed to; what would you say about this tax surcharge? Would it not be necessary for people who feel as I do—as I say, don't want to impute anything to Senator Percy, though I think he feels the same way—to advocate extending the tax surcharge, in order to make available this

tranche of money, to use a banking term, for these long delayed public purposes, which have kind of bunched up on us because of the Vietnam war?

Mr. ZWICK. Let me answer this in several parts.

First, in terms of the public purposes and needs, I think you are expressing a view very similar to the President's. As you know, he said that if he had his way, he would have a $200 billion budget, not a $186.1 billion or a $180 billion budget. So that I think there is a general agreement between your view and the administration's view on the need to get on with these public purposes.

The second question of what happens in fiscal 1970, 1971, and 1972—and that was the dialog that I believe Senator Percy was referring to in terms of where we are going—I think the budget arithmetic for fiscal 1970 is just very difficult and very obvious. It doesn't take any sophisticated analysis.

If the surcharge goes off on July 1, 1969, or the beginning of fiscal 1970, we will roughly have the same revenues in fiscal 1970 as we have in fiscal 1969. In other words, the tax surcharge would be giving us close to $10 billion of revenues, and that is how much additional revenue we would get if the economy keeps growing every year, the so-called fiscal dividend. So that you are looking toward, with no tax surcharge, in fiscal 1970 essentially the same revenues that you are looking toward in fiscal 1969.

Now, what is the expenditure situation? Several things are obvious. Trust funds increase automatically, not only the social insurance trust funds but the highway trust fund and others. There is an increase of $2 to $3 billion, let us say—just for the sake of this discussion—in trust funds over which no administration has any control. There is no control over social insurance trust funds, I hasten to say. We argue that we do have some control over the highway trust fund, of course.

The pay increase enacted by the Congress in October of 1967 is also a factor. There was a pay increase which had as an objective the elimination of the gap between public and private pay scales. That Act was so structured that we would close half of the gap on July 1, 1968, with the pay raise that just went into effect, and the other half of the gap on July 1, 1969 plus an adjustment on July 1, 1969 for any change in private wages during calendar year 1968.

I think it is quite clear now that we are having a big, upward adjustment in private salaries and wages in calendar 1968. Therefore we are facing a pay increase in fiscal 1970, unless the law is changed, of, I would say, double what we are facing this year—around $3.2 billion, $3.3 to $3.5 billion, let's say. So these two factors total around $6 billion.

Then on top of that, there will be a number of workload increases. Now, on that point we could argue all day. I think I will just quote an expert, an authority on the other side of the aisle, one of my predecessors, Maurice Stans, who argued when he was in office that spending goes up $2 to $2½ billion a year just due to workload and other built-in factors.

In January of 1967, in a U.S. News & World Report story, he estimated that such increases might be up to about $4 billion now, so I think he must have some pay increase in there.

No matter how you slice this, and without getting into anything very specifically, you are looking at $7 billion to $9 billion worth of program expansions that are just there, and which no administration can do anything about unless the laws are changed on social security, on pay, and on other areas.

Against that then you have to net the decreases, and the question is how many decreases you see outside of Vietnam. You see some here and there, but then the real question is whether you would be getting any significant relief on Vietnam in fiscal 1970. I think that is the elementary arithmetic. I think you can go from there.

There has been no decision by the administration to either ask for or not to ask for an extension of the surcharge. We will face that in December when we put the budget together.

Senator JAVITS. Don't people like myself who are campaigning have to face very honestly and realistically, without regard to party, any promise that we will reduce taxes after the Vietnam war? Personally, I am taking exactly the contrary attitude. Would not that be the more conservative point of view?

Mr. ZWICK. I have given you the arithmetic, I think.

Senator JAVITS. On the financial side.

Mr. ZWICK. The question then becomes how do individuals value these public purposes and the timing of them, because at the other end of this argument that Senator Percy referred to, if you look out 4 or 5 years and if you look at $10 to $12 billion of annual fiscal dividends coming in, you are looking at an additional $50 to $60 billion worth of revenues, and you can get onto some of these things. The issue is do you want to wait? Are you prepared to wait?

Senator JAVITS. Time is not going to wait for us. This clock is ticking away a lot faster than we are doing anything about it in the cities. So I am not trying to, you know, get you to support me.

Mr. ZWICK. Sure.

Senator JAVITS. But I just wanted to get this. You have done very well in elucidating those figures.

I have just two other questions, Mr. Chairman.

Chairman PROXMIRE. Yes, go right ahead.

Senator JAVITS. About this provision in the Revenue and Expenditure Control Act, which I authored and of which I am very proud, which is the idea of giving us some concept of the administration's recommendations on tax reform by the end of 1968. Do you see any real hopefulness in materially improving our revenue system.

Mr. ZWICK. Well, tax reform is something I think that all of us are for in the abstract, like economy, Senator. As you know, it is much more difficult in the specific either to get economy or to get tax reform.

Senator JAVITS. But as far as you know the administration will give us those recommendations.

Mr. ZWICK. Yes.

Senator JAVITS. It is not proposing to ask for an extension as far as you know?

Mr. ZWICK. As far as I know, that is correct.

Senator JAVITS. I think that would be very helpful. I would just like to emphasize on the public record when we talk about the budget how desirable I think tax reform is, both in terms of an equalization of the tax load and in terms of the possibility of materially improving our total tax intake.

Now, I was a party to this $6 billion expenditure cut—10 percent surcharge, along with Senator Williams of Delaware, and I notice that there is some argument about the flexibility of the administration in respect to personnel ceilings.

Mr. ZWICK. That is correct.

Senator JAVITS. Would you, Mr. Budget Director, and please don't do it unless you are authorized, make any suggestions within the context of the basic proposition which would give the administration a greater flexibility? For example, really what we were dealing with is an overall concept, rather than any effort to stratify the thing by departments or in some other way, which would tie your hands more than was necessary.

Mr. ZWICK. Yes.

Senator JAVITS. If you could key us to any amendments which you think would be desirable on that score, that might be a very useful exercise.

