The original documents are located in Box 6, folder "Budget - Congressional Budget Office and Budget Committees" of the John Marsh Files at the Gerald R. Ford Presidential Library.

V.P. – Congressional Budget Office

NY Times 1/25/76 Sec 3 P1

The Budget Goes to Congress

193 Experts And Two Committees Take Over

By RICHARD L. MADDEN

tions that now exist—"the fact that it is both an election year and a year in which the economy, while better than last year, is still not in very good shape."

She added, "I think the first year was very encouraging. A lot of people are more sanguine than they were."

Mrs. Rivlin's fledging staff, which has already grown to almost 200, is the expert back-up to the new discipline, all of which was established by the budget re-

—and in running it in this crucial year—are Senator Edmund S. Muskie, Democrat of Maine and chairman of the Senate Budget Committee; Senator Henry L. Bellmon of Oklahoma, the ranking Republican on the Senate Budget Committee; Representative Brock Adams, Democrat of Washington and chairman of the House Budget Committee; Representative Delbert L. Latta of Ohio, the ranking Republican on the House committee, and Mrs. Rivlin, VF Congressional Budget and impoundment act of 1974

INTERVIEW | ALICE M. RIVLIN

A Guide to the Congressional Budget Process

Q. The 1974 Budget Control Act, which established the new Congressional Budget Office, has been described by many Senators and Congressmen as the most significant legislative accomplishment in decades. Can you account for the pride in this Act? Do you believe it is justified?

A: Yes, I believe it is. The Congress has known for a long time that it didn't have a workable way of looking at the federal budget as a whole and making appropriate overall policy decisions.

First of all, it never had a chance to look at expenditures and revenues at the same time. To many people this seems perfectly ridiculous. How can you run a government if you're not looking at the income and outflow at the same time and making some kind of judgment about whether the relationship between expenditure and revenue levels is appropriate to the overall state of the economy?

Second, the Congress never had a chance to consider questions of priorities. Individual bills came to the floor one by one; never was there an opportunity to look at federal spending as a whole and decide if money was going to the right places. Even the Appropriations Committees have never looked at the overall appropriations situation. Because they have always worked through subcommittees—each concerned with its own particular area—they have not looked at the trade-offs among major spending categories.

Since revenue bills also came to the floor one by one, there was no moment at which it was in order for any Congressman to propose either that spending be diverted from one major category to another or that new revenues be raised to cover a particular expenditure.

Furthermore, Congress had a very awkward time schedule in which to consider appropriations and revenue measures. Most appropriations bills in recent years have not been passed until after the fiscal year for which they were to apply had already started. That meant added confusion both in the executive agencies and in state and local government. It also locked the Congress into decisions—almost making one year's budget look a lot like the year before's simply because there wasn't time to change it.

The Congress has been aware of all of these weaknesses for a long time and yet has not taken the rather drastic steps that were necessary to improve the process. What finally galvanized it into action was the somewhat irrelevant circumstance of the difference in political parties between the White House and the Hill and the challenging of the Congress by Nixon in the 1974 budget. This convinced the Congress, finally, that if it didn't want to lose control completely to the executive branch, it needed some process of its own for looking at the budget and expressing its own priorities.

ALICE M. RIVLIN is Director of the Congressional Budget Office.

private sector. In my judgment, the system under which this nation survives and grows depends as much on cooperation as it does on competition among the cores of power and responsibility within the government and within the nation. If there is any area in which the element of cooperation is imperative, it is in safeguarding the livelihood and wellbeing of the nation, not only in terms of the needs of today but in terms of the needs of tomorrow and tomorrow. Whatever we do, therefore, let us try to do it in that context, in the context of cooperation between the two parties, cooperation between the two branches and cooperation among the basic segments of our national life. When it comes to the nation's basic economic needs, there is no advantage to be gained for any particular segment in government or private life. If we do not work together today, in this sphere, there will be no need to ask for whom the bell tolls; it will toll for all of us tomorrow.

Reforming the Federal Budget Process

Michael E. Levy

Prior to the Civil War, Congress, through the powerful House Ways and Means Committee, was in complete control of the federal government's budget. That committee controlled both taxation and expenditures. Total revenues determined the budget process and debt retirement was the primary and dominant "expenditure." The remainder of revenues was barely adequate to support basic government operations—largely foreign affairs and national security. This budgetary procedure kept the size of the federal government spending minimal with virtually no independent presidential control over programs and expenditures.

Erosion of congressional control

The erosion of congressional power started in 1865 when the budget control functions were divided: a new Appropriations Committee took charge of expenditure control while the Ways and Means Committee retained jurisdiction over revenues and the federal debt. (The Senate instituted a similar division of functions.) This specialization was supposed to increase the effectiveness of Congress; instead it marked the beginning of the erosion of congressional control over the federal budget. When the House Appropriations Committee tried to block popular programs, authority over these programs was shifted more and more to the legislative committees and, before long, the political appeal of "pork barrel" legislation was discovered.

Yet the executive was in no position to reverse the process of budgetary disintegration. The president had little to say as Congress shaped the initial budget, and he had virtually no control over the subsequent expenditures by his own departments. The Treasury Department was equally powerless; its job was to collect the revenues, pay the bills, and keep the ledger. All too often, expenditures exceeded the original budget targets and supplementary appropriations had to be voted by the Congress before the end of the fiscal year.

Shift of power to the president

The Budget and Accounting Act of 1921 was designed to correct this situation by providing greater executive control over the budget totals; it set the stage for a dramatic reversal of power. With the creation of the Bureau of the Budget, the executive took on the chief responsibility for overall budgeting and for the reconciliation of revenues and expenditures. Initially, the Bureau of the Budget was an arm of the Treasury; but soon it became a coequal, and in recent years—reorganized into the Office of Management and Budget—it has become the single most powerful superagency under the direct control of the president.

The 1921 act also created the General Accounting Office, an auditing arm of the Congress and its watchdog. But the GAO was no adequate match for the new Bureau of the Budget and the efficient, centralized budget process the latter developed; hence control over the budget shifted from Capitol Hill to the White House. With the growth of the federal government's programs and activities during the Great Depression and World War II, this shift of power accelerated and became deeply entrenched. The Employment Act of 1946—and the subsequent transition in budget planning to meet countercyclical fiscal policy objectives—increased the responsibilities of the president and enhanced his power to shape the budget in accor-

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HOUSING AND URBAN AFFAIRS

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Cranston	Garn
Biden	

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Stevenson - *chairman*

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Williams	Tower
Cranston	Helms
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McIntyre	

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Budget

Federal budget generally; Congressional Budget Office. *Ext. 40642.*

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Joe Biden (Del.)	
Sam Nunn (Ga.)	

No standing subcommittees.

Commerce

Interstate and foreign commerce generally; regulation of interstate transportation, communications, pipelines, inland waterways, Coast Guard, merchant marine, civil aeronautics except activities of the National Aeronautics and Space Administration; fisheries and wildlife; National Weather Service; National Ocean Survey; National Bureau of Standards. *Ext. 45115.*

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Budget

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VF Congressional Budget Office

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so Mayor Abraham Beame warned that there will have to be fresh cuts in the city's own $13 billion budget. In effect, both the mayor and the governor are seeking to make a political virtue out of economic necessity.

Their primary objective is to re-establish fiscal credibility, which is the key to gaining renewed access to the tax-exempt market for state and local obligations. Mr Carey should have an easier job of it if only because he is a relative newcomer with no reputation for fiscal gimmickry to live down. Nevertheless, the state is in serious financial trouble because of the difficulties of the so-called "moral obligation" authorities spawned during the Rockefeller era. Many of these public authorities, which undertook supposedly self-financing housing and public facilities are being kept afloat by the state because they have not been producing adequate revenues of their own. Mr Arthur Levitt, the state controller, who has long voiced opposition to public authorities, has made it known that he is now considering investing money from state pension funds in them, a measure that

gency loans, has no options. It cannot even play politics, since both the national Republican Administration and the state's Democratic government are reducing the flow of aid to the city. As a result of last year's belt tightening, the municipal workforce has been cut by more than 37,000 and many services have been curtailed or shut down. Nevertheless, state and federal watchdogs have publicly warned that the city has fallen behind in its pledge to make an additional $200m in reductions. So the city is being forced to begin a new round of cuts, which will entail the closing of libraries, hospitals and public schools and fresh reductions in assistance to the city's tuition-free university system.

The economy

Greenspan vs Rivlin

FROM A SPECIAL CORRESPONDENT *Washington, DC*

President Ford and his Council of

Greenspan's not for stimulating

and in practice Congress is almost certain to make the policy for that year somewhat more expansionary. This is because if for no other reason Congress

F. F. - Congressional Budget Office

Economic Report

BUDGET COMMITTEES MOVE TOWARD FIRM FIGURES

Congress in early April moved closer to what promised to be a bitter and drawn-out showdown over how large the fiscal year 1976 budget deficit should be, and how much economic stimulus is too much.

In a narrow 13-10 vote, the new House Budget Committee April 8 adopted budget recommendations that would result in a $73.2-billion gap between revenue and spending.

The committee earlier in the day had turned down the package, 11-13. Two Republicans then changed their votes to favor the plan, explaining that they switched only so the proposals could move to the full House for consideration.

The Senate Budget Committee by April 10 had voted tentatively for a spending and revenue plan that would create a $67.2-billion deficit. Bogged down in procedural disputes, the panel scheduled an extra session April 11 for final votes on its recommendations.

The two committees were due to file final reports containing their suggestions for over-all revenue, spending and deficit targets by April 15. Under new budget procedures adopted in 1974, the House and Senate are scheduled to complete action on the targets by May 15. *(Budget control background, Weekly Report p. 589; complete comparisons of final committee recommendations and the President's proposed budget will be published in a subsequent Weekly Report)*

These targets would form guidelines for the authorizations and appropriations committees as they process individual pieces of legislation for the upcoming fiscal year.

Confusion

It seemed clear from the committee votes that many members of both panels still were somewhat confused by the new process. The plan is being tried in 1975 to force Congress to consider the budget's over-all impact on the economy as well as to give the legislative branch a firmer hand in setting national priorities through weighing the relative importance of various spending programs.

At several points the new budget mechanism appeared on the verge of collapsing over procedural problems. The most criticism came, as expected, from Republicans and fiscally conservative Democrats on the two panels who claimed the projected deficits were too high.

Others felt the two plans placed too much emphasis on stimulating the economy through increasing funds for social programs at the expense of other parts of the budget, such as defense.

There appeared to be some evidence, particularly in the Senate committee, that President Ford's warnings against overstimulating the economy had taken some effect. Ford said in a March 29 televised speech that he would resist any fiscal measures taken by Congress that would push the deficit beyond $60-billion. *(Speech, Weekly Report p. 696)*

Democrats generally have argued that a higher deficit was necessary to create programs that would accelerate economic recovery. Sen. Walter F. Mondale (D Minn.) and others on the two budget panels have claimed that a rapid recovery would reduce the deficit in future years since it would spur productivity and increase revenues. Mondale at one point proposed a $75-billion deficit.

However, some other Democrats admitted privately during the week that they were reluctant to vote for such a large figure. The House Committee leadership was working to minimize the difference between the deficits projected by its panel and that by the Ford administration.

"A lot of the difference is due to different accounting," said a committee spokesman. He asserted that the administration had overestimated revenues and underestimated spending by about $10-billion, based on projections made by the Budget, Appropriations and Ways and Means committees.

If the administration's assumptions were correct, the effect would be to lower the House committee's projected deficit by $10-billion. If the committee's figures were right, it would raise the administration's deficit by the same amount.

Senate Committee

Procedural wrangling pushed the Senate panel beyond its three-day schedule for adopting final recommendations. By April 10 the committee had only tentatively decided on a $366.1-billion spending program, with estimated revenues of $298.9-billion.

Major departures from the President's proposed budget included a $4-billion increase in the President's $7.2-billion request for revenue sharing and other domestic fiscal aid, a $5-billion rise over the $120.6-billion requested for income security programs.

The major cuts were a $3.6-billion reduction in the President's proposed $94-billion for defense spending and a cut of $1.5-billion from non-military foreign assistance requests of $6.4-billion.

The committee April 10 adopted a proposal that had been discarded earlier by Chairman Edmund S. Muskie (D Maine) to alter the committee's bookkeeping methods. Under the plan, temporary spending measures designed to stimulate the economy and to phase out once recovery was underway were separated from regular spending figures in each of the budget categories.

The accounting procedure, which was not included in the House committee recommendations, revealed a tentative temporary spending level of $8.5-billion.

Procedural Disputes

The Senate committee had begun its three-day mark-up session April 8, when it voted on revenue targets. That session went smoothly. But the next day, as the committee began work on spending figures, it quickly split into factions over procedural questions.

Chairman Muskie, visibly irritated, at one point labeled a procedural argument "diversionary." He repeatedly warned that the committee would not be able to complete its work in time to meet the April 15 deadline if the arguments continued.

- Congressional Budget Office

Budget Report/Spending calculations vary as Congress focuses on target

by Joel Havemann

Congress is wrestling with a question that has proved to be a lot harder than it sounds: Is it living within the spending target that it set last May in its fiscal 1976 budget resolution?

By one measure devised by the Congressional Budget Office (CBO), the House is on its way toward exceeding

tory programs have grown by $2.9 billion since adoption of the budget resolution. Included are $700 million extra for food stamps and $700 million extra for veterans' benefits.

Some spending programs not contemplated in May have become likely in September. The Office of Manage-

CBO would include the President's budget request as the best available proxy for congressional action. It would compare the House and Senate totals to the budget resolution.

Rep. Brock Adams, D-Wash., chairman of the House Budget Committee, told CBO director Alice M. Rivlin

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The Washington Post

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The Congressional Budget

V.F - Congressional Budget office

Hobart Rowen   WASH. Post   July 10, 1975   p. A19

The Rivlin Economic Report

Alice Rivlin's Congressional Budget

V.F. - Congressional Budget Office

CBO FORESEES SLOW ECONOMIC RECOVERY

Predicting that expected increases in energy costs may set off another hike in the inflation rate, the Congressional Budget Office (CBO) June 30 declared that "moderately expansionary" economic policies might speed recovery from the recession.

The policies CBO mentioned included an extension of the temporary tax cut enacted earlier in 1975 along with a further cut of $15-billion; an unspecified increase in the deficit; and a 10 per cent annual growth rate in the money supply.

CBO stressed, however, that it was making no policy recommendations.

In its first report on the state of the economy, CBO also warned that economic recovery would be slow even with such steps. However, according to the report, these policies could help alleviate the high rate of unemployment without "appreciably" increasing inflation.

More restrictive fiscal and monetary policy than is currently in force, on the other hand, could "worsen unemployment while doing little to reduce inflation," the report added.

Under current policy, the unemployment rate "probably" will not decline much below 8 per cent before the end of 1976, while the rate of inflation "can be expected to remain in the 6 to 9 per cent range through 1976," CBO declared.

Ford administration spokesmen have argued repeatedly against further economic stimulation, maintaining that such policies would increase the rate of inflation and slow down the recovery.

Reaction

Early administration reaction to the report was cautious. "We're looking at it with interest," an Office of Management and Budget (OMB) spokesman told Congressional Quarterly. "Obviously some of the assumptions differ with some of the assumptions made in the mid-session review" of the economy made public by OMB May 30. *(Weekly Report p. 1128)*

June Jobless Rate

The nation's jobless rate fell from 9.2 per cent in May to 8.6 per cent in June. But Labor Department officials said it was too early to determine whether the decrease indicated a real improvement in the unemployment picture.

The caution was due to what the department described as "a limitation in the seasonal adjustment procedure." The June rate is normally adjusted downward to reflect the impact of summer workers but when the jobless rate is so high, the department said, the figures automatically reflect more labor market entries than there really are, causing a false decline.

House Budget Committee Chairman Brock Adams (D Wash.), whose panel is closely divided over economic issues, greeted the report with a carefully worded statement that avoided comment on CBO's findings. "I am pleased that with the issuance of this, its first report, the CBO is now coming into full operation," Adams said. "I am sure it will be most helpful to the members of Congress in the months and years ahead."

Senate Budget Committee Chairman Edmund S. Muskie (D Maine) was less noncommittal. "This report confirms the appropriateness of the job-creating strategy we adopted in May" when Congress adopted for the first time target spending and revenue figures, Muskie declared. *(Budget resolution, Weekly Report p. 1023)*

Milestone

The 80-page document was a milestone in Congress' attempt to reassert its control over federal spending policy.

CBO, headed by former Brookings Institution economist Alice M. Rivlin, was set up as a nonpartisan, analytical arm of Congress to give the House and Senate their own source of budget expertise, similar to the President's Office of Management and Budget. *(Background, Weekly Report p. 593)*

CBO is supposed to analyze various alternatives to the administration's economic policies and to report on their possible effects, as well as to conduct its own independent review of the economy. It is not supposed to actively recommend policies.

