

FIRST CONCURRENT RESOLUTION ON
THE BUDGET—FISCAL YEAR 1976

REPORT

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H. Con Res. 218

SETTING FORTH, ON AN AGGREGATE BASIS ONLY, THE
CONGRESSIONAL BUDGET FOR THE UNITED STATES
GOVERNMENT FOR THE FISCAL YEAR 1976

TOGETHER WITH SUPPLEMENTAL, SEPARATE,
ADDITIONAL, MINORITY, AND DISSENTING
VIEWS



APRIL 14, 1975.—Ordered to be printed

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FIRST CONCURRENT RESOLUTION ON THE BUDGET FISCAL YEAR 1976

APRIL 14, 1975.—Ordered to be printed

Mr. ADAMS, from the Committee on the Budget,
submitted the following

REPORT

[To accompany H. Con. Res. 218]

The Committee on the Budget submits the following report in explanation of the accompanying concurrent resolution (H. Con. Res. 218), setting forth, on an aggregate basis only, the congressional budget for the United States Government for the fiscal year 1976, and recommends that it do pass.

I. SUMMARY AND PURPOSE OF H. CON. RES. 218

H. Con. Res. 218 would establish the following targets for the major budget aggregates for fiscal year 1976:

	<i>Billions</i>
(1) Revenues.....	\$295. 0
(2) Budget Authority.....	395. 6
(3) Outlays.....	368. 2
(4) Deficit.....	73. 2
(5) Public Debt.....	624. 0

These targets are intended to provide an overall macro-economic framework for congressional action to reduce unemployment and the recent high levels of inflation, while keeping the budget deficit and Federal borrowing within reasonable limits. Specifically, they would make possible a reduction in the unemployment rate from the present 8.7% to approximately 7.4% by the end of fiscal year 1976; a reduced inflation rate averaging 6.5% during fiscal year 1976; and a deficit of less than \$75 billion, which available evidence indicates can be safely financed without a harmful effect on private and State and municipal credit demands.

The Committee wishes to emphasize two critically important aspects of our current economic and budgetary situation:

First, the largest single cause of the deficit is the recession itself, coupled with the tax reductions that both the President and the Congress have agreed are essential to stimulate economic growth. If the unemployment rate could be reduced to 4.2% during all of fiscal year 1976, the budget would be substantially balanced. Consequently, our overriding need, both in humanitarian and economic terms, is to put people back on the employment rolls as quickly as possible.

Second, while a substantial deficit in fiscal year 1976 is both unavoidable and necessary, a comparable deficit in a resurgent economy could spur inflationary pressures. Therefore, in fiscal year 1977 it may be necessary to moderate Federal spending in order to avoid an overexpansion of the money supply or a return of higher interest rates brought about by increased private and public credit demands. Consequently, the Committee has taken special care to include in its recommendations those economic stimulus proposals which have their greatest impact primarily in fiscal year 1976, and not in subsequent years.

It should be noted that the Committee's recommendations assume that the Congress will reject the President's energy program proposals, apart from the \$1 per barrel import fee on crude oil now in effect. The Committee further assumes that any energy program adopted by the Congress will be neutral from a budgetary point of view, *i.e.*, that energy expenditures will balance energy taxes. Of course, if the Congress adopts energy proposals involving greater Federal spending without also adopting offsetting revenue proposals, the Committee's budget aggregates would have to be adjusted accordingly. The Committee's recommendations also assume prompt enactment and implementation of the public service employment and accelerated public works programs currently under consideration by the Congress.

Finally, it should be understood that the Committee based its deliberations on information received through April 4, 1975.

II. BACKGROUND AND HISTORY OF THE RESOLUTION

The Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344, July 12, 1974) establishes an improved congressional budget process for determining national spending and revenue policies and priorities. This new process—which involves the adoption of concurrent resolutions on the budget and includes a timetable for other congressional budgetary actions—is mandatory with respect to fiscal year 1977, which will begin on October 1, 1976.

Section 906 of the Act provides, however, that upon agreement of the House and Senate Committees on the Budget and to the extent provided by them in reports to their respective Houses, provisions of the Act relating to the new budget process may be applied to fiscal year 1976, the last fiscal year to run on a July 1–June 30 basis.

The House and Senate Budget Committees on March 3 and 5, 1975, respectively, reported to their respective Houses (H. Rept. 94-25; S. Rept. 94-27) the following implementation plan for fiscal year 1976:

- (1) Budget Committees to hold hearings on the budget and the economy;
- (2) Committees and joint committees to report to the Budget Committees by March 15;
- (3) Budget Committees to report first concurrent resolution on the budget by April 15;
- (4) Congress to adopt first resolution by May 15;
- (5) Budget Committees to report and Congress to complete action on second budget resolution by September 15; and
- (6) Congress to complete reconciliation process (to the extent necessary) by September 25.

In addition, the implementation plan activates those portions of section 401 of the Act which provide that new contract and loan authorities shall be limited to amounts approved in appropriation acts, and which prohibit new entitlement authority legislation from taking effect prior to the start of the new fiscal year.

H. Con. Res. 218 is the first measure presented for House action in the implementation of the new budget process this year. It establishes targets for the key budget aggregates that determine the shape of macro-economic policy. These targets are intended to guide the Congress in its subsequent revenue and spending decisions.

The resolution contains the Committee's recommendations only with respect to budget aggregates, and not with respect to allocations for each major functional category of the budget (as is required in fiscal year 1977 and subsequent years). The Committee believes that in 1975 the role of the Federal budget in dealing with the Nation's severe recession is the most critical policy issue, and consequently its efforts should be focused on the budget aggregates, which have a

significant impact on the economy. This report, however, includes the Committee's estimates for each functional category so that Members may be informed about the components of the aggregate figures contained in the resolution.

The budget aggregates contained in the resolution and the estimates for functional categories of the budget were developed by the Committee through nearly three weeks of hearings (involving major administration officials and a wide range of private economists) and two weeks of executive sessions. They take into account the reports of House committees and joint committees, referred to above; assistance by the Joint Economic Committee, the Joint Committee on Internal Revenue Taxation, the General Accounting Office, and the Congressional Research Service; views submitted by a number of private organizations; and its own staff analyses of the budget and the economy. Although the Committee received some specific information on certain activities from sources other than the reports of other committees and the President's budget document, for some programs and functions, including intelligence, the Committee's deliberations were dependent on the amount of information provided by the appropriations and authorization committees. Executive sessions on the resolution, which were open to the public, were held on March 18, 19, 20, 21, 24, 25, and 26, and April 8.

The Committee's general procedure in developing the budget aggregates was as follows: *first*, tentative agreement on a probable revenue level, taking into account the House-passed tax reduction bill and likely final action on the bill; *second*, tentative agreement on budget authority and outlay levels for each of the sixteen functional categories of the budget; *third*, revisions of the revenue level to take into account employment-generating proposals agreed to by the Committee during consideration of the functional categories and the final action of the conferees on the tax reduction bill (subsequently enacted into law as the Tax Reduction Act of 1975); *fourth*, final adjustments to the functional category totals; and *fifth*, final decision on the budget aggregates in the resolution and the functional category estimates contained in this report.

The Committee reported the resolution and this report favorably by a rollcall vote of 13 to 10 on April 8.

III. GENERAL EXPLANATION OF THE RESOLUTION

BACKGROUND

The Deteriorating Economy.—The United States is in the midst of its worst economic crisis since the Great Depression of the 1930's. Unless Congress acts decisively, it is extremely unlikely that the economy can correct itself without undue human suffering.

A look at the major indicators of the state of the Nation's economic health discloses the dimensions of the crisis:

Unemployment.—The unemployment rate soared from 4.6% in 1973 to 8.7% in March 1975. This means that nearly 8 million people were out of work and looking for jobs. In addition, approximately half a million workers simply dropped out of the labor force altogether during the past six months and are not even counted in the totals. The high unemployment rates not only cause grave personal hardship for the unemployed and their families, but also worsen the adverse position of the Federal budget. It is estimated that for every increase of 1% in unemployment in today's economy, there is a corresponding \$14 billion loss in Federal tax revenues and a \$2 billion expenditure for regular unemployment compensation. *Thus, a 1% increase in unemployment leads to at least a \$16 billion increase in the Federal deficit.*

Inflation.—Double-digit inflation plagued the economy in 1974. The Consumer Price Index (CPI) rose 11% during 1974 and increased at an average annual rate of 8% during the first two months of 1975. The wholesale price index (WPI) rose by 18.9% in 1974, but has declined at an average annual rate of 8% during the first three months of 1975.

Wages.—Employees have not been compensated for price increases by corresponding increases in wages. In February, the purchasing power of an average hour of work was 2.7% below a year earlier. In real terms (that is, adjusted for price increases) consumer purchases of goods and services fell at an annual rate of 13.2% in the final quarter of 1974. This was the sharpest decline experienced since the early 1930's.

Demand.—Sales of consumer durable goods, in real terms, dropped 13.9%—45.1% at annual rates—in the fourth quarter of 1974. Inventories of unsold goods recorded a sharp increase of \$10.9 billion, even after adjustment for price increases.

Output.—Total output (Gross National Product) fell by 10.3% (at annual rates) between September and March. The decline in total output in 1974 was 2.1%.

Housing starts.—Lagging consumer demand and restrictive monetary policy in 1974 slashed annual average housing starts from 2.4 million in the first quarter of 1973 to 1.0 million in the

fourth quarter of 1974. Starts declined still further to an annual rate of 977 thousand by February of 1975. In the construction industry alone, approximately 18% of the work force is currently unemployed.

Investment.—Business investment, which previously had been constant in real terms, also declined after mid-1974, dropping nearly 15% (at annual rates) in only six months.

Interest rates.—High interest rates and restrictive monetary policy contributed significantly to economic difficulties in 1974. The prime rate on commercial paper (interest paid by large credit-worthy borrowers) reached 11.72% in July and remained above 11% through August. Since September, the prime rate and other short-term interest rates have dropped sharply. As of the week ending March 28, 1975, the prime rate on commercial paper was 5.91%. This drop in interest rates can be attributed to the lack of private demand for credit and an easier monetary policy. Loan repayments are unusually high as business inventories are reduced and extension of consumer credit declines.

For most of fiscal year 1975, administration fiscal policy has focused on reducing deficit spending by the Federal Government as a means of fighting inflation. Nevertheless, the deficit soared. The effort failed because deficit increases that are occurring in fiscal years 1975 and 1976 are not the products of profligate Federal spending, but of deteriorating economic conditions.

The President's *Budget* indicates (on p. 46) that if unemployment were at 4%, the hypothetical full employment rate, the fiscal year 1976 budget submitted by the President would have shown a \$12 billion *surplus* rather than a \$51.9 billion deficit. This startling economic fact reinforces the Committee on the Budget in its determination that a speedy reduction of unemployment is essential to restoring economic well-being.

The President's Budget and Economic Program.—To meet the deteriorating economic situation, the President's budget of February 3 contained recommendations intended to stimulate the economy without rekindling inflation, reduce the Nation's dependence on imported oil, and eliminate certain kinds of Federal expenditures.

The *economic stimulus proposals* contained individual income tax cuts of \$5.1 billion in fiscal year 1975 and \$7.9 billion in fiscal year 1976; and reductions in business taxes of \$1.0 billion in fiscal year 1975 and \$2.3 billion in fiscal year 1976.

The *energy tax proposals* fell into three categories: increased import fees on petroleum products; increased excise taxes on domestic crude oil and natural gas; and a windfall profits tax on the sale of domestic crude oil. These new taxes were expected to raise \$30 billion on an annual basis, which would then be fully offset through permanent individual and corporate tax reductions and energy equalization payments to Federal agencies and State and local governments.

The net impact of the large variety of tax changes on fiscal year 1975 revenues was estimated at *minus* \$5 billion and on fiscal year 1976 revenues at *minus* \$6.4 billion.

The *expenditure reduction proposals* totalled \$17 billion in fiscal year 1976. The principal reduction involved savings of \$6 billion

resulting from a 5% ceiling on increases in Federal civilian and military pay and retirement, social security, and other benefit programs where increases are tied to changes in the Consumer Price Index or private wage rates. *In addition*, the President proposed a moratorium on new Federal spending programs other than energy programs. He also proposed a significant increase in program growth for national defense.

The budget aggregates proposed by the President were as follows:

	<i>Billions</i>
Revenues.....	\$297.5
Budget authority.....	385.8
Outlays.....	349.4
Deficit.....	51.9
Debt subject to limit.....	596.4

The economic impact of the President's proposals, set out on page 41 of the *Budget*, can be summarized as follows:

SUMMARY OF THE ECONOMIC IMPACT OF THE PRESIDENT'S BUDGET

[Figures in percent]

Indicators	Calendar years					
	1975	1976	1977	1978	1979	1980
Rate of increase in total output.....	-3.3	4.8	5.6	6.5	6.5	6.5
Rate of change in CPI.....	11.3	7.8	6.6	5.2	4.1	4.0
Unemployment rate.....	8.1	7.9	7.5	6.9	6.2	5.5

Critique of the President's Programs.—The Committee believes that the President's *Budget*, despite its recommendations for a substantial deficit and immediate tax reductions, is in reality a very restrictive one that cannot meet the Nation's urgent economic needs.

The President's proposals provide virtually no new stimulus to the economy. After all changes in program expenditures and tax rates are accounted for, the net dollar increase in expenditures total only \$4.7 billion more than would have resulted from a simple continuation of existing programs, and only \$6.4 billion in revenues below existing tax rates. The lack of sufficient stimulus is illustrated in the President's own economic impact forecast referred to above: *the calendar year 1976 unemployment rate would be reduced by only two-tenths of one percent from the 1975 level.*

The President's energy proposals would increase the rate of inflation by 2 to 3% during calendar year 1975, further dampening business and consumer confidence, helping to negate the impact of the tax reduction proposals, and putting further downward pressures on employment. *According to the President's own forecasts, the rate of change in the CPI will average 11.3% during calendar year 1975 if the entire Presidential program is adopted.*

The Committee believes that the Congress has quite properly refused to enact the President's energy program, while providing additional stimulus to the economy in the recently approved Tax Reduction Act of 1975. In fact, still more stimulus is needed, and the Committee's recommendations in this respect are set forth below.

It should also be noted that the President's budget significantly underestimated the deficit because of underestimated outlays for several programs. Many of those underestimates are implicitly acknowledged in the President's March 29 announcement that the deficit for fiscal year 1976 stood at approximately \$60 billion. Not included in that figure, however, are additional underestimates of about \$700 million for postal subsidies and \$400 million in the aid to families with dependent children (AFDC) program.

In addition, the President assumes that (a) \$8 billion will be received from the sale of off-shore oil leases, an estimate that appears to be \$4 billion too high; and (b) the recently enacted tax cut will not be extended beyond December 31, 1975. If the oil revenues amount only to \$4 billion and if the tax cut is extended through the end of fiscal year 1976 (costing at least an additional \$4.4 billion), the President's deficit would be \$69.5 billion.

Despite the size of the deficit in this adjusted presidential budget, the President's plan contains little that would focus stimulus in the economy aside from what is provided in the congressionally initiated Tax Reduction Act of 1975.

Committee Proposals.—In its first concurrent resolution on the budget, the Committee recommends a coordinated set of budget totals designed to revive the economy. The Committee proposal is built around a many-faceted strategy providing stimulus through (1) immediate and substantial tax reduction, (2) new public service jobs, (3) accelerated spending for public works programs now in the planning stages, and (4) additional housing construction. Furthermore, the Committee proposals will reduce the hardships a severe recession inflicts on the neediest sections of society by permitting more generous cost-of-living increases in income security programs than recommended by the President.

Tax reduction.—The Committee's revenue recommendation incorporates the provisions of the Tax Reduction Act of 1975, and assumes that the temporary provisions of the Act, now scheduled to expire on December 31, 1975, will be extended for the remainder of the fiscal year in order to further boost consumer spending. This extension will provide at least an additional \$4.4 billion in economic stimulus.

A comparison of the President's tax proposals with the Tax Reduction Act of 1975 and the estimated effect of the \$1 import fee per barrel of oil is shown in the following table.

COMPARISON OF TAX PROPOSALS

[In billions of dollars]

Tax feature	Fiscal 1975		Fiscal 1976	
	President's budget	1975 Tax Reduction Act plus import fee	President's budget	1975 Tax Reduction Act plus import fee
Economic stimulus tax cuts:				
1975 Tax Reduction Act.....		-10.7		-10.4
Other.....	-6.1		-10.2	-4.4
Energy taxes.....	+4.3	+4	+35.3	+2.4
Energy tax offsets.....	-3.2		-31.5	
Total tax changes.....	-5.0	-10.3	-6.4	-12.4

Public service jobs.—The Committee proposal incorporates outlays of \$1.4 billion for 310,000 jobs provided in the House-passed Emergency Employment Appropriations Bill and calls for an acceleration of the public service jobs program during the remainder of fiscal year 1975. Moreover, the Committee is convinced that additional public service jobs in *fiscal year 1976* are essential to its strategy to reduce unemployment to 7% by the end of calendar year 1976. Therefore, the Committee includes an additional \$1.9 billion to raise the total number of public service jobs to 450,000. Increased funds are also included for manpower training, particularly for disadvantaged groups that are having difficulty entering the labor force.

Accelerated public works.—The Committee totals include \$25.8 billion in budget authority and \$8.1 billion in outlays for public works programs for fiscal year 1976. Of this amount, budget authority of \$3.7 billion and outlays of \$2.2 billion were included in the Emergency Employment Appropriations Bill. The Speaker's proposed program of accelerated public works accounts for another \$5 billion in budget authority and \$3 billion in outlays for the budget year. In total, the jobs created in the public works and related areas number approximately one million.

Housing.—The Committee includes \$1.9 billion in outlays for fiscal year 1976 for pending housing legislation, which would stimulate additional housing construction of approximately 400,000 units and provide approximately 225,000 new jobs in the construction industry.

The economic stimulus provided by the Budget Committee totals \$28.4 billion in fiscal year 1976, as shown in the following table. Of the \$25.8 billion in budget authority estimated for public works, \$8.1 billion is expected to be spent in fiscal year 1976 and approximately \$6.75 billion in fiscal year 1977 when the unemployment rate, in all likelihood, will still exceed 5½ or 6%. The Committee has also taken into account the economic stimulus of \$12.2 billion (\$10.3 billion on the revenue side and \$1.9 billion in increased outlays) provided by the Tax Reduction Act of 1975 during the remaining months of fiscal year 1975.

SUMMARY OF ECONOMIC STIMULUS IN HOUSE BUDGET COMMITTEE ESTIMATES—FISCAL YEAR 1976

[Dollars in billions]

Economic stimulus	Function	Authority	Fiscal year 1976	
			Outlays	Jobs
I. Major housing legislation.....	400	^a 4.7	1.9
Additional private sector stimulus, not Federal outlays and thus not included in total.....			(6.2)	225,000
II. Public service jobs and manpower training:				
1. Emergency jobs bill.....	500	^a 2.3	1.4	310,000
2. Committee recommendations:				
CETA title III and IV (manpower training).....	500	.3	.3	NA
Increase public service jobs to 450,000 peak in fiscal year 1976 (education and labor).....	500	2.0	1.9	¹ 140,000
Subtotal, public service jobs and manpower training.....		4.6	3.6	450,000
III. Public works:				
1. Emergency jobs bill (mainly public works).....	(^a)	3.7	2.2	600,000
2. Executive and court actions:				
Court release of clean water funds.....	300	^a 5.0	.1	3,500
President's release of highway funds.....	400	^a 2.0	.8	60,000
President's release of Hill-Burton funds.....	550	^a .1	.1	2,000
3. Committee recommendations:				
Natural resources, environment, and energy function.....	300	.6	.4	30,000
D.C. Metro.....	400	.2	.2	4,000
Release of currently deferred highway funds.....	400	^a 8.7	.5	37,500
Job opportunity program.....	500	.5	.2	¹ 15,000
Accelerated public works (Speaker's program).....	450	5.0	3.0	250,000
Speed-up of highway spending (legislation will permit borrowing of matching funds from future authority).....	400		.6	49,500
Subtotal, public works.....		25.8	8.1	1,051,500
Subtotal, estimates of outlays for economic stimulus.....		35.1	13.6	1,726,500
IV. Budget Impact of Tax Reduction Act.....			10.4
Effect of extending tax cut to end of fiscal year 1976.....			4.4
Subtotal, estimated stimulus of tax reduction.....			14.8
Grand total: Outlays/revenue reduction.....		35.1	28.4	1,726,500

Note: Figures may not add to totals due to rounding.

¹ Illustrative distribution: Committee provides for distribution of a lump sum dollar amount between these two activities.^a Miscellaneous.^a Prior year budget authority.

The Committee is well aware that a \$73.2 billion deficit is far above tolerable levels in normal circumstances. However, the Committee is also convinced that the budget deficit is caused by serious problems in the Nation's economy which would only be aggravated by a smaller deficit in this fiscal year.

Many of the witnesses before the Committee and most of the thirteen economists at large banks and financial institutions queried by the Committee stated that a large Federal deficit in fiscal 1976 could be financed without major disruptions to the financial markets. Of the thirteen statements from bankers, three optimistically concluded that a large deficit was not likely to spur inflation if properly handled, seven declared, more cautiously, that the deficit could be financed without great difficulty but warned against the danger of rekindling inflation in late 1976 or 1977, and three stated that the expected deficit in fiscal 1976 would almost certainly lead to inflation.

The main concern of most of the economists was what was going to happen after fiscal 1976. In fiscal 1977 the recovery is expected to be well underway and a large deficit in that year, on top of expanding private demand for credit, could result in a "crowding out" of private borrowers. (See page 16 for a more detailed discussion.) The Committee was urged to avoid permanent tax cuts or increased expenditures on programs which cannot be cut back.

The budget deficit can best be reduced in the future by generating jobs, which will produce increased tax revenues and a reduction in Federal expenditures for unemployment compensation and other forms of income assistance.

COMMITTEE RECOMMENDATIONS

Revenues.—The Committee estimates that fiscal year 1976 revenues will total approximately \$295 billion, instead of the \$297.5 billion projected by the President in his February 3 budget message. As explained, the Committee's estimate assumes extension of the Tax Reduction Act of 1975. Accordingly, H. Con. Res. 218 calls for a decrease of \$4.4 billion in revenues to account for this assumption.

A comparison of the President's budget and the Committee's estimate is shown in the following table.

FEDERAL RECEIPTS IN FISCAL 1975 AND 1976

[In billions of dollars]

Estimates	Fiscal year	
	1975	1976
President's budget estimate.....	\$278.8	\$297.5
Budget Committee's estimate.....	276.7	295.0
Change.....	-2.1	-2.5

In revising the President's fiscal year 1976 estimate, the Committee assumes that Congress will not enact his proposed energy taxes, but takes into account the fact that Congress has sharply revised his general tax cut proposals, reducing revenues by an additional \$4 billion, according to the Joint Committee on Internal Revenue Taxation. Furthermore, the Committee expects Congress to extend the provisions of the recently enacted tax legislation beyond its December 31, 1975, expiration date, lowering revenues by approximately an additional \$4.4 billion. However, continuation of the President's \$1 per barrel import fee on crude oil, and its expected extension to all crude oil products, should add \$2.4 billion to fiscal year 1976 receipts. Finally, the Committee anticipates that its budget recommendations, as they stimulate the economy and reduce unemployment, will generate additional revenues of about \$3.5 billion. The economic assumptions underlying this expectation appear in the following table.

ECONOMIC ASSUMPTIONS

[In billions of dollars]

Estimates	Calendar year	
	1975	1976
GNP in current dollars:		
President's budget.....	1,498	1,686
Budget Committee estimate.....	1,467	1,685
Personal income:		
President's budget.....	1,232	1,365
Budget Committee estimate.....	1,229	1,389
Corporate profits:		
President's budget.....	115	145
Budget Committee estimate.....	116	166

Revenue estimates are largely dependent on the size and composition of the Gross National Product (GNP). The Committee's estimate of the GNP size in calendar 1976 is almost identical to the President's, but the composition of the two estimates is significantly different. Stimulated by the Committee's recommended budget, the economy is expected to show a higher rate of real economic growth and a lower rate of inflation than estimated by the President. The higher rate of real growth will produce more jobs and higher profits. The lower rate of inflation is partially the result of removing the President's energy program.

In addition, the President's energy proposals would channel about 2% of the GNP through the Federal Government by way of the energy taxes and redistribute it through tax cuts, grants, and transfer payments—none of which are taxable. Under the Committee's recommendation, which excludes the President's energy proposals, that 2% of GNP will be redistributed to personal incomes and profits, both of which are taxable.

Thus, under the Committee's proposal, personal incomes are expected to be \$24 billion higher and corporate profits \$21 billion higher than projected in the President's budget. The Committee calculates that this should generate between \$9.5 and \$10 billion in increased tax liabilities, and thus add \$3.5 billion to the revenues collected in fiscal 1976.

A comparison of receipts by source between the President's recommendations and the Committee's estimates is shown in the following table.

COMPARISON OF BUDGET RECEIPTS BY SOURCE

(In billions of dollars)

Budget receipts	Fiscal 1975			Fiscal 1976		
	President's budget	Budget Committee	Change	President's budget	Budget Committee	Change
Individual income taxes.....	117.7	116.6	-1.1	106.3	126.8	+20.5
Corporation income taxes.....	38.5	41.8	+3.3	47.7	41.3	-6.4
Social insurance taxes and contributions.....	86.2	85.9	-0.3	91.6	91.6	0
Excise taxes.....	19.9	16.9	-3.0	32.1	16.9	-15.2
Estate and gift taxes.....	4.8	4.8	0	4.6	4.6	0
Customs duties.....	3.9	3.9	0	4.3	4.3	0
Miscellaneous receipts.....	7.7	6.8	-0.9	10.9	9.5	-1.4
Total receipts.....	278.8	276.7	-2.1	297.5	295.0	-2.5

Note: Figures may not add to totals due to rounding.

Budget Authority and Outlays.—The Budget Committee estimates \$395.6 billion in budget authority and \$368.2 billion in budget outlays for fiscal year 1976. The Committee's estimate is \$2.5 billion in budget authority and \$8.6 billion in outlays above the President's budget as adjusted and \$42.4 billion in budget authority and \$30.2 billion in outlays below the views and estimates of other House committees.