Mr. ZWICK. I would like to just reiterate our position, which I think is quite clear and consistent, and that is that this is really an unwise provision. You ought to relate manpower reductions to appropriations, and you ought to do it as part of appropriation actions.

This reduction does in fact ignore the intimate relationship between employment and program levels and dollars that you have to spend. No businessman would run his business that way, and I don't think one should try to run the Government that way.

We made that case. We lost that case when we signed the tax bill. Our position, and we so testified before the House Ways and Means Committee and before the Senate Post Office Committee, when the exemption for the Post Office was made, that we will live with the provision. We will not recommend any exemptions.

However, since we basically think this is an unwise provision, if Congress wants to provide any exemptions we certainly won't object to that.

Therefore, with respect to any relief, including the House action by the Ways and Means Committee, to give me a pool of 14,000 vacancies or any other, such as exempting of agencies, we certainly don't object to it. In fact it will make my job easier and will provide better public services.

My sole point has always been that I don't think 14,000 or 20,000 or 40,000 extra positions are going to solve all the problems, and I just want the record to be quite clear that if Congress gives me any such number in a pool, that will certainly improve the situation, and I will endeavor to allocate those consistent with the program cuts we are making and consistent with priorities. But no one should delude himself that that will solve all the problems. So that is where we basically are.

Any relief through the exemption route or through a pool or any other technique is helpful, but we are not recommending it.

Senator JAVITS. Of course, the most helpful would be to take out that provision altogether and just leave the expenditure ceiling.

Mr. ZWICK. That is correct.

Senator JAVITS. Is that correct?

Mr. ZWICK. Yes.

Senator JAVITS. That would give you the most flexibility?

Mr. ZWICK. That is correct.

Senator JAVITS. Now, there is nothing in doing that which would sidestep the basic proposition of a cutback in expenditures?

Mr. ZWICK. No, sir, because we are estimating——

Senator JAVITS. In other words, you assure us of that?

Mr. ZWICK. Yes.

Senator JAVITS. Suppose a person like myself advocated giving you all that flexibility. Would you be able to assure me that this would not vitiate the basic expenditure reduction concept?

Mr. ZWICK. That is correct. The basic expenditure reduction requirement is $95.9 billion which the programs covered by the law must be held to, $6 billion less than the $101.9 billion as printed in the January budget. In the $3.5 billion of cuts that we are now anticipating the administration will have to make, and assuming $100 to $200 million of it will be from the employment reduction, if the employment ceiling were taken off completely, then we would just have to find another $100 to $200 million somewhere else.

Senator JAVITS. But you would prefer that?

Mr. ZWICK. Yes.

Senator JAVITS. You feel you would be better off?

Mr. ZWICK. Yes, it is a much better way to run the Government's business.

Senator JAVITS. To run the Federal Government. That is very interesting. It may very well be, because there are now so many exemptions, that it does begin to emasculate what we had originally intended.

Mr. ZWICK. That is right.

Senator JAVITS. I have one last thing to ask which is rather technical, and it comes from remarks of our dear friend Congressman Bolling, who is so knowledgeable and an extremely able Congressman.

Is there a difference between a cut in congressional appropriations and a holdback by the President, based upon Public Law 364? In other words, we cut an appropriation and that is the end of it.

Mr. ZWICK. That is right.

Senator JAVITS. That is $3.3 billion.

Mr. ZWICK. That is right.

Senator JAVITS. When you hold back money, is there any greater length of time in which it may then be released, or does that money have any different status from the finality, which means the end of it, with which we have cut it out of an appropriation?

Mr. ZWICK. I think I was going to say no until the very last comment you made, Senator. The first point that I would like to make, and the one I think Congressman Bolling was making, is that the difference is the abdication of responsibility by the Congress to the executive, on which I think tradition, the Constitution, and the President's attitude, are very clear—that he would propose, and if Congress did not like it——

Senator JAVITS. Would dispose.

Mr. ZWICK. The Congress would dispose of it and would change it if they wished, and the President feels very strongly right now that he sent up two budgets this year. In January we sent up one, and now in this summer review we have sent you another one, and we now hear that people are not pleased with the way we are making the cuts. We feel Congress still has time to do something about it if it wants to. You have both the time and the procedures available to you. You have a cleanup supplemental coming through and you could turn that, if you want to, into an omnibus appropriations bill, and redo the whole thing and take the $6 billion reduction as Congress wants to take it, not as the administration wants to take it.

Without such action, we conclude the Congress concurs in our cuts, because there is no other way that we can live with that law. So the first issue, and I think the one that Congressman Bolling was speaking to, was the issue of who is responsible in the end for appropriating money.

The second part of your question though, asks whether there is a significant difference. To the extent that we reserve money, but it is available to be spent at a later date, there is a difference. The highway cutback is a very good example. Those highway moneys have already been provided. Essentially, what we are doing under the highway program is slowing obligations. Then, as the year goes on, we will increase the funds going to the States. So at the end of fiscal 1969, we will have exactly the same obligations for highways in 1969 as the January budget anticipated, but we will have saved $200 million of expenditures just by slipping the timing of obligations. So those funds are available at a future date.

Now, to the extent that Congress cuts an appropriation, those funds don't exist, and they won't be spent in 1969. They won't be spent in 1970 or 1971 or at any future date.

To the extent that we hold back no-year funds, these funds can be obligated in 1970, 1971 or at some future date. However, as you know, the tax bill did include a $10–$8–$6 billion cutback provision and so to the extent congressional cuts do not result in a $10 billion decrease in budget authority, we will not only have to reserve some other funds, but we will have to rescind the difference between $10 billion and the results of congressional and other action. And that part that is rescinded works in exactly the same way as the congressional cut. So, for the requirement to reduce budget authority by $10 billion, it really doesn't make any difference whether Congress does it or the executive does it except on the issue of who is responsible for appropriations.

Senator Javits. Now, Mr. Zwick, it would be very useful information if the $3.5 billion or whatever are your Presidential holdbacks could be charted for us as to what will be available and for how long.