The economy report was prepared by the unit's Fiscal Policy Division under the direction of CBO Assistant Director Frank de Leeuw, along with aides Nancy Barrett and Alan Blinder.

Denies Advocacy

In an interview, de Leeuw stressed that CBO did not intend to advocate a new tax cut or other policies.

"We're really talking about what we think will happen [as a result of any given policy alternative], and not what value we attach to high unemployment or stable prices," he said. "If we have different values, we will try not to get any value judgments into the reports. We just want this to be a source of information."

De Leeuw predicted that "the time surely will come" when the staff disagrees on technical judgments about the economy, and when that happens, "we will try to give a representative range of views." But, he added, "for right now that's not a serious problem."

The report was based on three standard econometric models, as well as on the "good, reasoned judgment" of the staff economists, according to CBO aide Ed Deagle. The three models were those of Chase Econometrics, Data Resources Inc., and Wharton Econometric Forecasting Associates Inc.

The House and Senate Budget Committees will use the report as a reference point as they move into a period of in-

N.F. Congressional Budget Office

Congress Report/Alice Rivlin named chief of Congressional Budget Office

by Joel Havemann

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NATIONAL JOURNAL REPORTS

After months of haggling, Congress finally has placed Alice M. Rivlin, an economist with a record of support for social programs and opposition to high defense spending, in charge of the new Congressional Budget Office (CBO)

this perverse effect, Council of Economic Advisers member William J. Fellner has said that if the Administration should turn to stimulus, "A reduction of effective tax rates for individuals and also for corporations deserves very high priority."

The quadrupling of the price of imported oil in the past year is not technically a tax, but economists tend to view it as a kind of excise levy imposed by the foreign producers' cartel (page 77). According to both George L. Perry of Brookings and Richard N. Cooper of Yale, this has siphoned $15-billion to $20-billion out of the U.S. economy. Counting the secondary effects of the reduction in aggregate demand, this analytical equivalent of fiscal drag adds up to a $37-billion loss. These findings were cited repeatedly by liberal economists at San Francisco to bolster the tax-cut argument.

Although recession fears have pushed most conservatives onto the tax-cut bandwagon, many of them still fear that a big cut could have several adverse effects: a rekindling of inflationary expectations and hence of inflation itself, and possibly a too rapid revving up of the economy before the Administration's anti-inflation fight can bring a significant drop in the rate of price increase. However, Milton Friedman, the elfin oracle of the University of Chicago, is not ready to accept a stimulative tax cut, though he would compromise on a decrease coupled with lower federal spending. Says Friedman: "What really matters to economic recovery is the rate at which inflation decelerates. If the inflation rate drops to 5% by mid-1975, which is my best estimate, real output will begin to recover rapidly. Anything that stops inflation from coming down will hamper recovery, and this includes any tax cut not matched by a cut in federal spending."

The conservatives worry that too big a cut now would increase inflation

A grim forecast. Behind the convention's convergence in favor of a tax cut is an equally impressive agreement over the gloomy outlook for the economy in the year ahead. Unemployment was generally expected by economists at the convention to hit 7½% to 8% by midyear—the highest level since the Depression—and to hang above 7% well into 1976 if the Administration does not make a substantial policy shift.

In addition, the nation's production of goods and services is expected to sink for at least two more quarters, which would run the current decline in real gross national product to six quarters, the longest string of negative GNP numbers since the 1930s. If the GNP keeps dropping through 1975, the economic cost will be huge. According to Franco Modigliani, president-elect of the AEA, the loss of real output could come to $80-billion. And Columbia University economist Robert Mundell puts the cost of lost real GNP closer to $100-billion.

Inflation forecasting continues to be the bane of the economics profession, but even here the economists in San Francisco were partially in accord. Most of those interviewed by BUSINESS WEEK agreed that the rate of inflation would drop below the double-digit range in 1975. The question was by how much. The consensus was 7% by year-end. Joel Popkin of the National Bureau of Economic Research, until recently top price analyst at the CEA, predicts that inflation should get down to 8% for the second half. But some other economists still fear that the rate will stick at 10% or more.


William Bohr

Modigliani: Without a tax cut, the loss in output will come to $80-billion.

Economists at San Francisco could only speculate on how the professional consensus that was reached would affect the economic program that was simultaneously being prepared by President Ford and his top economic advisers 1,000 mi. away at Vail, Colo. Although liberal economists such as present AEA President Robert Aaron Gordon are by no means convinced that Ford is ready to move as fast or as far as they would like, they take comfort from the fact that tax policy is normally made by Congress, not the White House, and the 94th Congress is lopsidedly Democratic and liberal. The inevitability of a tax cut is emphasized by Murray L. Weidenbaum, a former top Treasury official under President Nixon, who says: "A stimulative tax cut is coming. The only question is whether Ford will push or be pulled." ■

CAPITOL HILL

A crawling start for budget reform

The new year was to bring the firs[t] test of the new machinery Congres[s] designed to help it handle the feder[al] budget. And with the Joint Econom[ic] Committee foreseeing deficits reachin[g] $23-billion in the current budget an[d] $36-billion in the one President For[d] will submit later this month—eve[n] without a tax cut—the new House an[d] Senate Budget Committees could n[ot] be starting work a moment too soon.

But unforeseen delays are raisin[g] serious doubts whether the system pre[-] scribed by the Budget Reform Act [of] 1974 can make any significant impa[ct] in 1975. A new chairman will have to b[e] elected for the House Budget Com[-] mittee when Congress reconvene[s] since Representative Al Ullman (D[-] Ore.) has to give up the post to hea[d] the Ways & Means Committee. An[d] Senate and House leaders have n[ot] been able to agree on a director for th[e] Congressional Budget Office, Capit[ol] Hill's mini-version of the President[']s Office of Management & Budget.

Nevertheless, there is still hope tha[t] the Senate and House Budget Com[-] mittees will be ready to go with [at] least a bob-tailed "trial run" this yea[r]. "I hope we can have macroeconom[ic] recommendations [total spending an[d] revenue targets] ready in April," say[s] the Senate's budget chairman, Edmun[d] S. Muskie (D-Me.).

New system. Legislation creating ne[w] budget committees and the CBO wa[s] enacted in June. Though the new sy[s-] tem will be operating this year, it wa[s] not intended to be fully in effect unt[il] the budget the President submits [in] January, 1976. By then, the start of th[e] fiscal year will have been changed fro[m] July 1 to Oct. 1, giving Congress mo[re] time to develop its own response.

For this year, Muskie has in min[d] recommendations on total spendin[g] levels, the size—though not the type—[of] tax cut that would be desirable, an[d] broad priority decisions, such as th[e] share of spending that should go to d[e-] fense. The new committee already h[as] started working on such problems wi[th] Treasury Secretary William Simon an[d] other Administration officials. Recom[-] mendations on three or four broad ca[t-] egories would cover 80% of the budge[t], Muskie figures. The staff director [of] the House Budget Committee, Walt[er] Kravitz, also hopes to get at least th[at] far this year.

Economists and budget analys[ts] have been hired for the senior positio[ns]

VF - Congressional Budget Office

The new economic braintrusters in Congress

A potentially powerful backstop for Congress' new budget committees

Institutional changes take place in Congress with agonizing slowness unless prodded by war or national disaster. But now, embarrassed by their inability to control the growth of a gargantuan federal budget, the lawmakers have created the first new government agency to oversee the U.S. economy since the President's Council of Economic Advisers was established 30 years ago. The new apparatus is the Congressional Budget Office, and working with the new House and Senate Budget Committees, it promises to turn Capitol Hill into an economic powerhouse.

The greatest strength and hope of the new budget machinery, assembled to implement the Budget & Impoundment Control Act of 1974, will be the people who staff it, and here the electricity is already flowing. Recruiters for the three groups are attracting a flood of economists of high academic voltage.

Says Nancy H. Teeters, chief economist for the House budget panel: "These are going to be the most exciting jobs in Washington for economists because Congress will now have what amounts to its own Office of Management & Budget and its own CEA." Congress, in short, can tackle the Administration head-on in forming economic policy.

Since 1976 is a Presidential election year, the potential for political conflict is high. Economic assumptions by the CEA and OMB that are basic to policymaking can now be authoratively challenged by lawmakers well tutored by their new in-house experts. Administration cost estimates will be scrutinized as never before.

The buildup. Indeed, Alice Rivlin, director of the bipartisan CBO, has given her group an organization chart that reads just like that of the OMB. She plans to bring her staff up to 110 to 120 persons by yearend (with 75 to 80 of them economists, lawyers, budget analysts, and computer specialists), and aims to have a total staff of "some 200 to 300" in two or three years. By contrast, the OMB has 600 employees, 350 of whom work directly on the budget. Rivlin clearly has a mandate from Congress to build a big, permanent operation.

Rivlin, Teeters, and Arnold Packer, chief economist for the Senate Budget Committee, will need all the help they can get. The CBO's job will be to serve as a source of economic information and analysis and a watchdog over the Administration's budget projections and program priorities for the two budget committees and the rest of Congress. The budget groups will have to tell Congress what the Administration's proposals add up to (and imply for future years' spending), how these numbers fit with spending plans churned out piecemeal by Congressional committees, and how the appropriations, revenue, deficit, and debt figures can affect the economy.

But this is no mere academic exercise for Congress. The Budget Control Act requires the Hill to vote on—and then abide by—the macroeconomic numbers the economists produce, even if it has to chop pet spending programs or raise taxes. Though the act does not become fully operational until fiscal 1977, the House and Senate panels already have turned out preliminary resolutions for

Congress' watchdog CBO will be the source of information and analysis

fiscal 1976 for debate in Congress next week. Since these trial-run resolutions propose a deficit of \$69-billion to \$73-billion, the debate is bound to be hot and messy.

But, says Sam Gibbons (D-Fla.), a member of the House budget panel and the powerful Ways & Means Committee: "This is the first time Congress has ever really discussed the big economic picture this way. People here look at the budget as a horror story and the deficit as an embarrassment. Now we have to face up to both the deficit problem and the needs of the economy. If the resolutions get voted down, we'll just go back and try again."

Strong staff. Joseph L. Fisher, a Virginia Democrat on Ways & Means and an economist who formerly was president of Resources for the Future, agrees that "the new budget process already is imposing a sense of discipline on Congress" and credits this in part to sound staff work. "Without these very good people, the process would be nowhere," says Fisher.

The people in the new budget operation are, in plain fact, the heart of the process, and they are good. Indeed, some outside economists contend they are more than a match for their Administration counterparts on the troika—the heads of the CEA, the Treasury Dept., the OMB, and their staffs. Some of the newcomers, in fact, could wind up in top economic posts in a future Democratic administration. Besides Rivlin and Teeters, who are two of the nation's leading public finance economists, the new group includes:

- Arnold Packer, the Senate unit's chief economist and a triple-threat man with degrees in mechanical engineering, business administration, and economics from the University of North Carolina. Packer learned about the real world as a systems analyst at Aerojet General Corp. and a fiscal economist at the OMB, where he worked with Teeters in the first Nixon Administration.

Don Carl Steffen

Director Rivlin has a mandate to build a big, permanent operation at the CBO.

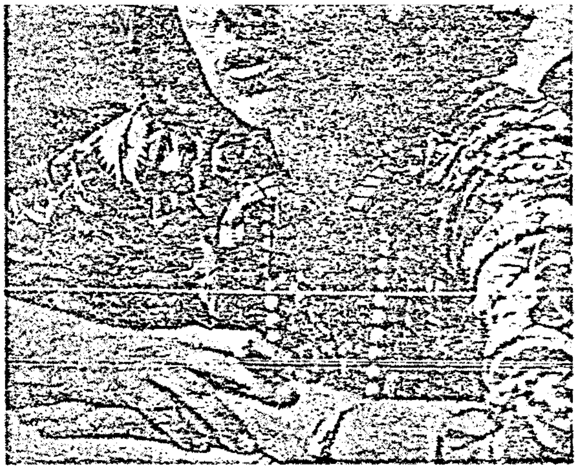
- Frank de Leeuw of the Urban Institute, a brilliant macroeconomist and housing specialist who served on the Federal Reserve Board staff from 1956 to 1969. De Leeuw, who will work for Rivlin, helped build the Fed's quarterly economic model and helped James S. Duesenberry of Harvard build one of the first econometric models of the financial sector.
- Nancy Barrett, also on the Rivlin team, a 33-year-old Harvard PhD who has written textbooks on both macro and microeconomic theory and now heads the Economics Dept. at American University.
- Thomas Dernburg, on the Packer squad, a former economics professor at Oberlin College, coauthor of a leading

whatever. Congressmen also rejected a tax on sales of gas-guzzling cars. They opted instead for a provision requiring the auto industry to improve the guzzlers' fuel economy. The industry could finance such improvement by charging higher prices for all cars, not just the thirsty behemoths. In addition, the House voted a quota on oil imports that will not reduce imports, but will slow their rise.

Congress's failure to legislate any tough energy program puts the burden on the Ford Administration, which has already doubled its tariff on imported oil, to $2 per bbl. But an argument broke out within the Administration over that scheme. Commerce Secretary Rogers C.B. Morton, who has a habit of dropping bombshells at breakfasts with reporters, let go another last week. Shortly after the orange juice, he confided that he might recommend scaling down or scrapping the tariff boost if OPEC does in fact raise prices. Morton's comment was repudiated immediately by Federal Energy Administrator Frank Zarb and then by President Ford. Nonetheless, Morton has a serious point: the tariff boost may not be the best way to reduce imports, it acts as a drag on essential as well as nonessential sectors of the economy.

Gas Changes. Ford has another strategy: to decontrol gradually the price of U.S.-produced oil and gas, letting them rise as a means of forcing conservation and encouraging new development. But even that came a cropper last week. A House Commerce subcommittee heard staff members of the Federal Trade Commission charge that the gas industry deliberately understated reserves in order to win high prices. For example, the FTC officials contended, in 1971 and 1972 Union Oil for internal purposes assessed gas reserves in an area off the Louisiana shore at 7.2 trillion cu. ft.; at the same time, the American Gas Association was officially estimating reserves in the same region at exactly half —3.6 trillion cu. ft. Justified or not, the accusations can hardly fire congressional enthusiasm for decontrol of oil and gas prices.

As a kind of grace note to this chaotic symphony, the House last week failed, by three votes, to override a presidential veto of a bill to regulate more strictly the strip mining of coal. As a result, somewhat more critically needed coal will be produced, but at the expense of the environment. The bill's environmental safeguards would not have compounded the energy problem if the nation had a coordinated energy policy. As it was, however, the vote merely highlighted the inability of the White House and Capitol Hill to come up with such a policy, or of the Democratic-controlled Congress to draft any sustainable energy program of its own. So long as that deadlock continues, the U.S. will apparently be left to OPEC's none-too-tender mercies.



CONGRESSIONAL BUDGET ECONOMIST ALICE M. RIVLIN
Less fuzzy than history or political science.

ically liberal director, Economist Alice Mitchell Rivlin.

The CBO was set up as part of the new budgetary process under which Congress votes spending and deficit ceilings rather than passing appropriations bills in disorderly bits and pieces. Rivlin's job is to systematically analyze the probable effects of various choices on the economy. As she puts it, "Congress has always had a lot of power over the budget, but it was not organized to think 'Is that really what we want to do?' "

Rivlin operates out of cramped quarters on the ground floor of the former Carroll Arms Hotel; her desk occupies the spot where a bar once catered to thirsty Senators. She has spent most of her three months on the job assembling a staff of 200, including some top economists. They will be kept busy in the next few months. A typical task will come this summer, when Congress, in a

and 1974 budgets under the title *Setting National Priorities.* She has spent 18 years as a professional budget watcher, part of it as an Assistant Secretary of Health, Education and Welfare, helping to plan Lyndon Johnson's Great Society programs.

The daughter of a physicist, a Bryn Mawr alumna and a Radcliffe Ph.D. in economics, Rivlin, 44, is the wife of a Washington lawyer and the mother of three children—whose tasks have been lightened by housekeepers throughout her career. She became interested in economics during a summer course at Indiana University. Says she: "It seemed less fuzzy than history or political science." Short (5 ft. 2 in.) and an impeccable dresser, Rivlin is regarded by colleagues as even-tempered and firm but not stubborn.

Negative Tax. Before taking over at CBO in February, Rivlin had championed tax reforms intended to redistribute income from the rich to the poor, including a negative income tax. Her liberal record aroused some opposition among congressional conservatives to her confirmation in the $40,000-a-year job. But Rivlin insists that her advocacy will stop during her four-year term. "This will be a strictly nonpartisan, professional operation," she vows. Liberals can expect no automatic sympathy from Rivlin. Says she: "What worked in the 1960s isn't working any more. Liberals are going to have to state the costs and face the music."

Congress Report/Budget panels to propose economic goals for fiscal 1976

by Joel Havemann

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NATIONAL
JOURNAL
REPORTS

Working against the odds, the new congressional Budget Committees are getting ready to force Congress to set broad economic goals for fiscal 1976.