SUMMARY COMPARISON OF BUDGET AUTHORITY AND OUTLAYS FOR FISCAL YEAR 1976

[In billions of dollars]

Item	President's budget as submitted	President's budget as adjusted ¹	Budget adjusted for views and estimates of House committees	House Budget Committee recommendations
Budget authority.....	385.8	393.1	438.0	395.6
Outlays.....	349.4	359.6	398.4	368.2

¹ Adjusted to include official Presidential amendments and reestimates, administrative actions, court decisions and underestimates of outlays.

The major areas of increase in the Committee's estimate are in the functional categories for community and regional development; education, manpower, and social services; commerce and transportation; income security; and health. The major areas of decrease are in the functional categories for national security; international affairs; and allowances (basically the proposed energy tax equalization payments). Tables on pages 48 and 49 in the appendix compare the relative magnitude of Committee increases and decreases for each functional category. The discussion of each functional category, beginning on page 20, describes in greater detail the components of the Committee's estimate within each function.

The difference between the Committee's estimate and the President's budget as adjusted can be summarized in terms of four major areas of change.

First, significant increases in the estimate for public service jobs and manpower, for public works, and for new housing legislation reflect the desire of the Committee to provide economic stimulus to the economy. These initiatives are described in more detail on pages 9 and 10 of this Report.

Second, the Committee assumes substantial increases in human resource programs, including the effect of restoring program reductions proposed in the President's budget submission, providing certain additional amounts to cover the increased cost of goods and services, and the increased cost of congressional initiatives included in the views and estimates of other House committees.

Third, the Committee's estimate includes certain major reductions in the President's budget, including national defense, international affairs, energy tax equalization payments, and an adjustment, mainly in income security, to reflect the impact of an improved economy on the budget.

Finally, the Committee's estimate assumes congressional rejection of much of the savings the President proposed to achieve through rescissions, legislative initiatives, and administrative actions. In particular, the Committee assumes congressional disapproval of the proposal for an arbitrary across-the-board ceiling on cost-of-living increases for recipients of Federal income security and retirement payments. The Committee's estimate includes cost-of-living increases of up to 7% for Federal retirees (civilian, military, and railroad) and social security recipients. For the disabled under social security and Federal retirement programs, and for the supplemental security

income, child nutrition, and food stamp programs, the Committee includes full cost-of-living increases. To cover the costs of these assumptions, the Committee's estimate includes an outlay increase of \$2.8 billion over the President's budget.

The following table describes in further detail these differences between the Budget Committee's estimate and the President's budget as submitted:

SUMMARY OF HOUSE BUDGET COMMITTEE ESTIMATES—FISCAL YEAR 1976 OUTLAYS

[In billions of dollars]

I. President's budget as adjusted:	
1. President's budget as submitted.....	349.4
2. Executive and court action:	
Presidential amendments to budget (\$0.1B for foreign aid and \$1.8B for public service employment).....	1.9
Presidential reestimates to budget (food stamps \$1.5B and \$0.6B veterans benefits).....	2.1
Administrative actions of the President (\$1.0B for release of Hill-Burton and highway funds).....	1.0
Court decision on EPA-Clean Water (\$5.0B in authority).....	(1)
3. Underestimates of budget outlays in President's budget: (\$4.0B for overestimates for royalties on the Outer Continental Shelf; \$0.7B for payments to the Postal Service; \$0.4B for AFDC).....	5.1
President's budget as adjusted ²	<u>359.6</u>
II. Committee recommendations:	
1. Economic stimulus:	
Public service jobs and manpower training.....	1.9
Public works.....	7.1
Housing legislation.....	1.9
2. Reductions:	
National defense (excluding cap).....	-4.5
International affairs.....	-1.4
Energy tax equalization payments.....	-7.0
Adjustment for changed economic assumptions (income security).....	-1.8
3. Human resources program level increases (health, education, and veterans).....	2.3
4. President's proposals for budget reductions:	
Disapproval of reductions proposed through: Rescissions (\$0.7B); legislation (\$5.3B); and administrative action (food stamps, \$0.6B).....	6.6
Increased outlays due to Committee's revision of President's proposed 5-percent limitations.....	2.8
5. Other.....	0.7
Total, House Budget Committee recommendations ²	<u>368.2</u>
Total, views and estimates of House committees.....	<u>398.4</u>

¹ Less than \$100 million.

² Figures may not add to totals due to rounding.

Deficit.—The Committee's budget recommendations would result in an estimated deficit of \$73.2 billion.

The deficit results from the difference between revenues and outlays. Congress directly affects the size of the deficit when it reduces or increases tax rates or expenditures. However, because Congress usually deals with programs in terms of budget authority rather than actual spending, it affects the outlay side only indirectly.

Beyond this, many variations in revenues and spending are largely independent of Congressional action.

If, for instance, Congress changed no tax or expenditure programs while the level of production and employment fell, tax receipts would also fall and unemployment benefits would rise. These changes would push a seemingly balanced Federal budget into deficit. In today's economy, the Committee understands, each increase of one percent in unemployment will *reduce* Federal tax revenues by about \$14 billion, and *increase* regular unemployment insurance benefits by about \$2 billion. In other words, the Federal deficit will increase approximately \$16 billion for each one percent increase in the unemployment rate. If unemployment were 4 percentage points lower than today's level, expected revenues plus an automatic decrease in unemployment expenditures would reduce the deficit by about \$64 billion.

The money to finance the Federal deficit is obtained from Treasury sales of government securities. This has prompted concern in some quarters that Treasury borrowing to finance a \$70 to \$80 billion deficit, competing with private borrowing needs, will re-ignite inflationary forces in the economy.

The Committee does not expect that result for two reasons. First, private demand for loans has fallen rapidly during the current recession. This decline should enable a significant portion of the deficit to be financed without displacing borrowing in the private sector. Second, the Federal Reserve may buy a portion of new Treasury securities, but that portion probably would not lead to excessive expansion of the money supply.

A further limitation on any tendency of Federal debt financing to crowd out private demands for loans should result from concentrating such borrowing in the short-term markets (where interest rates have fallen rapidly) rather than the intermediate and long-term markets (where interest rates have remained high). Thus, borrowing by the Federal Government to finance the fiscal year 1976 deficit will probably tend to replace falling private demand for loanable funds, rather than force such borrowers out of the market.

As stated above, representatives of some of the largest lending institutions in the country have endorsed this view in letters sent to the Committee. While some of the bankers expressed real concern about the effect of deficits in excess of \$50 billion, others stated that a deficit of between \$70 and \$80 billion could be financed without much difficulty. In addition, almost every private economist who testified before the Committee endorsed the proposition that a \$70 to \$80 billion deficit is acceptable under current and foreseeable economic conditions in fiscal 1976.

However, the banking community is concerned about the possibility that the fiscal year 1976 deficit level may continue into 1977. If the stimulus to current economic activity provided by the Committee's budget recommendations revives lagging demand and production in 1976 as expected, this expansion will probably restimulate private demands for investment funds. Given that result, continued Federal borrowing at the fiscal year 1976 level could compete with revived private loan demand and drive interest rates beyond what many borrowers could afford. Under those circumstances, to avoid high

interest rates would require a further expansion of the money supply in excess of productive capabilities. This excess supply of money could lead to higher rates of inflation, if the strength of private demand again rises strongly.

The seriousness of a budget deficit should be measured not only by its size, but more importantly by considering whether such deficits occur when large portions of existing plant and equipment are not fully employed. In 1973, 83% of manufacturing capacity was utilized. By the final quarter of 1974, capacity utilization was down to 75.9% (Federal Reserve Board index), and all indications are that utilization declined further during the first quarter of 1975. A \$75 billion deficit incurred during a period of high unemployment and low capacity utilization is not nearly as serious as a \$20 billion deficit at low levels of unemployment.

The Committee's judgment on the financing of the deficit takes into account the financial activities of so-called off-budget agencies. At present there are 15 such agencies, including the Postal Service, the Federal Reserve Board, the Federal Home Loan Banks, the Federal National Mortgage Association, and the Export-Import Bank. With the exception of the Postal Service, all these agencies borrow funds and lend them out again to selected recipients, but the law excludes these transactions from the budget totals.

The Public Debt.—Assuming a \$73.2 billion deficit, the Committee expects the public debt subject to limit to reach \$624 billion at the end of fiscal year 1976. This is \$27.6 billion above the debt projection of \$596.4 billion estimated by the President in February.

The permanent statutory debt limit is \$400 billion, temporarily increased to \$531 billion through June 30, 1975. Given the Committee's projected debt rise, the temporary ceiling will have to be raised by \$93 billion to accommodate the expected new debt.

The public debt is made up of direct obligations or debts of the Treasury. To cover these obligations, the Treasury issues securities which are sold to the public or held by trust funds and some Federal agencies.

Calculating the projected public debt subject to limit involves consideration not only of the budget deficit but also of such other major factors as the deficit of off-budget agencies and the net surplus of government trust funds invested in Treasury debt. This calculation also assumes no change in Treasury cash balances and that all changes in borrowing are subject to the debt ceiling.

In fiscal year 1974, 70% of the public debt was held by the public and 30% by Government agencies. About one-quarter of the publicly owned portion is held by the Federal Reserve banks. Another one-fifth is held by commercial banks. Of the remainder, 30% is held by individuals, primarily as series E and H Savings Bonds, 23% by foreign and international investors (mostly institutions such as governments and central banks), and the rest is spread among State and local governments, corporations, insurance companies, mutual savings banks, and other investors.

The 30% of the public debt held by Government agencies includes two major groups of trust funds—social security and civil service

retirement funds—which are expected to account for 70% of agency holdings in 1976. Surplus cash, accumulated by all trust funds to meet future claims and demands, must be invested by law in Treasury debt.

As a percent of GNP, public debt has declined steadily since just after World War II, from a peak of 130% in 1946 to 35% in 1974. The debt subject to limitation is expected to be equal to 39% of the GNP in fiscal 1976, if the President's recommendation to bring the financing of the off-budget agencies under the debt limit is carried out.

IV. BUDGET AUTHORITY AND OUTLAYS BY FUNCTIONAL CATEGORIES

Although the Committee's resolution does not include budget authority and outlay figures by functional category, the Committee arrived at its overall totals only after considering these 16 component parts of the budget. This report provides estimates of budget authority and outlays for each functional category to give the House an understanding of the basis on which the Committee reached its overall totals, but *not* for the purpose of establishing formal category targets.

The Committee adjusted the President's February 3, 1975 budget totals for each functional category by taking into account new Presidential initiatives and reestimates announced since that date, court actions, and executive branch underestimates of required spending for fiscal year 1976. It then reached its own conclusions, working from the recommendations of its Chairman and the views and estimates of the various committees of the House.

In arriving at its totals, the Committee took into account the fact that a relatively large share of the outlays is mandatory under existing law. This problem is discussed in greater detail on page 56 in Appendix D of this report.

NATIONAL DEFENSE

Function 050

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	107,700	94,027
President's budget as adjusted.....	107,700	94,027
Views and estimates of House committees.....	109,842	96,071
Budget Committee estimate.....	99,778	89,736

The Budget Committee estimates budget authority of \$99,778 million and outlays of \$89,736 million for this functional category. This represents a net reduction of \$7,922 million in budget authority and \$4,291 million in outlays from the President's budget and a reduction of \$10,064 million in budget authority and \$6,335 million in outlays from the views and estimates of other House committees.

DESCRIPTION OF FUNCTION

This function includes all funds required to support the Department of Defense. It also includes military assistance to foreign nations, atomic energy defense activities, and certain other defense-related activities, including receipts from the sale of strategic commodities.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposes \$107,700 million in budget authority and \$94,027 in outlays. No official revisions have been made in these proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate provides for increases of \$1,338 million and decreases of \$9,260 million in budget authority as described in the following paragraphs.

The estimate includes an increase of \$253 million in budget authority and outlays to provide a 7% cost-of-living increase to retired military personnel in lieu of the 5% ceiling assumed in the President's budget. The additional funds also provide disabled retirees the full increase in benefits under the regular formula. The Committee assumes that pay increases for active Federal employees (military and civilian) will be limited to 5% as proposed in the President's budget.

The estimate provides \$295 million in increased budget authority for higher costs of utilities and maintenance in the family housing area.

The estimate does not assume receipts from the opening of the Naval Petroleum Reserves to production nor from additional sales of strategic commodities included in the President's budget. Both of these actions would require new legislation. The budget effect of this estimated reduction in receipts is to increase the President's budget submission by \$790 million in budget authority since receipts of this type are counted as deductions from budget authority.

The Committee assumes financial adjustments which can be accomplished by use of funds available from prior year accounts, sale of equipment which does not need replacement to foreign governments, adjustment of stock fund cash balances, reduction in foreign military credit sales, and lower inflation rates than those contained in the President's budget based on latest pricing trends. These assumptions result in a reduction of \$3,260 million in budget authority.

The Committee assumes a reduction in the requested level of support for South Vietnam to the currently approved fiscal year 1975 level and assumes, further, that military assistance to Cambodia will not be provided in fiscal year 1976. These assumptions result in a reduction of \$1,000 million in budget authority. No judgment is included in this report on the pending supplemental request for fiscal year 1975 for Southeast Asia.

A portion of the funds requested for procurement of war reserve stocks and the inventory replenishment fund would require a change in the Foreign Assistance Act of 1974 (P.L. 93-559). The Committee has no evidence that the Congress will approve a change to the applicable sections of the law this year. Moreover, there are indications that war reserve requirements are overstated for the fiscal year 1976 funding period. This estimate reduces the fiscal year 1976 request by \$1,000 million.

For fiscal year 1976, the President's budget submission requests a real program increase of approximately \$5,000 million for the Department of Defense. The Committee's estimates include a reduction of \$4,000 million in this area. In recent years, the Congress has provided funds for significant modernization of our defense forces. The Committee estimate continues funding of modernization programs.

The result of Committee estimates and assumptions would maintain the defense budget at approximately the fiscal year 1975 level of funding with allowances for inflation and some technological growth.

INTERNATIONAL AFFAIRS

Function 150

Estimates	Fiscal year 1976 (millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	12,627	6,294
President's budget as adjusted.....	12,627	6,405
Views and estimates of House committees.....	12,627	6,294
Budget Committee estimate.....	4,677	4,900

The Budget Committee estimates \$4,677 million in budget authority and \$4,900 million in outlays for this functional category. These amounts are \$7,950 million in budget authority and \$1,394 million in outlays below both the President's budget as submitted and the views and estimates of House committees.

DESCRIPTION OF FUNCTION

The International Affairs function includes funds for foreign economic and financial assistance, the conduct of foreign affairs, and foreign information and exchange activities.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget was adjusted by adding \$111 million in outlays. This adjustment reflects the estimated fiscal year 1976 outlay effect of a fiscal year 1975 budget amendment for additional financial assistance to Israel, aid to Portugal, famine and disaster relief, and refugee assistance.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate does not include \$7,000 million in budget authority and \$1,000 million in outlays for a \$25 billion Special Financing Facility proposed by the President. The *Budget* indicates this facility would "provide loans to industrialized countries with oil-related and other balance of payments difficulties." As yet, no specific legislative proposal has been submitted by the President.

The balance of the reductions in the estimates for this function amount to \$950 million in budget authority, primarily in the areas of Indo-China Postwar Reconstruction and Bilateral Development Assistance. In arriving at these figures, the Committee took into consideration recent congressional action on the Foreign Assistance Appropriation Bill for fiscal year 1975, which made similar reductions in these areas.

GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Function 250

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	4,686	4,581
President's budget as adjusted.....	4,686	4,581
Views and estimates of House committees.....	4,708	4,599
Budget Committee estimate.....	4,708	4,599

The Budget Committee estimates \$4,708 million in budget authority and \$4,599 million in outlays for this functional category, \$22 million in budget authority and \$18 million in outlays over the President's budget as submitted, and equal to the amount recommended in the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes space research and technology, general science and basic research not specifically covered by other functional areas, and earth sciences. The budgets for NASA (except for aeronautical programs), National Science Foundation (NSF), certain research programs of the Energy Research and Development Administration (ERDA), and the U.S. Geological Survey are all within this category.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget for this function conforms to his policy of no new initiatives in fiscal year 1976. The NASA budget, which comprises approximately 70% of the total, covers only previously authorized and scheduled projects currently underway. With the conclusion of the Apollo-Soyuz Test Project this summer, manned space flight ceases until orbital tests of the Space Shuttle begin in 1979. No further lunar landings, manned or unmanned, are planned.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate includes a relatively small increase in budget authority and outlays over the budget as submitted for energy and space research. This increase reflects the views and estimates of House committees.

NATURAL RESOURCES, ENVIRONMENT, AND ENERGY

Function 300

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	12, 226	10, 028
President's budget as adjusted.....	12, 226	10, 078
Views and estimates of House committees.....	18, 317	13, 526
Budget Committee estimate.....	14, 105	11, 546

The Budget Committee estimates \$14,105 million in budget authority and \$11,546 million in outlays for this functional category, \$1,879 million in budget authority and \$1,518 million in outlays over the President's budget as submitted, and \$4,212 million in budget authority and \$1,980 million in outlays below other House committees' recommendations.

DESCRIPTION OF FUNCTION

This function includes the water resources and power functions of the Corps of Engineers, the Departments of Agriculture and the Interior, and others; the conservation and land management functions of the Agriculture, Commerce, and Interior Departments and others; the pollution control activities of the Environmental Protection Agency (EPA); the civilian energy-related programs of the Energy Research and Development Administration, the Department of the Interior, EPA, the Federal Energy Administration, the Federal Power Commission, and the Nuclear Regulatory Commission; and other natural resource programs.

PRESIDENT'S BUDGET AS ADJUSTED

The President's February outlay estimate has been adjusted upward by \$50 million to reflect subsequent court-ordered release of an additional \$5 billion in contract authority for water pollution control and abatement programs.

BUDGET COMMITTEE ESTIMATE

Increases of \$1,888 million in budget authority and \$1,086 million in outlays above the President's budget submission are included in the Committee's estimate for the following activities and agencies: public works, energy research and development, surface mining and reclamation, land use planning, the National Parks System, the National Oceanic and Atmospheric Administration, the Agricultural Conserva-

tion Program, and others. House rejection of rescissions proposed by the President will increase outlays for this function in fiscal year 1976 by \$130 million. In addition, the Committee estimate includes an outlay increase for fiscal year 1976 of \$243 million as a result of the Emergency Employment Appropriations Bill of 1975.

Not included are \$4 billion in budget authority and almost \$2 billion in outlays for additional water pollution control and abatement programs, although these appeared in the views and estimates of House committees. The Committee notes that as a result of recent Executive and Supreme Court action, \$9 billion in additional construction grant authority is available to EPA. All told, EPA expects a total of \$11.5 billion to be available for obligation at the start of fiscal year 1976. Of this amount, \$5.6 billion is expected to be obligated during fiscal year 1976, leaving \$5.9 billion available for obligation at the start of fiscal year 1977.

AGRICULTURE

Function 350

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	4,273	1,816
President's budget as adjusted.....	4,273	1,816
Views and estimates of House committees.....	4,273	2,698
Budget Committee estimate.....	4,273	1,816

The Budget Committee estimates \$4,273 million in budget authority and \$1,816 million in outlays for this functional category. These estimates are unchanged from the President's budget submission, but outlays are \$882 million below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes only the farm income stabilization and research and service programs of the Department of Agriculture.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposed \$4,273 million in budget authority and \$1,816 million in outlays. The largest portion of the requested budget authority—\$2,939 million—will reimburse the Commodity Credit Corporation for outlays made in fiscal year 1974 for support program expenses for the 1973 crop. The remaining budget authority covers administration of the commodity support programs and the research and service programs.

Outlays for fiscal year 1976 are divided almost equally between the stabilization and research categories. Projected outlays for stabilization programs assume a normal production season with large agricultural exports. The Government does not plan acreage controls to limit production of major crops. Outlays for research and services would increase 5% over the estimated fiscal year 1975 level.

BUDGET COMMITTEE ESTIMATE

The Committee estimates no change in the President's budget submission. Its estimate does not include outlays for the emergency farm support legislation. The Committee feels that farm commodity prices will not fall far enough to trigger additional payments or the legislation will be further modified.

COMMERCE AND TRANSPORTATION

Function 400

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	6,602	13,723
President's budget as adjusted.....	7,330	15,451
Views and estimates of House committees.....	17,490	22,219
Budget Committee estimate.....	11,726	19,810

The Budget Committee estimates budget authority of \$11,726 million and outlays of \$19,810 million for this functional category. These amounts are \$5,124 million in budget authority and \$6,087 million in outlays above the President's budget submission and \$5,764 million in budget authority and \$2,409 million in outlays below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes Federal Government programs of assistance to transportation and the promotion and regulation of commerce and credit. Included are activities financed by the highway trust fund and other ground, air, and water transportation programs; aeronautical research; assistance to mortgage credit and thrift institutions and small business; Federal Government support of the Postal Service; and the activities of regulatory agencies.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget submission of \$13,723 million in outlays is adjusted for the \$1 billion fiscal year 1976 outlay effect of the release of \$2 billion of authority in Federal-aid highway funds and for an underestimate of \$728 million for payments to the U.S. Postal Service. These increases raise the President's budget as adjusted to \$15,451 million in outlays.

BUDGET COMMITTEE ESTIMATE

The Committee estimates \$4,396 million in budget authority and \$4,359 million in outlays over the President's budget as adjusted. Committee assumptions with respect to Federal-aid highway programs account for the major outlay increases. The Committee assumes (1) restoration to the budget of the contract authorization proposed for

cancellation during fiscal year 1976, (2) addition of \$315 million in outlays anticipated to result from release of withheld highway funds (including amounts available for mass transportation purposes), and (3) inclusion of the \$600 million expected to result from proposed legislation permitting States to satisfy present matching-fund requirements by borrowing against future entitlements.

The Committee estimates \$1,875 million in outlays for the fiscal year 1976 impact of three pending housing bills, which are as follows: (1) \$1,275 million for the Emergency Middle-Income Housing Act of 1975 (H.R. 4485); (2) \$100 million for the Emergency Homeowners' Relief Act (H.R. 34); and (3) \$500 million for the Home-Heating Efficiency Act of 1975 (H.R. 3573).

Budget authority and outlays in the amount of \$211 million for Federal costs in connection with the Washington Area Metro System are included, as are \$450 million in disbursements of Small Business Administration (SBA) section 7(a) loans which are expected to provide significant job opportunities within the private sector. Outlays of \$671 million are included in fiscal year 1976 as a result of the Emergency Employment Appropriations Bill of 1975, \$33 million for additional rail service assistance, and other smaller adjustments.

COMMUNITY AND REGIONAL DEVELOPMENT

Function 450

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	5,164	5,920
President's budget as adjusted.....	5,164	5,920
Views and estimates of House committees.....	11,431	9,706
Budget Committee estimate.....	10,814	9,498

The Budget Committee estimates budget authority of \$10,814 million and outlays of \$9,498 million for this functional category. These amounts are \$5,650 million in budget authority and \$3,578 million in outlays above the President's budget submission, and \$617 million in budget authority and \$208 million in outlays below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function encompasses various community development activities, including Community Development Block Grants, Urban Renewal and other related programs of the Department of Housing and Urban Development, ACTION, the District of Columbia, and the Community Services Administration (formerly the OEO-Community Action Program). The function also includes area and regional development programs, such as rural development under the Department of Agriculture, Indian programs operated by the Department of Interior, economic development programs under the Department of Commerce, and the Appalachian Regional Commission. In addition, the function includes disaster relief and insurance programs.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposed \$5,164 million in budget authority and \$5,920 million in outlays. No official revisions have been made in those proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The Committee's estimates total \$5,650 million in budget authority and \$3,578 million in outlays more than the President's budget. The major portion of these increases results from the proposed "Emergency Local Public Works Capital Development and Investment Act". This new legislation is designed to provide a significant

increase in job opportunities during fiscal year 1976 through a wide range of accelerated public works construction projects at a cost of \$5 billion in budget authority and \$3 billion in outlays.

The balance of the estimated increase in budget authority and outlays over the President's budget results from the following Committee assumptions: funding for Community Development Block Grants, which is in its second year of operation, at the fully authorized level; increasing the HUD Section 701 Comprehensive Planning program to the fiscal year 1975 level; and increasing support for the Community Services Administration (formerly the OEO-Community Action Program) to slightly above the fiscal year 1975 level. In addition, the total outlays for fiscal year 1976 in the Committee estimates for this function include \$265 million for construction projects funded under the Emergency Employment Appropriations Bill of 1975.

EDUCATION, MANPOWER, AND SOCIAL SERVICES

Function 500

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	13,686	14,623
President's budget as adjusted.....	13,686	16,461
Views and estimates of House committees.....	21,472	22,035
Budget Committee estimate.....	19,010	20,426

The Budget Committee estimates \$19,010 million in budget authority and \$20,426 million in outlays for the Education, Manpower, and Social Services functional category. These amounts are \$5,324 million in budget authority and \$5,803 million in outlays above the President's budget submission and \$2,462 million in budget authority and \$1,609 million in outlays below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes the elementary, secondary, vocational, and higher education programs; manpower training and employment programs; and grants to States for social services and rehabilitation service programs.

PRESIDENT'S BUDGET AS ADJUSTED

Subsequent to the budget submission, the President transmitted a fiscal year 1975 supplemental appropriation request for \$1,913 million in budget authority for additional public service employment and a summer youth employment program. The administration's justification of the supplemental appropriation to the Committee on Appropriations estimates that \$1,838 million in obligated funds will be available for fiscal year 1976 outlays. Including the effect of the supplemental, the President's budget as adjusted is \$13,686 million in budget authority and \$16,461 million in outlays.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate includes congressional rejection of (1) the President's proposed rescissions amounting to \$185 million in outlays, and (2) the President's legislative proposals to reduce social services and impact aid by \$868 million in budget authority and \$738 million in outlays.

The fiscal year 1976 program levels in this function are increased to take into account several factors. A total of \$372 million in budget authority and \$175 million in outlays is added to restore programs affected by rejected rescissions to their 1975 appropriations levels. Rejection of the administration's proposal to change the emergency school aid grant program adds \$159 million in budget authority and \$20 million in outlays. An increase of \$429 million in budget authority and \$408 million in outlays is included for education programs to adjust for the annualized Consumer Price Index increase in calendar year 1974. Programs in this function not otherwise increased are brought up to their fiscal year 1975 level, adding \$252 million in budget authority and \$140 million in outlays. The Committee estimate also includes a \$319 million budget authority increase for older Americans and domestic volunteer service programs resulting in an estimated \$269 million in additional outlays.