Mr. Zwick. That is going to be very difficult. The first question, I think, Senator, is whether or not we are going to have to do anything on the $10 billion. The summer review anticipates that the cut in budget authority resulting from congressional action and other changes will be $8.1 billion. If these estimates came out exactly as we have them there, we would have to hold back an additional $1.9 billion of budget authority, which would be rescinded. All the rest of the funds held back because of the cutback would be available in the future.

Now, I think there is some confusion on this point. Although it looks as if Congress is going to cut more than the $10-billion-budget authority, there have been some back door financing increases. The big ones are for CCC and the highway programs, and there are some others. So that while Congress is going to probably cut appropriations by more than $10 billion, and on that basis we wouldn't need to rescind anything, these increases in the back door sources for budget authority amount to roughly $2.4 billion. This means that there is a net cut of $8.1 billion, and we would have to rescind another $1.9 billion of budget authority under the law to get to $10 billion.

Now, the congressional session is a long way from being completed, and the $1.9 billion estimate could very well move in either direction, but only this $1.9 billion would be rescinded and the remaining holdbacks would be available for future obligation and expenditure.

Senator JAVITS. Shouldn't we have a chart giving that analysis as applied to your estimated 1969 outlays?

Mr. ZWICK. The problem, Senator, is that at this point the $3.5 billion cutback in outlays is spread only in total by agency. The very last table in our summer review, table 7, shows the reductions for each agency. We are in a process of negotiating with the agencies as to how they are going to get from those agency targets to program targets.

Until we get that final decision, we cannot do what you have asked for, because to the extent you take it out of quick spending money, you reserve less budget authority. To the extent you take it out of slow-spending money, you reserve more of it. And until we get the specifics nailed down, appropriation by appropriation, we cannot give you that.

Senator JAVITS. Could you give it to us at the end of the session?

Mr. ZWICK. It will clearly be in the January budget. We don't have all the details worked out. Take the cut of $3 billion for Defense. The Secretary of Defense has testified that this represents something over $5 billion of holdbacks of budget authority. Now, whether it will be $5 billion or $5.5 billion or $5.8 billion depends on how we finally determine the defense cuts.

Senator JAVITS. Yes; but the January budget would not tell us, would it, how long the held-back money would still be available for expenditure, according to the various laws which are applicable in the different cases. That much you could supply if we stipulate for it.

Mr. ZWICK. We probably would apply it, as Mr. Cohen has pointed out, to 1970 needs, so you would not lose very much, but what you would basically lose is that which has to be rescinded under the terms of the tax cut.

Senator JAVITS. Yes; but you could tell us all that by then, couldn't you? In other words, could we stipulate now that the January budget should apprise us, because you would have to arrange for it, of the details of how long held-back money will be available in the different cases, and what will actually be canceled out?

Mr. ZWICK. Well, yes. We intend in the January budget—in fact, it is required in the law—to detail where we have held back funds and what these are. Now, presumably what we will do in putting the fiscal 1970 budget together, is to take those balances that we have held back and apply them to fiscal 1970. We will spend them in that year or later.

Senator JAVITS. In 1970?

Mr. ZWICK. And obligate them in the 1970 budget basically, and spend them then or later.

Senator JAVITS. But you will make that all clear?

Mr. ZWICK. Yes.

Senator JAVITS. So we can understand?

Mr. ZWICK. Yes, sir.

Senator JAVITS. But there is a difference there.

Mr. ZWICK. Yes.

Senator JAVITS. It is fair to say there is a substantive difference between the money held back and the money we fail to appropriate.

Mr. ZWICK. That is correct.

Senator JAVITS. In the main, subject to this question of adjustment.

Mr. ZWICK. After the $10 billion cutback is reached.

Senator JAVITS. Yes.

Mr. ZWICK. You are correct.

Senator JAVITS. I think that is important, and I am very grateful to you for exposing it so that we may all understand it.

Thank you.

Chairman PROXMIRE. Along that very line I wonder if you could tell us this this morning. You say that because of the increases in public assistance you are going to have to make substantial reductions in other programs of HEW.

Mr. ZWICK. Yes.

Chairman PROXMIRE. Of Health, Education, and Welfare. These are areas in which Senator Percy, Senator Javits, and I have an interest as well as other Members of Congress. Can you tell us what programs of HEW are under study and what might be cut back sharply in this area?

Mr. ZWICK. This is one of our most difficult problems, because of our set of priorities which was to protect key social programs. I think one area that is already a matter of public record is the impacted school aid appropriation.

As you know, in July we withheld the expenditure of $91 million of fiscal 1968 entitlements. The Senate, as you know, reappropriated this money and exempted it from the Antideficiency Act. As I read the legislative history, this means that these funds are placed in the uncontrollable exempted area, so the increase in the total exceptions would go up to $4.5 billion and the net reduction in the overall budget down to $1.6 billion if in fact this provision becomes law.

But Congress said nothing about either the original impacted school aid request of $395 million that was in the bill, nor the $110 million that Congress added for impacted school aid for fiscal 1969 entitlements.

Chairman PROXMIRE. Yes; but I am asking you about these other areas.

Mr. ZWICK. So one area we would look to is impacted school aid in fiscal 1969.

Chairman PROXMIRE. That can't help you, though, can it? I voted against that.

Mr. ZWICK. No; the action on Friday was only for the $91 million of 1968 entitlements.

Chairman PROXMIRE. Yes.

Mr. ZWICK. The Ribicoff amendment, which did not pass, would have exempted both fiscal 1968 and 1969 expenditures.

Chairman PROXMIRE. I see.

Mr. ZWICK. What actually passed was just the $91 million of 1968 entitlements.

Chairman PROXMIRE. Then what else do you have under study in HEW?

Mr. ZWICK. In addition, you are aware that Secretary Cohen has held back on grant programs for hospital construction. He started in May to hold back on grants, and by delaying these grants for 6 months, he picks up significant expenditure reductions.

Senator JAVITS. On hospital modernization, Mr. Zwick—forgive me, but I have something in mind that I don't want to forget. You spoke about the influence on your bookkeeping of back door financing. Now, do you include in that term "back door financing" this new technique that we have now introduced in hospital modernization, which is a U.S. guarantee of the indebtedness, the bonded indebtednesss of a hospital itself, with the U.S. underwriting of higher interest rate; that is, the U.S. underwriting?