The committees have decided to seek congressional agreement by May 15 on a resolution spelling out targets for total spending, revenue and deficit in the coming fiscal year. The committees have decided to wait until next year to carry out the other big part of

POST 2/25/75

Brookings Expert Takes Budget Job

By Mary Russell
Washington Post Staff Writer

intelligence service in the world, but also the most unique—one which operates in a manner fully consistent with the Constitutional rights of our citizens.

GERALD R. FORD.

THE WHITE HOUSE, *February 18, 1976.*

ANNUAL REPORT OF THE NATIONAL VOLUNTARY SERVICE ADVISORY COUNCIL—MESSAGE FROM THE PRESIDENT OF THE UNITED STATES

The SPEAKER pro tempore laid before the House the following message from the President of the United States; which was read, and, together with the accompanying papers, without objection, referred to the Committees on Education and Labor and International Relations:

To the Congress of the United States:

I am transmitting herewith the annual report of the National Voluntary Service Advisory Council as required by Section 405(c), of the Domestic Volunteer Service Act of 1973. The Council advises the Director of ACTION with respect to matters arising out of this Act and the Peace Corps Act.

GERALD R. FORD.

THE WHITE HOUSE, *February 18, 1976.*

NIXON VISIT TO CHINA

(Mr. ALLEN asked and was given permission to address the House for 1 minute, to revise and extend his remarks and include extraneous matter.)

Mr. ALLEN. Mr. Speaker, I am in receipt of a telegram from the Governor of our State of Tennessee which reads as follows:

STATE CAPITOL,
Nashville, Tenn.

Representative CLIFFORD ALLEN,
House of Representatives,
Washington, D.C.

I urge you to join me in bi-partisan opposition to the planned visit by former President Nixon to China.

I seriously question that a former President of the United States can ever again act as a private citizen. Mr. Nixon is intimately familiar with the details of our national security. Almost certainly, whatever he says will be taken as "official" policy. The very fact that he is going will likely be interpreted as a U.S. foreign policy decision.

This visit comes in the midst of an internal struggle in China. Mr. Nixon runs the risk of getting caught in that controversy.

It is imperative that America speaks with one tongue in sensitive matters of foreign policy.

There is also the question of the personal safety of the former President.

These questions must be raised in concern for the national interest, and I ask you to join me in opposing this visit.

GOV. RAY BLANTON.

Mr. Speaker, I also wish to insert into the RECORD at this point a telegram I have received from Mr. John Jay Hooker, one of the prominent citizens of the State of Tennessee, which reads as follows:

NASHVILLE, TENN.,
February 8, 1976.

Representative CLIFFORD ALLEN,
Washington, D.C.

MY DEAR CONGRESSMAN: You have always spoken out on behalf of the people concerning matters that affect the best interest of our country, I'm sending you this telegram for the purpose of suggesting that you introduced a sense of the Congress resolution, asking former President Nixon to forego his announced trip to Peking. I feel and I believe and an enormous number of people both Democratic and Republican that President Nixon's trip is dangerous and hostile to the best interest of America.

It is impossible for former President of the United States to travel in a foreign country on a private citizen basis. We must provide Secret Service protection and every safeguard to see that nothing happens to a man who possesses the most guarded secrets of our Nation. This proposed trip would be expensive to the U.S. tax payers and could give the impression to people in communist countries that Richard Nixon still speaks for America. For the aforesaid reasons and many others, I urge you to consider the above outlined course of action.

Sincerely,

JOHN JAY HOOKER.

THE PROJECTED BUDGET PROPOSALS: THE ECONOMY AND THE BUDGET—A 5-YEAR APPROACH

The SPEAKER pro tempore (Mr. BONKER). Under a previous order of the House, the gentleman from Washington (Mr. ADAMS) is recognized for 60 minutes.

Mr. ADAMS. Mr. Speaker, in July of 1974 the Congress embarked upon a new approach to responsibility in the budget process. This new approach, outlined in the Congressional Budget and Impoundment Control Act of 1974, was designed to end years of frustration in the Congress and in the Nation with our budget procedures. That frustration grew out of the inability of Congress to consider the budget as a whole, to consider each expenditure decision as it affected other decisions and overall budget totals, and to relate spending decisions to the overall management of the economy.

Although we are still in the process of implementing this important legislation, I think it fair to say that there has been improvement. We now have the capability to behave in a fiscally responsible fashion and to make individual program decisions with a better knowledge of the impact of those decisions on the budget and on the economy. In my capacity as chairman of the House Budget Committee, I have had the opportunity to be a part of these developments. We can take pride in our achievements, but we should recognize that this year will be the time of testing for the entire congressional budget process.

We should also recognize that the American people are aware of the need for fiscal control; and that they are aware we now have the tools to exercise that control. Thus we must use them responsibly if we are to remove the public dissatisfaction with the results of our existing decisionmaking processes.

There are many sources of dissatisfaction, all readily understandable. Our national economic management leaves much to be desired. We continue to experience both high inflation and high unemployment, and virtually all forecasts, public and private, predict an unduly slow improvement on both these economic fronts. We lack a consistent approach to our problems of natural resources and the environment. In energy, for example, our expressed concern for energy independence is contradicted by 2 years of increasing reliance on foreign oil. We have spent and are spending substantial sums to combat crime and poverty, to improve housing, and to save our central cities. Still, our successes are often overshadowed by dramatic failures. Finally, there is a growing national concern that government may have grown too large and complex, although there is clearly no agreement on precisely what to do about it.

These problems would be more bearable if we had the sense that they were being corrected over time and that things will be better next year and the year after that. Public opinion measures suggest that Americans do not have such optimism, either about these problems or about the ability of our institutions to cope with them. Nor do I find widespread optimism within the Congress. The people could take heart if the President were charting a course for our Nation that commands the support of a majority. Yet it is clear the President has not obtained that majority among the people for the budget and economic program presented to us last month.

Some suggest that our problems might better be addressed by a national economic planning body. However, such a group cannot substitute for leadership on the part of our national elected officials.

Our people also look to their leaders in Congress, particularly the majority party, for some sense of direction for the Nation. While Congress, as a representative body, must reflect the same diversity as the Nation, this diversity cannot become an excuse for failing to think ahead about our national problems and their solutions. As Members of Congress we should be thinking and planning in broader terms to improve the decisions we make today and to lay the groundwork for a more responsive and effective government. Only with such an approach can the Congress provide the programmatic leadership the Nation needs.

As we face decisions on the budget for fiscal year 1977, it is clear that we can easily make those decisions without thinking ahead. We can continue to enact programs without knowing how to assess their performance, or how to evaluate the need for their continuation. We can continue to make commitments to automatic cost escalations in future year without knowing whether and how these commitments can be fulfilled. We can continue to initiate development and procurement of weapons systems without facing up to the consequences and costs of full production. In short, we can easily make many poor decisions.

I want us to avoid such a piecemeal decisionmaking process. Our new budget procedures are significant because they force the Congress to consider together all revenue and expenditure decisions not only each year, but for several years at a time. Businessmen have long recognized the need for planning over several years. It is time that the Congress recognized that planning can, and usually does, result in better decisions. Just as we can no longer separate decisions on one function from those on another, we cannot separate decisions on this year's spending from next year's. To avoid this artificial separation, I am taking this occasion to express my own views on where the United States should be going during the next 5 years in dealing with the economy and the budget.

A multiyear approach to the Federal budget is necessary as a practical matter. The built-in base of commitments and programs already underway makes it very difficult to carry out significant changes in any 1 year's budget. More lead time is required for major changes to take effect. In addition, a multiyear perspective will improve the quality of decisions within Federal agencies where, for example, procurement and construction programs can be better managed when approximate levels of available resources are known in advance. The same is true for State and local governments assisted by Federal funds.

A multiyear approach also provides our only real opportunity for dealing with those programs generally referred to as "uncontrollables." Increasingly, we recognize that decisions with relatively minor financial impact in this year's budget have major consequences in later years. For example, our retirement systems are funded on a current basis. Thus, decisions made now on benefit levels, retirement age, and related factors have little impact on the current budget, but massive and cumulative impacts on our future budget choices. The current military and civilian pay and retirement systems are creating liabilities for decades to come. We should face the full extent of prospective liabilities now, when we can do something about them, rather than later, when we can do nothing but honor our commitments or arbitrarily cut back on them.

As I present my 5-year approach to the budget and the economy, it should be clear that I speak only for myself, and not for any other members of the Budget Committee. I do so with the hope that my general approach to these matters will become a matter of full discussion this year, not only in the Budget Committee but throughout the Congress and the public as well.

Full discussion of the budget throughout the Congress is most important, because it is the Congress which must make these decisions. The resolutions which the Budget Committees produce are a critical step in a dealled process. Every committee of the Congress is participating in developing recommendations for inclusion in the first budget resolution, and each House of Congress must debate and adopt that resolution.

The content of the second budget resolution, to be adopted by both Houses in September, will be influenced by all of the spending and revenue actions the Congress takes during the summer months, and will afford an opportunity to put those decisions in context. In short, the congressional budget process should be viewed as an effort of the entire Congress, not just the Budget Committee.

Now, it is time that the process of making choices begins again. Just as many people are not pleased with the President's recommendations, many will not be happy with mine or with those the Budget Committee will be developing over the next several weeks. Yet we know enough about likely economic developments and governmental programs to know that we cannot have everything.

We can buy the elimination of poverty as it is now defined. We can buy more divisions, more aircraft carriers, and more missiles. We can buy a substantial upgrading of the Nation's housing stock or of its transportation systems. We can invest our resources in a massive upgrading of private investment in business plant and equipment and thus in our national productivity. What we cannot do, at least not in the next 3 to 5 years, is to do all of these things at once. When Government resources are scarce, and they are, achievements in one field come only at the expense of achievements the resources could buy in some other field.

We have no choice but to make choices. We also have the choice of determining that our choices will be as rational as we can make them. I offer the following approach in that spirit.

MAJOR ELEMENTS OF THE FIVE-YEAR APPROACH

My 5-year approach seeks a strong economy and a sound budget. Neither is attainable without the other. The congressional budget process gives us the tools by which these complementary objectives can be attained.

My recommendation for the economy is easily stated: We must move steadily toward full employment and reasonable price stability, as soon as practicable. We can achieve that goal through a combination of existing job-creating programs, tax policies, a new program of employment in both the private and public sectors, and a series of structural reforms to reduce unemployment, improve productivity, and promote price stability.

My recommendation for the budget is as follows: Overall spending for existing programs should be held below the amounts needed to carry out current levels of governmental activities and services.

If these recommendations are followed, there will be an additional budget potential during the 5-year period, significantly beyond the current services spending level, that can and should be used for additional tax reductions, expansions of worthwhile existing programs, and new program initiatives. However, achieving this additional budget potential will require more than a commitment to hold spending to reasonable levels. At the same time, we must work hard to effect program and management reforms that will enable us to provide more and better services in some areas, and the same services at lower cost in others. This means increased emphasis on program simplification and reduced paperwork, as well as on reducing and eliminating lower-priority programs and activities, to make room within the current services level for needed expansions of services.

Finally, while holding spending below current services levels, I recommend a major reorientation of priorities that better reflects the Nation's needs. This reorientation would have the following major features:

A comprehensive federalized welfare reform program phased in during the 4-year period beginning in fiscal year 1978. This reform, widely recognized to be long overdue, will result in substantial overall savings to hard-pressed State and local governments while, at the same time, putting an end to the irrational set of duplicative and often inequitable programs that have done so much to reduce confidence in government at all levels.

Higher spending than proposed by the President for income security, health education, veterans, and energy programs; and

A reasonable, but restrained, budget for defense and international affairs. If we move now on some of the fastest rising components of defense costs and reorient priorities within the Defense Establishment, we will remain the world's strongest military power without increasing the defense budget in real terms.

If this overall approach is carried cut. it would produce the following projected revenue, outlay, and deficit/surplus levels for the fiscal year 1977–81 period:

5-YEAR BUDGET TOTALS—FISCAL YEAR 1977–81

[In billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Outlays	410.3	441.6	468.0	497.0	529.5
Revenues	360.7	420.2	464.0	523.2	588.7
Deficit/surplus	−49.6	−21.4	−4.0	+26.2	+59.2

These projections illustrate potential ranges of spending and receipts, and resulting deficits and surpluses. Emergencies such as another energy crisis. good news such as higher-than-expected revenues, or mandated spending for particular activities would, of course, change actual spending, revenues, and the deficit or surplus in any particular year.

It should be emphasized that the surpluses projected, particularly for fiscal years 1980 and 1981, should not be regarded as projected "actual" surpluses. The economy could not stand the massive withdrawal of purchasing power that surpluses of this magnitude would imply, and, in any event, these resources should be used to meet the needs of our people. These funds are the additional budget potential I referred to earlier. They should be used for such major purposes as—

First, to provide stimulus to the economy, as may be needed in any particular year. During the next several years it may become necessary to reduce taxes or increase outlays in order to maintain the annual rate of real growth needed to move toward full employment.

Second, to provide permanent tax reduction, primarily for lower- and middle-income individuals and families. As average incomes and, therefore, average tax rates increase with inflation, fairness requires that we adjust for past inflation by offsetting these automatic tax increases—at least partially—through further permanent tax reductions, a necessary step to maintain a progressive income tax system.

And third, to expand worthwhile existing programs and to fund new program initiatives. Although welfare reform can be accommodated within the aggregate spending required to maintain current services, the need to expand many important existing programs and to embark upon new programs will inevitably arise. For example, it is widely anticipated that during the next 5 years the President and the Congress will agree on a basic national health insurance program. Although such a program may require only $100 to $300 million to initiate, when fully implemented it will cost many billions of dollars. Such a major national effort must be expected and accommodated by our budget policies.

THE ECONOMY—TOWARD FULL EMPLOYMENT AND PRICE STABILITY

During the 5-year period, I believe that providing economic opportunity for our people will remain the Nation's No. 1 priority. We are recovering from recession; yet we must move more vigorously to reduce our unacceptably high unemployment rate.

The President's budget and economic message make clear that the administration is willing to tolerate a high rate of unemployment for years to come. The President's budget contemplates an unemployment rate of 7.7 percent for 1976 and 6.9 percent for 1977. Not until 1981 do the President's projections fall below 5 percent. Beyond the unemployed themselves, a high unemployment rate indicates that millions of people are not actively seeking work—and thus not counted as unemployed in our statistics—because they are convinced that no jobs are available for them. These people, too, must be brought back into productive employment.

I find the President's projections unacceptable in terms of underutilization of our human resources; in terms of idle productive capacity; in terms of a responsible national economic policy; and, above all, in terms of the needs of millions of individuals and families who suffer from unemployment. Our second budget resolution for fiscal year 1976 is designed to achieve a goal of 7 percent unemployment by the end of calendar year 1976. We should further commit ourselves to reducing unemployment below 6 percent by the end of 1977, 5 percent by the end of 1978, and to substantially full employment in 1979 and 1980. Our reservoir of unused productive capacity should permit us to achieve these goals while continuing to moderate inflation, with the Consumer Price Index averaging a 5.4 percent rate of growth over the 5-year period, and below 5 percent in 1980 and 1981.

To achieve these goals, we must act more vigorously this year. The President's budget simply does not do enough to stimulate the recovery we need. In fact many economists feel that it will arrest the recovery now underway.

My projections of receipts and outlays are based on the economic assumptions contained in appendix A. I believe we will be able to reach these goals through the prompt implementation of existing employment-generating programs, such as the Public Works Employment Act of 1975, the reordering of our spending priorities, and the following tax policies, employment program, and structural reforms.

Tax policy: The $18 billion in tax reductions enacted in December 1975 must be made permanent. The reductions and rebates of early 1975 demonstrated once again that tax policy can be a swift and effective stimulus for a lagging economy. The resulting increase in demand helped to promote new jobs in the private sector which will remain the principal source of employment for our citizens. Furthermore, it is likely that additional tax reductions will be needed during the next 5 years.

As stated earlier, these additional tax reductions should focus primarily on lower- and middle-income individuals and families. The combination of progressively higher social security taxes and inflated incomes pushing these individuals and families into higher tax brackets has placed an inordinately high burden on the average working person. Additional tax reduction is absolutely essential, both as matter of equity and as a tool to generate demand and private sector employment to avoid future recessions. Such tax reductions must be coordinated with our move to welfare reform and overall tax reform.

It is impractical to specify at this point precisely when further reductions should be adopted by the Congress. Clearly, much depends on the course of the recovery this year and in 1977. It should be noted that many economists, including the President's Council of Economic Advisers, predict a lower rate of growth in 1977. If such forecasts prove correct, additional tax reduction may well be needed in late 1977 or early 1978. My projections call for an additional tax cut of approximately $10 billion effective July 1, 1978.

While I believe the Congress should extend the $18 billion tax cut of 1975 permanently, we should reject the additional $10 billion in tax reductions proposed by the President, as well as his proposed increases in social security taxes. The President's tax policy—beyond the reductions in existing law—fails on several counts.