The Committee includes \$100 million of the \$316 million in new obligational authority and outlays proposed by House committees for new program initiatives, but makes no judgment as to how these funds should be apportioned.

The Committee estimates an aggregate of \$2,825 million in budget authority and \$1,930 million in additional outlays over the President's budget as adjusted for public employment, public works jobs (the Department of Commerce Job Opportunities Program), and title III (special target groups) and title IV (Job Corps) of the Comprehensive Employment and Training Act. The Committee intends that this funding include a fiscal year 1976 public service employment level of 450,000 to 465,000 jobs throughout the year, a 50% increase over that proposed by the President.

The Committee is concerned that available funds are not being used by the executive branch to raise the public service jobs level as fast as possible in the remaining months of fiscal year 1975. The Committee's decision on the outlay estimate for fiscal year 1976 reflects its conclusion that an additional \$927 million of funds available from the Emergency Employment Appropriations Bill of 1975 can be expended in fiscal year 1975 to achieve a 450,000 public service jobs level by the end of this fiscal year.

HEALTH

Function 550

Estimates	Fiscal year 1976 (In millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	31,022	28,050
President's budget as adjusted.....	31,022	28,082
Views and estimates of House committees.....	34,936	32,507
Budget Committee estimate.....	33,112	30,702

The Budget Committee estimates \$33,112 million in budget authority and \$30,702 million in outlays for the Health functional category. The outlay total is \$2,652 million above the President's budget as submitted to the Congress in February 1975 and \$1,805 million below views and estimates of House committees. The budget authority total is \$2,090 million above the President's budget as submitted and \$1,824 million below the views and estimates of other House committees.

DESCRIPTION OF FUNCTION

The Health functional category consists of (1) programs which directly provide or pay for the provision of hospital and medical services such as medicare for the aged and disabled, medicaid for the poor, and health services for American Indians; (2) programs which assist in the development of health resources such as training professional and allied health workers, constructing health training and health care facilities, and supporting biomedical and behavioral research; and (3) programs which are aimed at prevention and control of health problems such as public health services, environmental and occupational health and safety activities, and consumer protection programs. In terms of organizational responsibilities, the Health functional category includes the health programs in the Department of Health, Education, and Welfare, the health insurance programs for Federal employees administered by the Civil Service Commission, and the various health and safety inspection and enforcement programs under the aegis of the Departments of Agriculture, Interior, and Labor.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget submission proposed \$31,022 million in budget authority and \$28,050 million in outlays. Subsequent to the budget submission in February, the President released \$284 million of impounded health facility construction funds (Hill-Burton) which increases his estimate of outlays in 1976 by \$32 million. Since the released funds were appropriated in 1973 and 1974, no change in budget authority results from the President's action.

BUDGET COMMITTEE ESTIMATE

In his 1976 budget, the President proposed legislation that would reduce medicare and medicaid outlays by \$1,989 million. The Committee assumes congressional disapproval of \$1,872 million of the proposed reduction, including the proposals to require medicare beneficiaries to pay a larger share of their health costs and the States to pay a greater portion of their medicaid costs. The Committee total includes the outlay saving of \$117 million resulting from proposed legislation which would prevent medicare and medicaid payment for excessive increases in hospital costs. The Committee has also reestimated medicare and medicaid expenditures based on a cost-of-living increase lower than that projected in the President's budget. This reestimate reduces medicare and medicaid outlays by \$162 million for 1976.

A second major area of increase in outlays results from congressional rejection of the President's proposal for rescission of \$539 million appropriated for health programs in 1975. The congressional action has the effect of increasing 1976 outlays \$285 million above the President's estimate.

The Committee estimate for health programs other than medicare and medicaid would restore these programs to their 1975 appropriated levels or the level proposed by the President for 1976, whichever is higher. This inclusion adds \$1,290 million in budget authority and \$519 million in outlays to the 1976 budget. Further, the Committee includes an additional \$200 million in budget authority and \$75 million in outlays for biomedical research to maintain the fiscal year 1975 activity level, taking into consideration the higher cost of goods and services.

The Emergency Employment Appropriations Bill of 1975 contains \$11 million in outlays for construction of sanitation facilities on Indian reservations, and this sum is incorporated in the Committee's estimate.

Finally, the total includes an addition of \$25 million in budget authority and \$20 million in outlays to the President's request of \$175 million for health planning and resource development programs to accelerate health planning activities in the States and communities. The Committee on the Budget urges favorable congressional action on the pending budget request for 1975 supplemental funds to initiate the new program authorized by the National Health Planning and Resource Development Act (P.L. 93-641), including only transitional financing for programs whose existing authorization has expired. Further, the Committee urges that the 1975 supplemental funds remain available for obligation through 1976 to assure their proper utilization.

The Committee's estimate is lower than the views and estimates of other House committees primarily because it does not include funds for proposed legislation to provide health insurance benefits for unemployed persons. While the Committee is sympathetic to the intent of the various proposals, the inequities inherent in providing special health benefits to one group hurt by the recession while not providing assistance to 25 million other persons without health insurance protection were a major factor in the Committee's decision.

The Committee is aware that a number of national health insurance proposals have been introduced in this session. However, no amounts for such a program were included in the views and estimates of House committees. Moreover, it does not appear to the Committee that enactment of a national health insurance program would have a significant impact on fiscal year 1976 outlays. Should such a program be enacted, the overall budget totals are sufficient to accommodate the necessary planning activities.

INCOME SECURITY

Function 600

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	135,339	118,724
President's budget as adjusted.....	137,239	120,624
Views and estimates of House committees.....	142,055	129,619
Budget Committee estimate.....	141,327	123,915

The Budget Committee estimates \$141,327 million in budget authority and \$123,915 million in outlays for the Income Security functional category. These amounts are \$5,988 million in budget authority and \$5,191 million in outlays above the President's budget submission and \$728 million in budget authority and \$5,704 million in outlays below the views and estimates of other House committees.

DESCRIPTION OF FUNCTION

This function includes 34% of the total outlays estimated by the Committee. Programs in this function provide cash and in-kind benefits to people who need permanent or temporary income assistance. Nearly 60% of the estimated outlays will go to retirees through such programs as social security, Federal civilian retirement, and railroad retirement. Cash and in-kind assistance benefits amount to 19% of the total. In-kind benefits include food stamps and other feeding programs as well as subsidized housing. Cash benefits include aid to families with dependent children (AFDC), the supplemental security income (SSI) program, and special benefits for disabled coal miners. The disabled receive cash benefits through the disability programs included in this function, of which the largest is the disability insurance component of social security. Finally, unemployment benefits for workers temporarily out of work are included in this function.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget submission proposes budget authority of \$135,339 million and outlays of \$118,724 million. On April 4, the administration announced that an additional \$1,500 million in budget authority and outlays is required for the food stamp program because the participation rate is rising due to unemployment.

The President's budget, however, does not fully reflect the impact of the economic situation on the AFDC program. As a result, the Committee has increased the estimate for AFDC by \$400 million in budget authority and outlays.

BUDGET COMMITTEE ESTIMATE

The President's budget submission proposes to achieve \$650 million outlay savings in fiscal year 1976 through administrative actions in the food stamp program. The Committee's estimate includes an increase of \$650 million as a result of congressional disapproval of this proposal.

The President's budget estimates reductions of \$1,664 million in outlays, which would result from congressional approval of certain legislative proposals. These proposals include: changes in the retirement test and a prohibition on retroactive payments in social security, management and benefit structure changes in AFDC, and a block grant approach to child nutrition programs. The Committee assumes disapproval of these items and includes the necessary increase in its outlay estimates. In addition, the Committee estimate includes \$138 million more in outlays for child welfare and child nutrition and other feeding programs.

The President proposed a deferral of section 235 subsidized housing funds, which the Comptroller General ruled to be a rescission. In addition, a rescission of child welfare funds was proposed. Congressional rejection of these rescissions increases outlays by \$91 million.

The Committee estimate includes a 7% limit on benefit increases in retirement programs through June 1976. It assumes that welfare and disability programs for which increases are based on the Consumer Price Index will not be capped, including payments from the social security disability insurance trust fund as well as disability benefits in the Federal civilian retirement and railroad retirement systems. This assumption increases the President's budget as submitted by \$2,572 million in outlays. The President's budget proposed a 5% limit on increases in all benefit programs tied to the cost of living.

The Committee assumes an overall budget that is less inflationary and that will create more jobs than the President's budget. As a result of economic stimulation, the overall costs of unemployment benefits (including the extension of special unemployment assistance benefits through fiscal year 1976) will be lower than estimated in the President's budget. As a result of the lower inflation rate, cost-of-living estimates in programs tied to the cost of living are lower than estimated in the President's budget. The net impact of these changes reduces outlays by \$1,824 million.

The Committee estimate is lower than the views and estimates of other House committees as a result of savings from the proposed 7% limit on certain benefit increases and the lower cost of unemployment benefits and cost-of-living increases. In addition, costs due to proposed changes from existing law other than the normal cost-of-living increases in special benefits to disabled coal miners and child nutrition and other feeding programs were not included in the Committee totals.

VETERANS BENEFITS AND SERVICES

Function 700

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted	16,163	15,592
President's budget as adjusted	16,763	16,192
Views and estimates of House committees	18,277	17,741
Budget Committee estimate	17,998	17,469

The Budget Committee estimates \$17,998 million in budget authority and \$17,469 million in outlays for this functional category. This amount is \$1,835 million in budget authority and \$1,877 million in outlays above the President's budget submission and \$279 million in budget authority and \$272 million in outlays below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes income security for veterans (principally veterans pensions, compensation, and life insurance); education, training, and rehabilitation for veterans; hospital and medical care for veterans; and veterans housing assistance.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposes \$16,163 million in budget authority and \$15,592 million in outlays. On April 4, the President revised his budget authority and outlay estimates upward by \$600 million for underestimates of the costs of veterans pensions and readjustment benefits. This increases the President's budget to \$16,763 million in budget authority and \$16,192 million in outlays. Because of lower unemployment assumptions, the Committee includes only \$500 million of the \$600 million in its total.

BUDGET COMMITTEE ESTIMATE

The Committee estimates increased budget authority and outlays, above the President's budget as adjusted, as a result of these actions: likely congressional disapproval of certain legislative proposals designed to produce savings; a cost-of-living increase in benefit levels under veterans compensation and pensions; and additional funding for certain existing programs and new initiatives.

The President's budget submission assumes fiscal year 1976 outlay savings of \$722 million from enactment of proposed legislation. Of this sum, the President expects \$600 million in savings by reducing the period of eligibility for veterans educational benefits from 10 to 8 years, and \$122 million in savings for health care by requiring reimbursement from private insurers for medical care provided through veterans facilities to veterans with non-service-connected health care needs. The Committee assumes congressional disapproval of these legislative proposals and includes the necessary budget authority and outlay increases in its estimates.

The Committee includes \$451 million in budget authority, and an equal amount in resulting outlays, for an increase in veterans pensions, effective January 1976, and a corresponding increase in veterans compensation, effective July 1975. These benefits do not rise automatically under law as the cost of living increases. However, Congress in the past has raised benefits by specific legislative action as living costs rose.

The Committee estimates a lump sum increase over the President's budget as adjusted of \$131 million in budget authority, and resulting outlays, for other new program initiatives. House committee views and estimates covering a variety of specific proposals for new initiatives totaled some \$205 million in budget authority and outlays.

The Committee also includes a lump sum increase over the President's budget as adjusted of \$31 million in budget authority and \$14 million in outlays for improved support of existing programs. House committee views and estimates covering a variety of specific proposals for such increased funding totaled \$61 million in budget authority and \$37 million in outlays.

In addition, total outlays for fiscal year 1976 taken into account by the Committee for this function include \$59 million for upgrading facilities operated by the Veterans Administration, as a result of the Emergency Employment Appropriations Bill of 1975.

LAW ENFORCEMENT AND JUSTICE

Function 750

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	3, 169	3, 288
President's budget as adjusted.....	3, 169	3, 288
Views and estimates of House committees.....	3, 346	3, 368
Budget Committee estimate.....	3, 291	3, 363

The Budget Committee estimates budget authority of \$3,291 million and outlays of \$3,363 million for this functional category. These amounts are \$122 million in budget authority and \$75 million in outlays above the President's budget submission and \$55 million in budget authority and \$5 million in outlays below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes substantially all of the Federal Government's expenditures for law enforcement, prosecution, the Judiciary, Federal correctional institutions, and assistance to State and local government through the Law Enforcement Assistance Administration.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposed \$3,169 million in budget authority and \$3,288 million in outlays. No official revisions have been made in those proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate reflects an increase of \$122 million in budget authority and \$75 million in outlays over the President's budget as adjusted.

Based on its analysis of the views and estimates of other House committees, the Budget Committee incorporated in its totals increases in the following programs over the President's budget: funding of proposed legislation to provide benefits to survivors of public safety officers; minor expansion of Executive Protection Service; accelerated funding for establishment of the Federal Law Enforcement Training Center; and first-year funding of the 1974 Juvenile Justice and Delinquency Prevention Act. In addition, fiscal year 1976 outlays were increased by \$46 million as a result of various construction projects to be funded under the Emergency Employment Appropriations Bill of 1975.

GENERAL GOVERNMENT

Function 800

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	3,335	3,180
President's budget as adjusted.....	3,335	3,180
Views and estimates of House committees.....	4,897	4,099
Budget Committee estimate.....	3,300	3,350

The Budget Committee estimates budget authority of \$3,300 million and outlays of \$3,350 million for this functional category. These amounts are \$35 million in budget authority below and \$170 million in outlays above the President's budget submission, and \$1,597 million in budget authority and \$749 million in outlays below the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function covers the general overhead costs of the Federal Government, including legislative and executive activities; provision of central fiscal, personnel, and property activities; and other services that cannot reasonably be classified in another major function.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposes \$3,335 million in budget authority and \$3,180 million in outlays. No official revisions have been made in those proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The major change from the President's budget as submitted results from outlays expected under the Emergency Employment Appropriations Bill of 1975. The Budget Committee's estimate assumes that a major program of Federal building construction will concentrate on rehabilitation and repair projects with immediate employment impact, and that these programs will be funded by standard level user charges through the Public Buildings Fund. This assumption accounts for most of the difference between the Committee's estimate and the views and estimates of House committees.

REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE

Function 850

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	7,305	7,249
President's budget as adjusted.....	7,305	7,249
Views and estimates of House committees.....	7,305	7,249
Budget Committee estimate.....	7,305	7,249

The Budget Committee estimates budget authority of \$7,305 million and outlays of \$7,249 million for this functional category, the same as the President's budget submission and the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function includes the general revenue sharing program, as well as the return of portions of certain taxes and other charges to States and local governments from the Departments of Agriculture, Defense, and Interior.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposed \$7,305 million in budget authority and \$7,249 million in outlays. No official revisions have been made in those proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate is the same as that contained in the President's budget. Nearly all of the proposed funding in this function results from the permanent authorization and appropriation through December 1976 of the general revenue sharing program.

The Committee is concerned about many aspects of the general revenue sharing program. It should be given a careful in-depth review during the next year. The Committee urges the House Committee on Government Operations to conduct thorough and comprehensive hearings during its consideration of legislation extending the program's authorization. Of major concern to the Committee is the serious problem posed by the existence of large "back-door" financed programs, such as revenue sharing, which restrict the ability of Congress to achieve the goal of budget control.

INTEREST

Function 900

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	34,419	34,419
President's budget as adjusted.....	34,419	34,419
Views and estimates of House committees.....	34,419	34,419
Budget Committee estimate.....	35,000	35,000

The Budget Committee estimates budget authority and outlays of \$35,000 million for this functional category. This is \$581 million in budget authority and outlays above the President's budget submission and the views and estimates of House committees.

DESCRIPTION OF FUNCTION

This function covers interest on the public debt, including payments of interest to trust funds, offset by relatively small amounts of receipts from off-budget agencies and certain intrafund transactions.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget proposed \$34,419 million in budget authority and outlays. No official revisions have been made in these proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The Committee's estimate of \$35,000 million in both budget authority and outlays takes into account the need for financing a larger deficit than assumed in the President's budget as submitted. The Committee total assumes that continuation of current trends toward lower short-term interest rates will partially offset the interest costs of a larger deficit.

ALLOWANCES

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	8,325	8,050
President's budget as adjusted.....	8,325	8,050
Views and estimates of House committees.....	8,750	8,460
Budget Committee estimate.....	1,325	1,050

The Budget Committee estimates \$1,325 million in budget authority and \$1,050 million in outlays for allowances. This estimate is \$7,000 million in budget authority and outlays below the President's budget submission, and \$7,425 million in budget authority and \$7,410 million in outlays below the views and estimates of the House committees.

DESCRIPTION OF FUNCTION

Allowances include estimates for contingencies and to cover anticipated expenditures for which sufficiently detailed information is not available at the time the President submits the budget and are therefore not included in the accounts of any executive agency.

THE PRESIDENT'S BUDGET AS ADJUSTED

The President's budget as submitted includes allowances for an energy tax equalization expenditure program of \$7 billion and for anticipated Federal pay raises of \$410 million for civilian agencies which the budget limits to 5%. Estimates of pay raises for military and civilian employees of the Department of Defense are included under the National Defense function. No official revisions have been made in these proposed totals since the budget was submitted.

BUDGET COMMITTEE ESTIMATE

The Budget Committee's estimate does not include \$7 billion for tax equalization expenditures requested by the President as part of his energy conservation program. Nor does it reflect the view of the House committees that no ceiling be placed on cost-of-living increases for Federal employees.

UNDISTRIBUTED OFFSETTING RECEIPTS

Function 950

Estimates	Fiscal year 1976 (in millions of dollars)	
	Budget authority	Outlays
President's budget as submitted.....	-20,193	-20,193
President's budget as adjusted.....	-16,193	-16,193
Views and estimates of House committees.....	-16,193	-16,193
Budget Committee estimate.....	-16,193	-16,193

The Budget Committee estimates minus \$16,193 million in budget authority and outlays for this budget category. This is \$4,000 million in budget authority and outlays above the President's budget submission and agrees with the views and estimates of the House committees.

DESCRIPTION OF FUNCTION

The function for undistributed offsetting receipts involves financial transactions that are deducted from budget authority and outlays of the Government as a whole. These deductions appear in this functional category when they cannot be appropriately related to a program activity.

PRESIDENT'S BUDGET AS ADJUSTED

The President's budget submission includes undistributed offsetting receipts for employer contributions to employee retirement trust funds by on-budget and off-budget agencies; for payments of the interest on borrowed trust funds; and for payments of rents and royalties from oil leases of Outer Continental Shelf lands.

The President's budget as submitted includes an estimated \$8 billion in rents and royalties from oil leases on the Outer Continental Shelf (OCS). The Budget Committee estimate reduces the OCS receipts by \$4 billion as a result of an OMB estimate reducing 1975 receipts by half and an analysis in the views and estimates of the House committees that indicated 1976 receipts were overestimated by \$4 billion. This reduction changes the estimate for undistributed offsetting receipts in the President's budget as adjusted to \$16,193 million.

COMPLIANCE WITH HOUSE RULES

Rule XI, clause 2(1)(2)—The Committee ordered the resolution reported by a vote of 13–10, a majority being present.

(46)

APPENDICES

APPENDIX A-1

COMPARISON OF ESTIMATES FOR FISCAL YEAR 1976

BUDGET AUTHORITY

[In millions of dollars]

Function	President's budget as submitted	President's budget as adjusted ¹	Budget adjusted for House committees' views and estimates	House Budget Committee estimates	House Budget Committee estimates as compared to—		
					President's budget as submitted	President's budget as adjusted ¹	House com- mittees' views and estimates
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
050 National defense.....	\$107,700	\$107,700	\$109,842	\$99,778	-\$7,922	-\$7,922	-\$10,064
150 International affairs.....	12,627	12,627	12,627	4,677	-7,950	-7,950	-7,950
250 General science, space, and technology.....	4,686	4,686	4,708	4,708	22	22	0
300 Natural resources, environment, and energy.....	12,226	12,226	18,317	14,105	1,879	1,879	-4,212
350 Agriculture.....	4,273	4,273	4,273	4,273	0	0	0
400 Commerce and transportation.....	6,602	7,330	17,490	11,726	5,124	4,396	-5,764
450 Community and regional development.....	5,164	5,164	11,431	10,814	5,650	5,650	-617
500 Education, manpower and social services.....	13,686	13,686	21,472	19,010	5,324	5,324	-2,462
550 Health.....	31,022	31,022	34,936	33,112	2,090	2,090	-1,824
600 Income security.....	135,339	137,239	142,055	141,327	5,988	4,088	-728
700 Veterans benefits and services.....	16,163	16,763	18,277	17,998	1,835	1,235	-279
750 Law enforcement and justice.....	3,169	3,169	3,346	3,291	122	122	-55
800 General government.....	3,335	3,335	4,897	3,300	-35	-35	-1,597
850 Revenue sharing and general purpose fiscal assist- ance.....	7,305	7,305	7,305	7,305	0	0	0
900 Interest.....	34,419	34,419	34,419	35,000	581	581	581
Allowances.....	8,325	8,325	8,750	1,325	-7,000	-7,000	-7,425
950 Undistributed offsetting receipts.....	-20,193	-16,193	-16,193	-16,193	4,000	0	0
Total.....	385,848	393,076	437,952	395,556	9,708	2,480	-42,396

¹ Adjusted to include official Presidential amendments and reestimates, administrative actions, court decisions, and underestimates of budget authority.

APPENDIX A-2

COMPARISON OF ESTIMATES FOR FISCAL YEAR 1976

OUTLAYS

[In millions of dollars]

Function	President's budget as submitted	President's budget as adjusted ¹	Budget adjusted for House committees' views and estimates	House Budget Committee estimates	House Budget Committee estimates as compared to—		
					President's budget as submitted	President's budget as adjusted ¹	House com- mittees' views and estimates
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
050 National defense.....	\$94, 027	\$94, 027	96, 071	\$89, 736	—\$4, 291	—\$4, 291	—\$6, 335
150 International affairs.....	6, 294	6, 405	6, 294	4, 900	—1, 394	—1, 505	—1, 394
250 General science, space, and technology.....	4, 581	4, 581	4, 599	4, 599	18	18	0
300 Natural resources, environment, and energy.....	10, 028	10, 078	13, 526	11, 546	1, 518	1, 468	—1, 980
350 Agriculture.....	1, 816	1, 816	2, 698	1, 816	0	0	—882
400 Commerce and transportation.....	13, 723	15, 451	22, 219	19, 810	6, 087	4, 359	—2, 409
450 Community and regional development.....	5, 920	5, 920	9, 706	9, 498	3, 578	3, 578	—208
500 Education, manpower and social services.....	14, 623	16, 461	22, 035	20, 426	5, 803	3, 965	—1, 609
550 Health.....	28, 050	28, 082	32, 507	30, 702	2, 652	2, 620	—1, 805
600 Income security.....	118, 724	120, 624	129, 619	123, 915	5, 191	3, 291	—5, 704
700 Veterans benefits and services.....	15, 592	16, 192	17, 741	17, 469	1, 877	1, 277	—272
750 Law enforcement and justice.....	3, 288	3, 288	3, 368	3, 363	75	75	—5
800 General government.....	3, 180	3, 180	4, 099	3, 350	170	170	—749
850 Revenue sharing and general purpose fiscal assistance.....	7, 249	7, 249	7, 249	7, 249	0	0	0
900 Interest.....	34, 419	34, 419	34, 419	35, 000	581	581	581
Allowances.....	8, 050	8, 050	8, 460	1, 050	—7, 000	—7, 000	—7, 410
950 Undistributed offsetting receipts.....	—20, 193	—16, 193	—16, 193	—16, 193	4, 000	0	0
Total.....	349, 371	359, 630	398, 417	368, 236	18, 865	8, 606	—30, 181

¹ Adjusted to include official Presidential amendments and reestimates, administrative actions, court decisions and underestimates of outlays.

APPENDIX B-1

COMPARISON OF HOUSE BUDGET COMMITTEE ESTIMATE FOR FISCAL YEAR 1976 WITH FISCAL YEARS 1974 AND 1975

BUDGET AUTHORITY

[In millions of dollars]

Function	1974 actual	1975 estimate ¹	1976 House Budget Committee estimates	House Budget Committee estimates compared to—	
				1974 actual	1975 estimate
	(1)	(2)	(3)	(4)	(5)
050 National defense.....	\$89, 293	\$91, 314	\$99, 778	\$10, 485	\$8, 464
150 International affairs.....	5, 292	4, 871	4, 677	— 615	— 194
250 General science, space and technology.....	3, 874	4, 299	4, 708	834	409
300 Natural resources, environment, and energy.....	10, 650	11, 464	14, 105	3, 455	2, 641
350 Agriculture.....	4, 546	5, 873	4, 273	— 273	— 1, 600
400 Commerce and transportation.....	23, 545	28, 944	11, 726	— 11, 819	— 17, 218
450 Community and regional development.....	3, 969	5, 075	10, 814	6, 845	5, 739
500 Education, manpower and social services.....	13, 222	14, 577	19, 010	5, 788	4, 433
550 Health.....	26, 365	28, 448	33, 112	6, 747	4, 664
600 Income security.....	95, 249	156, 126	141, 327	46, 078	— 14, 799
700 Veterans benefits and services.....	13, 964	15, 986	17, 998	4, 034	2, 012
750 Law enforcement and justice.....	2, 615	3, 074	3, 291	676	217
800 General government.....	3, 137	2, 725	3, 300	163	575
850 Revenue sharing and general purpose fiscal assistance.....	6, 719	7, 062	7, 305	586	243
900 Interest.....	28, 073	31, 331	35, 000	6, 927	3, 669
Allowances.....	0	750	1, 325	1, 325	575
950 Undistributed offsetting receipts.....	— 16, 651	— 16, 839	— 16, 193	458	646
Total.....	313, 862	395, 080	395, 556	81, 694	476

¹ Included in Feb. 3, 1975, budget submission.