Mr. ZWICK. Well, the difference, the interests differential——

Senator JAVITS. Yes.

Mr. ZWICK (continuing). Would require budget authority. The guarantee part would not.

Senator JAVITS. That is fine. That is very important to us because we think we have a way around it, you see.

Chairman PROXMIRE. In response to another question that Senator Javits asked you, you did not indicate any specific way except repealing the law, in which we could meet this employment freeze. Frankly, I think that until there is a new President, maybe we will do it if there is a President Nixon or President Humphrey or President Wallace, but unless there is a new President, until there is a new President, I doubt very much if we are going to unfreeze this employment situation.

Meanwhile we have a very, very unfortunate situation in Internal Revenue Service, in Renegotiation Board, and eleswhere.

Mr. ZWICK. That is correct.

Chairman PROXMIRE. So that I do hope you will take seriously the suggestion we made that you get to us any information you can, any statement that you would like to make in the next day or two, so that we could make a fight to provide a maximum opportunity to put the personnel in these areas where the public interest demands them. I think it will be very helpful to us.

Mr. ZWICK. Senator, I will just repeat what I said earlier.

Chairman PROXMIRE. I know it is tough.

Mr. ZWICK. This is a very limited authority I have, and when I take other agencies down to 70 percent, and if I have to protect the Veterans' Administration——

Chairman PROXMIRE. But when there are only 600 employees out of 2 million who have been transferred, it is obvious that this isn't working at all.

Mr. ZWICK. The 2 million is not a useful way to look at this problem. The way to look at it is how many vacancies are being created.

I have taken all agencies from a 75-percent replacement rate to 70 percent. We won't know until we know more about the turnover rate, but we are guessing we will get 1,000 positions out of that. In other words, by taking the replacement rate from three out of four to seven out of 10, or from 75 percent to 70 percent, I will get about 1,000 positions per month to reallocate.

Now, if I take them to 60 percent, I have 3,000 positions to reallocate. If I take them to 50 percent, I have 5,000, if those turnover rates hold up. We just felt we had to bend over backward to be conservative, partly because as Congress exempts more and more agencies I even get less leeway.

Chairman PROXMIRE. What you have told us this morning will be helpful. I just wish if you could possibly document it any further you will do so.

Mr. ZWICK. Yes.

Chairman PROXMIRE. I will bring this up directly and personally with Senator Williams and with others who are leaders in this freeze, and see what we can do about it, because he has the same intention we all have. He doesn't want to see these agencies deprived of the necessary personnel. He feels, as he said over and over again, that you have the flexibility to do this, and apparently somebody is wrong. Either he is wrong or you are wrong.

Mr. ZWICK. No, Senator, there is a question of degree of flexibility on that issue.

First, I argued from the very beginning that inherent in this bill there isn't that much flexibility because the only way I can get positions is to take them away from somebody. And everybody has partisans, and I get letters from Congressmen. When I take care of the Renegotiation Board and take it away from the Agriculture Department, I suspect I would get more letters against that action——

Chairman PROXMIRE. 25 employees?

Mr. ZWICK (continuing). Than I would if——

Chairman PROXMIRE. You have got more employees than there are farmers.

Mr. ZWICK. Secondly, the question of the Veterans' Administration came up on the floor of the House. The Congress itself, the Conference itself, limited even more severely my authority by saying I should generally keep agencies at their June 1966 level. Because of that provision, which they put in their report, I immediately transferred some slots to the Federal Power Commission and to the Federal Communications Commission, which were below their June 1966 levels. It was the clear intention of Congress as reflected in the conference report that I do that. It isn't a question of whether 25 people would be more important in the Renegotiation Board or in Federal Communications or the Federal Power Commission. I didn't make that judgment. I just read the report of the conference managers and acted accordingly.

(Mr. Zwick subsequently supplied the following information:)

THE EMPLOYMENT LIMITATION PROVISIONS OF PUBLIC LAW 90-364

As part of the Revenue and Expenditure Control Act of 1968, the Congress required a mandatory rollback in Federal civilian employment to the June 1966 level, based on a fixed formula.

The Administration opposed this provision as an inappropriate way to reduce expenditures or promote economical management. Nevertheless, the Administration is actively implementing the law.

Within two months of enactment, Congress itself recognized the arbitrary nature of the employment rollback by granting exemptions to one-fifth of Government employment.

Some flexibility is given to the Budget Director by the law, but it is severely limited and will be further curtailed when the Veterans' Administration reaches its June 1966 level. Eventually the point will be reached when some agencies will not be able to fill any vacancies at all.

The Budget Director has received numerous meritorious requests for relief. However, any relief given to one agency must be at the expense of others.

SUMMARY OF THE LAW

The Revenue and Expenditure Control Act of 1968 (Public Law 90–364, enacted June 28, 1968) provided, among other things, for a limitation on new appointments of civilian officers and employees in the executive branch. This limitation can be summarized as follows:

In the case of *full-time employment in permanent positions*, the number of appointments—whether to new positions or to fill vacancies—must not exceed 75% of the vacancies occurring after July 1, 1968, by reason of resignations, retirement, removal, or death. (Vacancies resulting from transfers to other Government agencies may be filled without restriction by the losing agency, but the agency to which an employee transfers must consider this appointment as subject to the 75% limitation.)

In the case of *temporary and part-time employment*, the number of appointments must be restricted so that such employment is no greater than during the corresponding month of 1967.

The first of these restrictions—on full-time permanent employment—is to remain in effect until the June 30, 1966 employment level is reached for the entire Federal Government, although at that point hirings will still have to be limited in such a way as to keep employment from rising above that level. The second restriction—on temporary and part-time employment—would continue indefinitely under the terms of the law.

The law as enacted exempts only certain Presidential employees, casual employees or employees serving without compensation, and certain disadvantaged youth employed during the summer.