Nearly two-thirds—approximately $6.2 billion—of this additional tax reduction is intended to stimulate business spending, despite the increasing evidence that tax stimuli during economic recoveries serve merely to reward activities that are already taking place. Furthermore, since the additional $10 billion in tax reductions appear to be contingent on congressional action to reduce spending by an equal amount, any economic stimulus hoped for by the President would be completely offset. In fact, the combination of such spending reductions and the President's proposed social security tax increase, if adopted, would result in a sharp reduction from the stimulative economic policy being pursued this year.

Finally, the overall tax package should be rejected simply as a matter of equity. The $10 billion reduction would benefit primarily corporations and higher-income individuals, while offsetting payroll tax increases would be levied on lower- and middle-income wage earners.

The economic stimulus needed by the economy in fiscal year 1977 should be provided through a continuation of the 1975 tax cut, substantially higher though still restrained spending than proposed by the President, and prompt action by the Congress and the President on such targeted unemployment-fighting programs as the accelerated public works/countercyclical assistance program and the public service jobs program. Together with an accommodating monetary policy, these steps will enable the recovery to continue and gather momentum during the latter part of the year and into 1977.

The tax policy discussed above should be accompanied by a comprehensive program to achieve meaningful tax reform, one of the most challenging and difficult tasks facing the Congress in recent years.

The need for reform is widely recognized. The public is understandably frustrated by our present tax system, which has grown helter-skelter in response to the cries for tax relief from one or another influential group with a real or perceived "special" problem; which treats a dollar earned by one's own labors as inherently more taxable than a dollar earned by investment; and which, despite our lip service to tax equity, relies increasingly on higher payroll taxes for lower- and middle-income wage earners while providing special treatment for upper-income individuals. The portion of overall taxes borne by individuals continues to climb, while corporate taxpayers pay increasingly less.

The Budget Act requires the President to give close scrutiny to existing tax preferences, called "tax expenditures." In fiscal year 1976, tax expenditures totaled approximately $92 billion and are expected to reach nearly $135 billion by fiscal year 1981. In addition, new tax expenditures proposed by the President and others are now under consideration.

A meaningful program of tax reform must carefully consider our entire tax system and both existing and new tax expenditures to achieve the objectives of tax fairness, tax simplification, and a significant revenue gain. The House made modest progress toward achieving this latter objective when it passed H.R. 10612, the Tax Reform Act of 1975, now awaiting Senate action. This bill is expected to raise $1.5 billion in fiscal year 1977, and up to $2.4 billion in fiscal year 1981. However, current estimates indicate that by fiscal year 1981 the tax expenditure budget is likely to rise by almost 38 percent, unless further steps to restore the tax base are taken.

Congress should recognize that tax expenditures represent one of the most "uncontrollable" areas of Government spending. Except in very unusual circumstances, we should not enact any additional permanent tax expenditures. Rather, we should limit their availability to fixed time periods, which would permit a more rational assessment of their results and continued need.

The prime responsibility for initiating such a program of tax reform must necessarily rest with the Ways and Means and Finance Committees. These committees must recognize that tax reform is a key ingredient in any 5-year projection of national needs and overall fiscal policy. They should consider very seriously the proposition that enactment of any new tax expenditures should be accompanied by offsetting reductions in existing tax expenditures.

Every functional category of the budget includes certain tax expenditures which may be appropriate candidates for elimination or modification. In the national defense function, for example, our move to a volunteer army and pay comparability with the private sector has brought into serious question the continuing need for the $650 million annual tax expenditure for exclusion of benefits and allowances to Armed Forces personnel. In the international affairs function, the $1.5 billion subsidy in fiscal year 1977 for deferral of income for foreign controlled corporations, DISC, modified in the House-passed tax reform bill, should be examined to determine if it simply rewards activities that would take place in any event.

In the natural resources function, a proper target for reform is the deduction for interest on State- and local government-backed pollution control bonds. This highly questionable tax expenditure cost $110 million in fiscal year 1975, and is expected to cost $490 million by fiscal year 1981. It may well be that pollution control expenses should be regarded as a cost of doing business and not entitled to governmental assistance, or there may be a more efficient and less expensive means of bearing these costs, without creating additional competition for States and localities that are already having trouble marketing obligations for their own programs.

A concerted effort to eliminate or modify these numerous and often costly tax expenditures can produce significant revenue gains during the 5-year period. These gains should be used primarily for additional tax reductions for lower- and middle-income individuals and families.

A new employment program: In addition to the tax policy outlined above, the severity of the current recession makes it clear that traditional economic stimulus measures will not return us to full employment. Additional efforts will be necessary to put people back to work, rather than merely providing income support.

During the past year, a number of bills have been introduced to stimulate employment in the private sector, primarily through tax credits. These bills recognize the reality that the private sector is our largest employer and that it is there we must look for major increases in employment. At the same time, many important sources of employment, such as nonprofit organizations and government enterprises, would not benefit from these tax-credit approaches. In addition, the tax credit approach would further complicate our tax system by enacting yet another tax expenditure, rather than a program which could be scrutinized annually through the traditional appropriations process.

To encourage employers of all types to hire additional workers, I propose that appropriate House committees consider a program to subsidize the hourly wage of newly employed workers for a 3-year period. A subsidy of 60 cents an hour the tax-credit approach would further during the first year of employment—$1,200 a year per employee—should be sufficient to induce employer participation. The subsidy would decline in the second and third years of the program. The continuing, but declining subsidy reflects the fact that as the employee gains experience, his value to the employer is increased and the need for subsidy is decreased.

The program should focus on individuals with the greatest hardship—heads of households over 25 years of age and persons under 25. In both cases the individuals would have to have been unemployed for at least 8 weeks. Thus, the individuals being helped would be those who have the most difficulty in finding jobs and those with families to support. The program would not reach persons changing jobs, but would be designed, instead, to create new jobs which provide meaningful work.

The program would be a temporary one, for use whenever employment needs to be increased, and automatically phases down as unemployment drops. It could be administered through existing State employment offices.

Details of such a program should be developed by the appropriate legislative committees. These committees should be particularly concerned to minimize the potential substitution effects of the program. The number of people to benefit from the program, and thus its overall cost, would depend upon these details. However, if the program reached only 15 percent of the approximately 7.3 million unemployed, over a million persons would benefit and the unemployment rate would be reduced by more than 1 percent. At a 1 million job level, the program would cost approximately $1.2 billion in the first year of operation and, as the unemployment rate dropped, its cost would decrease to zero in the fourth year after enactment.

I urge the Congress to consider the adoption of such a program. If enacted during this session, and partially implemented in fiscal year 1977, it would provide an additional stimulus to the economy next year when, as stated earlier, many economists forecast a reduced rate of economic recovery.

My projections provide for assistance for 500,000 jobs in fiscal year 1977, for 1 million jobs in fiscal year 1978, and a phasedown of the program during fiscal year 1979 and fiscal year 1980.

Structural reforms: In addition to the tax policy and new employment program outlined above, there remain a great many structural reforms in our economy which should be addressed to assure a strong economy during and beyond the 5-year period.

The most important, in my view, is to achieve a more effective integration of fiscal and monetary policies.

Under our new budget procedures, Congress and the executive branch have the tools to prepare a budget premised on a fairly precise fiscal policy, expressed in terms of Government outlays, revenues, and deficits or surpluses. Yet the Congress and the Executive must do so without knowing, with sufficient certainty, what monetary policy will be followed for the budget year. Although the Federal Reserve Board, through its Chairman, now announces its monetary targets for the year, there remains great reluctance by the Fed to commit itself to a sustained course of action.

James Tobin, former Chairman of the Council of Economic Advisers, recently suggested that our budget resolutions include an explicit statement of the sense of Congress as to the desired path of the economy during the fiscal year, to be measured by the growth of GNP, the rate of inflation and unemployment, and other appropriate macroeconomic indices. This sense-of-the-Congress determination would be established with full consideration of the administration's proposals and the views of the Fed. Mr. Tobin believes that such an explicit statement of economic goals would help induce the Fed to carry out its monetary policies in a manner that more fully supports Congress economic objectives.

I hope this suggestion will be widely discussed in the Congress and in the executive branch. Although we cannot assure economic performance through the adoption of budget resolutions, we can set forth more specific goals and policies for all economic decisionmakers. If Mr. Tobin's suggestion is adopted, it would help to put an end to the spectacle of conflicting fiscal and monetary policies which have produced so much economic havoc in recent years.

Only slightly less important is the need for the Congress to begin the arduous, but essential task of eliminating institutional barriers to competition. Many of our Federal regulatory agencies—established to promote and maintain competition—are no longer functioning effectively. They often serve to reduce productivity and increase prices. I believe their operations and overall effectiveness should be reviewed by the Congress, and necessary reforms implemented.

Structural reforms can also help to reduce unemployment. For example, the House has twice passed legislation to deal with the problem of illegal aliens holding jobs that would otherwise be available to American workers. This legislation, which provides for penalties for employers hiring illegal aliens and for more effective enforcement of existing laws relating to illegal aliens, should be enacted by the Congress. And, the numerous work disincentives inherent in many of our welfare programs should be eliminated through enactment of comprehensive welfare reform legislation—as proposed by the Joint Economic Committee's Subcommittee on Fiscal Affairs.

We should also recognize that our overall economic goals cannot be achieved unless meaningful actions are taken to combat inflation. Reform of our regulatory agencies and elimination of the legislative "sacred cows" referred to above are important steps toward this end. So too is the Congress commitment to a responsible fiscal policy, one that reduces budget deficits as the economy improves and sets, and abides by, a policy of living within available revenues as full employment is reached.

In addition, regardless of the administration in power, the Congress should insist upon vigorous enforcement of the antitrust laws, a national policy as often ignored as it is universally acclaimed. The need to encourage price competition, as well as to enforce our antitrust laws in areas where Government agencies operate to discourage such competition, is more urgent than ever.

Finally, the Congress and the President should initiate a comprehensive review of the Consumer Price Index, our principal measure of price inflation. As an increasing number of Federal programs and wage and price decisions are indexed, it is essential that the CPI reflect only true inflationary increases and not increases due to changes in quality. This review should also include the development of special indices, appropriate to groups such as retired persons, which can more precisely measure the rate of inflation affecting their purchasing power.

These many and varied actions cannot be undertaken this year or even next. However, we should recognize that lasting economic prosperity cannot be assured solely through Federal budget policies. Action is needed in many areas, and it is the responsibility of Congress to deal with the full range of economic concerns.

FEDERAL SPENDING AND NATIONAL PRIORITIES

The President's fiscal year 1977 budget proposes a sharp reduction from the rate of growth in Federal expenditures experienced over the past several years. The extreme nature of this change is clear from a comparison of the growth in outlays for the past several years with the growth rate proposed by the President for fiscal year 1977.

Growth in total outlays

[In billions of dollars]

Fiscal year:	Outlays	Percent change
1971	$211,425	7.5
1972	231,876	9.7
1973	246,526	6.3
1974	268,392	8.9
1975	324,601	20.9
1976 (estimated)	373,535	15.1
1977	394,200	5.5

In considering this comparison, it should be noted that the fiscal year 1976–77 growth should be expected to be somewhat larger than normal because of the growth that occurs in the intervening transition quarter.

The President's recommendations for fiscal year 1977 are well below the costs of continuing current services as estimated by both the Office of Management and Budget and the Congressional Budget Office. Specifically, for fiscal year 1977 the President's recommended outlays would be $20.3 billion less than the OMB current services projection and $30.7 billion below the projections of CBO.

The President's recommendations, if accepted, would signal a significant change in national priorities as shown in the following table:

CHANGE IN OUTLAYS BY MAJOR ACTIVITY

[In billions of dollars]

Activity	Fiscal year— 1976	1977	Percent change
Defense and international affairs	98.5	108.2	9.8
Interest on the national debt	34.8	41.3	18.7
Social security and retirement commitments	81.1	92.7	14.3
Helping people at home	159.5	152.0	−4.7

This table shows that while the President generally accepts our commitments to retirees and interest costs, he is recommending that expenditures on other domestic activities be reduced in real—inflation-adjusted—terms. At the same time, expenditures to project U.S. power abroad are being increased in real terms.

I do not believe that such a radical shift in priorities is desirable. States, local governments, taxpayers, and individuals should not bear the brunt of the President's reductions. In fact, I do not consider these priorities as representing a reasonable or useful starting point for congressional deliberation on the budget. As an alternative, I have prepared a series of projections of receipts and outlays reflecting what I believe congressional priorities should be.

Obviously, such projections are hazardous. New and unforeseen events, cyclical fluctuations in the economy, and changing congressional priorities will, and should, be the basis for adjustments as we proceed through the next 5 years. But, I feel that such projections can be more useful as a beginning for policy deliberations than current service projections.

Using a 5-year projection, Congress can consider current problems in light of likely future circumstances and see their long run implications. The fiscal year 1977 portion of the projections represents the starting point of the overall approach and should be viewed as such.

Some indication of how this recommended program differs from the current service projections of CBO and the 5-year projections of the President's budget policy can be seen from the table below:

PROJECTED OUTLAYS

[In billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
CBO current services	424.1	463.9	495.1	530.5	564.0
President's program	394.2	429.5	455.7	482.5	509.9
Recommended policy	410.3	441.6	468.0	497.0	529.5

The recommended policy contains substantially higher outlays than the President's program, primarily for Federal domestic programs. The President's 5-year projections carry forward the shift in priorities begun in the 1977 budget, and are not acceptable for the same reasons his 1977 recommendations are not acceptable. The policy I am recommending proposes spending below current services projections, but its functional components vary substantially from those projections.

Appendix B contains a comparison of 5-year projections of outlays, receipts, and surplus/deficit for the three approaches, together with outlays by major function.

While the recommended projections are well above those of the President, they are clearly well below the sum of all expenditures that Members of Congress would like to be able to finance. Reaching the projections of the recommended program, particularly in the early years, requires that we avoid adoption of major new programs and significant expansions of existing programs, except to the extent that such additional spending can be financed out of reductions elsewhere. Thus, difficult decisions and considerable restraint will be needed.

But, if followed, this program will enable the Congress to achieve the options of tax reduction, additional economic stimulus, and new program initiatives through additional budget potential in future years, while holding the deficit to reasonable levels this coming year. These decisions Congress faces are mild compared to some of the cutbacks being carried out this year by many States and cities, and mild compared to some of the decisions that individuals have been making to cope with their declining real incomes.

In the function-by-function discussion which follows, only the highlights of a potential congressional approach to the budget are presented. The functional totals by year appended to this statement reflect explicit program assumptions spelled out in the discussion together with an underlying concept that other programs are assumed to remain at current service levels. However, in some cases the underlying detail in functional projections may reflect differences in estimating techniques and presumed changes in smaller programs. Consideration of these smaller programs will obviously take place in the context of the congressional budget and appropriations process, without impacting on overall priorities and the broader aspects of the Federal budget for the next 5 years.

FUNCTION 050: NATIONAL DEFENSE

[Outlays in billions of dollars; fiscal year]

	1977	1978	1979	1980	1981
Current services (CBO, path B)	103.4	114.5	118.0	127.2	135.6
President's budget	101.1	112.9	121.5	132.4	142.8
Recommended	100.0	107.0	113.0	119.0	126.0

My projections of Defense budget needs are based on assumptions of world conditions substantially the same as those used by the President in preparing his budget. Thus, these projections assume that our system of alliances and commitments will remain relatively stable over the 5-year period; that no major new threats to our national security will develop; and that we will want to continue an adequate level of force modernization without increasing our force structure.

This year the Congress must make major procurement decisions with respect to the B-1 bomber, the Trident missile, outfitting new Army divisions, and equipping Air Force tactical fighter wings. If the Congress approves the President's requests in these areas, it will add billionsof dollars to the defense budget by fiscal year 1981. I do not believe we can begin all of these massive new programs at the present time when budget restraint is being required in all other programs.

The outlay projections contained in the President's budget for fiscal year 1977 indicate that the Defense function will increase by an average of 10 percent per year to a level of $143 billion in fiscal year 1981. There is little evidence that the Department of Defense is seriously considering alternatives which would moderate this dramatic increase.

The President's projections provide for an average rate of inflation of 6 percent for purchases, "comparable" pay and retirement costs after fiscal year 1977, and a real growth in defense outlays of approximately 3 percent per year to provide for increased technology and force modernization.

My recommendation would provide an annual average increase of 6 percent for defense purchases to accommodate inflation and technological improvements. It would require modernization of the military compensation structure and revision of the civilian pay structure in order to acheive comparability on a total compensation basis by fiscal year 1981. In the intervening period an increase of 5 percent per year would be allowed to cover cost-of-living adjustments in the pay area. On this basis, approximately $126 billion will be required for the defense function by fiscal year 1981. Continued modernization would be accomplished with savings made by the more efficient use of manpower and by reducing the support and training establishment.