APPENDIX B-2

COMPARISON OF HOUSE BUDGET COMMITTEE ESTIMATE FOR FISCAL YEAR 1976 WITH FISCAL YEARS 1974 AND 1975

OUTLAYS

[In millions of dollars]

Function	1974 actual	1975 estimate ¹	1976 House Budget Committee estimates	House Budget Committee estimates compared to—	
				1974 actual	1975 estimate
	(1)	(2)	(3)	(4)	(5)
050 National defense.....	\$78,569	\$85,276	\$89,736	\$11,167	\$4,460
150 International affairs.....	3,593	4,853	4,900	1,307	47
250 General science, space, and technology.....	4,154	4,183	4,599	445	416
300 Natural resources, environment, and energy.....	6,390	9,412	11,546	5,156	2,134
350 Agriculture.....	2,230	1,773	1,816	—414	43
400 Commerce and transportation.....	13,100	11,796	19,810	6,710	8,014
450 Community and regional development.....	4,910	4,887	9,498	4,588	4,611
500 Education, manpower and social services.....	11,600	14,714	20,426	8,826	5,712
550 Health.....	22,074	26,486	30,702	8,628	4,216
600 Income security.....	84,431	106,702	123,915	39,484	17,213
700 Veterans benefits and services.....	13,386	15,466	17,469	4,083	2,003
750 Law enforcement and justice.....	2,462	3,026	3,363	901	337
800 General government.....	3,327	2,646	3,350	23	704
850 Revenue sharing and general purpose fiscal assist- ance.....	6,746	7,033	7,249	503	216
900 Interest.....	28,072	31,331	35,000	6,928	3,669
Allowances.....	0	700	1,050	1,050	350
950 Undistributed offsetting receipts.....	—16,651	—16,839	—16,193	458	646
Total.....	268,393	313,445	368,236	99,843	54,791

¹ Included in Feb. 3, 1975, budget submission.

APPENDIX C

TAX EXPENDITURES

The Congressional Budget and Impoundment Control Act of 1974 makes the Budget Committee responsible for requesting and reviewing tax expenditure studies and, if necessary, requires that it develop methods of coordinating direct budget outlays with related tax expenditures. As an initial step in implementing this responsibility, tables for tax expenditures by function have been prepared from information obtained from the Joint Committee on Internal Revenue Taxation.

Tax expenditure data show the cost to the Federal Government, in terms of revenues foregone, of tax provisions enacted as incentives to encourage certain kinds of economic behavior instead of employing Federal programs to achieve the same objectives. These governmental choices take the form of an exclusion, deduction, credit, preferential tax rate or deferral of tax liability.

Estimates of tax expenditures are difficult to determine and are subject to important limitations.

Each tax expenditure is measured in isolation. The amount of the deduction is added back in the calculation of taxable income, which raises the level of taxable income. The difference in tax liabilities, calculated with the existing structure of tax rates, is the amount of the tax expenditure. For this computation, it is assumed that nothing else changes: neither the behavior of the taxpayer, nor the economic variables that might signal for an adjustment in business behavior, nor tax, fiscal or monetary policies.

If two or more items were to be eliminated, the result of the combination of changes being made at the same time might produce a lesser or greater revenue effect than the sum of the amounts shown for each item individually. This, of course, also means that the addition of the various tax expenditure items is of quite limited usefulness. This is why totals are not shown in the table except in a footnote.

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the costs (tax expenditures) and beneficiaries (in terms of area of activity) are grouped in the table in the same functional categories as outlays in the Federal budget. Where possible and relevant, estimates are shown separately for individuals and corporations. Tax expenditures which do not fit into any of the functional categories have been placed in three functional categories added to those in the budget: business investment, personal investment, and other tax expenditures.

TAX EXPENDITURE ESTIMATES, BY FUNCTION¹

[In millions of dollars]

Description	Corporations			Individuals		
	1974	1975	1976	1974	1975	1976
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel				650	650	650
Exclusion of military disability pensions				65	75	85
International affairs:						
Exclusion of gross-up on dividends of LDC corporations	55	55	55			
Exclusion of certain income earned abroad by U.S. citizens				90	95	100
Deferral of income of domestic international sales corporations (DISC)	870	1,070	1,320			
Special rate for Western Hemisphere trade corporations	50	50	50			
Deferral of income of controlled foreign corporations	620	620	620			
Agriculture:						
Expensing of certain capital outlays	170	145	155	580	480	495
Capital gain treatment of certain income	30	20	25	520	280	340
Natural resources environment and energy:						
Expensing of exploration and development costs	750	950	1,235	80	100	130
Excess of percentage over cost depletion	1,815	2,200	2,610	305	370	445
Capital gain treatment of royalties on coal and iron ore	5	15	20			
Timber: capital gain treatment of certain income	130	145	155	55	60	60
Pollution control: 5-year amortization	35	30	20			
Commerce and transportation:						
\$25,000 corporate surtax exemption	3,270	3,590	3,570			
Deferral of tax on shipping companies	35	35	40			
Railroad rolling stock: 5-year amortization	70	60	55			
Bad debt reserve of financial institutions in excess of actual	1,000	1,030	980			
Deductibility of nonbusiness State gasoline taxes				865	850	850
Community and regional development: Housing rehabilitation:						
5-year amortization	35	45	35	50	70	60
Education, manpower, and social services:						
Child care facilities: 5-year amortization	5	5	5			
Exclusion of scholarships and fellowships				195	210	190
Parental personal exemption for student age 19 and over				655	670	690
Deductibility of contributions to educational institutions	155	160	155	355	405	435
Deductibility of child and dependent care expenses				230	240	250
Credit for employing public assistance recipients under work incentive program	5	5	5			
Health:						
Exclusion of employer contributions to medical insurance premiums and medical care				2,940	3,340	3,745
Deductibility of medical expenses				1,225	2,375	2,630
Income security:						
Exclusion of social security benefits:						
Disability insurance benefits				235	260	280
OASI benefits for aged				2,530	2,655	2,940
Benefits for dependents and survivors				410	435	480
Exclusion of railroad retirement system benefits				160	170	180
Exclusion of sick pay				255	275	295
Exclusion of unemployment insurance benefits				1,050	2,370	3,830
Exclusion of workmen's compensation benefits				520	570	620
Exclusion of public assistance benefits				75	85	90
Net exclusion of pension contributions and earnings:						
Employer plans				4,790	5,200	5,740
Plans for self-employed and others				230	410	710
Exclusion of other employee benefits:						
Premiums on group term life insurance				680	740	805
Premiums on accident and accidental death insurance				40	45	50
Privately financed supplementary unemployment benefits				5	5	5
Meals and lodging				175	180	190
Exclusion of capital gains on house sales if over 65				10	10	10
Excess of percentage standard deduction over minimum standard deduction				1,260	1,370	1,420
Additional exemption for the blind				15	15	15
Additional exemption for over 65				1,150	1,200	1,250
Retirement income credit				100	75	70
Veterans' benefits and services:						
Exclusion of veterans' disability compensation				485	525	550
Exclusion of veterans' pensions				25	30	35
Exclusion of GI bill benefits				290	255	250
General government: Credits and deductions for political contributions				10	25	50
Revenue sharing and general purpose fiscal assistance:						
Exclusion of interest on State and local debt	2,805	3,155	3,505	1,060	1,160	1,260
Exclusion of income earned in U.S. possessions	350	350	350	5	5	5
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)				6,955	8,820	9,950

See footnote at end of table.

TAX EXPENDITURE ESTIMATES, BY FUNCTION¹—Continued

(In millions of dollars)

Description	Corporations			Individuals		
	1974	1975	1976	1974	1975	1976
Business investment:						
Depreciation on rental housing in excess of straight line.....	105	115	120	375	405	420
Depreciation on buildings (other than rental housing) in excess of straight line.....	285	280	275	220	220	215
Expensing of research and development expenditures.....	605	630	660			
Capital gain: corporate (other than farming and timber).....	745	595	755			
Investment credit.....	3,690	4,160	4,420	880	905	950
Asset depreciation range.....	1,260	1,410	1,590			
Personal investment:						
Dividend exclusion.....				320	340	360
Capital gain: individual (other than farming and timber).....				6,150	3,280	4,165
Exclusion of capital gains at death.....				5,000	4,420	4,550
Exclusion of interest on life insurance savings.....				1,420	1,620	1,820
Deferral of capital gain on homes sales.....				255	285	315
Deductibility of mortgage interest on owner-occupied homes.....				4,870	5,590	6,500
Deductibility of property taxes on owner-occupied homes.....				4,060	4,660	5,270
Deductibility of casualty losses.....				255	275	300
Other tax expenditures:						
Exemption of credit unions.....	105	115	125			
Deductibility of charitable contributions (other than education).....	290	295	285	3,820	4,485	4,840
Deductibility of interest on consumer credit.....				2,435	2,885	3,460
Maximum tax on earned income.....				330	350	385

¹ All estimates are based on the provisions in the Internal Revenue Code as of Jan. 1, 1975.

Note: Limitations on the use of totals are explained in the text. The totals (in millions of dollars) are:

Fiscal year	Total	Corporations	Individuals
1974.....	81,115	19,345	61,770
1975.....	88,215	21,335	66,880
1976.....	98,980	23,195	75,785

APPENDIX D

CONTROLLABILITY OF OUTLAYS

Congress must control outlays and receipts in order to achieve the surplus or deficit position necessary to meet its economic objective. This analysis describes the kinds of action required by Congress to control outlays in a given fiscal year.

Congress does not enact outlays. Congress enacts budget authority. It is budget authority that authorizes Federal agencies to commit or obligate the Federal Government to spending. No outlay occurs unless it has been previously authorized by Congress as budget authority.

Outlays for a given fiscal year are frequently related to authority which Congress has granted in earlier years. Control of these outlays requires an act of Congress to change existing law. Included within this category are outlays from programs with (1) permanent authority, (2) prior authority, and (3) entitlements already specified by law. All other outlays are classified as relatively controllable.

Outlays from "permanent" budget authority become available automatically under existing law and require no further congressional action. Permanent authority is composed almost entirely of trust funds, interest on the debt, and general revenue sharing. Outlays from "prior years" result from budget authority which has been previously enacted on an annual basis. This situation simply reflects the fact that there will always be some time lag between contract commitment and the actual disbursement of funds to honor contract obligations. Formulas in existing law which set a definite benefit payment and define those people eligible for the payment also account for a significant level of outlays in the budget year. The food stamp, public assistance, certain veterans programs, and others which require such payments are defined in the Congressional Budget Act as entitlement programs.

The following table shows that \$133 billion or 36% of the \$368 billion in outlays will result from permanent authority already made available by existing laws. Lesser amounts of \$51 billion and \$72 billion will result from prior authority and entitlement legislation. A total of \$256 billion or 69% of the \$368 billion budget total included in the estimate of the Budget Committee is mandatory under existing law. The portion of the outlays designated as relatively controllable is approximately \$113 billion, or 31% of the total.

CONTROLLABILITY OF HOUSE BUDGET COMMITTEE OUTLAYS ESTIMATE FOR FISCAL YEAR 1976

[In billions of dollars]

Function	Mandatory under existing law				Relatively control- able	Total Budget Committee estimate
	Perma- nent au- thority ¹	Prior au- thority	Entitle- ment and other programs	Total		
050 National defense.....	-1.2	24.3	6.9	30.0	59.7	89.7
150 International affairs.....	-4	2.0	.3	1.9	3.0	4.9
250 General science, space, and technology.....	0	1.7	0	1.7	2.9	4.6
300 Natural resources, environment, and energy.....	-1.1	6.1	0	5.0	6.5	11.5
350 Agriculture.....	0	.7	0	.7	1.1	1.8
400 Commerce and transportation.....	-6	8.9	1.7	10.0	9.8	19.8
450 Community and regional development.....	.1	4.5	.1	4.7	4.8	9.5
500 Education, manpower and social services.....	1.5	6.9	2.2	10.6	9.8	20.4
550 Health.....	12.8	5.3	10.3	28.4	2.3	30.7
600 Income security.....	98.1	8.8	16.7	123.6	.3	123.9
700 Veterans benefits and services.....	.3	1.1	11.5	12.9	4.6	17.5
750 Law enforcement and justice.....	0	1.0	0	1.0	2.4	3.4
800 General government.....	-1.6	.2	1.3	-1.1	3.4	3.3
850 Revenue sharing and general purpose fiscal assistance.....	7.0	0	0	7.0	.3	7.3
900 Interest.....	34.4	0	0	34.4	.6	35.0
Allowances.....	0	0	0	0	1.1	1.1
950 Undistributed offsetting receipts.....	-16.2	0	0	-16.2	0	-16.2
Total.....	133.1	71.5	51.0	256.6	112.6	368.

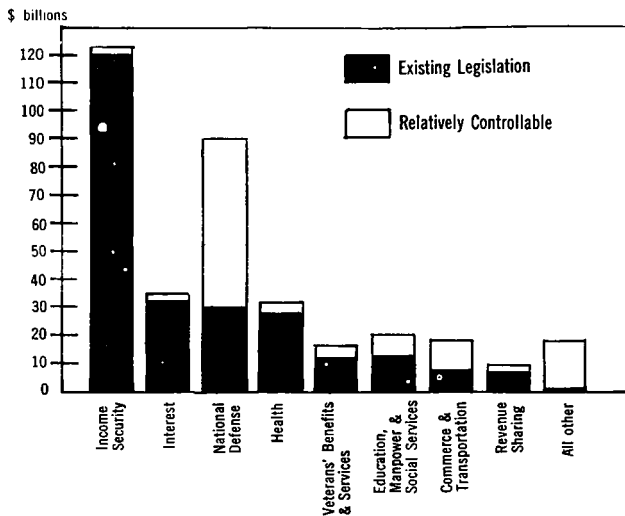
¹ Negative figures indicates that offsetting receipts are larger than the applicable outlays.

Outlays within the various classifications of controllability are estimated for each function and appear in the accompanying tables and charts. In the functions for interest, revenue sharing, veterans benefits and services, income security, health, and undistributed offsetting receipts, over 90% of the outlays result from existing legislation. On the other hand in the functions of national defense, international affairs, general science, space and technology, agriculture and allowances, over 60% of the outlays are classified as relatively controllable.

PERCENT OF OUTLAYS THAT ARE MANDATORY UNDER EXISTING LAW AND THOSE THAT ARE RELATIVELY CONTROLLABLE IN FIS- CAL YEAR 1976

Function	Mandatory under existing law	Relatively controllable
050 National defense.....	33.4	66.6
150 International affairs.....	38.8	61.2
250 General science, space, and technology.....	37.3	62.7
300 Natural resources, environment, and energy.....	43.5	56.5
350 Agriculture.....	38.9	61.1
400 Commerce and transportation.....	50.5	49.5
450 Community and regional development.....	49.5	50.5
500 Education, manpower and social services.....	51.8	48.2
550 Health.....	92.5	7.5
600 Income security.....	99.8	.3
700 Veterans benefits and services.....	74.1	26.9
750 Law enforcement and justice.....	29.4	70.6
800 General government.....	0	100.0
850 Revenue sharing and general purpose fiscal assistance.....	95.9	4.1
900 Interest.....	98.3	1.7
Allowances.....	0	100.0
950 Undistributed offsetting receipts.....	100.0	0
Total.....	69.4	30.6

CONTROLLABILITY OF HOUSE BUDGET COMMITTEE OUTLAYS
Estimate for Fiscal Year 1976



APPENDIX E

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Under the Budget Committee's recommendations, outlays during fiscal year 1976 for Federal aid to State and local governments will be \$69,618 million. This is an increase of \$13,986 million, or 25% above the \$55,632 million proposed in the President's budget.

Outlays for Federal aid at the level recommended by the Committee would represent 26% of the aggregate budgets of State and local governments, and are larger than the level of support of 22% recommended in the President's budget. The Budget Committee recommendation would reverse a recent trend toward decreasing Federal support of State and local governments.

Several major program changes account for most of the Committee's increase. Within the Education, Manpower and Social Services function, total Federal aid outlays would rise by \$5,236 million. In this area, the Committee recommended an expanded public service job program, incorporating increased outlays of \$3,366 million to cover public employment, public works jobs (the Department of Commerce Job Opportunity Program), and manpower training. The increase also includes public service employment and summer youth programs in the President's supplemental appropriations request for fiscal year 1975.

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

[Outlays in millions of dollars]

Function	Fiscal year 1976			Change
	Fiscal 1975 estimate	President's budget as submitted	Budget Committee recommendation	
050 National defense.....	73	83	83	
150 International affairs.....	7	9	9	
250 General science, space, and technology.....				
300 Natural resources, environment, and energy.....	3,031	3,123	3,535	+412
350 Agriculture.....	470	330	330	
400 Commerce and transportation.....	5,794	6,435	8,561	+2,126
450 Community and regional development.....	3,390	4,204	7,616	+3,412
500 Education, manpower and social services.....	10,945	10,404	15,640	+5,236
550 Health.....	8,431	8,818	9,617	+799
600 Income security.....	12,237	12,185	16,176	+3,991
700 Veterans benefits and services.....	53	66	66	
750 Law enforcement and justice.....	742	823	833	+10
800 General government.....	100	122	122	
850 Revenue sharing and general purpose fiscal assistance.....	6,876	7,030	7,030	
900 Interest.....				
Allowances.....	500	2,060	0	-2,060
950 Undistributed offsetting receipts.....				
Total.....	52,649	55,632	69,618	13,986

The overall increase of \$3,412 million in the Community and Regional Development function is primarily attributable to the program of accelerated public works construction under the proposed "Emergency Local Public Works Capital Development and Investment Act". This proposal accounts for an additional \$3 billion of Federal aid outlays and would also contribute to expansion of job opportunities.

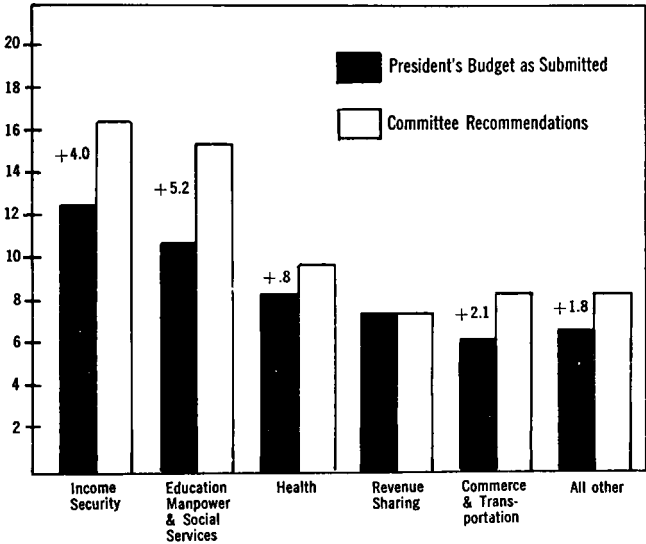
Within the Income Security function, it is recommended that Federal aid increase by \$3,991 million. Expenditures under food stamp and child nutrition programs were recommended at \$3,077 million above the President's budget. This recommendation corrects underestimation of the average participation rate in the food stamp program and includes congressional rejection of increased food stamp purchase requirements. The Committee rejected proposed program reductions in child nutrition and increased outlays to reflect the impact of the economic situation. Rejection of proposed changes in the public assistance program and the impact of the economic situation contribute the remaining \$914 million increase in this function.

The Committee estimates that outlays for highway and mass transit substitute projects under the Federal aid highway program would increase by \$1,915 million over the President's budget, reflecting the President's release of impounded highway funds, additional expected releases, and new project applications expected under proposed legislation for temporary advances of Federal funds to meet State matching requirements. This accounts for most of the \$2,126 million increase in aid within the Commerce and Transportation function.

Committee rejection of proposed Presidential legislative changes affecting the structure of the medicaid program account for \$553 million of the \$799 million outlay increase in the Health function.

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS (Outlays)

\$ billions



The Committee assumes Congress will not approve the President's recommended allowance for \$2 billion in Federal aid to State and local governments to offset increased energy costs under his energy program.

During the coming year, the Committee intends to analyze the various accounts presented in the President's budget as representing Federal aid to State and local government and review the usefulness of this information as a measure of budget priorities as well as a financial planning resource for all levels of government.

APPENDIX F

HOUSING AND COMMUNITY DEVELOPMENT IN THE BUDGET COMMITTEE'S ESTIMATE

In the President's fiscal year 1976 budget, the former functional category entitled "Community Development and Housing" was fragmented among a number of new functional categories, principally: function 400, Commerce and Transportation; function 450, Community and Regional Development; and function 600, Income Security. The following table shows the former functional category as reconstituted, including the effects of Committee estimates.

COMMUNITY DEVELOPMENT AND HOUSING

[Dollars in thousands]

	Budget authority			Outlays		
	1974 actual	1975 estimate	1976 estimate	1974 actual	1975 estimate	1976 estimate
COMMUNITY PLANNING, MANAGEMENT AND DEVELOPMENT						
Funds appropriated to the President (Economic opportunity program).....	\$358,609	\$420,800	\$463,000	\$659,907	\$498,500	\$426,200
Department of Agriculture.....				—4,815	—3,300	—1,800
Department of Health, Education and Welfare.....	30,900			4,449	26,451	
Department of Housing and Urban Development:						
Participation sales fund.....				363	2,140	1,920
Community disposal operations fund.....				—1,213	—1,000	—1,000
Revolving fund (liquidating programs).....			3,056	—4,902	—4,100	230,920
Better Communities Act.....		2,175,000	3,000,000		225,000	1,500,000
Comprehensive planning grants.....	75,000	100,000	100,000	101,302	110,000	120,000
Salaries and expenses, community planning and development.....	33,363	40,219	42,640	33,363	40,219	42,640
Model cities programs.....	150,000	123,375		468,475	280,000	230,000
Open space land programs.....	25,000			79,928	75,000	
Community development training and urban fellowship programs.....				2,935	3,279	
Grants for neighborhood facilities.....				40,465	35,000	
Grants for basic water and sewer facilities.....				136,055	140,000	
Urban renewal fund:						
Capital grants.....	600,000	197,000		1,210,588	1,200,000	1,200,000
Loans and advances.....				—84,567	50,000	50,000
Public facility loans.....	2,900	3,358		18,284	15,000	
New communities assistance grants.....				686	2,500	3,000
New communities fund.....				—3,704	700	—1,163
Research and technology.....	65,000	65,000	57,000	58,382	56,000	61,000
Salaries and expenses, policy development and research.....		6,320	7,210		6,320	7,210
General departmental management.....	6,161	5,547	5,905	6,161	5,547	5,905

Salaries and expenses, Office of General Counsel.....	3, 253	3, 548	3, 765	3, 253	3, 548	3, 765
Salaries and expenses, Office of the Inspector General.....	6, 708	6, 822	7, 245	6, 708	6, 822	7, 245
Administrative and staff services.....	11, 650	19, 255	22, 745	11, 650	19, 255	22, 745
Regional management and services.....	19, 143	29, 234	28, 795	19, 143	29, 234	28, 795
Administrative operations fund, and Consolidated working fund.....				-552	1, 862	
Subtotal, Department of Housing and Urban Development.....	(998, 178)	(2, 774, 678)	(3, 278, 361)	(2, 102, 803)	(2, 302, 326)	(3, 512, 982)
Other independent agencies:						
ACTION.....	91, 658	100, 000	101, 574	85, 838	98, 803	105, 231
Legal Services Corporation.....		71, 500	71, 500		47, 200	71, 500
New public works bill.....			5, 000, 000			3, 000, 000
Total, community planning, management, and development.....	1, 479, 345	3, 366, 978	8, 914, 435	2, 848, 182	2, 969, 980	7, 114, 113
Low- AND MODERATE-INCOME HOUSING AIDS						
Department of Housing and Urban Development:						
Salaries and expenses, Housing Production and Mortgage Credit.....	5, 246	13, 673	14, 100	5, 246	13, 673	14, 100
Nonprofit sponsor assistance.....				-375	-1, 077	-1, 053
Housing for the elderly ¹				-13, 537	-1, 784	
Special assistance functions fund.....	8, 544	3, 008, 967	8, 227	41, 772	260, 933	385, 183
Participation sales fund.....				-2, 514	-1, 273	-1, 783
Housing payments.....				1, 788, 326	2, 130, 000	2, 398, 000
Salaries and expenses, Housing Management.....	24, 521	24, 097	28, 400	24, 521	24, 097	28, 400
Counseling services.....				1, 519	388	
Rental housing assistance fund.....				-11, 131	-14, 000	-3, 000
Rehabilitation loan fund.....				4, 845	88, 000	6, 714
Annual contributions ²	5, 969, 130	44, 859, 014	26, 097, 000	12, 169		
Payments for operation of low-income housing.....			525, 000			210, 000
Pending housing bills.....		4, 688, 000				1, 875, 000
Total, low-and moderate-income housing aids....	6, 007, 441	52, 593, 751	26, 672, 727	1, 850, 841	2, 498, 957	4, 911, 561

See footnotes at end of table.

COMMUNITY DEVELOPMENT AND HOUSING—Continued

[Dollars in thousands]

	Budget authority			Outlays		
	1974 actual	1975 estimate	1976 estimate	1974 actual	1975 estimate	1976 estimate
MAINTENANCE OF THE HOUSING MORTGAGE MARKET						
Department of Housing and Urban Development:						
Federal Housing Administration fund.....	\$817, 403	\$875, 000	\$800, 000	\$862, 767	\$792, 000	\$730, 000
Management and liquidating functions.....				-66, 241	-46, 649	-28, 977
Guarantees of mortgage-backed securities.....				-7, 895	-8, 170	-9, 536
Participation sales fund.....				11, 918	5, 226	5, 917
National insurance development fund.....				-4, 269	-6, 000	-7, 000
National flood insurance fund.....	270, 000	50, 000	75, 000	51, 463	68, 330	128, 000
Interstate land sales fund.....	688	925	3, 626	1, 460	2, 391	3, 626
Fair housing and equal opportunity.....	9, 777	11, 887	12, 735	9, 777	11, 887	12, 735
Working capital fund.....				-1, 844	78	100
Subtotal, Department of Housing and Urban Development.....	(1, 097, 868)	(937, 812)	(891, 361)	(857, 136)	(819, 093)	(834, 865)
Federal Home Loan Bank Board.....				2, 707	2, 847	2, 787
Federal Home Loan Bank Board revolving fund.....		2, 000, 000	-2, 000, 000	4, 670	-9, 684	-139
Federal Savings and Loan Insurance Corporation fund.....				-377, 075	-299, 164	-320, 964
Total, maintenance of the housing mortgage market.....	1, 097, 868	2, 937, 812	-1, 108, 639	487, 438	513, 092	516, 549
Total, community development and housing.....	8, 584, 654	58, 898, 541	34, 478, 523	5, 186, 461	5, 982, 029	12, 542, 223

¹ Housing for the elderly was placed in an off-budget status as of Aug. 31, 1974; had it remained within the Budget, 1975 budget authority would increase by \$100,000,000, 1975 outlays would decrease by \$12,738,000, and 1976 outlays would increase by \$79,300,000.