ADMINISTRATION POSITION

The limitation on new appointments involves a reduction of more than 250,000 full-time permanent employees starting in July 1968, despite a 25% increase in workload since 1966.

The Administration from the beginning has considered the employment limitation to be an unwise provision. The number of employees required to perform Government operations and services should relate directly to the budgetary levels determined in the appropriation process after detailed program review—not by an arbitrary formula determined apart from appropriations.[1] It considers the provision bad public policy because it will lead to curtailment of essential Government services, the inefficient use of overtime, and the substitution of one type of personnel for another.

A good illustration of these undesirable effects is in the Department of Defense which had adopted a program to replace military personnel with civilian personnel in order to achieve greater economy and efficiency. Any rollback in Defense civilian personnel to June 30, 1966 levels, will inevitably result in a reversal of this trend. *The proper way to reduce Government expenditures*, which was the intent of Congress in enacting the tax bill, is by eliminating or curtailing programs *through the regular appropriations process* over which Congress has full control and authority.

Although the employment provision was adopted as part of an economizing measure, its impact is, in some cases, contradictory to efforts to economize. For example, a reduction in the employment of the Internal Revenue Service will cost the Government, in taxes foregone, several times the annual salary of the affected employees. Reimbursable work done for non-Federal customers does not cost the U.S. taxpayer any money, and in some instances, can result in payments by other governments which would help our overall balance of payments; however, such work is subject to curtailment because of the employment limitation. Reductions in employment financed by assessments on the credit institutions—as in the case of the Federal Home Loan Bank Board, the Farm Credit Administration, the Comptroller of the Currency, and the Bureau of Federal Credit Unions—have no effect upon net budget outlays and provide no savings for taxpayers, but could have an adverse effect on legally required Government surveillance over the supervised institutions.

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[1] See Budget Bureau comments on section 3 of S. 2902 contained in Secretary Fowler's letter to Senator John Williams of March 4, 1968, and printed on pages 43–45 of the hearings before the Senate Committee on Finance on H.R. 15414, March 12–14, 1968.

Despite the problems and drawbacks, the Administration felt that enactment of the 10% tax surcharge was so important to the national interest that it accepted the employment limitation. And the Administration acted promptly and vigorously to execute the law in accordance with the wishes of the Congress. On the day the tax bill was signed, the Bureau of the Budget issued regulations to all executive agencies prescribing procedures for carrying out the hiring restrictions in the law.[2]

AGENCY EXEMPTIONS FROM THE LAW

Congress itself has recognized the various difficulties created by the arbitrary nature of the provision by granting exemptions for the postal field service, TVA power activities, the FBI, and the FAA air traffic control system. Under these exemptions about 20% of the Government's employment is no longer covered by the law. Additional exemptions also have been proposed in the Congress for other employees.

The original version of the employment limitation was added on the floor of the Senate. Therefore, a committee report, which could have served as a guide for congressional intent, was not available. The language of the bill (H.R. 15414) was unfortunately subject to differing interpretations.

The Senate version exempted the Department of Defense, the postal field service, the Central Intelligence Agency, the Tennessee Valley Authority's power activities, and the Federal Bureau of Investigation, *and required that the remailing agencies absorb the increases of the exempted ones.* Since Defense and Post Office employees alone make up almost 70% of Federal employment, the agencies with the remaining 30% would have been required, under the Senate version, to absorb the increases of these two agencies.

Moreover, the Senate bill implied that future additions to the number of positions in the Post Office and Defense would have to be made by transferring vacancies from other agencies. Since the Post Office and Defense Departments were adding more positions than the other agencies were creating vacancies, this interpretation of the Senate version would have required a complete embargo on any hiring in other agencies.

It was quite clear that the intent of the conferees was to have Government employment as a whole come down month by month. Since the Post Office is growing rapidly as mail volume increases, and civilian employment in the Defense Establishment is growing (partly through the "civilianization" policy mentioned earlier), under the Senate version total employment for the Government would not have come down, but would, in all probability, have continued to rise.

As a result, *the Senate version was clearly unworkable.* Accordingly, the Administration believed that it would be better to have no agency exceptions than to retain the provisions of the Senate bill.

Unlike the original Senate version, the exemptions which Congress has passed have been worded in such a way that the non-exempt agencies do not have to absorb the increases of the exempted ones. The Administration has not objected to exemptions of that type.

FLEXIBILITY IN REASSIGNING VACANCIES

Language was developed in Conference which permitted vacancies to be reallocated among the several agencies and departments. The purpose of this language was to provide some flexibility in administering the rollback in Government employment.

The present law provides that the Director of the Bureau of the Budget may reassign vacancies from one department or agency to another when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

This authority provides some administrative flexibility, but it is severely limited because:

1) The Budget Director can only reassign *vacancies*, not employees.

2) Vacancies msut be available before they can be reassigned. There were no vacancies on July 1, 1968, because the law had the effect of eliminating all vacancies which existed on July 1, 1968.

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[2] These regulations are contained in Bulletin No. 68–15 issued by the Bureau of the Budget on June 28, 1968.

3) Finally, the Budget Director is further limited in the exercise of this flexibility by the legislative history which indicates that, generally, agencies should not be allowed to go below their June 1966 employment levels. This is stated most clearly on page 45 of the Conference Report on the Revenue and Expenditure Control Act of 1968:

"In keeping with the June 30, 1966 date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966 level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966 level. For example, in applying this provision in the case of the Veterans' Administration (including all such employlees working in veterans' hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees."

It is expected that the Veterans' Administration will reach its June 30, 1966, level around November of this year. The Budget Director will then have to reassign about 800 vacancies each month just to keep the Veterans' Administration at this level. These 800 vacancies must be taken from other agencies *each and every month* in *addition* to the required 1 out of 4 attrition.