This strategy is based on the conviction that we can provide for all of our defense needs without increasing the defense share of the budget if we are willing to tackle the difficult and sometimes emotional problems of manpower costs and weapons systems and do not adopt an expanded military posture in the world.

In focusing on the problem of manpower costs, I do not mean to imply an endorsement of the need for each of the weapons systems proposed by the Department of Defense, nor acceptance of the current level of weapons system acquisition funding. Rather, I believe that the significant defense budget increases provided in recent years, and projected for the future, are not solely attributable to the procurement accounts. Their prime cause is the soaring cost of manpower and the inability of the defense sector to shirink its support establishment from its Vietnam peak to a level appropriate to support the current forces.

I recognize the difficulty of making significant changes in the number of personnel and personnel compensation. But unless we correct inequities and restore balance to the defense budget we will not provide for increased national security no matter how much of our resources we devote to the defense budget. Conversely, if we can make progress on these tough manpower problems, we can increase our national security with little or no increase in defense spending.

The total cost of defense manpower in fiscal year 1976 is estimated at 54 to 60 percent of the total DOD budget, depending on varying definitions of what should be included under the general category of manpower costs. The costs have risen dramatically since the enactment of the comparability pay system in 1968 and the development of the all-volunteer force. Yet, there are no real standards to determine the appropriate levels of compensation. Today's system of compensation is more complicated than comparable. It mixes fringe benefits provided when pay was abnormally low with new benefits and pay increases added separately and at different times. As a result, there are now indications that military and civil service compensation—except at executive levels—have exceeded what could reasonably be construed as true comparability.

The time has come for Congress to face the problem of compensation squarely and revise the law as necessary to achieve comparability on a total compensation basis.

All military personnel receive a basic pay intended to remunerate them for services rendered. This is the principal element of military compensation. The amount of basic pay is a function of a member's rank and length of service in the Armed Forces. Unlike civil service employees, who normally receive a single salary, military personnel are also entitled to special pay, bonuses, and allowances depending on such factors as rank, length of service, marital status, number of dependents, type of assignment, and location.

Military personnel also receive allowances for certain needs that civilians normally meet from their salaries. All military personnel are entitled to subsistence and quarters or cash allowances if these are not provided in kind. The specific amount depends on a member's rank and number of dependents.

A tax advantage results because quarters and subsistence allowances—whether furnished in kind or in cash—are not subject to Federal income tax. As of October 1974, DOD estimated that the annualized tax advantage to military personnel—that is, revenues foregone by the Treasury—amounted to over $1 billion. Military personnel are also covered by social security on a contributory basis. Thus, at the age of 62 a military retiree can receive two annuities for the same period of service.

I suggest that the Congress decide upon a comprehensive definition of pay and develop a system of total compensation. This would involve:

One, translating all current fringe benefits into real dollars and substituting one military compensation package for the current system of base pay and fringe benefits; this would provide a clear picture of the cost of military compensation, which by itself would be a major step toward solving the manpower cost problem;

Two, reforming the military retirement system to a vested system on a contributory basis, and reviewing the policy of providing retirement income to individuals in their late thirties and early forties;

Three, correcting the system used to adjust the annuities of retired military personnel by removing the so-called 1-percent kicker, which has cost approximately $750 million in adjustments in excess of actual inflation; and

Four, moving toward a selective reenlistment program, including a reexamination of the reenlistment bonus and lump sum leave payment system.

I also recommend a close examination of DOD's overall training costs. The establishment of a stable Volunteer Army should lead to reduced training costs. In fiscal year 1976, the Department of Defense estimated that training costs, exclusive of unit training, will be approximately $6.8 billion. At any given time, 1 out of 5 military personnel will be involved in some aspect of training, other than unit training. The student-teacher ratio is approximately 1.6 to 1. I believe that savings on the order of $1 billion can be made over the next 5 years by a concentrated review of this area with a view toward consolidation of overall training programs and elimination of many marginal programs.

Finally, the support establishment in DOD has not decreased in proportion to the reduction in forces since the height of the Vietnam war. The difficult decisions on reducing the base structure by consolidations and closings must be made. DOD witnesses indicated to the Budget Committee's Defense Task Force that approximately $1 billion could be saved annually by base realinement. Obviously, this would result in job losses to individuals. However, if the Congress were to insist on a policy of guaranteeing one job offer within Government at the same grade to each person whose job is affected the personal hardship would be greatly minimized.

FUNCTION 150: INTERNATIONAL AFFAIRS

[Outlays in billions of dollars]

	Fiscal year 1977	1978	1979	1980	1981
Current services (CBO, path B)	6.8	7.8	8.5	9.3	9.9
President's budget	6.8	7.8	7.8	8.1	8.0
Recommended	6.3	7.1	6.9	7.0	7.1

My projections for the international affairs function, which includes funds for foreign aid as well as the conduct of foreign affairs, takes into account important recent changes in the world political and economic situation.

Major oil discoveries in Indonesia, Nigeria, and elsewhere, together with increases in the world price for raw materials such as bauxite and phosphates, have significantly altered the economics of many of the less developed countries. As a result, many long-time foreign aid recipients should now be able to finance development through sales of their resources to us. At the same time, the dramatic increases in world petroleum prices have resulted in serious setbacks for the economics of other oil-poor LDC's. For these countries, continued foreign aid promises little economic relief in the absence of special pricing or other economic considerations from the oil-producing nations. In addition, there is continued debate, both within the administration and in Congress, about providing foreign aid to countries that consistently pursue foreign policies against our interests in the United Nations and elsewhere.

Based on these considerations, and the fact that foreign aid funding has not historically been increased to offset all of the cost of inflation, my projections continue foreign economic and financial assistance essentially at the level provided in the fiscal year 1976 budget resolution. For security supporting assistance, however, a gradual reduction from the unusually high fiscal year 1976 levels is projected. This assumes that progress toward a peaceful solution to the Middle East crisis is accompanied by a gradual reduction in the requirements for military and economic aid. For the conduct of foreign affairs and exchange activities, the projections assume that the full cost of inflation must be accommodated.

My projections for the Export-Import Bank continue fiscal year 1976 levels through fiscal year 1981. Some restraint in the expansion of this export promotion program appears likely in response to GAO and congressional questioning of its objectives and performance. The GAO has raised questions as to whether the Bank is expanding its loan portfolio too rapidly in comparison to its reserves and as to its short-term borrowing to turn over lower interest long-term loans.

In any event, continued expansion of export promotion activities does not appear necessary in a period of floating exchange rates and large increases in non-Bank financed exports. It should also be noted that efforts are currently underway between our Government and other countries to limit the amout of export promotion activity each supports. If the fiscal year 1976 activity levels were continued through the projection period, spending levels would decrease as loan repayments increasingly offset new program activities.

FUNCTION 250: GENERAL SCIENCE, SPACE AND TECHNOLOGY

[Outlays in billions of dollars]

	Fiscal year—				
	1977	1978	1979	1980	1981
Current services (CBO, path B)	5.0	5.4	5.8	6.0	6.1
President's budget	4.5	4.6	4.5	4.4	4.1
Recommended	5.0	5.5	5.7	5.7	5.4

Outlays for research in the biological, physical, environmental, and Earth sciences included in this function should permit the continuation of program activities at current levels for the near term. By the end of the decade, aggregate real program levels may be reduced as hardware engineering and development requirements, primarily for the investment in the Space Shuttle, begin to taper off. At that point, the Space Shuttle will be operational as a lower cost transportation vehicle for scientific research projects than was previously available, and increased levels of research activity will be possible even at lower aggregate program levels for the Earth and its environment.

The projected outlay level for fiscal year 1981 is below the current services level projected by CBO, but is comparable to the President's projected level after adjusting for inflation and for certain technical changes in the President's fiscal year 1977 budget presentation. While no substantial new hardware development programs are anticipated, this outlay level should allow for a balanced research effort aimed at the solution of current and future problems of resources, health, energy, and ecology, and permit a reasonable level of basic research to increase our understanding of the Earth and its environment.

FUNCTION 300: NATURAL RESOURCES, ENVIRONMENT, AND ENERGY

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current, services (CBO, Path B)	14.2	15.8	15.9	15.2	14.8
President's budget	13.8	14.4	15.1	14.9	14.5
Recommended	15.1	17.9	18.9	19.8	22.7

My projections in this area provide additional funding to resolve our national energy dilemma; and to achieve the national goals of clean water, but with revisions to reduce the high cost of reaching those goals.

A successful energy program must include funding to prepare the Nation to withstand any future fuel emergencies while working to make the possibility of any such emergencies less likely. We need a civilian strategic oil reserve of some 600 million barrels, costing approximately $10 billion to build and stock over a 7-to-10-year period. This reserve, together with State plans to cope with future fuel emergencies, will enable the United States to avoid the kind of needless economic disruption caused by the 1973 embargo.

Other steps to weaken OPEC control of the international oil market will also forestall future emergencies. Most important is the need to develop a foreign economic policy which rationalizes the interests of the Departments of State, Defense, Treasury, and Commerce to assure that U.S. policies foster, rather than hinder, the maximum development of oil supplies around the world. Creative purchasing—through the use of oil import certificates—to acquire the Government's strategic oil reserves can support our goals. The Federal Government should demonstrate and help commercialize new technologies for energy conservation and production, creating future options. Having the capability for reduced energy dependence can be more important than actually reducing oil imports.

The outlay differences between this approach and the President's budget reflect a more realistic assessment of the cost of implementing an effective energy program. In addition, this approach utilizes direct expenditures, rather than the $100 billion guarantee program proposed by the President.

In the pollution control and abatement area, my projections provide for full utilization of current EPA construction grant authority by fiscal year 1978, followed by a program extension with comparable funding. This extension should result in significant additional outlays during the projection period. As it moves forward, we should assure that our investment is efficient and effective and that the level of benefits matches the level of expenditures. EPA has recently begun to require cost/benefit analyses and should encourage user-charge programs to assure more economic approaches to these projects.

Other programs in this function are basically at a current services level.

FUNCTION 350: AGRICULTURE

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	2.3	2.5	2.6	2.7	2.8
Presidents budget	1.7	2.6	2.6	2.8	2.8
Recommended	2.0	2.2	2.3	2.5	2.6

My projections in this area provide for a more effective agriculture program at approximately current service levels.

Agricultural policy is at a crossroad. The need for traditional commodity support programs has been reduced by expanded world demand for U.S. food and fiber and by weather-induced reductions in supply. Farm prices have remained above support levels and our vast Government grain stocks have been depleted. While outlays in the agriculture function were more than $4 billion annually from 1968 through 1973, less than $3 billion has been spent each year since 1974. Price fluctuations in major agricultural commodities now have a larger influence on our Federal budget by their leverage on the Consumer Price Index and their impact on foreign aid programs than through direct changes in funding for the agricultural commodity programs.

Our current agricultural policy fails to recognize the international scope of markets, the complexities of unstable food prices, or the need for a reasonable share of Federal dollars to assure food production. Consumers are resisting severe food price increases and farmers are unsure about planting when prices may fall. Worldwide weather variations necessarily impact on our domestic market prices.

Commodity programs should stabilize markets against the short-term potential problems of both surplus and shortage. The policy should focus on domestically important commodities while recognizing the international dimensions of the problem. Our goal should be efficient food production stabilized for consumers and producers with an equitable distribution of benefits to all participants. The program should emphasize price stability with reasonable bounds for potential budget exposure.

Recent trends in agricultural research have not kept pace with inflation. The number of research personnel in the Agriculture Research Service of the Department of Agriculture has diminished 20 percent over the last decade. Although research seldom has a short-term payoff, we must invest adequately for our future needs. Agricultural research deserves a higher priority and should receive gradual real increases in funding over the next 5 years. Through such research, the United States can continue its long-held leading role in world food production.

In fiscal year 1977, the President projects that specialized commodities such as peanuts, tobacco, and bulk dairy products will be responsible for nearly $600 million in outlays. Because these are entitlement programs, Congress has no control over expenditures without changing the basic legislation. Such changes to reduce these outlays will allow the Congress to rearrange priorities according to a broader base of national interests.

Disaster payments estimates for major commodities in fiscal year 1977 are just under $400 million. Farmers qualify for payments if weather prevents planting or reduces crop yields. A federally-sponsored crop insurance program already exists at marginal Government cost, and we should encourage farmers to shift their risks to that program.

Overall, I propose that we significantly reduce spending for specialized commodities and farm disaster payments, with the savings partially offset by implementing a limited price stabilization policy and gradually increasing agricultural research.

FUNCTION 400: COMMERCE AND TRANSPORTATION

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services [1] (CBO, Path B)	18.4	18.8	19.3	20.3	21.2
President's budget	16.5	19.4	19.1	18.7	18.7
Recommended	18.2	18.6	19.0	19.4	19.7

[1] Includes CBO inflation adjustment for highways.

In the field of transportation and commerce, the Federal budget is particularly vulnerable to rising costs without a commensurate increase in overall results. My projections for this function emphasize an internal reordering of priorities, a greater concern for measuring accomplishment, and a shift toward greater flexibility in assistance programs so that regional, State, and local decisionmakers can make responsible allocations of funds to areas of greatest need.

Such an approach implies acceptance of a number of the transportation program proposals advanced in recent years by various administrations. As the goal of a completed Interstate Highway System comes closer into view, the era of massive new highway construction is probably at an end in many parts of the country. As we design our transportation programs for the post-Interstate era, increasing recognition should be given to the diverse transportation problems of individual States and communities. In some areas, major investment in urban mass transportation and intercity rail freight systems will be appropriate, while less densely populated States will find continued highway investment a better means of reaching their transportation and mobility goals.

The newly passed railroad aid program, as well as the ongoing highway and transit programs, provide major resources for surface transportation improvement. Each needs to be funded adequately, but with a concern for avoiding overlaps and duplication of effort. Current steps to assure cost-effective major investments should be applied across-the-board to all transportation programs. Ultimately, we may find that a consolidated transportation fund is a more sensible and efficient approach to meeting needs.

Under my approach, surface transportation outlays would grow at a significantly higher rate than in the President's projections, since the recommended program reflects both inflation and a broadening of the function to provide for major new rail investments contained in recently passed legislation. In total, however, the recommended program implies a rate of outlays somewhat less than an inflated current services level, reflecting the impact of program consolidation and concern for balance between user tax receipts and program authorizations. In aggregate, surface transportation spending under the recommended program is projected to reach $12.6 billion in 1981, which is nearly $2 billion above the President's projections but $0.5 billion below inflated current services.

Other programs, both in transportation and in commerce, which provide subsidies to various sectors need careful scrutiny in line with the general approach to the budget and the economy. Federal outlays in such areas as maritime subsidies, airline subsidies and airport construction, postal subsidies, rail passenger service, transit operating subsidies, small business aid, research and development, and other aids to business must be examined closely. Rather than allowing such programs to grow unchecked, we must be assured that they are achieving their intended purpose, in an efficient fashion; that this purpose still rates high in our national priorities; that direct aid is not being duplicated by tax expenditures; and that a reform of economic regulation could not achieve similar goals. With these criteria in mind, it is possible to restrain the growth in commerce and transportation outlays to a rate below that forecast by a current services approach. In aggregate, a projected rate of outlays based on these criteria would produce $7.2 billion in 1981 outlays for the commerce and transportation functions, excluding surface transportation and the mortgage credit and thrift insurance subfunctions. This is $1 billion less than the current services projection.

In the mortgage credit and thrift insurance area, outlays should approximate the Congressional Budget Office's current services projections which call for a net balance of $-0.1 billion in this function by 1981. Under normal economic circumstances, receipts from the various thrift insurance agencies should exceed expenditures by a considerable degree, and thus offset the net outlays under the housing programs. This will be possible only within the context of a sound economy, permitting a decline in the abnormally high rate of FHA mortgage foreclosures and a realistic program for the disposition of acquired properties and mortgages.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	7.7	8.3	8.0	8.1	8.3
President's budget	5.5	6.0	6.2	6.0	6.1
Recommended	7.2	8.0	7.7	7.6	7.6

In the 1974 Housing Act, the Congress consolidated a series of similar categorical grant-in-aid programs into a single, flexible community development block grant program. The new block grant program, now in its second year of funding and a principal program of support to the Nation's local governments, shows signs of being a successful improvement over past categorical approaches. As such, this block grant experience may be useful as a guide for similar reforms in other sectors of the Federal budget. The projection calls for a continuation of the community development block grant at a level necessary to maintain the purchasing power of the program, and at a moderately expanded level if, after the third year of the program, its results justify that expansion.

It should be noted, however, that the bulk of the Federal programs that impact upon the residents of our major urban areas will necessarily be in such activities as elementary and secondary education, health, and income maintenance, rather than in the form of direct assistance to local governments. By providing for a moderate expansion in the funding of the community development block grant program, Congress can help retard further deterioration in the quality of life in our Nation's major urban areas. The expansion in funding should be no more than moderate, however, in order to spur State governments into recognizing that the solutions to many problems in central cities will have to be sought through their ability to reach with programs and taxation the suburban areas surrounding those cities.