² Budget authority for "annual contributions" (now a part of "housing payments") is now computed on a basis which considers the effect of a 40-year authorization. If computed on the former basis, budget authority would decrease by \$3,949,130,000 in 1974; \$42,559,014,000 in 1975; and \$23,852,000,000 in 1976.

APPENDIX G

FUTURE YEAR OUTLAYS OF ECONOMIC STIMULUS IN HOUSE BUDGET COMMITTEE ESTIMATE

The Committee accepted within its total budget estimate a package of \$35.1 billion (budget authority) in economic stimulus to help revive the weakened economy. This stimulus is time-phased to help the unemployed directly by creating public service jobs and funding public works projects, as well as indirectly by providing economic stimulus to the private sector through major legislation which will revive the housing market. While a portion of the stimulus will occur during the remaining months of fiscal year 1975, the majority of the assistance will peak during fiscal year 1976 and begin to drop off during the Transition Quarter and fiscal year 1977 when it is expected that the economy will be on the road to economic recovery.

FUTURE YEAR OUTLAYS OF ECONOMIC STIMULUS IN HOUSE BUDGET COMMITTEE ESTIMATE

	Budget authority	Outlays					
		1976	Transition quarter	1977	1978	1979	1980
1. Major housing legislation.....	¹ \$4.7	\$1.9	\$0.6	\$2.0	(?)	(?)	(?)
2. Emergency jobs bill (public service jobs).....	¹ 2.3	1.4					
3. CETA title III and IV.....	.3	.3					
4. Increase public service jobs to 450,000 peak.....	2.0	1.9	.1				
5. Emergency jobs bill (public works).....	3.7	2.2	.5	.5			
6. EPA—Clean water funds.....	¹ 5.0	.1	.1	.4	\$1.1	\$1.4	\$1.2
7. Release of Hill-Burton.....	¹ 1.1	.1					
8. Natural resources, environment and energy.....	.6	.4		.2			
9. Washington, D.C.—Metro.....	.2	.2					
10. Highway funding.....	¹ 10.7	1.9	.9	4.4	2.7	.8	
11. Jobs opportunities program.....	.5	.2	.05	.25			
12. Accelerated public works (speakers program).....	5.0	3.0	1.0	1.0			
Total.....	35.1	13.6	3.25	8.75	3.8	2.2	1.2

¹ Prior year budget authority.

² It is assumed that repayment of mortgages purchased will offset outlays in these years.

APPENDIX H

FINANCING THE DEFICIT

Much of the discussion about the projected deficit for fiscal year 1976 has centered on the potential for such a deficit to (1) crowd private borrowers out of the market or (2) ignite a renewal of inflation.

In a recent address, a financial economist of the Treasury Department noted that short-term credit demand will decline by nearly \$60 billion in fiscal 1975, and that long-term credit will be some \$12 billion less in 1975 than it was in 1974. The increase in demand by all levels of government during this period will, therefore, fall some \$35 billion short of the reduction in short term demands for loanable funds.

For fiscal 1976, the Treasury economist's projections "suggest that the enhanced volume of funds may be financed without undue upward pressure on interest rates."

Estimates of credit demands upon which this projection is based include borrowing by all levels of government, which will total \$95.4 billion, and an increase in private borrowing between fiscal 1975 and 1976 of \$9 billion in short-term funds and nearly \$12 billion in long-term funds. Total demand for credit would thus be \$229 billion in fiscal year 1976, some \$5 billion more than the actual loan levels in fiscal 1974 and \$6 billion less than in fiscal 1973.

The demand for loanable funds as estimated by the Committee's staff for fiscal 1976 is somewhat higher than these Treasury estimates, as can be seen in the accompanying table, although the total is expected to represent an increase of less than 5% over actual borrowings in fiscal 1973.

DEMAND FOR LOAN FUNDS (FISCAL YEARS)

Funds	1973 (actual)	1974 (actual)	1975 (estimate)	1976 (estimate)	1976 (Budget Committee estimate)
Private short-term funds.....	86.5	94.4	35.2	44.3	-----
Private long-term funds.....	103.3	89.7	77.6	89.3	-----
Total private funds.....	189.8	184.1	112.8	133.6	(134.0)
U.S. Government securities.....	18.5	2.1	43.9	63.7	(85.0)
Federal agencies.....	14.4	21.3	17.6	14.7	(11.0)
State and local securities.....	12.6	16.8	15.9	17.0	(17.0)
Total public funds.....	45.5	40.2	77.4	95.4	(113.0)
Total funds raised.....	235.3	224.3	190.2	229.0	(247.0)

Source for first 4 cols.: Office of the Secretary of Treasury, Office of Debt Analysis.

SUPPLEMENTAL VIEWS OF HON. JIM WRIGHT

Considering the enormity of the undertaking and the limited time frame within which it had to be accomplished, I believe the Committee has performed a highly creditable and professional job, based upon its evaluation of all supportive data, in establishing a proposed budget for the coming fiscal year.

It was not merely a perfunctory task which the Committee undertook in this its first year of operation. The resolution represents an earnest effort to compose a realistic budget and one which will effectively address the critical economic problems which confront the Nation.

Clearly the requirement is for a stimulative budget which will help to revive the economy within the next few months, to put Americans back to work, appreciably reduce the highly unacceptable level of unemployment, and inspire a rebirth of confidence both in the business community and among consumers generally. It would be folly to pretend that this can be achieved without substantial expenditures.

At the same time, we cannot fail to reflect concern over the projected deficit of \$73.2 billion. While most economists recognize the critical need for a level of Government activity which will spark an immediate upturn in the economy, many express apprehension over a budget deficit in this general range toward the latter part of the 1976 fiscal period.

To the extent we are successful through congressional initiatives in sparking an economic upturn, one expected result will be to create new demands for private credit as both business and the consuming public become more confident of the future. Most economists feel that a greatly enlarged aggregate credit demand arising from expansionary private plans—if accompanied by too large a Federal deficit—would exert upward pressures on interest rates. This in turn would be economically depressive and could undo much of the good which has been achieved.

A significant question, then, is just how much Federal deficit the money markets can absorb in fiscal 1976 without forcing interest rates up again.

Obviously, it would be utterly fatuous in the present depressed economic situation to think in terms of a balanced budget for the coming fiscal year. A substantial deficit is unavoidable. Most of that deficit is the direct result of the recession. President Ford's budget forecast in January recommended a deficit of approximately \$52 billion and fully acknowledged that it is caused entirely by the precipitate economic decline and the rapidly rising unemployment rate which have drastically reduced revenues and increased requirements for unemployment compensation and related relief and welfare programs.

Because of continually rising unemployment since the submission of the Presidential budget request, and because of the administration's

underestimating the severity of the economic decline, the President's budget—without *any* additional effort at economic stimulation—produces a deficit very near to \$60 billion.

While recognizing and endorsing the need for dramatic stimulative activity on the part of the Federal Government, I do believe that the \$73.2 billion deficit which the Committee resolution foresees could and should be reduced by prudent economies in those areas of the budget which are susceptible to the appropriations process without emasculating the economically stimulative and job creative aspects of the budget.

It is a distressing fact that somewhat less than one third of the total budget outlays are "controllable" through the congressional appropriations process. When we take out the "uncontrollables," such as interest on the national debt, social security commitments and other such irrevocable and irreducible expenditure requirements, there remains only some \$106 billion which is amenable to direct and discretionary congressional action this year.

Even so, I am convinced that further economies can be made in this \$106 billion aggregate. *Every* function can stand *some* tightening. An across-the-board reduction of only three percent in these "controllable" expenditures would net a saving of some \$3.2 billion. During the deliberations of the Committee, I offered an amendment to achieve this degree of saving.

Both psychologically and from the standpoint of its impact upon the money markets, I believe it would be useful for us to perform those reductions necessary to reduce the deficit below \$70 billion. Assuming that the Committee has struck a reasonably proper *balance* among the various budget functions, the logical way to do this would be to reduce *each* controllable category of spending by a fixed percentage. I believe that this can be done without appreciably reducing the stimulative advantages to the economy which all of us seek, and I believe we should do it.

JIM WRIGHT.

SUPPLEMENTAL VIEWS OF HON. THOMAS L. ASHLEY

I support the Budget Committee resolution and report because they represent a bipartisan effort to estimate accurately Federal revenues for fiscal 1976 and to set expenditure targets during the same period which on consensus reflect current national priorities.

I file these supplemental views because I have serious concern, despite the notable and very difficult accomplishments of the Committee to date, over the size and composition of the anticipated budget deficit for fiscal 1976.

Working against projected FY 1976 revenues of \$295 billion, the Committee considered alternative expenditure levels ranging from \$359.6 billion in outlays for next year, as proposed by the President, to \$398.4 billion, as estimated by the House authorization and appropriations committees. The \$368.2 billion outlay figure recommended by the Budget Committee represents not so much a compromise between proposals advanced by the President and House committees, but rather a suggested re-ordering of spending priorities to meet the multiple requirements imposed by contemporary economic conditions.

A majority of the Budget Committee very properly regards the recession as the most serious problem facing the nation today. But a majority of the Committee also recognizes the catastrophic consequences of continued inflation to every American, this year, next year and in the years to come. I agree emphatically that a number of short-term, deficit-resulting actions are necessary to reverse the recession and promote economic vitality. These actions must be taken, however, with a weather eye on the size and composition of the deficit for FY 1976 and budget projections for the immediate years thereafter.

Let's remember a couple of basics. The health of our economy—or the economy of any nation—depends to a considerable extent on the soundness of the interplay between fiscal and monetary policy, between the taxing and spending decisions of the political branches of government and the credit policies of our central bank, the Federal Reserve. The interplay is clear. To the extent that the Congress and the White House can formulate a rational fiscal policy—within the political constraints under which they operate—the Federal Reserve is then able to gear a proper flow of credit into the economy to achieve reasonable growth while maintaining dollar stability.

Just as in the past, current conditions largely reflect a breakdown between the two partners in this interplay. Congress and the White House (in either order) have failed to chart taxing and spending courses responsive to the requirements of the economy. Political considerations, of course, dictated to the contrary. With no help on the fiscal side, the Federal Reserve has responded on its own and with very mixed results.

The Committee's proposed budget deficit reflects a judgment with regard to the manageability of a sizeable gap between projected incomes and outlays. Obviously the difference must come from some place. Where?

Well, it can come from the Federal Reserve simply printing more money—making credit available beyond the Nation's capability. Nothing could be more inflationary and self-defeating. Or it can come from private borrowing. To be sure, this approach also increases the national debt and therefore requires additional tax dollars for repayment in years to come, but even so it is much, much less inflationary than the first option.

This being so, the question then arises as to how much Treasury borrowing the private money markets can stand without drying up credit and driving up interest rates, thus forcing private borrowers out of the market.

Hence, the question of the "manageability" of the gap between FY 1976 revenues and spending.

My judgment is that an additional \$73.2 billion (the Committee's projected FY '76 deficit) will be too much for Treasury borrowing to handle without the unacceptable risk of bringing on a whole new set of inflationary pressures, to be followed—as day the night—by another round of recession. The Committee received supporting testimony for this view and also testimony to the contrary. Briefly stated, the opposing view is that with the economy as soft as it is presently, private sector borrowing won't offer inflationary competition in the money markets during 1976.

Even if this projection proves to be accurate, which at best is hopeful, I fear that a budget deficit of the magnitude of \$70-\$75 billion during FY 1976 will develop spending momentum which will prove all but impossible to reverse or even substantially curb in FY 1977, a year when business recovery—if current anti-recession actions taken by the Congress have their anticipated impact—is expected to be strong.

In such an eventuality, a moderately expansionary policy by the Federal Reserve simply won't provide sufficient credit to accommodate simultaneously the high level of Federal borrowing and the needs of the private sector.

The average American wants the security of a decent job and a standard of living which isn't constantly eaten away by inflation. The achievement of this legitimate aim will not be determined solely by the spending and taxing decisions of the Congress. But surely we know from our own experience that they are of crucial importance.

Support for a reduction in the size of the projected FY 1976 deficit is easy to agree to in principle but difficult to achieve in the legislative arena. The re-ordering of national priorities is a laudable pursuit until

it's my priority that's being re-ordered. Yet if none of us is willing to yield on our priorities, then the flow of our dollars continues undiminished, at the price of certain inflation and certain joblessness.

I believe the FY 1976 budget must provide the needed thrust to promote prompt economic recovery and that most other programs within the controllable part of the budget should be reduced. It is my further view that only those counter-recessionary programs should be adopted which can demonstrate an immediate impact on employment and which are of a statutory life of no longer than one year.

THOMAS L. ASHLEY.

ADDITIONAL VIEWS OF HON. ROBERT N. GIAIMO

Although I support the resolution reported by the Committee, I must register my profound concern over the unqualified optimism with which the effect of the recommended deficit has been presented in the report.

The Committee's resolution calls for a deficit of approximately \$73.2 billion. We all must recognize that unlimited spending by our Government can contribute significantly to runaway inflation, waste, and economic chaos on both private and Government finances. In our present economic difficulties, the deficit recommended by the Committee may be a necessary fiscal tool to combat our worsening recession. The Committee has also carefully weighed and necessarily rejected programs not designed to promote economic recovery in order to control the deficit.

The Committee's increases over the President's budget are designed to allay the present unacceptable 8.7 percent unemployment level through the provision of public service jobs, increased public works programs, and other programs. Additionally, the Committee provided for the inclusion of increases in housing, health and education programs to stimulate the economy further.

I recognize that if we do nothing to overcome the current economic situation the Federal deficit would automatically increase at a rapid rate while the total economic situation would continue to worsen. Lessened tax receipts resulting from increasing unemployment mean the depletion of the unemployment benefits' trust fund and they also mean that this trust fund and the Social Security trust fund are not being replenished at a balanced rate.

Yet we cannot gloss over the risks inherent in this proposed deficit. What are the consequences for the Nation's economy of a deficit of the magnitude recommended in this resolution? The impact of a large Federal deficit is somewhat speculative depending on the economic school to which one listens. Certainly the consequences vary in terms of how the Government chooses to finance the increased debt and how it uses the monetary tools available to it, open market operations and expansion of the money supply by borrowing from the Federal Reserve System, being the ones most actively considered.

For example, if the deficit is to be financed through the sale of bonds to the public (and as much as 70 percent may be financed this way), the result may be the removal of large amounts of investment money from the private sector of the economy. This has the effect of elevating interest rates in response to a limited supply of money. In other words, the Federal Government's borrowing to finance the deficit may have the effect of "crowding out" the private concerns which would borrow to finance housing and other new capital investments.

The Committee's report has argued against the "crowding out" theory by emphasizing that the elevating effect of Government borrow-

ing on interest rates is minimal in the face of the sluggish demand for credit from the private sector during this time of recession and uncertainty.

I *cannot* ignore certain indicators to the contrary, however. Some analysts regard this recession as atypical; *i.e.*, decline in private demand has not decreased significantly. This is the first recession we have had where the inflationary trend remains high. This inflationary trend has chipped away at the liquidity base of both household and business credit needed in the private sector just to maintain existing levels of economic activity, let alone expand activity. While there may be a decline in bank loans to corporations, corporate bond sales had been setting record levels at least until several days ago. While there is some lessened demand for short-term credit on the part of business, the total for 1975 is still expected to be one of the highest ever.

A second method by which the deficit could be financed is to borrow from the Federal Reserve—or, in effect, print more money. The resultant increase in the money supply, while serving to make more credit available and keep down interest rates, could also create a new wave of inflation. Additionally, it is no secret that in time of inflation, lenders tend to protect themselves against the declining value of the money they receive by promoting higher interest rates.

Over half of the cumulative deficit has been financed through monetary expansion. The resultant growth in the money stock has contributed to inflation. Inflation in turn has led to the generally unprogressive redistribution of wealth—a redistribution that, unlike legislated tax policies, is not controlled by congressional action and as such is referred to as a “hidden tax,” especially on the lower and middle income groups.

A policy that contributes to more inflation is a policy that contributes to increased discouragement on the part of the American people. We may have reached the point where people do not believe inflation will cease. Recent polls indicate that 75 percent of the American people see prices continuing to rise. If this is true, it is an easy step to understand why businesses will not drop prices and why labor unions demand sizeable cost-of-living increases in contracts.

Yes, inflation hurts those on fixed incomes, pensioners and creditors. But it is also a burden on the average American family. In February 1975, a family of four needed a new high of \$161 a week to make ends meet. The impact of inflation is dramatic when one considers that only one year ago the comparable figure was \$152, and 5 years ago it was \$126. Further, the American family spends \$47 per week for food, on the average. This is a record high—up \$5 from last year's figures.

I am troubled when our Government must be a “necessitous borrower” whose requirements must be satisfied even if it means indirectly penalizing individuals, corporations, and State and local government. I am also troubled when I see evidence of uncertainty and confusion for Americans when they can no longer plan for the education of their children, for their retirement years, or in some cases for the day-to-day well-being of their families. We must ask ourselves to what extent massive deficit spending, year after year, removes incentives and freedom of choice from private investors. We must realize that a large deficit is no “free lunch.”

Inasmuch as the Committee's recommendations for deficit spending contain measures "to get the economy moving" and inasmuch as those recommendations do not tie us to an unalterable trend to Federal Government domination of the economy, I concur. I will, therefore, support with reservations the Committee's recommended deficit and its consequent borrowing by selling bonds in the belief that, although there may be some unfortunate reallocation of private priorities and a credit squeeze, Government borrowing at this time would not affect the interest rates nearly so adversely as borrowing later in a time of recovery and decreasing unemployment. I stress that I am supportive only under the condition that this is a temporary ameliorative course of action. I believe that there would be severe dislocations in our economy if the Federal Government were to continue deficit spending of the present size in future fiscal years.

Without doubt, the Committee on the Budget has an awesome responsibility before it. All Members of Congress must focus on the need to act prudently in planning our National priorities this year. It is not enough to only ask if a program is worthwhile. We must also ask if it is a program which can be deferred. When the economy again regains its momentum, we can no longer spend as if we had our present level of unemployment. As unemployment goes down, so must the deficit. It falls to this Committee and to the rest of Congress to discipline itself to control Federal spending. No longer can we afford the luxury of "backdoor spending;" no longer can we afford sub-optimizing goals by choosing politically expeditious but less efficient programs; no longer can we afford sharing revenues where there is no minimal guarantee that they are directed to promote the greatest good. I cannot emphasize strongly enough, that *we must re-examine every program and every Government initiative* to keep the rest of the budget under control, particularly when we must call upon the Federal Government to increase spending temporarily to reverse recession, provide jobs, and assist the needy. Further, this Committee has the obligation to develop new criteria for examining the effectiveness and efficiency of Federal spending. Together with the General Accounting Office, Congressional Budget Office and standing and special committees, the Congress needs to develop new sources of information and better oversight capabilities to see what our Federal dollar is doing—both for the benefit and, yes, possibly, the detriment of the Nation.

* * * * *

Finally, I wish to make some specific comments regarding the Committee's recommendation for national defense budget authority and outlays. In supporting the level of budget authority and outlays in the resolution, I believe it should be recognized that the estimates for national defense, while adequate, are the lowest which can prudently be provided and yet provide for essential requirements. I believe this is an accurate assessment because I support the assumption that any apparent weakening of our military capability could lead other nations to miscalculate our resolve to defend our interests throughout the world. For this reason, it seems clear to me that any further reduction in the level of our commitment to national defense would be extremely imprudent at this time.

At the same time, I want to make it clear that I am convinced that the level recommended in this resolution for national defense is sufficient. It will continue to provide for current deployments and manning levels, and for the continued modernization of our forces. Although I am aware that some proponents of defense spending will consider the recommended totals too low, it takes only a brief review of the recent history of defense programs to recognize that within those levels a significant modernization program has been accomplished. For example, the tactical air forces have introduced new fighter and attack aircraft (F-14, F-15, A-7, A-10). The land forces have increased anti-tank capability by introduction of the TOW missile, and significant efforts have been directed to new tank and helicopter acquisition programs. Significant modernization efforts have also been directed toward the strategic forces with the development of the Trident submarines and upgrading of Minuteman III missiles.

My analysis of the situation, therefore, leads me to conclude that in this period of harsh budgetary constraints, the estimates for national defense will be adequate for the continuance of essential modernization programs.

ROBERT N. GLAIMO.

SUPPLEMENTAL VIEWS OF HON. ROBERT L. LEGGETT

I support the Resolution reported by the Committee that recommends Federal outlays of \$368 billion to provide the critical public spending stimulus needed to move our economy out of the present recession. I am, however, mindful of the mounting Federal deficit resulting from this strategy of fiscal stimulus, and strongly believe that the resulting recovery must not be accompanied by another round of either double or single digit inflation. The Committee has taken considerable care to provide temporary employment-related program increases which will not result in long-term spending.

Thus, included in the Committee's recommended expenditure (outlay) levels are limitations on Federal civilian and military salary increases and other individual benefit programs where we have seen substantial permanent budget increases over the past five years. The cost-of-living limitations proposed by the Committee are neither arbitrary nor across-the-board. For those most in need—the disabled and those at subsistence levels—the Committee's recommendations include full cost-of-living increases.

Despite the soundness of this approach, it is my firm belief that placing limitations only on Federal salary and cash payment programs will not have a significant enough impact on general inflationary trends in wages and prices. Neither is it equitable to place limitations on public sector military and civilian employees and those receiving cash payments from the Federal Government, but not on other sectors of our economy. Thus I strongly believe that the cost-of-living factors included in the Committee's estimates should serve as a guideline for the entire National economy, both public and private, in determining wage and price increases. Voluntary actions along these lines are already underway as cities, such as Detroit, and States, such as Wisconsin, are discussing with unions the necessity of 5% ceilings on their public employee wage increases.

I believe the Committee's resolution strikes a balance between programs to combat the recession and restraints, such as the cost-of-living caps, needed to prevent inflation from gaining momentum again. I endorse and encourage the use of this same balanced effort in all sectors of our public and private economy.

To implement this view, I intend to introduce an amendment to increase total budget authority by \$4 million and total budget outlays by \$0.5 million. These additional funds will provide the basis for the Council on Wage and Price Stability maintaining surveillance over price and wage changes in the economy to note and publicize wage or price increases in excess of 5%.

This agency should be given subpoena powers and public hearing funds and authority to question the appropriateness of increases in excess of 5%.

Also provision should be made for authority to delay "major" wage or price changes in excess of the 5% level for 90 days. And, finally, the Council should have authority to disallow increases or order roll-backs in excess of this 5% level in industries where competitive forces are extremely limited.

ROBERT L. LEGGETT.

SUPPLEMENTAL VIEWS OF HONS. PARREN J. MITCHELL AND LOUIS STOKES

The House Budget Committee has voted out of Committee its first Concurrent Budget Resolution which recommends that the Federal Government operate financially during fiscal year 1976 at the following levels: revenues of \$295 billion, budget authority of \$395 billion, outlays of \$368 billion, and a deficit of \$73 billion. We voted in favor of this Resolution with serious reservations. Primarily we were in favor of a Resolution going to the Floor which contained some of the gains which we felt were in the present Resolution. We had even more grave doubts as to what would have occurred in some of these areas had this particular Resolution been voted down.

Unquestionably, it is mandated by the American people that this 94th Congress, and this Budget Committee in particular, chart a national policy direction which will immediately stimulate our beleaguered economy. Unemployment must be decreased dramatically and production must be increased significantly. These are the considerations foremost in our minds as we serve on this Committee and as we voted on all of the issues and items which comprise the first Resolution. We are mindful that once again it is the poor and working poor in our Nation who are unjustly and inequitably affected by the highest unemployment in our economy in the entire post World War II period and the highest inflation in the 200-year history of this Nation.

In light of stimulating the economy, reducing unemployment, increasing consumer buying power, and thereby increasing production; we noted with interest, and often dismay, the apparent strategy of the minority members to hold spending levels to the amounts suggested by President Ford in his proposed budget. We are fully cognizant of the need not to fan the flames of inflation. However, expert economists indicated during our hearings that a stimulus in the area of \$25 to \$30 billion is needed to reduce unemployment by 2%. Yet, the net effect of the President's proposed budget would be only \$6 billion, or no stimulative effect at all. In a like manner, the President, and now apparently a majority of this Committee, has suggested that caps on pay and benefit increases to major segments of our employment force be imposed. We, in good conscious, voted consistently against these caps, which will have the effect of dampening the buying power of the recipients involved at a time when reduced spending by citizens is the last thing our country needs. Again, no stimulus would be provided.

The central question that troubles us most and caused our greatest hesitance in casting an affirmative vote is whether the Resolution adopted by this Committee will provide the often-referred-to stimulus. Yet, there are other directly related problem areas, all of which are unalterably tied to this Nation's present set of "priorities."

The Budget Committee is also mandated to determine and arrange Federal spending priorities, as we understand it. This first Resolution as adopted by the Committee, however, reflects little change in our ordering of priorities, even in the face of sustained economic blight and domestic suffering.

As a result of the action of this Committee, the defense budget remains virtually sacrosanct. It can and must be even more significantly reduced. The Congress and the American people seem unwilling to continue aid to Southeast Asia, particularly in view of the most recent developments in that part of the world. Those funds must be re-channeled for constructive domestic purposes. Excessive research and development programs, such as the one proposed for the controversial B-1 bomber, which inevitably result in abnormally high cost overruns must be terminated. The Congress and the administration have many, many lessons to learn in the differences between supporting and funding a military establishment and providing adequate national defense.

This Committee in developing this Resolution adopted an amendment to place a 7% ceiling on social security and other retirement benefits and a 5% cap on Federal and military pay. Our votes were consistently against these ceilings. Imposing a 5% cap on military pay and a cap on other benefits is not the way to "cut" the defense budget. Causing military personnel to become "self-sufficient" by 1977, beginning by stripping them of their commissary privileges at a time when food costs are at an all-time high, as is proposed by the administration, is not the way to "cut" defense spending.

The across-the-board 7% cap and 5% cap are reprehensible. The impact would be devastating to those whom we represent, those who have always had the weakest voice in Government, the poor and the working poor. We fervently believe that the Federal Government—if no other body—has a top priority and obligation to support, aid, help, provide a point of recourse, do whatever is necessary to ease the plight of the poor, working poor, elderly, and otherwise economically disadvantaged segments of our populace. These groups are most often overlooked in our braggings of national progress and most frequently called upon to sacrifice in our cries of national crisis.