As more agencies reduce employment to their June 30, 1966 level, more vacancies will be required at the expense of those agencies above the June 1966 level. It will eventually result in a tremendous burden on agencies which have not reached their June 30, 1966 level. Their replacement rate will have to be reduced further and further, until they eventually will not be permitted to replace anyone at all. In fact, sometime before this happens, it will have become apparent that *the reassignment of vacancies is impractical.*

POLICY ON REQUESTS FOR RELIEF

By the middle of August, the Bureau of the Budget had received requests for relief from about 40 different agencies asking for the reassignment of over 20,000 vacancies. By that time, Congress had exempted some agencies, and bills to exempt others were pending so that the final outcome of the Congress' actions was uncertain. Moreover, there was not experience with the agency turnover or separation rates under the new law. And since vacancies could not be reassigned before they existed, the Budget Director had no choice but to take a very tough approach in reviewing these agency requests for relief.

While many of the individual requests had obvious merits and could be justified individually, the situation the Budget Director faced was that every request he approved would result in an increased burden on other agencies trying to do bigger jobs with fewer people. Nevertheless, the urgent need to get started on the new Safe Streets program as well as various hardship situations required that some relief be given to the Justice Department and a few other agencies.

After careful review of the effects of the employment limitation, the Budget Director in August directed all agencies subject to the limitation with more than 50 full-time employees to limit replacement to 70% of vacancies occurring on or after September 1, thereby making available for reassignment to other agencies the difference between 70% and 75% of their separations. This step was necessary to provide a pool of vacancies from which relief could be given to certain agencies to enable the executive branch to begin new programs and maintain other essential Government operations.[3]

But as long as this law remains in effect, management problems can be expected to continue, demonstrating the weakness of a blanket approach to a complex problem. For example, recently enacted legislation expanding Federal activity in the field of housing and community development will require additional employees to get the job done. Moreover, if the Government is to take a population census in April 1970, in accordance with the constitutional requirement for a decennial census, extra temporary employees will be needed in the Bureau of the Census over and above the employment level prevailing in April 1967.

The basic question before the Budget Director in acting on agency requests for relief under this law is not "Is the request meritorious?" but "Is the request so meritorious and so urgent that some other agency or agencies should be

[3] See the memorandum to the President from Director Charles Zwick of the Bureau of the Budget, August 20, 1968, on "Limitation on Hiring by Federal Agencies," which is printed on page 1260 of the Monday, August 26, 1968, issue of the Presidential Documents, Vol. 4, No. 34.

required to bear the burden of giving up additional positions so that this request can be answered affirmatively?" This of course calls for a judgment as to the relative priorities to be attached to various agency programs within the guidelines provided by Congress. And, it should be remembered, the positions to be reassigned are vacancies remaining after the 25% lapse of vacancies required by the law. There are many cases of merit that would warrant some relief if it could be done without penalizing someone else. But, when the question becomes one of *relative* merit, it is much more difficult to grant relief to one agency at the expense of another.

Chairman PROXMIRE. Let me ask you this. I think we are a little imprecise in your estimate of what is going to happen on unemployment throughout the fiscal year. I understood you to indicate that perhaps by the end of the fiscal year it could go as high as 4 percent. The end of the fiscal year, next July, in view of the fact you have a swing from a deficit in 1968 on the consolidated budget, according to this, of $19.5 million to a surplus, which——

Mr. ZWICK. That is right, there is a swing from a deficit to a surplus.

Chairman PROXMIRE. Which you indicated you expect between January and June of next year.

Mr. ZWICK. That is correct.

Chairman PROXMIRE. This turnaround is going to obviously slow down the economy considerably.

Mr. ZWICK. This is a major turnover.

Chairman PROXMIRE. Do you expect unemployment might go as high as 4½ percent?

Mr. ZWICK. After the first of the year essentially the question will be what has happened to monetary policy, what has happened to homebuilding——

Chairman PROXMIRE. Well, sure.

Mr. ZWICK (continuing). And what has happened to the savings rate. I think if you don't get some pickup in these other sectors, unemployment rates will continue to go up.

Senator JAVITS. If you will yield.

Chairman PROXMIRE. Yes.

Senator JAVITS. In other words, the private sector by activity can take, can very easily take up the slack which will result from the diminution of public expenditure.

Mr. ZWICK. That is the hypothesis on which we are operating, Senator. But we have to depend on that happening. If it doesn't happen, Senator Proxmire's forecast that unemployment rates will continue to rise is correct.

Chairman PROXMIRE. Last year Mr. Schultze told us that the President set up a task force to develop economic plans for the post-Vietnam period. What can you tell us about the work of that task force?

Mr. ZWICK. As you know, this is chaired by Chairman Okun of the Council of Economic Advisers. We have been meeting. We are at a point——

Chairman PROXMIRE. You have played a part in it?

Mr. ZWICK. Yes, I am on the Committee. We have been working, and we are in fact drafting materials now. I am just not in a position to tell you when they are going to be available, whether we will have something publicly available before the Economic Report, or whether we will incorporate it in the Economic Report.

Chairman PROXMIRE. It will be one or the other.

Mr. ZWICK. It will be one or the other.

Senator PROXMIRE. And it will be made available to the Joint Economic Committee?

Mr. ZWICK. Yes.

Chairman PROXMIRE. What are the current assumptions in the administration regarding the future level of defense expenditures in the event of no immediate change in the Vietnam war, and also an end of the war?

Mr. ZWICK. Well, on the Vietnam war——

Chairman PROXMIRE. What is the current defense expenditure level, $82 billion, something like that?

Mr. ZWICK. It ended up in fiscal 1968 at a level of $77.8 billion, including military assistance. You will note on the very last page of the summer review that after the $3 billion cuts, we are assuming that total defense spending is coming down from the 1968 level of $77.8 billion to a 1969 level of $76.6 billion, excluding the pay raise. We will have to put the pay raise in.

But excluding the pay raise, we are projecting a $1.2 billion decline in the defense budget in fiscal 1969, in face of an increase of roughly $1.3 billion for Vietnam. So all other defense programs are down $2½ billion dollars, and that is a tough course for Secretary Clifford to follow.

Chairman PROXMIRE. I can see a tougher course now. You indicated to us this morning you expect, you hope, and anticipate a $20 billion. reduction from Vietnam.

Mr. ZWICK. That is right.