In area and regional development, expenditures to date on activities of the Economic Development Administration, Regional Action Planning Commissions, and Appalachian regional development programs have not produced results that would justify expanded funding in the future. These efforts—and, to a large extent, the related efforts of the Farmers Home Administration—have produced only marginally useful results, with funding spread thinly across wide areas of the country, generally outside of established urban areas or potential growth centers. There is a clear need to simplify and consolidate our many disparate and uncoordinated programs of economic and regional development. If future expenditures cannot be focused more dramatically upon the strengthening of existing urban communities or potentially viable rural growth centers, gradual phasedown of these programs should begin in fiscal year 1977.

Funding for other programs in the community and regional development function are either held to current services levels or are reduced. A number of these various activities appear to warrant serious evaluation and possible phasing down or out where the end product of the programs has fallen far short of the original goals set by Congress.

FUNCTION 500: EDUCATION, EMPLOYMENT AND TRAINING AND SOCIAL SERVICES

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	21.4	22.4	23.1	23.5	24.3
President's budget	16.6	15.3	15.3	15.3	15.3
Recommended	22.3	21.6	21.0	21.3	22.1

My projections in this important area provide for real growth in high priority education programs, a reorientation of certain manpower activities, and a steady level of social services funding.

Education: The Federal Government has placed, and should continue to place, the highest priority on aiding those who are educationally disadvantaged, either because of insufficient income or membership in a racial or ethnic minority. It is the States' primary responsibility to provide education to their citizens. The Federal Government has a legitimate responsibility to help redress inequities in the provision of equal educational opportunity both within and between States and to achieve at least a minimum level of education.

Elementary and secondary education programs, costing about $4.6 billion in fiscal year 1976, should be funded at current services levels overall. Increases above these levels should be considered only when there is additional evidence that school districts are using assistance to substantially increase educational achievement, and that local taxpayers are willing to support their schools through local tax efforts. Presently, implementation of the title I program varies markedly among school districts, making generalizations about its effectiveness impossible. Regulations should be written for title I setting forth basic standards, including funding restrictions to encourage a more unified intensive approach to reducing reading and math deficiencies.

Approximately half of the expenditures for the Impact Aid program should be continued; the balance should be phased out. Three categories of students are counted in funding school districts affected by the presence of Federal activity. Category A, 42 percent, includes those children whose parents both live and work on Federal property and therefore do not pay property taxes. Category B, 48 percent, includes those children whose parents either live or work on Federal property. Category C, 10 percent, is comprised of those students whose parents either live or work in low-cost public housing.

While funding of categories A and C should continue, category B falls outside any legitimate aim of impact aid. An estimated 99 percent of category B children reside on private taxable land giving a source of revenue for school districts. In addition, the presence of the Federal Government, as an employer, adds to the economic base of the community. I recommend that funding for category B students be phased out by fiscal year 1981.

Funding for emergency school aid should also be phased out by fiscal year 1981. Under the law, school districts must continue to correct segregation; but the original objective of the program was to meet a temporary condition, rather than to build a permanent program. Where desegregation results in a greater influx of poor children, the title I program is a more appropriate aid to local districts.

Growth in higher education funding is a major issue facing the Federal Government. Direct student aid and institutional subsidies have successfully encouraged substantial increases in participation among the targeted low-income and ethnic groups. Projections show that higher education enrollments are rising and that minority students' demand for increased education exceeds that of the general college-age population. Even though middle-income students attain higher education levels at nearly three times the rate of very low-income students, middle-income families are finding it difficult to finance their children's education. Hence, expansion of student aid is recommended.

The basic education opportunity grants—BEOGS—program is a major source of financing higher education and provides assistance to all students at different rates depending mainly upon family income, adjusted by value of assets and cost of institution. While BEOGS has succeeded in accomplishing one Federal goal; namely, access to higher education, it fails to accomplish the other goal, choice. BEOGS fails to equalize choice among all income levels of applicants since no student can receive more than half the cost of attending school. Thus, lower income students receive lower awards than higher income students because they attend low-cost colleges. In order to encourage choice for all students, it is recommended that different grant criteria be considered, based upon the income of the student rather than the cost of the college. Such an approach requires increased funding.

Adoption of these recommendations would result in a projected outlay level of approximately $12 billion for education programs in fiscal year 1981, approximately a current services level of funding.

Employment and training programs: I believe our overall approach to employment and training activities should concentrate resources with the highest net employment effect on those population groups which stand to benefit most. We must change existing programs so they can better relate to the labor market.

Although existing programs and activities now focus on the disadvantaged and unemployed, it would be more beneficial to all groups if a broader spectrum of the labor force were served. Employers would be more interested in participating in a broader based program. They have expressed concern about the current ability of State employment services to refer qualified workers. Broadening the base of the program to include placement and upgrading activities for higher skilled workers and individuals with a strong attachment to the labor force would stimulate increased participation by employers and create more job opportunities for the disadvantaged and unemployed.

My projections provide for continuing the employment and training programs provided under the Comprehensive Employment and Training Act—CETA—with certain changes to achieve the objective of serving a more diverse population. These changes will affect the law's eligibility targeting for prime sponsor programs for on-the-job training, work experience, and skill training. The present program level would be continued, adjusted each year for inflation.

In addition, in order to meet the special needs of disadvantaged youth, an immediate and substantial increase in Job Corps funding is recommended in fiscal year 1977, through transfer of funds from the CETA title I programs. This approach offers optimum utilization of the one program which is directed specifically to the inner-city youth who have the highest unemployment rate. However, Summer Youth, a program directed at the same target group, is projected to be phased down in fiscal year 1977 and then discontinued as a national program in the summer of 1978, as the economy turns upward and the youth unemployment rate drops.

The current level of "countercyclical" public service jobs funding—CETA title VI—assumed in the second budget resolution will fund 350,000 jobs in fiscal year 1976. This level should be maintained through fiscal year 1977, with a phasedown starting at the beginning of fiscal year 1978. A 15-month phasedown will allow State and local governments to absorb those who could be hired due to normal growth in their payrolls. Growth in State and local employment was halted during the recession; with an upturn in the economy, it is assumed that these governments will expand their payrolls and thus reduce the need for this program. The present level of the "transitional" public service employment program—CETA title II—for structurally unemployed, which funds approximately 75,000 jobs each year, would be maintained.

Projected outlays for employment and training programs are estimated at $5.6 billion in fiscal year 1981.

Social services: My projections call for maintaining the present level of funding for social services, which permits grants up to the $2.5 billion ceiling. In addition, programs for the aging, vocational rehabilitation, and developmental disabilities should be maintained at present levels, adjusted for inflation. I believe that the Congress should move toward the block grant approach in this area to provide States greater flexibility in program management.

FUNCTION 550: HEALTH

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	37.7	42.1	46.8	52.7	57.3
President's budget	34.4	37.7	40.3	43.4	47.0
Recommended	37.4	42.1	46.5	51.1	55.2

There is widespread concern over the spiraling costs of health care in the United States and the increasing share of the gross national product devoted to health without accompanying improvements in the health status of the population. In spite of our concern, we should not demand, as the President has done in the 1977 budget, that the most vulnerable groups in our society bear the brunt of checking the inflation in health costs. I propose that we reaffirm the Federal responsibility for the health needs of the aged, the poor, and the disabled. Reforms in medicare and medicaid should be directed toward making health care more accessible and more available to these disadvantaged persons, and not, as the President has proposed, making necessary health services more costly and less assured.

To control medical care prices, I am proposing that the Federal Government establish a realistic and reasonable pricing policy for institutional care provided through medicare and medicaid. The price policy should not consist of rigid cost controls as the President has proposed. Instead, reimbursement rates for hospitals and other institutions participating in medicare and medicaid should be adjusted annually according to metropolitan or regional indices of health costs. Federal increases in reimbursements should be limited to 133 percent of each region's CPI for all services. This approach would limit the increase in hospital reimbursements in fiscal year 1977 to about 10 percent, declining to about 8½ percent in fiscal year 1978. Furthermore, I would hope that the major private insurers of health care in the Nation will adopt a similar reimbursement policy so that institutional providers cannot simply pass those costs disallowed by the Federal Government on to privately insured patients. If this policy is not successful, rigid cost controls will be necessary.

In addition to a flexible program of cost control, we must placed added emphasis on those programs which have demonstrated capacity for improving the effectiveness of our health care delivery system:

Health maintenance organizations—HMO—can reduce the use of high-cost hospital care and provide a useful alternative to fee-for-service health care;

Professional standards review organizations—PSRO—through peer review, can significantly affect the length of hospital and nursing home care and eliminate unneeded admissions; and

Comprehensive health planning at community and State levels offers the opportunity for careful matching of delivery capability with community health service needs and elimination of surplus capacity and unnecessary duplication.

In addition to these demonstrated programs, we must move more rapidly to expand home health care arrangements and intensify efforts to make preventive health care a reality. While additional investment in these efforts will not bear an immediate return, they will begin by 1980 to moderate the annual rate of increase in medicare and medicaid expenditures.

The administration's proposal to create a $10 billion block grant by folding medicaid and 15 other programs into one funding mechanism is deficient on many grounds: It contains insufficient funds; it provides no safeguards to assure continuation of necessary services or maintain quality of care; and it combines grants to State health departments and private community agencies, service grants and planning grants, programs funded by formulas and programs funded by project, programs covering physical health, mental health, and training of the retarded. This confusing and conflicting collection can only create disorder at the State and local levels and have a severe, negative effect on health care.

However, the concept of combining categorical programs into a single simplified grant has merit, if applied judiciously. I believe Congress should carefully consider an initial block grant which combines those formula grant health programs which now flow through State health departments. Project grant programs would be folded into the block grant as their current authorizations expire, but with provisions to protect existing grantees. Through this approach, we will simplify administration and improve coordination without the disarray the President's approach would introduce.

I continue to believe that we must establish and implement a system of national health insurance designed to give all Americans access to good care; end financial hardship caused by illness; improve the efficiency and effectiveness of the health care delivery system; and provide incentives to both providers and consumers of health care to hold down costs. No matter which of the several proposals for health insurance one examines, the impact on Federal spending will be significant. A program of national health insurance should not be financed by borrowing as though it were a temporary or emergency measure. It should be paid for from available revenues. We must be realistic and admit that we cannot afford a new and comprehensive national health insurance program until our budget potential significantly expands.

Fortunately, I believe that day is not far off. It is my expectation that by fiscal year 1980 the Federal budget will be in a position to implement such new initiatives as NHI. Since most experts maintain that a 2-year period following enactment of the law will be required to develop the administrative structure and operating rules for a comprehensive program of national health insurance, I believe that fiscal year 1977 is the appropriate year for Congress to pass the basic legislation. However, my projections do not include funding for NHI because of uncertainty over the costs of such program.

FUNCTION 600: INCOME SECURITY

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	19[illegible]
Current services (CBO, Path B)	144.8	158.8	172.6	185.0	[illegible]
President's budget	137.1	147.1	158.3	170.1	[illegible]
Recommended	139.6	149.4	162.6	177.7	[illegible]

Of all the functions in the Federal budget, income security is the most sensitive to economic conditions. For example, the lower unemployment rate assumption in my projections produces a $5.9 billion difference from the CBO current services estimate for fiscal year 1981. Even with low unemployment and moderate inflation, however, the costs of income security programs will increase. These outlay increases result from demographic and social trends, such as the increasing number of both retirees and female-headed families, as well as from the automatic indexing to the cost-of-living of retirement programs and several of the major assistance programs.

Assistance programs: One of the most troublesome and controversial Federal programs continues to be cash assistance, or welfare. The failings of the current program are obvious to all. Caseworkers, recipients, welfare program managers, and the general public alike decry the combination of, low benefit levels in some States and high benefit levels in others, high administrative costs and high error rates, benefits that combine with other income-tested programs to exceed by a substantial margin the value of working for a living, and the exclusion of some groups of the needy population from coverage because they do not fit the current categories of assistance.

In 1974 the Joint Economic Committee Subcommittee on Fiscal Policy completed an exhaustive study of welfare problems and reform proposals. Based on this study, the Subcommittee recommended that Aid to Families With Dependent Children—AFDC—and food stamps be replaced with a single program of need-related grants and rebatable tax credit to be administered through the national tax system by the Internal Revenue Service. The grants are based on family size and income. Tax credits replace the current personal exemptions and are rebatable when they exceed tax liability. The program is designed to reduce the extreme variation by State in current payments levels, to supplement all low-income groups more equitably, to bring all current income-related programs under control through explicit coordination mechanisms, and to strengthen the incentive to work. Additionally, it offers substantial tax relief to moderate-income persons.

This reform plan is attracting increasing support. I propose its implementation in four annual stages beginning in fiscal year 1978. The first step is the shift from personal exemptions to nonrebatable tax credits, a step that begins the tax relief aspect of the plan. The second step replaces the child care income-tax deduction with a standard employment expense deduction. The third adds dependents' coverage to the supplemental security income—SSI—program. The final, and most important, phase of implementation would take place in fiscal year 1981 when the personal tax credits would become rebatable, AFDC and food stamps would be terminated, and the need-related grants would begin. Appendix C contains a brief description of the plan.

Projecting the costs of this new program 5 years into the future is necessarily uncertain. I have come down on the side of caution in projecting maximum costs. Benefits are set at moderate levels, and it is possible, as fiscal year 1981 approaches, that both grants and tax credits will be raised somewhat above the levels assumed here. By that time, however, there will be ample funds available for such an increase. Assuming implementation of the new program, outlays for assistance programs are projected at approximately $39 billion in fiscal year 1981.

Social security: By fiscal year 1981, the number of beneficiaries will have increased by 4.6 million from current levels. In addition, even assuming a moderation of inflation to 5 percent by fiscal 1980–81, the cost of indexing this program to the cost of living will account for 69 percent of the projected increase in outlays to approximately $122 billion in fiscal year 1981.

Over the past year, much attention has been given to the financial solvency of the social security trust funds. There are two areas of concern. First, the combined impact of inflation-based increases in outlays and unemployment-caused decreases in revenues from the payroll tax has pushed the system into a short-term deficit. Second, the system faces significant long-term financing problems stemming from the overcompensation for inflation in the current system—often called coupling—and the increasing percentage of aged persons projected as the postwar baby boom reaches retirement age early in the next century.

The administration has proposed an increase in the payroll tax to deal with the short-term problem. It is not clear that such an increase is needed. By fiscal year 1981, with no change in law, the administration estimates that the three social security trust funds will have an annual surplus of $4 billion and combined trust fund balances of $52.4 billion. If the administration's proposed increase in the payroll tax—0.3 percent for both employers/employees effective January 1, 1977—is enacted, and if Congress accepts the benefit adjustments proposed in the President's fiscal year 1977 budget, the fiscal year 1981 surplus would be $26.8 billion and the combined balances $175.2 billion.

A tax increase should not be necessary over the next 5 years if taxes currently allocated to the medicare trust fund are reallocated to the OASDI funds. This will eliminate the danger of retarding the current economic recovery by increasing payroll taxes. It will also provide time for public debate on the equity questions as to the current payroll tax and benefit structure, particularly the financing of wives, widows, and dependents benefits.

Some immediate steps need to be taken on the benefit side, however. Legislation is needed to insure that inflation is not reflected twice in the pensions of those later to retire: once in their wage history—benefits are computed on the basis of average wages, which rise with inflation—and once in the indexed part of the benefit calculation. The benefit formula is changed permanently each time a cost-of-living increase is granted.

The administration's fiscal year 1977 budget proposes to end this overcompensation for inflation—coupling—by freezing the current relationship between benefits and preretirement income. Implementation of some decoupling proposal is feasible by January 1, 1978, and is assumed here. This will correct a long-term financing problem which would ultimately result in a large number of workers receiving social security benefits higher than the wages they had received while working. In the short term, there will not be significant cost savings—$200 million in outlay savings by fiscal year 1981. In the long term, however, decoupling could eliminate about half of the projected social security deficit.

Benefit changes with potential for more immediate savings that are assumed in my projections include:

Freezing the minimum benefit standard effective June 30, 1976: The minimum benefit—currently $101 per month—was originally instituted for administrative convenience. In order to avoid sending small checks, no payments of less than $10 were to be made. Over time, the minimum benefit has been raised substantially and transformed into an antipoverty device. Its current effectiveness as an antipoverty tool can be questioned on two grounds:

The new SSI program provides benefits to aged, blind, or disabled recipients that are higher than the social security minimum benefit—$158 a month versus $101 for an individual and $237 versus $152 for a couple.[1] SSI recipients who also receive social security benefits receive only $20 a month more in total income than if they received no social security. Thus, the minimum benefit is only worth $20.

The minimum benefit has increasingly become a windfall benefit to people not in need. About 40 percent of retired Federal civil servants also receive social security, and about one-third of them receive the minimum benefit.