Certainly, Federal spending needs to be reduced. We need to go on a spending diet. However, where are our priorities? Apparently, this Committee in its initial workings has brought about little change in priorities. The programmatic areas still facing the greatest peril are, for example, social security cost-of-living benefits, retirement benefits, veterans benefits, food stamps, medicare, child nutrition, and special impact to education. Again, those with the least power, economically or otherwise, are the first to be called upon to bite bullets and tighten belts. As Members of the Congress and this Committee, it is virtually impossible to support any spending diet which results in human starvation.

Our list of concerns about conflicting priorities during a time when financial resources are strictly limited goes on and on. Another case in point: how can we afford to spend over a billion dollars on a space shuttle program and at the same time not be able to adequately finance urban and rural mass transportation projects?

In our opinion this Congress should lift both the 7% and the 5% caps. We are determined to seek to further reduce defense monies. If these two battles are not won, there will be a serious question as to whether or not we can support the final passage of the Concurrent Budget Resolution.

PARREN J. MITCHELL.
LOUIS STOKES.

**MINORITY VIEWS OF HONS. DELBERT L. LATTA,
ELFORD A. CEDERBERG, HERMAN T. SCHNEEBELI,
JAMES T. BROYHILL, DEL CLAWSON, JAMES F.
HASTINGS, GARNER E. SHRIVER, AND BARBER B.
CONABLE, JR.**

The Congressional Budget Act of 1974 was enacted out of a deep concern for rapidly mounting Federal expenditures and deficits and lack of adequate legislative machinery to cope with them.

Basic purposes of the legislation, as set forth in the Act itself, are to provide for the congressional determination each year of the appropriate level of Federal revenues and expenditures, to establish national budget priorities, and to assure effective congressional control over the budgetary process. These are laudable, essential goals, which must be meaningfully achieved if we are to deal effectively with serious National problems of inflation and recession. Unfortunately, H. Con. Res. 218 does not live up to its potential toward achieving such goals. To the contrary, H. Con. Res. 218 could itself contribute to the continued worsening of the problems it is intended to help solve.

Too often in the past, the Congress has tended to play the role of an irresponsible Santa Claus with the people's money. A result has been increased government intervention into the lives of all of us, accompanied by massive government spending and climbing deficits. The Office of Management and Budget recently estimated that the FY 76 Federal deficit potentially could go to \$100 billion if various spending proposals pending in Congress are enacted. To put that into perspective, such a deficit would amount to more than total Federal outlays as recently as 14 years ago. The latest OMB estimate is as follows:

What will be the budget deficit?

	<i>Billions</i>
The current estimate (with tax bill as written)	\$60
If Congress <i>rejects</i> President's holddown legislation—add.....	12
If features of tax bill become permanent—add.....	5
New congressional spending proposals.....	30
Potential deficit threat.....	100

New congressional spending proposals

Anti-recession grants to State and local governments.....	\$5.0
Broadened unemployment compensation benefits.....	4.0
Additional public service jobs.....	3.0
Increased public works projects for State and local governments.....	3.0
Increased farm subsidies.....	2.2
Additional water pollution control and abatement projects.....	1.9
New housing subsidies.....	1.9
Increased urban mass transit and highway projects.....	1.8
Health insurance subsidies for the unemployed.....	1.5
Increased school feeding and related programs.....	1.4
Increased veterans benefits.....	.8
Additional small business loans.....	.4
Other increases in a wide variety of spending programs.....	3.2

FEDERAL SPENDING TRENDS

It is not difficult to see why our Nation is encountering problems of mounting fiscal deficits. Federal expenditures since the sixties have moved upward at startling rates. What are known as transfer payments, particularly in the form of direct payments to individuals, have become the dominant force in the growth of the Federal budget. For example, national defense spending in current dollars was about level between FY68 and FY74, and the rate of Federal spending on all non-defense operations rose by only \$8 billion. But Federal spending on domestic assistance programs rose by more than \$80 billion and accounted for virtually all of the rapid rise in Federal spending.

This trend in Federal spending is also present at the State and local government level. A recent Office of Management and Budget study showed that over the past two decades benefit payments to or on behalf of individuals after correction for inflation rose more than twice as fast as our Nation's output. The study also pointed out that if that rate growth continues, governments would claim between 55 to 60 percent of the Nation's entire output by the end of the century! Expressed another way, the output of about 6 out of every 10 workers would be needed just to support governments. It's a frightening prospect. The trend must be reversed and we must start now.

The following listing of what has been happening in various programs and activities, essentially all domestic assistance programs, gives a good indication of why we find ourselves in the predicament we are in today:

In the area of public assistance and other income supplements, Federal spending has risen from \$3.4 billion in FY66 to \$18.4 billion in FY76, an 18% annual rate of growth.

Social Security has risen from \$20.2 billion in FY66 to \$73.3 billion in FY76, a 14% annual rate of growth.

Over the same ten-year period, health care services, primarily Medicare and Medicaid, have risen from \$1.2 billion to \$24.1 billion, a 35% annual rate of growth.

Food stamp spending has risen from \$100 million in FY66 to \$3.86 billion in FY76, a 44% annual rate of growth.

Pollution control and abatement spending has risen from \$200 million to \$3 billion in the ten-year period from FY66 to FY76, a 31% annual rate of growth.

Federal employee retirement and disability spending has risen from \$1.7 billion in FY66 to \$7.9 billion in FY76, a 17% annual rate of growth.

Military retirement over the same period has grown from \$1.6 billion to \$6.9 billion, a 16% annual rate of growth.

Spending for veterans benefits and services grew from \$5.9 billion in FY66 to \$15.59 billion in FY76, a 10% annual rate of growth.

Federal spending for education grew from \$2.74 billion in FY66 to \$7.38 billion in FY76, a 10% annual rate of growth.

Federal spending for manpower and related social services rose from \$1.36 billion in FY66 to \$7.28 billion in FY76, an 18% rate of growth.

Spending for community development rose from \$0.724 billion in FY66 to \$4.068 billion in FY76, a 19% annual rate of growth.

Since 1970, Federal aid to State and local governments has had an annual increase of 15% and is expected to reach \$56 billion in FY76.

With that kind of growth in programs and spending, it is not difficult to understand why our Nation has come under the gun of inflationary pressures and resultant recession, even recognizing of course that Federal spending as such is but one of the major factors contributing to inflation. With such a growth pattern in spending, and many of them are mandatory because they are written into the law, can there be any wonder why there is concern over the ability of Congress to control Federal spending effectively or why we need a new budget control process. Regretfully, it appears that H. Con. Res. 218 as reported does not focus squarely on basic root causes of our national dilemma and seek to bring about effective solutions.

DEFICIENCIES IN H. CON. RES. 218

We believe that H. Con. Res. 218 is deficient for a number of reasons. The deficit figure is excessive, and could seriously aggravate inflation and interfere with our efforts to end the recession. It proposes too much and the wrong kind of stimulative spending. There are other areas where excessive Federal spending is either approved or tolerated. On the other hand, some cuts are proposed such as in the area of defense which are unacceptable or excessive. The need for a reliable energy program is simply ignored.

The Majority report accompanying H. Con. Res. 218 represents in general a Keynesian view of the economy. Emphasis is placed throughout on reducing unemployment by government spending and larger budget deficits. The thought of putting the world's finest free enterprise system to work seems to be overlooked. In a self-serving way, the report describes the current situation as the "worst economic crisis" since the 1930s, but omits reference to the business cycle or the possibility of recovery. Occasional references are made to inflation as if it were some kind of irritant, rather than a fundamental source of current difficulties.

The simple Keynesian analysis that underlies all of the policy recommendations embodied in H. Con. Res. 218 totally ignores the dynamic process by which we have arrived at the current large Federal budget deficits. Nothing in the report points to any appreciation of the harmful effects of inflation or how financial markets are affected. As a consequence, it grossly underestimates the financial side of the budget equation. There is some recognition that continued substantial deficits into fiscal 1977 would raise the dilemma of high interest rates or an excessive expansion in the money supply and renewed inflation. But the lesson doesn't seem to have been learned very well or to have been taken very seriously for H. Con. Res. 218 recommends even larger spending in the social welfare area, the very area where growth in expenditures has been so explosive and has had such an impact on our economic well-being.

In asserting that budget proposals reflected in the resolution are "reasonable" (page 1 of the report) and easily financed, the severe economic distortions of the past year, which are partly the result of uncontrolled Federal spending policies, are ignored. In fact, the most discouraging aspect of the current situation is the loss of fiscal flexibility. The Majority report (also on page 2) claims that: "First, the largest single cause of the deficit is the recession itself, coupled with the tax reductions that both the President and the Congress have agreed are essential to stimulate economic growth." While the thrust of that claim is correct in a simplistic way—since the tax revenues are sharply reduced—the analysis ignores the irresponsible pattern of deficits in 14 of the last 15 years and 40 out of the last 48 years. The accumulated momentum has eroded our fiscal flexibility in responding to the recession problems. In fact, our spending momentum now focuses on the priorities of the past rather than future needs.

That statement is in error, insofar as it may give the impression that the President is in full agreement with the tax reduction package just passed by the Congress, for he signed it only with the greatest reluctance.

DEFICIT EXCESSIVE

The deficit figure of \$73.2 billion is unacceptably high, though we would add that we are thankful that it is not even higher. The Committee has shown some elements of restraint, which we applaud, but we wish this tendency could have been much more pronounced. We say this because it seems all too clear that there is a great danger that the deficit figure the Budget Committee produces, even though it is already too high, could be perceived merely as some sort of acceptable starting point, on top of which a profligate Congress might heap expenditure after expenditure in misguided attempts at curing our ills by spending our way into economic soundness and prosperity, which simply will not work.

It is generally accepted that due to such factors as the mandatory Federal subsidy programs on the books, increased unemployment compensation, decreased revenues, and the need to stimulate the economy, it is unavoidable at this time for the Federal Government to incur a relatively large deficit. This is implicit in the budget presented by President Ford to the Congress and the concept was supported by administration spokesmen at the Committee hearings and by many eminent economists, bankers and others who appeared before the Committee. However, at the same time it is critically important that proper restraint is exercised to avoid creating too great a deficit. It would be tragically self-defeating to allow a massive deficit to intensify inflationary forces which in turn would have a recessionary effect on the economy—thus bringing us right back to the very ills we seek to heal by a stimulative policy on the part of the Federal Government.

President Ford told the Nation March 29, in drawing a line against deficit spending:

We cannot afford another round of inflation due to giant and growing deficits that would cancel out all our expected gains in economic recovery.

This was also the point Secretary of the Treasury Simon made to the Budget Committee at our hearings when he said :

Even though the rate of inflation is subsiding somewhat, it could easily shoot upwards again if we overheat the economy, as we have done so often in the past. Furthermore, it is essential to understand that the forces of inflation are very largely to blame for the recession we are experiencing today. Both the housing industry and consumer spending, as I have noted, first tumbled under the pressures of rising prices. If we revive those pressures through excessive fiscal and monetary policies, there is a very real danger that we could enter a new and more vicious cycle of inflation and recession. Because of the continuing danger of inflation, we must carefully avoid the temptation of trying to return to full employment at breakneck speed. Instead, we must attack both the recession and inflation at the same time, and that requires a balanced, careful approach—the kind of approach contained in this budget.

EFFECT OF DEFICIT ON CREDIT MARKETS AND INTEREST RATES

In addition to the direct impact a massive Federal deficit would have on the economy, a large deficit could have serious effects on the private credit market in that it could seriously interfere with our efforts to promote economic health and overcome the recession. This is a very real and serious problem. It is true that in periods of recession financial conditions ease somewhat because private credit demands, particularly in the short-term area, fall away due to softness in the economic activity and because the Federal Reserve seeks to provide additional money and credit to cushion the decline. However, as was also pointed out by the Secretary of the Treasury to the Committee, the current recession is an outgrowth of a long period of inflation that has left private financing demands heavier than usual. Profits have declined sharply and the liquidity position of businesses, and households, has been seriously eroded. New equity financing is not a feasible source of funds at this time. Additionally, surpluses of State and local governments have gone down, very likely adding more demands in the capital markets.

The situation therefore is that there has continued to be a strong demand for private long-term debt issues, and short-term credit demands have not declined as much as might have been expected. This is credit that is vitally needed in order to help put essential areas of the economy to work to assist in overcoming the recession. Anything that unduly interferes with such credit availability could cause untold damage to our efforts at economic recovery.

For several months there was a decline in interest rates, both the short-term and long-term markets. There are ominous clouds on the horizon, however. Long-term rates began rising several weeks ago. Just a few days ago, short-term interest rates also began to rise. Massive increases in Federal borrowing will have the effect of raising

interest rates still more and this could have a truly frightening impact on the economy.

We must accept the fact that Federal requirements will have to be met first and because of the swollen size of the Federal deficit, Federal borrowing demands will be enormous. Under the President's budget as submitted, it was estimated that the Treasury would be coming into the capital markets during this calendar year for almost \$70 billion of net new financing, of which \$65 billion would be in marketable securities. Federally sponsored agencies could account for another \$14 billion in borrowing. These are huge sums—more net funds, both in absolute terms and in relation to the size of the economy—than have ever been borrowed before in the capital markets in any single year by the public and private sectors combined. Even so, the deficits for both 1975 and 1976 figure to be considerably higher than those on which the forecasts are based. The present outlook is that the Federal Government will have to be into the market for \$80 billion or more of new debt financing during this calendar year.

Still more Federal demands on the capital markets could set in motion a vicious competition between the Federal Government and private borrowers for capital funds. Housing and marginal and small businesses could be the first to go if they get caught up in a situation where the demands of the Federal Government and other prime borrowers monopolize the credit that is available and in the process drive interest rates up. This could overturn the economic recovery and cause unemployment to rise again. The other possibility would be for the Federal Reserve to accommodate the enormous borrowing requirements of the Federal Government, as well as private demands, by creating a more rapid growth in money and credit. This might postpone the adverse impact of the recovery for a time. But the consequences of such action would soon catch up with us with a vengeance in the form of higher inflation followed by a new recession and higher unemployment.

QUESTIONABLE EXPENDITURES

There are a number of proposed expenditures incorporated in the budget authority and outlay target figures proposed in the H. Con. Res. 218 which range all the way from being of questionable merit to being completely objectionable, and which we believe should either be eliminated or modified.

ECONOMIC STIMULATION

Many of the proposed expenditures incorporated in the resolution relating to economic stimulus are excessive in amount, are not well suited to deal with the problems to which they are directed, and are open to abuse. Eliminating them will not only have a short-range effect of reducing the size of the deficit for FY76, but would also have a salutary long-range effect in that they will thus be prevented from having an adverse, inflationary impact on the economy in the upcoming years.

As one prime example, the resolution reflects a staggering \$5 billion in budget authority and \$3 billion in outlays for an unbudgeted accelerated public works program, which would be 100% federally funded.

This would be in addition to the Emergency Employment Appropriation Act for FY75, also mostly unbudgeted, which has already passed the House and which it is estimated could produce outlays of \$4.3 billion in FY76 for public service or public works jobs. It is in addition also to a variety of other public works and public service expenditures, mostly unbudgeted, incorporated in the resolution, including for highway construction, clean water projects, job opportunities programs and others, which would total over \$8.1 billion in outlays in FY76.

To add in FY76 a \$5 billion accelerated public works program of this kind at best appears to be of highly dubious wisdom. Public works projects by their nature are very slow starting and the impact of a program such as this could very well hit after the need has disappeared, which means that the injection of such a stimulus in a rising economy will cause increasing inflationary pressures.

The 1972 Public Works Impact Program (PWIP) provided some lessons which we should heed. Although that program was supposed to provide immediate employment, a study has shown that at 8 months after the Economic Development Administration received its first PWIP appropriation, less than half the projects EDA succeeded in generating were under construction, and that involved only a \$48 million appropriation, not \$5 billion. It took 9 months from the passage of that legislation to get the last project approved, 17 months to get the last project under construction, and at 22 months after approval of the act, only 121 of the 203 FY72 projects had been completed. That shows how ineffective public works projects can be as an immediate stimulus to the economy. Not only do they not contribute meaningfully in counteracting the recession from a short-range point of view, but they would tend to linger on and interfere with whatever progress we achieve in combating inflation.

Other grim statistics associated with the PWIP program include the fact that wage payments represented less than 7% of the total cost of the FY 72 program. It was found that a large percentage of the jobs for the projects, 59%, went not to unemployed but to the previously employed, due in large part to the need for skilled workers. Also, a large part of the workers, more than 56%, were non-residents in the sense that they were from outside of the particular area involved. There is also a very high cost factor associated with public works employment. It was found that under the FY72 Public Works Impact Program, the cost of generating one man-month of employment for unemployed and under-employed area residents exceeded \$10,000.

Furthermore, as indicated above, the projects under the proposed \$5 billion accelerated public works program contained in the resolution would be 100 percent federally financed. This it seems would create a situation tailor-made for widespread and flagrant abuse. For a variety of reasons, the proposed \$5 billion accelerated public works program included in H. Con. Res. 218 could be a very costly blunder.

We also oppose the release of an additional \$8.7 billion of highway funds in this fiscal year, a recommendation that is reflected in the resolution. In February the President ordered the release of an additional \$2 billion highway funds to stimulate employment, especially in the construction industry. To obligate the \$2 billion, the States essentially will have to double their anticipated rates of obligation

during remaining months of this fiscal year. This is the maximum amount of funds that can be efficiently obligated by the States prior to July 1. Release of an additional \$8.7 billion for use in this fiscal year could well serve only to increase the pressures that have plagued the highway construction industry in the past 3 years with no meaningful impact on employment.

The release of the \$2 billion in highway funds should effectively utilize unused capacity of the highway construction industry. Releases in excess of that amount will necessarily be inflationary and expansionary in an industry that has exhibited one of the highest rates of price rise over the last year. The year ending June 30, 1974, saw a 38% increase in highway bid prices. With the release of \$2 billion the rate of price increase should not be expected to exceed that of the economy as a whole. However, the release of \$8.7 billion could lead directly to a return to the price increases of last year, a situation that would wreak havoc with this section of the economy.

A related area where the Committee resolution embraces large additions in unbudgeted funding to stimulate the economy, almost \$3 billion in budget authority and \$2.4 billion outlays is in the area of public service jobs. This would be in addition to the funding for public service jobs already contained in the Emergency Employment Appropriation bill for FY75 that has passed the House. The total could thus range to over \$5 billion in budget authority and about \$4 billion in outlays for public service jobs.

What is unfortunate about this is that there are many drawbacks also to public service jobs as a stimulus to the economy. Federally financed public service jobs tend to have a very high substitutability effect, which makes them not very effective in increasing employment opportunities. It is understood that evaluations of the Emergency Employment Act, the predecessor to the present Comprehensive Employment and Training Act (CETA), have consistently concluded that there is substantial displacement of regular jobs by subsidized public jobs, and of State and local spending by the Federal spending. These studies agree that after 1 year of a temporary program, only 5 out of 10 jobs are actually net additions to the stock of job opportunities, and that after several years of a temporary or a permanent program, only 1 out of 10 jobs funded is a net addition. Thus, under the permanent CETA program 9 out of 10 jobs that were "created" probably would have existed anyway. Even with a modest overhead, the cost of a public service job slot is about \$10,000 per year. This means that the cost of actually creating one net job is probably around \$100,000. There seems to be no other conclusion but that the major accomplishment of public employment programs is fiscal relief to State and local governments rather than employment assistance to jobless workers.

OTHER AREAS OF POSSIBLE REDUCTIONS

The budget totals in the resolution in most instances reflect the proposed budget as a starting point, with reductions in only a relatively few key areas, and to that were added various amounts based on what other committees recommended. In some cases such additions run into the billions and on top of that there were some further amendments by the committee. There are therefore undoubtedly many areas

in the budget totals contained in the resolution over which reductions potentially could be made. Because of the complexity and size of the budget as submitted and the proposed changes, limited opportunity was afforded Members of the committee to focus on details of the items contained in the budget and evaluate their significance. We can mention a few additional items where we feel reductions are in order but want to emphasize that these are just a sampling. There are potentially many more and we hope that they will be appropriately dealt with by the appropriating and legislative committees in a manner that will best serve the interest of the Nation as a whole.

In the health area, for example, the resolution essentially holds federally controllable health programs at the FY75 appropriation level, except for biomedical research and health planning. Even at that, this level represents \$2.8 billion in outlays above the administration budget. Included is a proposed increase of \$200 million in budget authority and \$75 million in outlays specifically aligned to biomedical research, an amount which should be expunged from the resolution.

Increasing a particular program or programmatic area to allow for inflation without increasing all raises problems of equity and priority.

Another similar example is in the category of education, manpower and social services. There \$408 million was added by the Committee to compensate for expected inflation, and this was in an area already \$5.8 billion above the President's budget and \$2.2 billion above the FY75 level. Certainly this is a skewing of priorities and should be reconsidered.

The resolution budget authority and outlay figures reflect a \$728 million addition over and above the budget request of \$1.49 billion for the U.S. Postal Service. The amount requested adheres to the schedule established in 1970 for transition to full cost postage rates. The \$728 million additional request was pursuant to law submitted by the Postal Service itself and appended to the budget without change by OMB. The resolution could be reduced by this amount, which would require assessing increased costs to those who incur them, second and third class mailers, rather than against the general taxpayer.

While the President's space program included no new project starts, the proposed funding covering only projects previously authorized and underway, this seems to be an area where reductions can be proposed. In a time when there is an economic crunch, as there is now, it should be possible to stretch out the space activities. A \$100 million to \$200 million reduction should be possible from a budget calling for \$3.2 billion in budget authority and \$3.1 billion in outlays without delay to the space shuttle program, or undue delay to other space activities.

The resolution reflects \$100 million for new initiatives in the education and manpower function. It would not be directed to any area but could be applied to a variety of education or related programs. Given the present economic situation, funding for new initiatives such as this appears unwarranted.

Five administrations have pointed out the inequities involved in the school assistance program known as the impact aid program, where aid is given to districts alleged to be adversely affected by the presence of a Federal facility. A major shortcoming of the program has been

that it in effect takes tax money from poor districts and gives to the rich, rather like Robin Hood in reverse. An example is nearby Montgomery County, which while having the highest per capita income nationally is also a recipient of large amounts of such aid.

The budget proposes \$266 million for school districts whose revenues are adversely affected by Federal activity within the boundaries of such districts, but the resolution reflects an increase in that amount by \$260 million, an increase that should be disallowed. The current program provides support for children whose parents work on Federal property, but live in the community. However, those parents pay property taxes for the support of the schools, and their presence is generally an economic asset to the community. Federal support therefore based on the fact that they work on Federal property certainly is unwarranted and the impact aid program should be revised to restrict payments only for those children whose parents both work and live on Federal property.

Additionally, further savings could be realized through a better targeting of funds. For example, aid provided under the current impact aid law is not based on the extent of adverse fiscal impact due to the presence of Federal operation on school districts, nor is the aid targeted to the most adversely affected district. There is an Administration proposal under which impact aid programs would not be made to school districts with entitlements less than five percent of the total current expenditures for the preceding year. These school districts derive a relatively minor share of their total operating budgets from the impact aid program, and could absorb such amounts from alternative sources. Savings in this area could therefore amount to \$260 million or more.

DEFENSE

The national defense category is one of only a few areas in which reductions are proposed from the budget as submitted. But beyond that, the reductions would be by far the largest of all, amounting to a reduction of about \$8 billion in budget authority and \$4.3 billion in outlays. We are concerned by the seemingly cavalier treatment accorded our national defense needs by the Committee. While we believe that some cuts can be legitimately supported, excess cuts in the defense program for reasons of short-term fiscal expediency are dangerous if they lead to significantly reduced readiness of our forces.

One reduction reflected in the resolution is \$1 billion in budget authority and \$700 million in outlays that is proposed on the basis that the Defense Department could compensate for such a cut by using funds available for transfer from prior years and through taking credit for the sale of equipment that does not have to be replaced in FY 76. It is our understanding, however, that based on experience over the past two years that what funds may become available from prior years would be needed for reprogramming just to compensate for unanticipated inflation in accounts where local inflation rates have exceeded the national average used in preparing the defense budget. Moreover, in recent years sales of military equipment for which no replacement is required has been declining. As can readily be seen from news reports, the majority of current equipment sales are of more modern equipment only recently introduced into our own inventory. In some instances such equipment has been sold to other countries right

out of the hands of our own operating forces. Possibly some savings can be achieved here but it appears it would be more on the order of \$60 million or so.

Other proposed reductions are associated with reducing budget authority and outlay by \$.5 billion to reduce the cash balance in the defense stock funds. These funds are used to acquire inventories of consumable materials and supplies. The stock fund cash balance is sensitive to inflation and the balance has in fact declined significantly over the last two fiscal years. In fact, all \$.5 billion of the direct budget authority requested for the stock funds is actually to buy war reserves of fuel, weapon system repair parts, and other combat essential war reserves, not merely to increase the stock fund cash balance. Less than a third of this budget authority would produce outlays in FY76. While it may be possible to make some downward adjustments in budget authority relating to this area, it is difficult to see where reductions in outlays could be realized without hampering the readiness posture of our armed forces.

A somewhat similar situation exists with regard to proposed reductions associated with funds for other war reserves and for the Inventory Replenishment Fund, which likewise could be extremely unwise in view of the state of tensions in the world. Included in this area are such items as the procurement of reserve stocks of fuel and repair parts needed primarily to support forward deployed forces and prepositioned equipment. Several hundred million dollars of this proposed cut would duplicate the \$.5 billion proposed cut in the stock fund. This reduction also includes ammunition that might be used by our allies in time of war. These stocks are built up and maintained in U.S. inventories against the possibility of a conflict in which the U.S. and allied forces would be fighting side-by-side. These stocks could not be released to those allies without congressional authority.

Use of these funds for such procurement would require legislation, which has already been proposed. An additional purpose for requesting funding in this area and in which a cut is proposed is for an Inventory Replenishment Fund. This would permit advance procurement of weaponry currently in demand for sales to our allies. The lead time involved in the procurement of many new materials is multi-year and the Defense Department has been forced to draw on its own active inventories in order to make short-range sales to our allies and friends, such as Israel and others. This results in a lower state of readiness of our forces until the equipment can be replaced, some times 2 or 3 years. The intention is to increase procurement rates of such items in advance of sales so that we do not have to reduce our own readiness as the result of sales. Some reductions associated with this area may be possible also, possibly a third of those suggested, but not on the magnitude suggested by H. Con. Res. 218 amounting to a reduction of \$1 billion in budget authority and \$600 million in outlays.