Chairman PROXMIRE. Assistant Secretary Anthony told me in the Appropriations Committee when I asked him that he anticipated that the defense budget would be at a level of about $75 billion after Vietnam is over which indicates very little saving.

Mr. ZWICK. This goes back to the comment I made to Senator Percy.

Chairman PROXMIRE. This goes back to the Russian-Czechoslovakian——

Mr. ZWICK. That is a public policy decision ahead of us. That is a public policy decision still to be faced.

Chairman PROXMIRE. I wish you would give me a specific reply. I asked you earlier, and it was a confusing question, I am sure. I asked many things in connection with it. But I would like your reaction to the *Congressional Quarterly* estimate.*

Mr. ZWICK. Yes.

Chairman PROXMIRE. That $10.8 billion could be cut out of the defense budget, and improve, or at least without hurting, our capability.

Mr. ZWICK. In gross terms I can answer the question. I have seen Secretary Clifford's reply to you on this, and I concur in general, without getting into specifics of every system. I think it is just obviously incorrect to say that you could cut the Defense budget by $10.8 billion and improve it. This is some sort of theoretical construct that every organization in the world has, some level of efficiency that you could get to if some magic was performed. But I just do not believe——

Chairman PROXMIRE. They are very specific and definite.

Mr. ZWICK. Yes.

Chairman PROXMIRE. Mr. Phillips went into great detail in writing it. It is a fine article.

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*Congressional Quarterly Weekly Report, No. 26, June 28, 1968, pp. 1605–1610.

Mr. ZWICK. I understand. I read the article.
Chairman PROXMIRE. It is not just a generalized criticism.
Mr. ZWICK. Yes, I know that. As I say, Secretary Clifford has responded to you.
Chairman PROXMIRE. Yes.
Mr. ZWICK. Without agreeing with every one of his specific comments, system by system, I was just reacting to the general tone that there is $10.8 billion of fat that by some waving of the wand we could do away with it and still have the same capability. I think that was an extreme statement.
Chairman PROXMIRE. Well, it wasn't just fat. He pointed out the fantastic relationship between supply troops and combat troops in Vietnam, for instance, nothing ever seen before in history, about four or five times as much as in the Korean war, and much more than in any other war we have ever had. There may be a justification for it, but it is hard to appreciate, the enormous number of officers there in relation to the actual command job, something like 20 times as many as actually have command.
Mr. ZWICK. Without commenting on whether that is right or not, you are essentially looking at a budget director asking him to second guess the Joint Chiefs of Staff, the commander in the field, and so forth on what is the appropriate ratio of support personnel.
Chairman PROXMIRE. That is the trouble.
Mr. ZWICK. I just find that very difficult.
Chairman PROXMIRE. You have an entirely different status, really, when you are coping with the Defense budget than you have when you are coping with any of these other nondefense expenditures. That has to be true, I am sure.
Mr. ZWICK. Surely.
Chairman PROXMIRE. You are saying the Joint Chiefs of Staff have a military expertise of which the Budget Director has to be in considerable awe.
Mr. ZWICK. When the Postmaster General indicated how he was going to live with the employment cut, I didn't second guess the Postmaster General on how to cut back employment.
Chairman PROXMIRE. Let me ask you some very short questions.
One, on the withdrawal of troops in Europe, that has gone out the window. The recent modifications of that, does that have any impact on the current budget outlook?
Mr. ZWICK. As I said before, we were anticipating before the Czechoslovakian incident cutting $3 billion in defense, and we still are anticipating that. I am sure that we will modify the specifics of how the 3 billion is cut in light of that, but I don't think there are any major changes that we anticipate.
Charman PROXMIRE. This was mainly action, rather, discussion at the congressional level, that we hoped we could do it.
Mr. ZWICK. Yes.
Chairman PROXMIRE. The majority leader felt?
Mr. ZWICK. I have read the discussion that we should not cut $3 billion in defense. Now, if that is the congressional attitude——
Chairman PROXMIRE. The final questions have to do with the planning and budgeting system which have been so important to budget directors and I am sure to you, decisionmaking and resolving budget

allocation problems, both increases and decreases. Has the system been substantially helpful to you as yet?

Mr. ZWICK. Yes, I think it is an important step in the right direction.

Chairman PROXMIRE. Will you briefly describe how?

Mr. ZWICK. Yes. I think when we went to make cuts in the situation we are in right now, we had analyses and data and backup information which made it easier to reflect the priorities that the President has placed all throughout his administration on key social programs. However, I think there is a confusion in some of the discussion about PPB, a belief that somehow or other a decision comes about through an elaborate analysis with everybody waiting for the computer to drop out the last budget number and final decision.

To a large extent the virtue of the PPB system is to push the discussion and the whole preparation for discussion into a more explicit more analytical, and more quantitative presentation, so that we have a better idea of what we are doing.

Chairman PROXMIRE. That is fine.

Mr. ZWICK. And therefore we are in far better shape today than we were only 3 years ago. To be completely candid, we are not doing as well as we hoped at this point in time in many program areas, but we are doing better than we expected in others. It must be understood that PPB is a major long-term reform, and it is going to take time.

Chairman PROXMIRE. But it has been helpful?

Mr. ZWICK. Yes.

Chairman PROXMIRE. In enabling you to analyze?

Mr. ZWICK. That is right.

Chairman PROXMIRE. With more objectivity?

Mr. ZWICK. Yes.

Chairman PROXMIRE. There are many more areas in which you have a cost-benefit analysis under PPB than you had before?

Mr. ZWICK. That is correct.

Chairman PROXMIRE. Especially on your investment programs?

Mr. ZWICK. That is correct.

Chairman PROXMIRE. Is this really being made available to Congress as comprehensively as it could be? It seems to me that we aren't getting this discussion on the appropriations level, on the committee, the PPB element involved here, in trying to reduce this as much as possible to priorities.

Mr. ZWICK. That is correct.

Chairman PROXMIRE. And to figures and to an objective analysis. It rarely enters into a discussion in the Appropriations Committee. It is a shame that it doesn't because I think it will make it much more efficient up here on the Hill as well as downtown. What can you do to make us more aware of this?