Fiscal year 1981 savings would be about $1 billion.

Phasing out student benefits over a 4-year period: Benefits are paid to children of retired, disabled or deceased persons with social security coverage when these children are attending school full-time between ages 18 and 22. Normally, children's benefits end at age 18. Over the years, this program has become essentially an educational stipend, not a dependent's benefit. It is not based on scholastic achievement or need. Its educational assistance might be more efficiently provided through programs primarily concerned with educational financing rather than through social security. The gross savings in fiscal year 1981, exclusive of increased costs in educational programs, are estimated to be $1.8 billion; $400 million has been added to the fiscal year 1981 recommendation for education to cover the increased costs in educational programs.

Unemployment compensation: Unemployment compensation programs will continue to provide income support to workers temporarily out of the labor market. Legislation is assumed that will broaden coverage as of January 1977 and immediately raise the unemployment tax rate and, in 1977, the taxable wage base to restore the unemployment trust fund to a self-sufficient financing basis by 1981. Because of the broadened coverage under the regular State unemployment insurance programs, no renewal is assumed for the Special Unemployment Assistance—SUA—program. Also, the temporary extensions of benefit durations of Federal supplemental benefits are not assumed to be renewed after December 31, 1976, because of lower unemployment rates. Thus, the maximum duration of benefits beginning in calendar 1977 will be 39 weeks. Beginning in 1981, persons unemployed for longer periods of time will benefit from the new welfare reform plan.

Civil service retirement and disability: Each time there is a cost-of-living adjustment in Federal employe retirement programs, an additional 1-percent increase is added to compensate for the time lag between cost-of-living adjustments. Over time, this results in cumulative benefit increases significantly greater than the increase in the cost of living. Elimination of this 1 percent bonus, effective October 1, 1976, will save $0.9 billion by fiscal year 1981. Outlays for civil service retirement and disability are projected at approximately $16 billion in fiscal year 1981.

Other programs: The remaining income security programs are continued at current services levels. The major programs include railroad retirement, special benefits to disabled coal miners, school lunch and child nutrition programs, and assisted housing.

Funding for assisted housing programs at current services levels assumes that major changes in current porgrams will not be made, but rather that current programs will be more effectively implemented over the 5-year period. In addition, I believe the Congress should move toward a block-grant approach in the school lunch and child nutrition area.

[1] Additionally, many States supplement SSI benefits at relatively high levels. California, for example, guarantees up to $546 a month to an aged couple living alone (the $237 Federal grant plus a State grant of $309).

Such an approach would result in more flexibility for meeting the nutritional needs of all children. It should also be noted that a current services level of funding represents a substantial increase in funding—more than 100 percent over fiscal year 1975.

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	18.7	19.3	19.8	20.4	21.1
President's budget	17.2	17.2	16.7	16.3	15.7
Recommendation	18.3	19.0	19.7	19.9	20.6

My recommendations, in the context of an all volunteer army, would maintain and somewhat improve benefits and services for draft-era veterans while terminating certain benefits for volunteer army veterans. The higher pay and benefits associated with voluntary service substitute for the special compensation measures available in earlier years.

Veterans pensions, compensation, and other benefits and services: The recommended program maintains the real level of these cash benefit programs; that is, inflation is offset by periodic increases. Although these programs are not indexed by law, Congress regularly acts to keep them current.

In addition, I recommend a real benefit level increase in veterans pensions to begin in October 1976. This increase would improve the adequacy of pensions, particularly for widows and other survivors. It would also provide the opportunity for reforms in the method of computing benefits that would ultimately yield savings. The added cost of these benefit increase and reform provisions, on an annual basis in 1977, would be approximately $400 million, including the cost of the 8-percent increase already in effect as of January 1976. The veterans pension program will peak late in the century, 1985–90, as the eligible World War II veteran population reaches retirement age. Enactment of reform provisions should lower future costs.

Readjustment benefits: Readjustment programs provide education and training assistance for veterans returning to civilian life. Costs of these benefits have risen enormously as Vietnam veterans claimed them during the recession. Obtaining a higher education is an attractive option to veterans during periods of high unemployment, first because veterans may not have a salary to forego while attending school, and second because of the income supplement the education checks provide for veterans attending low-cost institutions.

Costs are expected to decline under current law because of the 10-year limitation on eligibility. The recommended program includes components that cause some costs to rise and others to fall, compared to current law. First, enactment in fiscal year 1976 of legislation to end entitlements for persons entering military service on or after October 1, 1976, is assumed, in line with my recommendations on the impact of the volunteer army. Veterans requiring or desiring additional training and education should participate through programs available to the general population or sponsored by the Department of Defense.

There is a need to keep readjustment benefits for eligible veterans current with inflation, and appropriate increases are provided. My approach also assumes savings due to tightened administration. Savings of $200 million in fiscal year 1977, with equal amounts thereafter, could be achieved by the VA through greater quality control efforts and certain minor legislative changes.

Hospital and medical care: In the recent past there has been real growth in the costs of hospital and medical care, in part because of the Vietnam war and eligibility liberalizations. The recommended approach generally allows for inflation, and assumes enactment, effective October 1, 1976, of the President's proposal to shift some costs of VA health care to private health insurance systems. This proposal in no way reduces medical care services available to veterans.

FUNCTION 750: LAW ENFORCEMENT AND JUSTICE

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	3.7	3.9	4.0	4.2	4.5
President's budget	3.4	3.3	3.3	3.3	3.3
Recommendation	3.5	3.6	3.7	3.8	3.9

My projections in this function assume a gradual reduction in block grant funding under the Law Enforcement Assistance Administration. The original design of this program in the 1968 Safe Streets Act placed great stress upon the innovative crime reduction potential of a flexible block grant to State governments. Unfortunately, 8 years late, there is very little evidence that any significant innovative work has resulted from this approach. My recommendation would reduce outlays for LEAA in constant dollars over the 5-year period from $0.8 billion to $0.4 billion. The recommended reduction in the funding for LEAA should serve as an opportunity to consolidate present efforts, to place greater stress upon research and innovative projects, and to reduce emphasis upon the purchase of law enforcement hardware by State and local governments.

FUNCTION 800: GENERAL GOVERNMENT

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	3.	3.8	4.0	4.3	4.7
President's budget	3.4	3.9	3.6	3.6	3.7
Recommendation	3.6	3.8	4.0	4.3	4.4

This functional category, which includes a large number of agency and budget accounts related fundamentally to carrying on the overhead functions of Government, is particularly appropriate for projection on a current-services basis. It seems unlikely that large-scale increases or decreases will occur in the general level of costs of day-to-day operation of the Government. Accordingly, future outlays may be projected on the basis of anticipating that roughly the same level of services must be provided and that costs will rise to the extent necessary to meet cost-of-living and similar increases. The President's budget, by maintaining current-dollar levels in many instances, would entail progressively reduced levels of services.

FUNCTION 850: REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	7.4	7.7	8.0	8.1	8.3
President's budget	7.4	7.7	7.9	8.0	8.2
Recommendation	7.4	7.7	8.0	8.1	8.2

State and local governments need to recognize that the era of real-dollar expansion in Federal funding for direct intergovernmental grants-in-aid has come to an end. In the years ahead, the main focus of Federal concern should be on rationalizing and improving the various major income transfer systems that are of such importance to so many urban residents.

It will be necessary, however, to continue the general revenue sharing program since termination now would result in a significant fiscal shock to State and local budgets. However, aid should be redirected toward needy areas rather than widely disbursed. In addition, Congress should subject the program to the annual appropriation process, so that it can compete with other worthwhile programs.

I believe the Congress should phase this program out during the 5-year period. It is very difficult to justify huge increases in Federal borrowing to finance a program of general assistance to State and local governments. Funds made available through a phaseout of the program should be transferred to other high-priority State and local assistance programs.

FUNCTION 900: INTEREST

[Outlays in billions of dollars; fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	42.2	48.9	54.1	59.3	63.7
President's budget	41.3	44.8	46.5	46.9	[illegible]
Recommendation	41.4	45.2	47.1	49.0	[illegible]

Outlays for interest, which represent predominantly the costs of financing interest-bearing Federal debt, are expected to continue to rise during the next 5 years, primarily as a result of the effect of continued budget and offbudget deficits. In addition to the aggregate size of the Federal interest-bearing debt, however, a principal determinant of interest payments must be the rate of interest assumed to be necessary to manage the debt successfully.

A substantial portion of funds expended as interest on the Federal debt is returned to the Federal budget in the form of interest receipts of trust funds—predominantly to the social security program. Although the gross amount of interest payments is included in the figures above—since the trust fund receipts are accounted for in the figures for each individual fund—it should be kept in mind that interest payments to the general public are far less than shown above—about 25 percent of total interest payments go to trust funds, and another 18 percent to the Federal Reserve System, from which it is returned through deposits of excess Federal Reserve earnings into miscellaneous receipts.

The total interest-bearing Federal debt results not only from deficits in the unified budget, but also includes the effect of transactions of offbudget agencies. Absent a control over the activities of these agencies, which I believe would be advisable for many reasons, an increasing trend of deficit financing must be assumed. Offbudget agency operations are estimated to increase the total interest-bearing debt by $14.3 billion in fiscal year 1976, and by a total of $75 billion for the 5 fiscal years 1977–81.

Over the longer term, I hope that some restructuring of the maturity composition of the debt can be accomplished. However, for purposes of these estimates, it has been assumed that the proportions of total debt financed through short- intermediate-, and long-term securities will remain roughly constant.

Inasmuch as the Federal debt is currently heavily concentrated in short-term securities, analysis ordinarily proceeds by assuming a trend in interest rates—discount—on 91-day Treasury bills. CBO projections, in common with most other econometric models, assume a rising trend of short-term interest rates—in the CBO case, from 6.1 percent in 1976 to 7.5 percent in 1981. OMB projections assume a monetary policy which would permit a reduction to 5 percent in fiscal year 1980 and fiscal year 1981. Both this projection and the CBO current services analysis assume that budget margins which may develop are not applied to reduction of debt or to any other specific purpose. The recommended levels of interest shown above assume that the short-term rate will rise to not more than 6.5 percent.

ALLOWANCES

The President's budget estimates ordinarily include allowances for unforeseen contingencies and for the effect on the budget of Federal employee pay raises and price changes. The CBO 5-year analysis includes allowances for changes in Federal pay rates. My recommendations incorporate the effect of both Federal pay-rate changes and price changes within the amounts recommended for each functional area.

The recent report of the Rockefeller Panel points up a number of deficiencies in current procedures for determining Federal pay rates and recommends certain changes. These projections assume that action will be taken to expand the basis of comparability, both by including significant jobs which have been excluded in recent years—most notably, secretaries and computer operators—and by moving progressively to a system which considers total compensation rather than solely cash salary. Implementation of these recommendations would result in pay increases of approximately 5 percent per year through the 5-year period.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

[Outlays in billions of dollars: fiscal years]

	1977	1978	1979	1980	1981
Current services (CBO, Path B)	−15.3	−18.0	−17.3	−18.6	−19.6
President's budget	−18.8	−20.7	−21.4	−22.1	−22.9
Recommended	−17.0	−17.1	−18.1	−19.2	−20.6

Outlays in this function reflect primarily technical budget adjustments and are shown as negative outlays to avoid doublecounting between budget accounts for the employer's share of employee retirement payments and interest received by the trust funds. This function also includes receipts from leasing oil rights to the Outer Continental Shelf. These leases are an important part of the effort to build oil reserves which the country is expected to need in the future. These estimates are based on receipts of $3.5 billion for fiscal year 1977 and an average of $2.7 billion per year through fiscal year 1981.

The executive branch's system for estimating these receipts has not been accurate in recent years, and this category provides a temptation for Presidents to inflate their estimates in order to make overall budget deficits appear smaller. In future years, it would be desirable to drop this category altogether and, instead, account for actual amounts received in a particular year in the next year's budget.

The appendixes follow:

APPENDIX A

ECONOMIC ASSUMPTIONS OF THE RECOMMENDED APPROACH

[Dollar amounts in billions]

	Calendar year—					
	1976	1977	1978	1979	1980	1981
Gross national product:						
Constant dollars [1]	$847	$895	$939	$985	$1,033	$1,084
Current dollars	$1,675	$1,880	$2,088	$2,307	$2,540	$2,799
Rate of real growth (percent)	6.4	5.7	4.9	5.6	5.4	5.4
GNP deflator [2]	1.98	2.10	2.22	2.34	2.46	2.58

	Calendar year—					
	1976	1977	1978	1979	1980	1981
Income shares:						
Personal income	$1,390	$1,541	$1,712	$1,892	$2,082	$2,295
Corporate profits	153	192	215	237	262	288
Consumer product index (inflation rate) (percent)	6.7	6.1	5.7	5.3	5.0	5.0
Unemployment rate [3]	6.9	6.0	5.1	4.9	4.5	4.3

[1] Constant 1958 dollars.
[2] 1958 equals 1.
[3] Expected rate at the end of year.

APPENDIX B, PT. I

COMPARISON OF 5-YR PROJECTIONS

[In billions of dollars]

	Fiscal year—				
	1977	1978	1979	1980	1981
President's budget and projections [1]					
Outlays	394.2	429.5	455.7	482.5	509.9
Revenues	351.3	406.7	465.3	523.1	585.4
Deficit/surplus	−43.0	−22.8	+9.6	+40.6	+75.5
CBO current services (path B):					
Outlays [2]	424.1	463.9	495.1	530.5	564.0
Revenues	360.0	401.0	448.0	497.0	550.0
Deficit/surplus	−64.1	−62.9	−47.1	−33.5	−14.0

	Fiscal year—				
	1977	1978	1979	1980	1981
Recommend approach:					
Outlays	410.3	441.6	468.0	497.0	529.5
Revenues	360.7	420.2	464.0	523.2	588.7
Deficit/surplus	−49.6	−21.4	−4.0	+26.2	+59.2

[1] Budget of the U.S. Government, fiscal year 1977 (p 28).
[2] Reflects CBO path B alternative for impact of inflation on highway program (function 400)

APPENDIX B, PT. II

COMPARISON OF 5-YEAR OUTLAY PROJECTIONS BY FUNCTIONAL CATEGORY

[In billions of dollars]

	[1] 1976	[1] TQ	1977	1978	1979	1980	1981
National defense (050)	92.0	24.0					
Current services (path B)			103.4	114.5	118.0	127.2	135.6
President's budget			101.1	112.9	121.5	132.4	142.8
Recommended			[2] 100.0	107.0	113.0	119.0	126.0
International affairs (150)	6.3	1.7					
Current services (path B)			6.8	7.8	8.5	9.3	9.9
President's budget			6.8	7.8	7.8	8.1	8.0
Recommended			6.3	7.1	6.9	7.0	7.1
General science, space and technology (250)	4.6	1.3					
Current services (path B)			5.0	5.4	5.8	6.0	6.1
President's budget			4.5	4.6	4.5	4.4	4.1
Recommended			5.0	5.5	5.7	5.7	5.4
Natural resources, environment and energy (300)	11.4	3.2					
Current services (path B)			14.2	15.8	15.9	15.2	14.8
President's budget			13.8	14.4	15.1	14.9	14.5
Recommended			15.1	17.9	18.9	19.8	22.7
Agriculture (350)	2.6	.8					
Current services (path B)			2.3	2.5	2.6	2.7	2.8
President's budget			1.7	2.6	2.6	2.8	2.8
Recommended			2.0	2.2	2.3	2.5	2.6
Commerce and transportation (400)	18.3	5.3					
Current services (path B)[3]			18.4	18.8	19.3	20.3	21.2
President's budget			16.5	19.4	19.1	18.7	18.7
Recommended			18.2	18.6	19.0	19.4	19.7
Community and regional development (450)	7.0	2.1					
Current services (path B)			7.7	8.3	8.0	8.1	8.3
President's budget			5.5	6.0	6.2	6.0	6.1
Recommended			7.2	8.0	7.7	7.6	7.6
Education, manpower and social services (500)	20.9	5.4					
Current services (path B)			21.4	22.4	23.1	23.5	24.3
President's budget			16.6	15.2	15.3	15.3	15.3
Recommended			22.3	21.6	21.0	21.3	22.1
Health (550)	32.9	8.6					
Current services (path B)			37.7	42.1	46.8	52.7	57.3
President's budget			34.4	37.7	40.3	43.4	47.0
Recommended[4]			37.4	42.1	46.5	51.1	55.2
Income security (600)	128.2	34.3					
Current services (path B)			144.8	158.8	172.6	186.0	[illegible]
President's budget			137.1	147.1	158.3	170.1	[illegible]
Recommended			139.6	149.4	162.6	177.7	193.5
Veterans benefits and services (700)	19.1	4.6					
Current services (path B)			18.7	19.3	19.8	20.4	21.1
President's budget			17.2	17.2	16.7	16.3	15.7
Recommended			18.3	19.0	19.7	19.9	20.6
Law enforcement and justice (750)	3.4	1.0					
Current services (path B)			3.7	3.9	4.0	4.2	4.5
President's budget			3.4	3.3	3.3	3.3	3.3
Recommended			3.5	3.6	3.7	3.8	3.9
General government (800)	3.3	.9					
Current services (path B)			3.6	3.8	4.0	4.3	4.7
President's budget			3.4	3.9	3.6	3.6	3.7
Recommended			3.6	3.8	4.0	4.3	4.4
Revenue sharing and general purpose fiscal assistance (850)	7.3	2.1					
Current services (path B)			7.4	7.7	8.0	8.1	8.3
President's budget			7.4	7.7	7.9	8.0	8.2
Recommended			7.4	7.7	8.0	8.1	8.3
Interest (900)	35.4	10.0					
Current services (path B)			42.2	48.9	54.1	59.3	63.7
President's budget			41.3	44.8	46.5	46.9	46.9
Recommended			41.4	45.2	47.1	49.0	51.0
Allowances							
Current services (path B)			2.2	1.9	1.9	1.8	1.3
President's budget			2.3	5.6	8.1	10.5	12.8
Recommended[5]							
Undistributed offsetting receipts (950)	−17.1	−4.4					
Current services (path B)			−15.3	−18.0	−17.3	−18.6	−19.[illegible]
President's budget			−18.8	−20.7	−21.4	−22.1	−22.9
Recommended			−17.0	−17.1	−18.1	−19.2	−20.6

[1] 2d budget resolution, fiscal year 1976 (H. Con. Res. 446).
[2] Represents a net decrease from President's proposals resulting from acceptance of certain legislative proposals, offset by a reduction in proposed procurement activities.
[3] Reflects CBO path B alternative for impact of inflation on highway program (function 400).
[4] Does not include outlay impact of national health insurance.
[5] Functional category recommendations incorporate the effect of both Federal pay and price changes, which the President's budget includes under allowances; CBO estimate includes Federal civilian pay changes under allowances.