The resolution also reflects an arbitrary reduction of \$1.5 billion in budget authority and \$1.8 billion outlays associated with what is charged is an over-stated inflation rate. The Defense Department states that it simply did not use an inflation rate of 14% on investment type items as was suggested, but that the rate used was about 8%.

As to program growth, the Defense Department position is that reductions in prior years has retarded the modernization rate of equipment in our forces to a point where it is inadequate to keep up with obsolescence or with the increasing sophistication of the threat. Therefore a request has been made for funding to provide real program growth of about \$4.5 billion in the investment accounts, primarily for the modernization of conventional forces. The reductions incorporated in H. Con. Res. 218 would cut out about 80% of the real growth in budget authority, \$4 billion, and this it is said would produce about a \$1.3 billion reduction in outlays in FY76. The broad brush treatment given to program growth could result in unduly downgrading our defense effort. Possibly some of the Defense Department's planned development and production rates may not materialize as rapidly as planned, and some reductions in investment accounts may be made which would not be seriously detrimental to the real rate of progress in our important new programs, so that some reductions are possible. However, the reductions in budget authority and outlays should be in the range of \$1.5 billion for budget authority and \$500 million in outlays.

The reductions in the defense category which we have referred to could total approximately \$3 billion in budget authority and \$1 billion in outlays for FY 76. These are substantial, but at the same time should not unduly hinder our defense effort. We also think it appropriate to discuss at this time the economic impact of defense spending. Under ordinary circumstances, in no way should the defense program be viewed as a "make-work" effort. However, in these days of unemployment, we simply cannot be unmindful of the effects of reductions in the procurement dollar on the employment picture. In overall terms, it is estimated that each billion dollars of outlays is associated with direct and indirect employment of up to 125,000 people. This means that the \$4.3 billion reduction in outlays represented by H. Con. Res. 218 for defense could adversely affect employment for up to 537,500 workers. Furthermore, many of these are key, skilled workers in industries essential not only to our national defense but to our economic well-being generally. The implications of cuts in this area should be thoroughly understood.

DELBERT L. LATTI.
ELFORD A. CEDERBERG.
HERMAN T. SCHNEEBELL.
JAMES T. BROYHILL.
DEL CLAWSON.
JAMES F. HASTINGS.
GARNER E. SHRIVER.
BARBER B. CONABLE, JR.

ADDITIONAL VIEWS OF HON. ELFORD A. CEDERBERG

PURPOSE OF THIS CONCURRENT RESOLUTION

The first concurrent resolution of the House Budget Committee for fiscal year 1976 proposes a framework for congressional action to reduce the two pressing problems of the present-day U.S. economy—high unemployment and high inflation.

There is widespread concern, which I share, that our present economic difficulties may deepen if public policy does not respond in timely and appropriate fashion. Congress has a clear responsibility under the Budget Control Act to participate in this public policy process, and this concurrent resolution is the appropriate and timely vehicle.

THE OBJECTIVE OF THESE ADDITIONAL VIEWS

While I agree with the need for initiatives in economic policy, and the intent of this concurrent resolution and the accompanying report, I cannot agree with the specific estimates and policies proposed to support those objectives.

There is persuasive evidence that a deficit of the size proposed by the Committee will entail a high level of Federal borrowing, which will congest financial markets, revive inflationary pressures, retard economic recovery, and sharply reduce desired increases in employment.

The margin for error in estimating effects of present and impending legislation on actual Federal finances is large and uncertain. No precise calculation of this margin is presently available. Yet its upper range might reach an order of magnitude approaching \$30 billion.

It would be a service to the American public if the Committee report dealt more fully with Federal finances outside the official budget categories—off-budget agencies, Government-sponsored enterprises and Government guaranteed borrowing. Estimates in the budget documents place the deficit-like shortfall in these activities at \$26 billion.

It must be emphasized that it is the full extent of these Federal financial operations which actually affect markets and create the impacts on our economy. The target figures, deficit, outlays, and others, do not take full account of these operations or their impacts. Yet the new budgetary process we are now taking part in offers us an opportunity to take a close and searching look at the figures that really count. It is imperative that we make good use of this opportunity. Only as we take account of the real magnitude of the problems facing us are we enabled to take effective action.

THE CURRENT SITUATION

The sharp down-turn in business and productive activity which has marked the fall and winter months of 1974 and early 1975 is reflected in steadily rising unemployment which has now passed the eight million mark.¹

Prices paid by consumers, as measured by the Consumer Price Index, rose about 8.8% in 1973 and a further 12.2% in 1974. Some price rises were more severe. Food prices paid by consumers rose about 20% in 1973. Energy prices to consumers rose over 21% in 1974.

The impact of these price rises was felt by a wide spectrum of wage and salary workers and their families, reducing their real incomes sharply and forcing them to cut back many accustomed and discretionary forms of spending.

One consequence of this curtailment was experienced in the sharply declining sales of consumer durables, which dropped over 13% in the last quarter of 1974 (adjusted for price changes), which would correspond to about a 45% decline in the annual rate of purchases in real terms.

Consumer spending generally fell at about a 13% annual rate in real terms, in the last quarter of 1974.

As a result, business inventories of unsold goods rose and rates of production were adjusted downward. Total output of the economy, Gross National Product, declined by about 10% between September 1974 and March 1975.

POLICY CHOICES AND IMPACTS

The choices now confronting public policy involve planning for economic recovery and increasing national output and employment, while avoiding a renewal of the inflationary forces which substantially brought about our present economic difficulties.

A crucial part of this decision-making involves the size and expected economic effects of the Federal budget for fiscal year 1976, which begins this July. The House Budget Committee proposes the following targets for major budget aggregates in fiscal year 1976:

	<i>Billions</i>
(1) Revenues	\$295.0
(2) Budget authority	395.6
(3) Outlays	368.2
(4) Deficit	73.2
(5) Public debt	624.0

The size of the expected deficit has become a major concern in discussing and choosing these target figures. It must be realized that net new Federal borrowing will be larger than the deficit figure because there are off-budget components of Federal borrowing to be added.

Thus, for example, the mid-March budget testimony of Secretary Simon visualized the possibility that impending additions to Federal spending could lead to a deficit in the neighborhood of \$80 billion. On that assumption, new Federal borrowing could reach about a \$94 billion level. What impact would this have on financial markets? Would it compete with private business and consumer borrowing to

¹ BLS April report on March unemployment indicated about 8.36 million people actually unemployed (seasonally adjusted to 7.98 million at 8.7 percent annual unemployed rate).

an extent sufficient to crowd some private borrowers out of the market—and thus reduce levels of private borrowing needed to finance economic recovery?

The Committee report recognizes this problem, but relies, optimistically, on the assumption that declining trends in business and consumer borrowing would allow larger Federal borrowing without interfering with private credit needs. Moreover, it assumed that much of the new Federal borrowing could be short-term, since short-term private demand and interest rates have both gone down substantially in the last few months.

Unfortunately for this assumption, business borrowing has recently increased strongly, and both short- and long-term rates are turning upward. Corporate bond borrowing reached record levels in the first quarter of this year. Treasury bill rates reached a low in the first quarter and are now rising again. These market movements make it likely that federal financing of a large deficit will encounter competing demands from business. Some corporate bond issues are now being deferred and more will be crowded out of markets if large new Federal borrowing occurs. These actions would clearly impede business recovery on which the jobs and earnings of most people depend.

Another major element of private credit needs involves housing finance. Housing starts have fallen from nearly 2.4 million yearly in 1972 to less than a million annual rate in early 1975. Mortgage rates have been at record highs in this period. This has meant that a great many home buyers were unable to finance new homes. Recently, housing starts improved modestly as mortgage rates moved downward. But if large new Federal borrowing crowds capital markets, these mortgage rates will rise again and housing construction will again decline, reducing the supply of new homes and further depressing construction industry unemployment. If Federal borrowing is more modest, this sector of private industry and consumers will be better served.

The Committee report also proposes that a part of new Federal borrowing be taken up by Federal Reserve purchases of the new securities. This poses the familiar problem of "monetizing" this portion of the new debt. The Reserve Banks would pay for their purchases with Reserve Bank credit for Treasury account. When the Treasury writes checks on these accounts, the payees deposit proceeds in commercial banks, thus furnishing additional reserve credit or "high-powered money" to the banks. Through operation of the fractional reserve principle, this process stimulates a multiplied expansion of bank credit.

If the portion of the new Federal deficit financed in this way is sizeable, it creates a strong prospect that too much monetary expansion will result. One recent estimate indicates that if 20% of new Federal borrowing at a \$70 billion deficit level is financed in this way, a 12% increase in the money supply could result.

Dr. Arthur Burns, Federal Reserve Chairman, in a statement to the Budget Committee, indicated that impending additions to Federal spending, plus off-budget outlays and those of government-sponsored enterprises, could lead to a Federal finance figure above \$100 billion. He warned that "enormous strains may be placed on money and capital markets," and that "interest rates may begin to shoot up, that many private borrowers may be crowded out of the market, that savings funds may once more be diverted from mortgage lenders. . . ."

The Committee, in considering the level of this impact, relied on a small sample of bankers' and economists' views. The Committee then concluded that expert financial opinion justified their presumption that Federal borrowing to finance a \$73.2 billion deficit could be safely undertaken without rekindling inflation. Nevertheless, an American Bankers Association letter expressing "a working consensus of our industry experts' views" stated,

It is generally acknowledged that a deficit in the range of \$50-75 billion can be financed in our money and capital markets during FY 1976. Financing an amount at the upper end of this range, however, involves the risks of generating either of the following potentially serious side effects:

1. If too much of the deficit is financed by Treasury borrowings from the public, particularly as the economy recovers, private borrowers will be crowded out of the capital markets. The resultant upward pressure on interest rates could hamper economic recovery.

2. Alternatively, if Federal Reserves and Treasury operations are conducted to monetize much of the new debt, the result will be an excessive expansion of the money supply and the rekindling of inflationary pressures.

Clearly, a substantial measure of skill and forbearance will be required on the part of all concerned to chart a successful course through this troubled period. Recognizing the uncertainties involved, our conclusion is that great caution should be exercised in enacting any measures that would expand the projected FY 1976 deficit beyond, say, \$50 billion. This amount of fiscal stimulus, coupled with a *steady moderate rate* of monetary expansion, should serve to carry our economy back onto a path consistent with our long-term growth potential.

This is certainly not a green light for a \$73.2 billion deficit to be financed safely without renewed inflation.

These factual considerations squarely challenge the Committee report proposition that so large a deficit may be financed without inflationary consequences. They indicate large Federal borrowing impacts on capital markets which will impede business recovery. They imply an expansive monetary policy to support the Committee's fiscal measures which could dangerously de-stabilize our monetary system.

This appraisal of the Committee report has pointed to the dangers of renewed inflation in relation to the size, timing and method of financing the proposed deficit. It does not intend to imply that more inflation is unavoidable; rather, it points to some crucial limits affecting the range of public policy choices. It points to the dangers of too large a fiscal stimulus, too long a duration, and too great a reliance on monetary expansion. Moderation in all these respects may provide a more balanced economic recovery, with improved chances of more stable price levels in the future.

The character of the fiscal stimulus expressed in the Committee report is also subject to question as to expected results. Understandably, it is job-oriented stimulus, involving public service jobs and a

speed-up of public works projects, including highway construction and the like. Unfortunately, previous experience suggests that these programs add new jobs relatively slowly, that they often transfer skilled employees now working into the new programs, and that the cost of job creation in this fashion is very expensive in comparison to private employment. At best, it appears that such a stimulus will come too late, last too long, and cost too much for the expected employment increases sought.

These limits on fiscal strategy help to emphasize the importance of price stability as a goal, in moderating the peaks and valleys of economic fluctuations. Our experience over the last two years or so has shown us how seriously uncontrolled price rises can reduce the purchasing power of consumer incomes, thereby also reducing business activity, overall employment and output.

This recent inflationary experience is not an isolated phenomenon. The process has developed momentum over a long period in which large deficit spending by government has taken place at relatively high levels of employment and output, at times facilitated by strong monetary expansion. These circumstances, in combination, constitute a classic recipe for continuing inflation. Their persistence, over many years, re-emphasizes the importance in the economy of the budgetary decisions of the government.

It is an experience that provides a sobering reminder of the severe damage that inflation can inflict on us. It reminds us that inflation is not a secondary concern or minor irritant. It is a consequence of past unwisdom in our economic choices. But above all, it is a prime cause of severe economic disruption which destroys jobs, depresses productive activity, and injures human well-being on the widest scale.

THE MARGIN OF ERROR, UNCERTAINTY, AND RISK IN COMMITTEE PROPOSALS

If the Committee's proposed deficit of \$73.2 billion entails unacceptable risks, as I believe it does, then a significantly larger deficit evidently entails much larger risks. Accordingly, we must give some attention to margins for error and uncertainty which arise through estimation of congressional and other actions which affect budgetary decisions and their consequences.

An accompanying table illustrates some \$30 billion in potential error and uncertainty in the Committee's proposals. The items covered include ranges of difference in current estimates of the fiscal 1976 budget, major program estimates not included in the Committee proposal, and differing program and economic estimates. While this table does not represent precise dollar estimates, or predictions of congressional and other actions and inactions, I believe that it does represent a valid approximation of the margin of error, uncertainty, and risk, over and beyond the Committee's proposals.

A further major element not included in the Committee's proposals is the activities of off-budget agencies, Government-sponsored enterprises, and Government guaranteed borrowing. The fiscal 1976 budget documents estimated the deficit-like shortfall of these activities at \$26 billion. These activities, while not included in the official budget totals, substantially enlarge the actual and potential scope of Federal financial operations, and their impact on the economy.

The overall scale of these additions to the target deficit and outlay figures makes it clear that the actual risks of severe strains on our American economy are far larger than those envisioned in the Committee report. In my view, they constitute an unacceptable risk, which the Congress should recognize and reject.

MARGIN FOR ERROR AND UNCERTAINTY IN THE FISCAL 1976 DEFICIT PROPOSED BY THE HOUSE BUDGET COMMITTEE

[In billions]

	HBC	Alternate estimate	Source
1. Current estimates, HBC and OMB:			
Changes in tax receipts:			
Rejection of energy tax proposals.....	+1.9	+1.9	OMB
Tax cuts (House bill).....	+3.8	+5	OMB
Increase in revenues from greater stimulus.....	-1.7		
Changes in outlays:			
Offshore oil and receipts loss.....	+4.0		
Assured changes to date.....	+6.4	+5.9	OMB
Subtotal, difference in current estimates.....	+14.4	+8.3	
2. Major program estimates not included by HBC:			
Emergency agriculture price supports (H.R. 4296).....		¹ +5.2	OMB/CBO
Child nutrition and school lunch act amendments (H.R. 4222).....		+1.4	OMB
Health insurance for the unemployed (S. 625).....		+1.5	OMB
Antirecession grants (JEC recommendation).....		+5.0	OMB
Changes in tax bill from House version.....		+5.1	OMB
Subtotal, program estimates not included by HBC.....		+13.5	+15.2
3. Difference in program estimates HBC and OMB:			
Rejection of reduction legislation.....	+7.6	+12.3	OMB
Unemployment compensation (JEC recommendation).....	+1.9	+4.0	OMB
Additional public service jobs (JEC recommendation).....	+2.0	+3.0	OMB
Increased public works projects (leadership program).....	+3.0	+3.0	OMB
Increased urban mass transit and highway projects (Public Works recommendation).....	+1.3	+1.8	OMB
Increased school feeding and related programs.....	+7		
Other new spending proposals.....	+6.1	+6.3	OMB
Subtotal, differences in estimates.....	+22.6	+30.4	
4. Differences in economic estimates, HBC and OMB: Lower unemployment and CPI assumptions.			
	-3.9	-1.1	OMB
5. Major spending reductions by HBC not in OMB estimates:			
Defense.....	-4.5		
Petrodollar facility.....	-1.0		
Energy equalization payments.....	-7.1		
Subtotal, spending reductions.....	-12.6		
6. Other changes, net.....			
	+8		
Total, differences.....	+21.3	+51.1	+52.8
Original estimate of deficit.....	51.9	51.9	
Total deficit, with differences in estimates.....	73.2	103.0-104.7	

¹ CBO estimate of House bill.

² OMB estimate of Senate bill.

ELFORD A. CEDERBERG.

SEPARATE VIEWS OF HON. JAMES G. O'HARA

My dissent has two aspects. One relates to the procedures and format the Committee was forced to use through lack of time in which to formulate a more suitable alternative, and the other to the acceptance by the Budget Committee of the Administration's proposal that limits be imposed on cost-of-living increases to 1) Old Age Survivors Insurance; 2) non-disabled railroad retirement income; and 3) pay, allowances and retirement income of Federal employees (both civilian and military), other than the disabled.

The limits suggested by the Committee result in net savings in outlays of \$3.2 billion, i.e., less than 1% of the Committee's recommendation on an outlay level. The \$3.2 billion would represent an increase in the deficit figure of only 4.2% of the total deficit, assuming no change in the Committee's level of revenues. This small saving would be achieved by denying to these groups, the victims and not the cause of runaway prices, the protection against inflation promised them by the Congress.

PROCEDURES AND FORMAT

It should be emphasized that the Budget Committee's action this year is a trial run, restricted to identifying Revenues, Budget Authority, Outlays, Deficit and Public Debt. The method used to arrive at these figures should not constitute a precedent. There being insufficient time for any other approach, the sixteen functional codes used in the President's Budget became the basis for the Committee's analysis with the result that the level of funding of several distinct Congressional legislative categories was obscured or lost in their being lumped together.

For example, Code 500 "Education, Manpower and Social Services" aggregates three major categories, each of which merits consideration in its own right. Code 400 "Commerce and Transportation" and Code 300 "Natural Resources, Environment and Energy" are other examples. When it reviewed Code 500, the Committee could not readily identify and compare individually the past, current and proposed levels of education, manpower and social services. It would have been less complicated if these could have been dealt with separately, particularly because manpower represents one of the key legislative categories in which antirecessional measures can be adopted by Congress that would have an immediate impact on unemployment.

Furthermore, by reviewing these sixteen functional codes virtually in numerical sequence the Committee may have inadvertently ignored one of its intended functions—that of determining national spending priorities. In fact, the Committee's review of Code 500 took second to last place when members' thinking was greatly influenced by an estimated deficit that had reached approximately \$76 billion, already exceeding the Chairman's target of \$75 billion. It would have been

more in keeping with the aim to establish priorities had the Committee considered first the major human problem, unemployment which is at 8.7% and increasing. Had we done so, decisions relating to stimulus of the economy by means of public service jobs, public works programs, housing construction, and so on, could have been arrived at without our having been inhibited as we were by the level of the deficit. The levels of other activities could then have been cut to suit the cloth available as defined by the Chairman's target of an acceptable deficit.

Simply because an eleventh-hour decision was made to undertake the trial run on a limited basis this year, no procedural precedent should thereby be deemed established. When members of the Committee have had time to reflect on the hectic six weeks that lie behind their first (ever) Concurrent Resolution on the Budget and accompanying Report (in the preparation of which the Budget Committee staff deserves the highest praise for a tremendous effort), steps should be taken to identify how a House version of the budget should be prepared, perhaps by using codes or categories that cover activities and programs under the jurisdictional control of each of the standing committees. This would enable the Budget Committee to submit its Report in a format that can be understood by the House more easily than one based on the sixteen functional codes of the executive branch.

Although the sixteen functional codes have sub-functions which ostensibly break them down into more understandable and homogenous categories of programs, the sub-functions do not, in fact, provide a satisfactory basis for Congressional use. Many compromise programs in several jurisdictions of different standing Committees, and involve such gross numbers as to make it impossible to relate these figures to the specific program concerns of these Committees.

PROPOSED LIMITS ON COST-OF-LIVING INCREASES

While in basic agreement with the concern of the Chairman and my colleagues on the Committee to keep the deficit at economically sound levels, I cannot support economies at the expense of groups of individuals, some of whom are among the most hard-pressed in the nation, to which the Congress has made commitments, both moral and legal.

The President proposed a 5% limit on cost-of-living increases that are by law due to be paid to a wide range of people encompassing Federal and ex-Federal (retired) employees, recipients of Social Security payments and supplementary security income, and retirees (including the disabled) from the railroads. I am glad that much of the President's proposal was rejected by the Committee, but I cannot support its action which recommends that the Congress establish some such limits. For Federal employees (civilian and military) the Budget Committee would have the Congress legislate a 5% ceiling on any cost-of-living increase. For non-disabled retirees (Federal employees, railroad retirees, and OASI beneficiaries) the Committee in effect recommends legislation that establishes a 7% ceiling on any such increase.

Column 1 of the following table shows the reduction in spending (outlays) as proposed by the President's Budget on items which the Budget Committee did not reject. Column 2 shows how the Committee has adjusted these remaining items.

SAVINGS IN OUTLAYS

[In millions]

	Reduction proposed by President	Reduction retained by Budget Committee
OASDI (Social Security).....	\$2, 546	\$662
Railroad retirement.....	116	² 47
Federal employees:		
Federal employee retirement.....	773	² 543
Military retirement.....	617	² 364
Military pay.....	656	656
DOD civilian pay.....	535	535
Civilian pay allowances.....	410	410
Subtotal, Federal employees.....	2, 991	2, 508
Total.....	5, 653	3, 217

¹ OASI only.² Nondisabled only.

By denying the imposition of any limit on cost-of-living increases, which is my strong position, the Committee would increase the outlay level in the First Concurrent Resolution by the amounts in Column 2 which total only \$3.217 billion.

With respect to Federal retirees, both civilian and military, and with respect to the non-disabled retirees under the Social Security Act (OASI) the Congress enacted laws committing the government to cost-of-living raises to these groups.

Retirees generally are living on fixed incomes which they are unable to supplement even in times of full employment. Because of age, they are unable to work even when work is available. This has been recognized in our past practice of providing cost-of-living escalators to the various classes of retirees. In so doing, we have not been giving them a gift or gratuity. We have been doing equity. They have paid their taxes throughout their working life. They have contributed in various ways to their retirement funds. We have not been giving them something for nothing. We have been providing them with something approaching constant dollars in their retirement through the cost-of-living escalators in order that their retirement income might bear some reasonable relation to what they paid in.

Most of the retirees live on the fringe of desperation—eking out a bare existence. It will not do to say that the reduction we are causing to their pensions is small. Those reductions may be small to us, but to most of the retirees they are enormous. The average old age survivor beneficiary today, a widow for example, is getting only \$191 per month. Neither she, nor the many below the average, looks at \$3 less a month as something small. This, however, is what the Budget Committee proposes.

The pay of Federal employees, military and civilian, is fixed by law. The Congress, by law, has established a system by which their pay is to be kept comparable for similar work in private business and industry. Comparability has always been something of a myth, of course, since the mechanism always involves and maintains a 6-month lag.

Comparability, such as it is, however, has served to keep the Federal employee reasonably close to his counterpart in the private sec-

tor. Now, when the provisions for the adjustment necessary to maintain that comparability are most needed, it is proposed that we put limits on those adjustments.

To establish such ceilings would be arbitrary and unfair to a group of people who deserve better treatment.

It would very likely destroy the very principle of comparability as well. Can we be sure that the gap we propose to establish between Federal employees and other workers would ever be removed?

It may be, as some of us are pleased to allege, that some of the Federal employees are overpaid. If that is so, we should do something about it. We should do so carefully, however, and explicitly, and only after full attention to all the facts and details. We should not do so, we should not depart from the principle of comparability, without careful study.

Fortunately, even favorable action on the Budget Resolution will not have the effect of changing existing law in these respects. Committees of appropriate jurisdiction will have to consider these proposals and the Congress will have an opportunity to work its will on each.

While in the main, I applaud the work and the product of the Budget Committee, I cannot endorse or support its recommendations that the law be changed to impose ceilings on these cost-of-living increases. What the Administration proposed was that we renege very substantially on the legal and moral commitment previously made. What my colleagues on the Budget Committee propose is to renege, but not quite so substantially. In principle, both proposals are wrong, both legally and morally. And what this perfidy would accomplish is a reduction in outlays of *less than one percent*.

JAMES G. O'HARA.

DISSENTING VIEWS OF HONS. OMAR BURLESON, PHIL LANDRUM AND HAROLD RUNNELS

INTRODUCTION

We are alarmed and dismayed by the budget figures presented in this resolution. In particular, we are strongly opposed to the \$73.2 billion deficit presented. We feel this is an encouragement for the Congress to go far beyond this figure; perhaps as high as \$90 billion. Our deep concern is tempered only by the unprecedented economic condition of our Nation.

Funding this staggering deficit could easily have a serious adverse impact on this Nation's financial markets. Long- and short-term interest rates, as well as the inflation rate, may be forced higher because of the enormous amounts involved.

Although we recognize the need for an economic policy which will lift our economy out of today's serious recession, we find the \$28.4 billion in stimulative tax cuts and programs included in this measure to be excessive and, in our opinion, injurious. In addition, we find most of the \$542 million in funding for other new programs, which are not categorized as stimulative, to be unwarranted at the present time.

FUNDING THE DEFICIT

It should be noted that a selective sampling of the opinions of certain bankers and economists across the Nation by the Committee staff and during our hearings revealed that the appalling deficit which we face could, under certain circumstances, present serious problems to financial markets. The level at which a deficit of this magnitude will begin to cause problems is dependent upon the demand for loan monies from the private sector of the economy which in turn is dependent upon our economic health. However, most experts in this field agree that the deficit figure presented in this resolution is very close to the upper limit of that Federal deficit which could be absorbed by the financial market during the upcoming fiscal year under existing conditions of low private demand for loanable funds. We consider it a distinct possibility that private demand for investment funds will be revived by the time Federal borrowing related to the \$73.2 billion or more deficit commences on a full-scale basis. It should be noted that this budget recommendation provides for various economic stimulus programs amounting to \$13.6 billion which will, most likely, continue throughout the fiscal year whether or not the economy begins its climb out of its present recessionary posture. Unemployment rates are not expected to fall below 7.4% even if these stimuli are successful. Thus, it does not appear likely that the Federal deficit will decrease appreciably even if the Nation's economy revives and, thus, even if private borrowing needs expand in response to this revival.