Mr. ZWICK. One of the things we are now doing is trying to understand that phenomenon better ourselves. As we started the PPB system, we spent more of our energy worrying about the relationship of the agencies to the Bureau of the Budget and how we could get things straightened out in the executive, and not enough about how to dovetail this process to congressional actions. I would be happy to accept responsibility for some deficiency on the part of the executive here.

However, over the last 6 months or so we have been making more of an effort. I have had discussions both in executive session and during the hearing on the Post Office exemption with Senator Monroney on the difficulties in his areas. And we have entered into a dialog with that particular subcommittee on improving the presentation of data as the Congress likes to see it, as the Bureau of the Budget likes to see it, and as the agencies like to see it. I think we need to work at it, and work harder than we have to date.

Chairman PROXMIRE. Is there any significant amount of this material that is not offered, not made available to the Congress? You see, there is a feeling up here on the Hill that knowledge is power.

Mr. ZWICK. Yes.

Chairman PROXMIRE. If we could get at this we would make decisions that might contradict the political preferences of the administration, any administration. I want to make this as generalized as I can.

Mr. ZWICK. I think the one set of data that has been under discussion is the "5-year projections," and I would submit to you that we have both conceptual and measurement problems to solve, not just problems of who has the data.

When we first put out instructions for the 5-year projections called for in the PPB system, we talked generally about forecasting where each agency thought its budget was going over the next 5 years. In retrospect, that yielded exactly the result we should have expected, namely, all agency budgets were taking off at fantastic rates. These were wish lists of the agencies, not necessarily relating to any decisions current, past, or future—these budgets just weren't all going to go up that fast.

Then we retreated and said "We don't want that. It isn't useful. Instead, let's put out instructions asking for the future year implications of this and past years' decisions." That seemed to be what we wanted. It seems plausible. If you consider building a destroyer, which is a long leadtime investment, you would want to know how much money you are going to have to appropriate in future years and the total expenditure implications are of the decision to go ahead.

But then what do you do about a program like elementary and secondary education? There is an appropriation of $1.3 billion for it in fiscal 1969. Should we put a zero down for fiscal 1970? In some strict interpretation of future year implications of this year's decision you would put a zero down. But, practically, we all know that we are not going to take elementary and secondary education down to zero next year. So that if you take a strict and literal interpretation of future year implications of this year's decisions, the budget starts falling off abruptly. However, if you ask agencies what they would like over the next 5 years, all their budgets take off into the wild blue yonder. I think neither one of these approaches is particularly useful for decisionmaking purposes.

What we want is something in between, and we have a conceptual problem, Senator, of deciding what that is.

Chairman PROXMIRE. What I have in mind is something else. You are kind of, I suppose all members of the administration are, a lame duck budget director.

Mr. ZWICK. Yes.

Chairman PROXMIRE. And as such you are in a very good position to give us information that may be a budget director under a new President would be very reluctant to give us. What I am getting at is not any specific information on a particular program. It is a little late for that now in this administration.

What I have in mind is if you could, give us an idea of what questions we might ask the various agencies when they come before the Appropriations Committee, to get from them their PPB analysis in as great detail or in as useful detail as we could possibly get it, I think that this might greatly improve the congressional performance on appropriations, and eliminate some of the strictly political decisions that we make in appropriations, and bring in a much more objective approach.

Mr. ZWICK. I think we have made available to the Congress more data than is generally realized.

Chairman PROXMIRE. I think so, too, but we are so ignorant up here. We don't really know enough about that. We have to generalize all our approaches. We don't have specialized staff. We don't have the kind of thing you have there. We would like to be informed so that we can get this.

Mr. ZWICK. The only point I would make, Senator, is that I think the problems are more a lack of attention—and I will take my share of blame for that lack of attention—and the conceptual problem. The problem is that we don't quite know how to do it, rather than any real attempt by the administration to be secretive. I think this is a much smaller factor than the other two. We just haven't worked hard enough on egineering this operation, nor do we know how to do some of these things, because, as I say, the sensitive items obviously are future year projections, which quite clearly could be misinterpreted. And, quite clearly—and I think as a matter of good public policy—a President, any President, should maintain as much flexibility as he possibly can on future decisions.

Chairman PROXMIRE. You see you couldn't be expected to make any arguments today, in this kind of a presentation, based on PPB; but when you and the other Administration people come before the Appropriations Committee, you should then make arguments on the basis of PPB or cost benefit. But you don't. You do maybe in the Interior area, where for years and years they have had a cost-benefit system well established but there hasn't been any change elsewhere that I have noticed in the last year or two, and again unless we ask the question I suppose we can't expect people to give us the ammunition to shoot them down. But if we ask the questions, they will have to answer. So if you can, give us the kind of approach that we ought to make here, I think we can make some relevance in appropriation processing in the future.

Mr. ZWICK. Let me just argue that I thought we were doing some of this in the summer review. We said we had to cut \$3.5 billion. We set priorities and tried to state what those priorities are, and I do think if the questioning had proceeded down that route today rather than the routes it did take, we would have gotten into some of this.

Chairman PROXMIRE. Senator Javits touched on that toward the end.

Mr. ZWICK. Yes, surely. It is the analysis that underlies the decisions as to how we are going to make our \$3.5 billion reduction. Analysis is the basis of PPB, and that is where it lies—not in some sort of broad totals, such as you see embodied in this table.

(The following was subsequently supplied by Mr. Zwick:)

I should add that last December we requested most of the agencies to review their PPB submissions to the Bureau of the Budget and to adapt as much of the material as possible to their FY 1969 budget presentation to the Congress. This was done because we share the concerns that you have been expressing about the needs of Congress for better information and for greater knowledge about agency analysis. Compliance with this request was mixed, but at least it was a start in the direction which we both favor.

Chairman PROXMIRE. Very good.

Well, thank you, Mr. Budget Director. You have done a fine job, very responsive testimony. We appreciate it a great deal. It has been most useful to us and we hope for the Congress.

Thank you.

Mr. ZWICK. Thank you.

(Whereupon, at 12:15 p.m. the committee adjourned.)

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