APPENDIX C—BRIEF SUMMARY OF THE TAX CREDITS AND ALLOWANCES ACT OF 1975 AS PROPOSED BY THE SUBCOMMITTEE ON FISCAL POLICY OF THE JOINT ECONOMIC COMMITTEE

The welfare reform plan proposed by the Subcommittee on Fiscal Policy of the Joint Economic Committee in December 1974 would achieve the following important goals—

By covering all population groups, it would end the current discrimination in existing programs against the working poor and non-aged, non-disabled single individuals, and childless couples; and make impossible higher income and benefits for non-working persons than their working neighbors;

It would provide higher incomes to many needy persons and additional tax relief for modest-income persons;

It would systematize and streamline benefit programs, assure that benefits are held to reasonable levels, and that work incentives are retained, thus ending the constant pressure for new and expanded programs; and

It would provide fiscal relief to States, which could then concentrate their resources on other pressing local needs.

The new program would replace two major assistance programs—the Aid to Families with Dependent Children Program (AFDC) and the food stamp program—with a system of tax credits and need-related grants. It would consist of—

First, tax credits of approximately $285 per person for all individuals, including Social Security Income recipients, which would be deducted directly from tax bills, but returned in cash to those without sufficient income to pay taxes; and

Second, income-related grants to be paid monthly to all low-income persons except the aged, the blind, and disabled adults and their dependents, who would receive the higher benefits provided under the SSI program. Both the tax credits and the grants would be administered by the Internal Revenue Service.

The tax credits would replace the current $750 personal exemption that all taxpayers subtract from taxable income. The credits would lower the taxes of many modest-income workers, while providing cash supplements to the poor.

Total benefits to a penniless two-parent adult family of four in 1981 would be approximately $5,000. Total benefits to a penniless one-parent family of four would be approximately $4,500.

Since there are relatively few families with no income from private or public sources, the proposed benefits will serve primarily to supplement other income, rather than to provide total support. And, since the grants decline gradually and at a moderate level as earnings rise (by 50 percent of earnings exclusive of social security taxes and standard work expenses), there is always a financial incentive to increase earnings.

The plan would be phased in over four years, as follows:

In fiscal year 1978, the $285 nonrebatable tax credit would replace the $750 personal exemption;

In fiscal year 1979, a standard employment expense deduction would replace the child care tax deductions;

In fiscal year 1980, dependents' benefits would be added to the Supplemental Social Security program; and

In fiscal year 1981, the $285 tax credit would be made rebatable, need-related grants added, and the AFDC and food stamp programs eliminated.

The net overall cost of the program—beyond the cost of carrying on existing welfare programs—would be approximately $9.9 billion in FY 1981, approximately $8.4 billion in lost tax revenues and $1.5 billion in additional grant payments. (These dollar estimates reflect up-dated estimates from those provided by the JEC Subcommittee on Fiscal Policy due to the phasing-in of the overall reform plan over a later period.)

The JEC plan is proposed in legislative form in H.R. 10852, introduced by Mr. CORNELL of Wisconsin. The bill currently has 20 co-sponsors.

Mr. Speaker the Budget Committee has now completed its overall hearings on the economy and the President's budget and economic program for fiscal year 1977. The committee's task forces are now holding hearings on various aspects of the economy and the budget.

At the conclusion of these hearings, in mid-March, the committee will be receiving reports from all House committees on the President's budget and their overall legislative plans for fiscal year 1977. These reports are a most important source of information and recommendations for the Budget Committee markups of the first budget resolution, which must be reported to the House by April 15. House and Senate action on the resolutions must be completed by May 15. The committee's plan for the full implementation of the budget process this year is described in more detail in a letter to you last October.

The key dates to keep in mind for the early part of the year are as follows:

March 15: Committees report to the Budget Committee.

April 15: Budget Committee reports first budget resolution.

May 15: Congress completes action on first budget resolution.

No revenue or spending bill can be considered in the House before adoption of the first resolution.

Authorizations for fiscal year 1977 must be reported to the House no later than this date.

Adhering to these dates and deadlines will be extremely difficult, particularly for the deadline requiring reporting of authorizations bills by May 15. If these authorizations are not reported in a timely manner, House and Senate action on appropriations bills will be delayed, and it is highly unlikely that we will be able to meet the act's timetable for adoption of the second budget resolution in September.

In fact, although the act requires only that authorizations be reported by May 15, the practicalities of the timetable really require that they be passed by the House by mid- or late-May. If, for example, most authorization bills are reported in early May, there will be a substantial logjam on the House floor in late May and early June, with a great possibility of delaying action on appropriations bills. Consequently, I urge all committees to report authorization bills as soon as possible so that the leadership can schedule floor action on these bills by mid-May.

Finally, I wish to thank all Members of the House for their understanding of, and commitment to, the requirements of the budget process this year. Our normal legislative procedures are undergoing a significant change as a result of the Budget Act, and all Members are to be commended for their efforts to make the new budget process work.

Mr. MITCHELL of Maryland. Mr. Speaker, will the gentleman yield?

Mr. ADAMS. I yield to the gentleman from Maryland (Mr. MITCHELL).

Mr. MITCHELL of Maryland. I thank my chairman for yielding, and I merely want to comment very briefly on this very provocative and well-thought-through statement and proposal that the gentleman is putting before us.

Mr. Speaker, I want to suggest to the Members who are here on the floor that the budget process is working. There is no doubt in my mind, and I do not think there is any doubt in the mind of any member of the Committee on the Budget, that it is working primarily because of the hard work and dedication that the gentleman from Washington (Mr. ADAMS) has put in.

Mr. Speaker, I want to just comment a bit further. The gentleman from Washington has spoken to the "givens" in our economic situation. I think every Member of this House wants to achieve a balanced budget somewhere down the line. I think every Member of this House and the American public wants to reduce the tax burdens. I also think that everyone wants to reduce government spending. But I am delighted to hear the gentleman from Washington say that this cannot be accomplished in 1 or 2 years, that there has to be a gradual approach to these three "givens" in our economic system.

I was especially glad to hear the gentleman say it because there is a segment of this population that is still desperate right now in the present economic situation. The unemployment rate is unconscionable. There are people who are hungry. There are people who are struggling to make ends meet. I am just very glad to hear the gentleman say that they will remain a priority under the gentleman's proposed plan until such time as we can clear up some of the structural dysfunctionings in this economic system.

Mr. Speaker, I will ask the chairman of the Committee on the Budget this question. We are now in the phase of beginning to suggest the priorities, are we not?

Mr. ADAMS. That is correct. And the task forces are now working on the details of each functional category to fill in the information as to where our priorities will be so we can come to the full committee with our final product.

Mr. MITCHELL of Maryland. Mr. Speaker, as the gentleman knows, I am delighted that we have moved to that next stage of our development as to suggested priorities. Speaking only for this Member, our work, I feel, is made doubly difficult because we are dealing with an administration budget proposal that I think is totally unrealistic and unworkable.

In light of what the gentleman has accomplished up to this point and in light of what the committee has accomplished, I think we can come out with a budget resolution that will be realistic and will meet the needs and wants of the people of this country, and then we can move toward our ultimate objectives which have been spelled out.

Mr. Speaker, I thank the gentleman very much for yielding.

Mrs. FENWICK. Mr. Speaker, will the gentleman yield?

Mr. ADAMS. I yield to the gentlewoman from New Jersey.

Mrs. FENWICK. Mr. Speaker, I thank the gentleman for yielding.

I think anyone listening to this must be impressed with the grasp of the subject matter that the gentleman has and with the scope of the explanations we have just heard.

I am wondering about one thing. There is no provisions here for retiring the international debt. Is that something one does not do any more?

Mr. ADAMS. Mr. Speaker, that certainly is one of the items that could come out of the surplus which we are trying to achieve, and at that point those who are Members of the Congress in that year, if they wish to pay off the debt rather than accomplish one of the other items, would find the monies would be there to do it. What I am trying to produce, as the gentlewoman can see, is a rational way to accomplish our objectives as the revenues are increasing and not simply spend the money every year and in effect overspend moneys in the out-years.

So at that point it may well be that retirement of the debt is one of the goals that the Congress will wish to achieve.

Mrs. FENWICK. Mr. Speaker, as a prudent consumer, it has always struck me as pitiful that we should spend $100 million a day on debt service when we have so much need for services to human beings in preference to the debt, and there seems to be no hope of getting rid of that burden. According to the projections, in fact, the burden is going to be greater.

Mr. ADAMS. Yes; it will be higher in amount unless we can control it. That is one of the reasons why we must keep within our revenues.

Mrs. FENWICK. Mr. Speaker, I thank the gentleman.

Mr. ADAMS. Mr. Speaker, I thank the gentlewoman for her comments.

REVEALING THE IDENTITY OF U.S. INTELLIGENCE AGENTS: A CURIOUSLY ONE-SIDED EXERCISE

The SPEAKER pro tempore (Mr. BONKER). Under a previous order of the House, the gentleman from New Jersey (Mr. DOMINICK V. DANIELS) is recognized for 10 minutes.

Mr. DOMINICK V. DANIELS. Mr. Speaker, the New York Times of Sunday, February 4, 1976, contained a most interesting article reproduced from the Times of London. In this article, Lord Chalfont, former Minister for Disarmament under Prime Minister Harold Wilson, takes to task those well-intentioned but misguided journalists who have embarked upon a crusade to publically identify U.S. intelligence agents.

Those who believe that the cause of international morality will be strengthened if all U.S. intelligence operatives are identified fail to perceive two very basic facts:

First. Intelligence officers are well aware of the identity of their opposite numbers, and do not usually indulge in manuevers to eliminate their counterparts. Intelligence organizations are not constructed for the purpose of killing off agents on the other side. They are constructed for a variety of functions—some of them laudable, some of them lamentable—and most of them quite necessary. But the execution of agents representing other interests is not included in the functional profile of the world's leading intelligence organizations. This is where one has to draw the line between the fantasy of spy novels and the real world of international intelligence operations.

Second. This is not the "very best of all possible worlds," to borrow from Voltaire. What we do have is a very complex international order, troubled with social and economic problems of varying degrees of intensity. We have the likelihood of increasing economic confrontation between producers of key resources and the industrialized world. We are witnessing already in the United Nations a growing clamor in the third world nations for a "new world economic order," including the payment of restitutions to the less-developed countries whose interests are perceived to have been exploited by the industrialized West.

And, as if social and economic confrontation were not enough, we also have to deal with the reality of a confrontation between the political ideologies of the Communist and capitalist nations. This may not be the world as we would like it, but it is the world as it is—and the sooner this fact is recognized the better.

We can hold out the hope for a better tomorrow in the international political milieu, but in the meantime we have to conduct our affairs with a keen ap-

Govt. Executive
Jan. '74

Budget Control & Impoundment Act!

93-688

Will Congress Work Its Will On the Nation's Growing Bills?

#HR 7130

By SAMUEL STAFFORD
Associate Editor

Highlights:

1—Legislation now moving through Congress is designed to strengthen the congressional budget control role and improve procedures for setting national spending priorities.

2—Central budget control mechanisms would be set up and appropriations process timetables would be changed, in effect, forcing the traditionally free-spending Congress to make major spending and revenue policy choices. Other provisions are aimed at halting Presidential impoundment of appropriated funds.

3—Mounting public concern about high taxes, inflation and the quality of both White House and legislative leadership to cope with national problems has created a favorable climate for reform.

4—Doubt persists about the ability of Congress to recapture power from the vast Executive Branch budget bureaucracy. And internal Capitol Hill rivalries could weaken the budget reform effort.

THEY WERE TALKING about H.R. 7130, a bill aimed at wresting control of Federal spending from the White House and "returning" it to Congress, and every so often the rhetoric would touch upon the sour mood of the electorate.

People are fed up with politicians and the political process, speakers would remind their fellow congressmen, fed up, in fact, with most of the Nation's venerable institutions, including the U.S. Senate and House of Representatives.

Inasmuch as all House seats and a third of the Senate seats will be up for grabs in next November's off-year elections, these are anxious months on Capitol Hill.

California Rep. Victor V. Veysey (R.) summed up both the dimensions of the problem and the nature of the political threat this way during debate on H.R. 7130:

"We have buried ourselves and the country in a history of deficits, broken budgets, and runaway spending on ill-conceived programs. We have spawned an unpluggable series of ratholes to drain dollars not only from our pocketbooks but from other vitally needed programs. If we fail to pass this measure, I submit that the American people will make us pay the price for our folly.

"This country has gone to the wall fighting relentless taxes, booming Federal spending and soaring inflation. . . Unless we can show the American public that we are willing to assume our necessary role in this battle for responsible spending, we will deserve to be tossed out on our collective ears."

Whitten: Co-chaired budget study group.

Veysey has more reason for concern about his political future than many of his colleagues. Elected in 1970, his power base still is insecure. And despite expectations at the time of his election that he would handily be re-elected in 1974, he must, like other Republican candidates, bear the additional burden of his party's Watergate-plagued image.

But even veteran Democrats have been feeling the heat from voters angered by growing inflation, the energy crisis, and scandals in Washington. If ever there was a period in which the time was ripe for basic congressional reforms, that time is now.

Spending Ceiling

On Dec. 5, the House passed H.R. 7130, titled The Budget Control and Impoundment Act of 1973, by a vote of 386 to 23. Essentially, the legislation would require Congress to set an overall spending ceiling with sub-ceiling targets in program categories and would revise the authorization and appropriations process timetable, hopefully to encourage a debate on national priorities earlier in the process and force Congress to make major spending policy choices.

The bill also would create new House and Senate budget committees, strengthen the power of the Appropriations Committee, and provide for congressional vetoes of White House impoundment of—or the refusal to spend — appropriated funds. A Senate bill (S. 1541), which is similar in many respects but significantly different in some specific points, is awaiting action in the Senate Rules Committee.

If the political climate now is more conducive to reform than in the past, the flaws in congressional budgeting processes have been painfully evident for many years.

In 1921, Congress delegated major new budget responsibilities to the Executive Branch with the Budget and Accounting Act and establishment of the Bureau of the Budget.

The Act gave the President responsibility for preparing an annual budget and transmitting it to Congress. Before that time, agency budget requests went directly to the Congress.

The intent of the Act had been to concentrate spending authorization responsibility in the House and Senate Appropriations Committees. Over the years, however, as the Executive budget role became stronger and more centralized, the congressional budget function has become weaker as spending authority has been splintered away from the two committees.

On budget matters, the White House Goliath, represented by a large budget bureaucracy both in the Office of Management and Budget and within the agencies which has 18 months to prepare a budget, now is pitted against a congressional David in that Congress must cram its budget decisions into a few short months and base those decisions mainly on Executive Branch information and expertise.

Despite the present legislative stirrings, it is far from certain that the outcome of the escalating power struggle between Congress and the Executive will follow the Biblical script.

It has often been pointed out that a form of Parkinson's Law has been operating for years in the Federal spending area — that is, that expenditures have risen as income has risen.

The statistics are mind-boggling.

Between 1940 and 1972, the Federal Government's gross annual revenue rose