If the Tax Reduction Act is extended beyond December, 1975, as is anticipated by the Committee, the financial market in the last two quarters of fiscal 1976 may find itself responding to a massive amount of Federal borrowing on top of a major increase in demand for private borrowing. The end result could very well be displaced borrowing in the private sector, high interest rates in short, intermediate and long term markets, and a resultant renewal of double digit inflation.

The enormous and unstoppable stimulus programs in this budget, coupled with a possible increase in private borrowing demands, could do the economy more harm than good.

The only way to finance Federal spending is through increased revenue, decreased spending, or borrowing. This time-worn axiom has never been more evident than during the deliberations of the Committee.

We strongly disapprove of the extensive use of borrowing to fund this increase in spending and we urge each Member to consider fully the fact that this budget recommendation will bring the public debt to an astronomical total of \$624 billion.

PAST DEFICITS

During the Committee's hearings and deliberations, there was general agreement that our current economic difficulties are, to a major degree, the result of weakened budgetary restraint on the part of Congress in years past. In the past decade, Federal outlays have ballooned from \$118.4 billion in fiscal 1965 to \$313.4 billion in fiscal 1975, an increase of 265%. The outlays recommended in this resolution represent a 17.5% increase over outlays in fiscal 1975, an annual rate of growth that is reaching geometric proportions, even when compared to recent spending increases attributable, in part, to the Vietnam war.

Deficits have grown rapidly over the years and they, too, are now increasing by leaps and bounds. During President Truman's second term of office, the Federal debt rose by \$13.3 billion. In the 8 fiscal years of the Eisenhower administration it rose by \$26.8 billion. The Kennedy-Johnson administrations experienced an increase of \$74.2 billion. Since fiscal 1969, the Federal debt has risen by approximately \$171.9 billion. The enormity of the deficit proposed in this budget recommendation is exemplified by the fact that it will approximate the entire debt increase incurred during the Kennedy-Johnson administrations. It is equal to almost 43% of the entire public debt incurred during the past six fiscal years.

We are deeply concerned about this unchecked growth in Federal deficit spending and we strongly oppose its continuation for another fiscal year.

OVERSTIMULATION

The Committee decided to include a significant amount of funding in its recommendation which is meant to stimulate the economy out of its recessionary posture. The signators of these dissenting views are deeply concerned about (1) the impact of these funds on the deficit, (2) the inflationary impact of these expenditures, and (3) the possibility of overstimulation.

It should be noted that this resolution includes the following legislation which collectively may be categorized as economic stimulus legislation:

Bill No.	Title	Expected fiscal year 1976 outlays in billions
H.R. 2166	Tax Reduction Act	\$14.8
H.R. 4485	Emergency Middle Income Housing Act of 1975	1.9
H.R. 4481	Emergency Employment Appropriations Act	3.6
H.R. 2205	Public Service Jobs Bill	1.9
H.R. 5247	Emergency Local Public Works Capital Development and Investment Act of 1975	3.0
H.R. 3786	Highway Projects bill	.6
Other bills		1.1
Amount of economic stimulus legislation included in this resolution		26.9

We foresee the strong possibility of massive overstimulation for several reasons. The expenditures represented by these programs will continue throughout fiscal 1976 whether or not they are effective stimulants. They will be *unstoppable* programs once enacted into law under even the most optimistic economic forecasts for fiscal 1976. Estimates are that unemployment will be somewhere over 7% throughout the fiscal year and thus the Committee's justification for these programs will continue even after the economy begins its recovery.

The end result will be an extensive proliferation of new Federal programs with all of their accompanying problems and with a life expectancy that will certainly have a significant impact on the fiscal 1977 budget and those succeeding it.

TAX EXPENDITURES

The question of tax loopholes, inequitable tax laws, and tax expenditures in general was reviewed by the Committee. It was decided that the Committee would not make any major economic policy decisions in the field of tax expenditures at this time. The signators of these dissenting views acknowledge the complexity of this area, are aware of the time limitations under which the Committee has been working, and recognize that the House Ways and Means Committee will be preparing general tax reform legislation for consideration of the House. However, the Congressional Budget and Impoundment Control Act of 1974 mandates the Budget Committee to request and evaluate continuing studies of tax expenditures. We will support the establishment of a Budget Committee Task Force on tax expenditures to implement this mandate.

REVENUE SHARING

The Committee did not feel it was realistic at this time to make an economic policy decision in favor of amending or repealing the \$30 billion general revenue sharing program. Funds for this questionable program have been authorized through December of 1976 and thus, this program represents \$7.2 billion in automatic outlays in fiscal year 1976. To change this outlay will require a change in existing law. The signators of these views feel that this program would be better titled

as the *Deficit Sharing Program*. We are particularly concerned about the ways in which some of these revenue sharing funds are being spent.

We question the obvious dependence of State and local governments on Federal funds that has evolved during the short life of this program and we note it has demonstrated clearly that States and local governments do not face common fiscal requirements. We consider these problems to be extremely serious especially in view of the fact that the Nation contains over 3,000 counties, 17,300 townships, 18,600 municipalities, 20,000 school districts, and 21,000 additional special districts. The range of governmental units per State extends from a low of 19 in Hawaii to a high of 6,453 in Illinois and averages out to about 1,600 per State.

This enormous quantity of Federal spending amounts to just under 10% of the deficit recommended in this resolution. We cannot condone the continuation of a questionable program of this size under existing economic conditions.

STANDING COMMITTEE RECOMMENDATIONS

The standing committees of the House, in their March 15 reports to the Committee on the Budget, recommended outlays of \$398.4 billion. Using the Budget Committee's projection of estimated revenues of \$295 billion, these Committees collectively presented the Committee with a \$103.4 billion deficit recommendation.

The Budget Committee did not accept a major portion of these recommendations. Although the House of Representatives has already acted to adopt some of these proposals, including the Tax Reduction Act and the Emergency Employment Appropriations Act, the signators of these views strongly recommend that each and every new program and each and every expansion of an existing program be carefully studied and be rejected wherever reasonably possible by our fellow Members.

CONCLUSION

For the foregoing reasons, the undersigned oppose reporting this concurrent resolution to the House of Representatives. We recognize that the Committee has been guided by a desire to be accurate and realistic, that it was restricted to a certain degree by a shortage of time and that it was handicapped by a unique set of economic conditions of severe unemployment and unprecedented inflation. However, we feel it is our duty to voice our concern and to clearly indicate that we cannot approve a \$73.2 billion deficit recommendation.

OMAR BURLESON.
PHIL LANDRUM.
HAROLD RUNNELS.

DISSENTING VIEWS OF HON. ELIZABETH HOLTZMAN

It is with some reluctance that I oppose the House Budget Committee's recommendations. Unfortunately, I cannot agree with the priorities for national spending that are reflected in this budget resolution.

When Congress created the House Budget Committee, it did so hoping that we would be able to control federal spending and set national priorities that reflected the concerns of the people. The Committee, in my judgment, did not fulfill this mandate in the resolution it adopted. Even though the Committee has not been in existence long enough to be in a position to scrutinize the entire federal budget in minute detail, that does not excuse its failure to redirect taxpayers dollars to human needs, cut obvious waste and defer unnecessary spending to a later date.

In particular, I disagree with the Committee's recommendations because:

(1) By placing a 7% cap on Social Security benefit increases, the Committee chose to economize at the expense of people instead of unneeded programs, and even worse, at the expense of the elderly who, for the most part, are least able to afford it. Also, by proposing a 5% cap on federal pay increases, the Committee arbitrarily singled out a particular group to bear the burden of fighting the inflation.

(2) The Committee recommended an inflationary \$4.5 billion increase in actual defense spending over last year's level (from \$85 billion to \$89.7 billion), despite evidence of substantial waste and without any specific justification.

(3) The Committee abdicated its responsibility to scrutinize the whole federal budget by failing to review the budgets of the CIA and other intelligence agencies.

(4) The Committee unwisely held spending at last year's level in revenue sharing. It ignored the need, especially in urban areas, for increased revenue sharing funds to deal with recession-caused deficits. The Committee also failed to increase spending, even to keep pace with inflation, in a variety of health programs, including maternal and child health state grants, health training programs and disease control grants (such as lead poisoning).

I. Capping Social Security, Retirement, and Federal Pay

The Committee's decision to place a 7% cap on Social Security increases is unjustifiable. Obviously, there is room in a \$368.2 billion budget to provide a decent standard of living to the elderly.

It is important to remember that the elderly people who receive Social Security benefits are for the most part poor. In December, 1974, the average retired worker received \$188.00 per month and the average widow \$177.00. These amounts are *below* the poverty level. The aver-

age retired couple received a monthly benefit of \$312.00—\$40.00 less than the Department of Labor estimates an elderly couple needs for a low income budget.

Since most people receiving Social Security benefits have only those benefits (supplemented at extremely low levels by SSI benefits) to live on, the Committee's decision to economize on increases in these benefits strikes at people who already cannot make ends meet.

The Committee also limits to 7%, cost-of-living increases for those persons (not disabled) receiving benefits under other federal retirement programs, and imposes a 5% ceiling on cost-of-living increases in federal employee salaries. Neither of these caps is wise or justifiable. Here again the Committee has arbitrarily selected particular groups of people to bear a disproportionate cost of solving the nation's economic problems.

II. Inflationary Defense Spending

The Committee recommends outlays of \$89.7 for defense (and budget authority of \$99.8 billion). This represents an increase of \$4.5 billion over 1975 levels. Nearly one out of every two general revenue tax dollars must go to sustain this enormous level of military spending.¹

Without substantial and specific justification, which the Committee did not receive, I cannot support spending half of our general tax revenues on the military—especially when this country is not at war and already has an overwhelmingly superior military capability.²

While, to its credit, the Committee reduced the President's request for an even greater increase in defense expenditures, the Committee has still accorded the military privileged status in the federal budget. With the exception of job creation and energy—two of our most pressing national needs—only defense is given money for new programs. And even though the country faces a serious energy crisis, the federal budget allocates approximately six times as much money for weapons research and development as it does for energy R&D.

The Committee failed to subject the defense budget to adequate scrutiny, for even a preliminary analysis shows that a number of programs are wasteful or could be deferred. Some such programs are :

Item	Budget authority (millions)	Outlays (millions)	Justification for cut
1. Increased recruiting costs.....	63	60	Applicants for the armed forces far exceed our present needs. There is no reason for increased spending to attract more volunteers.
2. Increased depot maintenance and overhauls.	667	500	Increases could be deferred because the basic program appears to have adequately loaded maintenance facilities.
3. Increases in other procurement.	1,500	180	Significant increases in procurement of miscellaneous equipment for the general force. With no increase in force levels, there is no need for increased procurement.

¹ Out of \$295 billion in anticipated 1976 revenues, \$98 billion are raised for, and go automatically to, special trust funds, such as Social Security, unemployment insurance, and the Highway Trust Fund. That leaves a balance for discretionary disposition—general revenues—of \$197 billion.

² Secretary Schlesinger made two arguments in behalf of increased defense spending. Neither can withstand analysis. First the Secretary argued that the Soviet Union is spending more money than the United States this year on defense. This argument ignores the question of effectiveness, and suggests rather that United States military strength is a function of cost-overruns or inflation. Second, the Secretary suggested that, in the area of certain weapons, the Soviet Union was outproducing the United States this year. Without comparing reserves, in other words United States totals against Soviet totals, production figures for this year are meaningless.

Item	Budget authority (millions)	Outlays (millions)	Justification for cut
4. Graduate education for military personnel.	100	95	This category involves nonmilitary-related graduate training—a luxury at best.
5. Cut 40,000 support (noncombatant) personnel over 3 years.	150	150	The Army recognizes that these personnel are unnecessary, but seeks to replace them with combat personnel. No justification has been given for 3 new combat divisions. It is pointless to fight one kind of waste by creating another.
6. Minute Man III Test Missiles	265	90	Only purpose of this expenditure is to keep production lines open.
7. Site defense (ABM and ICBM)	180	90	Since these R. & D. programs are designed to develop an ABM system despite the SALT treaty, they are unnecessary.
8. F-15 aircraft (keep present production level at 6, not 9 per month).	600	60	No need to speed up production of F-15 from 6 to 9 per month when production of F-16 has been speeded up.
9. Program growth	1,000	200	Original committee mark deferred \$4,000,000,000 out of the \$5,000,000,000 in the requested level of defense program growth. In view of current financial situation, the entire growth request could be deferred.
10. Troops in Thailand	100	100	Thai Government has requested withdrawal of these troops.
11. AWACS	1 690 (620 FY 75)	400	Militarily questionable. Useless for original purpose to defend United States. Present purpose is for NATO use. If so, and if NATO wants it, let NATO pay.
12. Shipbuilding	3,000	240	This represents new shipbuilding authority. Yet, \$2,300,000,000 in cost overruns show Navy's program in serious trouble. We should not reward mismanagement. Also Navy needs lead time to comply with Congressional requirement that ships have nuclear capacity.
13. B-1 bomber	749	350	Need for new strategic bomber unproven. At present time United States has 500 bombers. Air Force has lengthened life and penetration capability of B-52's by extensive modification programs. Strategic use of bombers as deterrent doubtful at best.
14. Military support to South Vietnam	700	500	This item is self-explanatory.
Total savings	9,764	3,015	

¹ 620 in fiscal year 1975.

Had the Committee anticipated that Congress would cut only one-third of these programs—as it well may and certainly should—it would have produced a savings of \$1 billion in outlays and \$3.3 billion in budget authority. And this preliminary analysis does not include questions relating to such major matters as the cost of maintaining a 2.3 million person military force in peacetime, wasteful duplicative costs involved in competition among the Army, Navy, Marines and Air Force, and the costs of perquisites (chauffeurs, limousines, servants) for a bloated officer corps.

Finally, economies made now in the defense budget (in actual outlays) will yield approximately threefold savings in the future because of reduced budget authority. I regret that the Committee failed to attempt to make such savings.

III. The Deficit

The Committee recommended a deficit of \$73.2 billion. Much of this deficit is the product of the recession and cannot be reduced unless the economy picks up.

We should note, however, that the deficit would be reduced somewhat if tax loopholes were closed. Unfortunately the Committee was not organized in time to do the background analysis that would justify a full-scale attack on these special tax preferences.

Special Analysis F of the President's budget indicates that \$90 billion will be spent through the tax system in 1976 because of special tax

preferences. The testimony of Professor Surrey of the Harvard Law School suggests that a number of these tax preferences (tax expenditures) could well be eliminated.

In the future, the Committee and the Congress should turn their attention to tax preferences. Unquestionably some of them—such as the deduction for charitable contributions—should be retained. There are, however, at least \$10 or \$20 billion in tax loopholes which could be eliminated this year without triggering a further decline in the economy. These include deferral of income of domestic international sales corporations (DISC), the depletion allowance for timber, and capital gains treatment of certain income. Moreover, there are a number of tax expenditure items which were omitted from the President's budget, including the foreign tax credit and capital gains treatment in estate taxation. Reductions in these items could have brought the deficit to more acceptable levels.

The recession has already produced a sizable deficit. The Committee seems to feel that an even larger deficit is necessary in order to finance job creation programs and stimulate the economy. I do not agree that we need a deficit of \$73.2 billion in order to fight the recession, or that the country can easily afford deficit spending of this magnitude. (Interest on the national debt is now \$35 billion, the third largest item in the budget, exceeded only by income security and defense.) If the defense budget were subjected to careful scrutiny, inequitable and unjustifiable tax loopholes closed, and a major effort made to reduce waste in all Federal programs, the deficit could be reduced without requiring cuts in spending on human needs or impairing our ability to fight the recession. I regret that the committee had not been in operation long enough, and was therefore not prepared, to take such action and really meet the challenge of the recession.

ELIZABETH HOLTZMAN.

DISSENTING VIEWS OF HON. BUTLER DERRICK

Despite my hopes that the Nation could afford a substantial budget deficit during fiscal year 1976, I have reluctantly concluded that a \$73.2 billion deficit cannot be safely financed without a severe impact on the Nation's credit markets.

In fact, the Nation's credit markets are already showing the effects of changes in demands for loan funds. Corporate borrowers are finding it increasingly difficult to convert existing short-term bank loans into long-term corporate bonds. The articles from *The Wall Street Journal* following these views indicate that what many fear will happen in fiscal year 1977 is happening even before fiscal year 1976 begins.

Moreover, there is a strong likelihood that several of the economic stimulus proposals adopted by the Committee will result in substantial outlays (and stimulus) *not* in the coming fiscal year when they are urgently needed, but in fiscal year 1977 when most economists agree that budget restraint, and not additional expansion, will be necessary. For example, the Committee has adopted a series of measures to stimulate employment through the construction of various types of public highways, water pollution facilities, and other local community facilities. In my opinion, none of these stimulus proposals can contribute sufficiently to reducing unemployment in fiscal year 1976. Yet, by the Committee's own admission (see page 9 of the report) most of these programs will have a major impact on expenditures in fiscal year 1977, when even those economists and members of the financial community who feel that a \$70 to 80 billion deficit is acceptable in fiscal year 1976 warn that it would be extremely dangerous to risk a comparable deficit in fiscal year 1977 when the economy is in the midst of recovery.

I believe the Committee's resolution should be amended to eliminate any expenditures that will not have an immediate impact on reducing unemployment in fiscal year 1976. The result would be to reduce the need for Federal borrowing without appreciably reducing the amount of stimulus needed by the economy.

[From the Wall Street Journal, Apr. 3, 1975]

CROWDED OUT.—FEDERAL CREDIT NEEDS PUSH MANY COMPANIES OUT OF BOND MARKET

SEVERAL BIG ISSUES DELAYED; CASH SHORTAGE MAY STALL U.S. ECONOMIC RECOVERY

Simon: No relief in sight

(By Phil Hawkins)

NEW YORK.—The corporate bond market may be on the verge of collapse.

"The door into the capital market is beginning to close, and soon perhaps only the stronger companies will be able to squeeze in," warns

one official of a prestigious investment banking firm, Morgan Stanley & Co. And one veteran trader says he believes that "major segments of the bond market" are near collapse.

The reason so many companies are being forced out of the bond market is the vast sums of money that the U.S. Treasury will have to raise there, thus causing a shortage of cash for other issues. It's estimated that the Treasury will have to tap the public debt market for an estimated \$80 billion over the rest of this year to offset a record U.S. budget deficit. Earlier this week the Treasury said it must raise about \$17.5 billion in net new money by June 30. That is a staggering \$13 billion more than had been forecast as recently as late February.

All this has caused several major companies to delay planned offerings of new debt securities to the public. A dramatic example came late yesterday when Texaco Inc. said it won't proceed with a \$300 million debenture offering originally scheduled for today. This is the largest such postponement thus far. It is also the first sale of prime-grade industrial obligations—as distinguished from utility issues—to be disrupted by worsening market conditions. (Other delayed industrial obligations have been of less than prime grade.)

Those corporations that still propose offerings are drastically shortening their maturities. Issuers of new bonds also are providing the most generous interest returns so far this year in an effort to lure retail customers. And prices of older issues have dropped sharply. Indeed, the market's performance yesterday was widely described as a rout. (See story on page 23.)

LITTLE RELIEF SEEN

Little in the way of relief is promised by Treasury Secretary William Simon. Yesterday he said in an interview that he doesn't see long-term interest rates falling below 8%. Moreover, he added ominously, double-digit rates could return if the Federal Reserve Board sharply expands the nation's money supply to accommodate the huge federal deficits expected through fiscal 1976 and to meet other needs. Such an expansion presumably would heat up inflation, which, in turn, would boost interest rates.

If the corporations can't go to the bond market for funds, where can they go? The probable answer: nowhere. And that's bad news both for the companies and for the country as a whole. This would mean that the corporations would sharply reduce expenditures. And this, in turn, would threaten a delay in the nation's economic recovery.

One place the companies certainly can't go for funds on this scale is commercial banks; that's because the banks themselves are striving to replenish their depleted monetary reserves.

DELAYED OFFERINGS

Among the larger offerings that corporations have delayed are \$200 million by United Aircraft Corp.; \$200 million combined by Manufacturers Hanover Corp., and its chief banking subsidiary; \$100 million by Ashland Oil Inc.; \$50 million by Emerson Electric Co.; \$30 million by Scott & Fetzer Co.; and \$25 million by Dominion Bankshare Corp. A record 12 scheduled new corporate issues have been sidetracked in the past week.

As a result, the volume of new corporate bonds in April almost certainly will be much less than the \$5 billion or so that had been anticipated earlier.

Even the fortunate few corporations that are still planning to go into the market are hurriedly redesigning their new securities so as to provide maximum appeal to the dwindling number of willing investors. Most borrowers are drastically shortening the maturity of their proposed issues because long-term obligations are much more vulnerable to price erosion by inflation. For example, Williams Cos. switched to eight-year notes from 25-year debentures for its pending \$100 million offering. Rohm & Haas Co. recast a planned \$100 million sale of 25-year debentures into equal \$50 million portions of those lengthy securities and 10-year notes.

GENEROUS INTEREST RATES

Bond issuers also are providing generous yields. Yesterday, for instance, Halliburton Co. offered \$150 million of new double-A rated debentures yielding about 9.3%, up sharply from the 8.45% rate on comparable high-grade securities sold in the late February by Bethlehem Steel Corp. And GTE Sylvania Inc., a unit of General Telephone & Electronics Corp., yesterday put out \$75 million of debentures paying 10%, the highest return by any new single-A debt obligations in seven months.

If such rates fail to produce satisfactory sales results, then some dealers are apt to grant extra price concessions to induce big-block investors to exchange part of their portfolio holdings for the slow-moving newer issues. "A trader said he would credit my old bonds at the equivalent of \$10 for each \$1,000 face amount above the going price if I would swap into General Motors Corp.'s 8½% debentures," one institutional investor says. Despite the alleged inducements, nearly \$80 million of the GM debentures remain unsold from a \$300 million offering begun March 20.

Older bonds have sustained severe price declines. Yesterday the Treasury's popular 8½% bonds of 1991-99 plunged by about 24-32 of a point, which translates into an enormous one-day paper loss of \$18 million on the \$2.4 billion outstanding in this single government issue.

Not everyone is pessimistic. First National City Bank's economists note that the "crowding-out" worry "has surfaced in every recession as falling tax revenues inevitably dictated a swollen Treasury deficit." But each time, they say, private credit demands "have sagged as the monetary authorities pumped up bank credit."

And a Merrill Lynch & Co. unit indicates that the "crowding-out" process may be short-lived. "Corporations by the end of April will have sold some \$15 billion of new debt issues, close to half of our estimated total for the entire year. Thus, the pace of corporate bond sales is bound to slow," says Merrill Lynch Government Securities Inc. "As the year progresses we expect the Fed to become more accommodating with credit and the banks to acquire very large amounts of Treasury securities, so the technical supply position of the market should improve substantially within a few weeks."

[From the Wall Street Journal, Apr. 3, 1975]

BOND MARKETS.—CORPORATE, U.S. ISSUES PLUNGE ON RISING FEARS OF INTEREST-RATE SURGE

(By Lindley B. Richert)

NEW YORK—The prolonged slide in corporate and Treasury bonds turned into a rout yesterday, dealers said.

The impetus behind the accelerated declines, producing losses of more than one point on many issues, appeared to be warnings from Washington that double-digit interest rates could return to the market as the government attempts to finance a federal deficit expected by many to exceed \$70 billion in the year beginning July 1.

Also of grave concern to corporate underwriters was the hint that the Treasury may continue to offer long-term securities; such as the \$1.25 billion of 8¼% 15-year bonds it sold last month.

Any such additions to the once relatively skimpy list of long-term Treasury securities available for investment throws up serious challenges to the retailing efforts for far less secure debt offered by corporations, dealers said.

Indeed, it took a 10% return to entice investors to order new GTE Sylvania Inc. debentures. That's the highest rate set on a lengthy single-A industrial obligation in about seven months, specialists said. Last night all but about 10% of the 25-year securities had been retailed. The maker of lighting and electronics products is a subsidiary of General Telephone & Electronic Corp.

A 9.3% return offered on new Halliburton Co. debentures also exceeded recent highs in the important financing category of double-A industrials. Those 9¼% securities are discount-priced at 99.5 to return the 9.3% at maturity in 25 years. Sponsors said orders accounted for about 85% of the issue by late yesterday.

The Halliburton's compared favorably with lesser-rated Allied Chemical Co. 9s of 2000, for example, which were available at about a 9.32% rate in the resale market. On the other hand, one trader said, Halliburton, which is engaged in oil-related services, probably would have suffered in comparison to rates being talked about for a \$300 million offering of prime-grade Texaco Inc. debentures.

That key sale, which had been scheduled for today, was postponed late yesterday because of "market conditions." The quickly deteriorating debt markets had pushed unofficial indications of where the issue might be offered up to 9¼% at a slight discount. A rate of as low as 8.9% was talked about just last week, sources said.

Two corporate borrowers will proceed today, however, with negotiated offerings.

Portland General Electric Co. is expected to market \$10 million of 10% bonds, due 1982 and priced at 100. Rated Baa by Moody's and triple-B by Standard & Poor's, those bonds will be available through Blyth Eastman Dillon & Co. and associates.

Westvaco Corp. is scheduled to offer \$20 million of 9% notes, due 1983, pegged at 100. Merrill Lynch, Pierce, Fenner & Smith Inc. will handle that offering of single-A rated securities.

Underwriters retailed about one-third of the \$188.5 million in key new tax-exempt bonds offered yesterday.

About \$21.4 million remained undistributed from California's important \$75 million offering of prime-quality obligations, sponsors said. Won by United California Bank and associates, the bonds were reoffered at yields from 3.75% in 1976 to 6.5% in 2000. The scale essentially matched that set on similar South Carolina bonds a few weeks ago. California's borrowing will cost an average 5.9846% yearly.

Roughly \$14.7 million was unsold from Washington Suburban Sanitary District, Md.'s \$63.9 million of double-A grade bonds. Those bonds are pegged to yield from 4.75% in 1978 to 7.15% in 2010. The district awarded the bonds on a bid of 7.1116%.

Dade County, Fla.'s \$49.6 million of improvement bonds are being reoffered to yield from 4.25% in 1976 to 7.35% in 1999, terms which left an estimated \$24.3 million unsold. Rated A-1 by Moody's and single-A-plus by Standard & Poor's, the bonds were won by underwriters with a bid setting a 6.912% annual net interest cost.

BUTLER DERRICK.

