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to $88 billion in 1975.

Defense has been on a constant dollar basis, going down. It went over a peak in the Vietnam war, but it has come down to even lower than that.

In fact, Defense is the smallest percentage of gross national product for 25 years since 1960. Or it is down one third from its peak in 1968.

All of the cost of Government, interest and all of the non-Defense costs, also as you will note, are a little bit less than they were in 1961.

They went over a peak when we got a big space program going in the mid-sixties. But, on the other hand, today, compared to 16 years ago, are also a little bit less.

What has been happening and what is significant when considering the actions that are necessary to achieve the President's goal for the 1975 budget?

Payments to individuals, payments to states and local governments during that 15 year period have more than tripled. It has almost doubled in fact from 1968, and now represent more than 50 percent of the total.

You can see those in numbers, and again on a constant dollar basis, payments to individuals, which were $53 billion in 1975, dollars in 1961 have gone up to $166 billion and more than half of all the money that we have spent.

What is happening here is that the role of Govenment -- the fundamental role of Government -- has become less and less running Government, and running Government operations itself, including Defense, and mostly the Federal Government is becomming a transfer agent.

We are collecting dollars from groups of tax payers and groups of the population. Many of them are the people that you associate with and you relate to, and in turn paying those same dollars out to somebody else to spend. That is the new role of Government,a transfer agent by which we collect dollars and pass over those dollars to somebody else.

We can't ignore this, I am not pointing whether this is good or bad, I am just pointing out the facts.

We can't ignore this fact, in looking at 1975 and the future years, as to what we intend to do about expenditures.

But, most important of all, this new class of Government activity has a strong built-in political momentum for exponential growth into the years ahead.

You look at these programs which now are taking on a bigger, bigger portion of the Federal Government outlay, as you attempt to change them and change their course, somewhat as you might look at an aircraft carrier. It has a very big built-in momentum.

It is very difficult to turn an aircraft carrier in a mile, in a thousand yards, or any other small distance. You just can't, even if you give it full rudder. You are not going to change very much.

But if you intend to be in a different place ten miles from now, or 100 miles from now, you better well start turning right now, recognizing that this is the phenomenon that we are dealing with in these kinds of programs.

The role that we are dealing with is a very big built-in momentum for exponential growth that the taxpayers of this country are going to have to deal with in the years ahead, unless we change course, even a small bit, this year.

With that background, let's look at the particular composition of the 1975 Budget, not by agency or programs -- we don't want to complicate it by that -- but by the type of actions necessary to achieve the goal the President has set out.

First, in that $305 billion budget, you can see the total -- well, you can't see the total because the numbers are too small -- but I think you each have the chart that shows this in particular. You can see that I have accounted for the full $305 billion budget for this year, not by program, but by the kind of action.

Let's take the first three items that add up to $81.9 or $82 billion. We have a legal obligation to pay out $82 billion this year. We have a contract to do so -- interest on the public debt, a contract for public works programs that we have already entered into, whether it be highways, bridges, or whether it be purchasing airplanes or ships, or commitments to cities to finance some of their housing programs, for which we have a legal obligation to pay out $82 billion this year.

Unless we wish to default on those programs, we have an obligation to pay out $82 billion.

Let's take the next big group, $142 billion; $142 billion we also have a legal obligation to pay. These are the so-called entitlement programs. They start with Social Security, and go through Medicare, Medicaid, Food Stamps, aid to families with dependent children, and revenue sharing -- a number of other programs where we have a legal obligation to pay under existing law.

In effect, the law has prescribed the

benefit package, the law has prescribed the criteria for payment, for entitlement, and we have an obligation to pay so long as the law continues to be what it is.

There is $225 billion out of the $305 billion.

Discretionary spending? You would say, "Well, now, there is where we should be able to find some money. You have lots of discretion."

Well, the first item of discretionary spending, $57 billion, is defense. It is that part of defense that is not otherwise classified above as having already been obligated or, in one particular case, retired military personnel up under the entitlement programs.

We believe in this administration that we already have, as I indicated earlier, a minimum defense for the security of this country and all of its people. We have the lowest percentage of gross national product for 25 years that we are spending for defense.

We think it is low enough, and it is our position to hold to that course. Of course, we are going to continue to look for opportunities in defense, just like anywhere else in Government, and we will work them, and we will work them, and we will work them.

But on the other hand, what we don't want to do is to so change force structure or military preparedness that we change the whole balance of this world and create a bigger problem than we are solving. So, there is $57 billion.

Now, we get down to $35 billion, $20 billion of which is paying personnel, Federal Government, and civilian employees.

We are taking some action to hold the level of Federal Government employees, and I think you might know that, for good or for bad, the number of civilian Federal employees is 150,000 fewer now than it was five years ago, even as State and City governments have been rapidly growing.

There was discussion made of their freeze in some cases. The Federal Government has been holding fairly well in spending the taxpayers' money in putting more people in the Federal bureaucracy. In fact, there is 150,000 fewer than there were five years ago, not counting over a million fewer of military personnel than there were five years ago. Civilian itself is down 150,000.

Then, we get to all others, the little $15 billion number -- not that $15 billion is a little number, but relative to 305, it is five percent, just showing the difficulty of changing the course of this ship when you go through the different classes of items that make up these amounts.

And then, there is the revenue from offshore oil land receipts, and I will pass that for the moment. You can see how that fits into the total of your numbers. But let me just make two points, now.

That is, let's go back and look again at the entitlement programs, and let's look again at the $15 billion of the discretionary expenditures that maybe we should give some second consideration to when we think of what has to be done if we are to change the course of Federal expenditures.

The first one, the discretionary and non-defense programs -- you have the chart in front of you on that -- if you will pick up the items under there -- I guess it is the last chart -- I don't know which one it is, but the title is "Discretionary non-defense outlays," among those you have.

If you go down and pick out them, you will notice that half of those having to do with health, education, welfare, housing, veteran type programs, ones that have very strong support in many respects -- let's take the first one -- health, cancer research, biomedical research in general, but cancer research in particular.

This is the basis for spending a tremendous amount of Federal Government dollars, we believe, for good cause. Yet, it has to be listed as one of these discretionary items that needs re-examination, like many others do.

We have the space program, we have the atomic energy program. If we are talking about nuclear energy, we can't just turn and walk away from our major program for nuclear energy that we have going on.

I won't go through all of these, except to point out that when you get down to the $15 billion, you will find it isn't easy. Because I am sure, for every single one in that list, there is that strong reason to send those dollars, or some portion of those dollars, and there is certainly a strong political and constituent interest behind each.

The last chart deals with the so-called entitlement programs, the ones that I mentioned that add up to $142 billion.

Here, we have had an extra one brought into it, the one billion of legislative and judiciary, to make it $143 billion.

But again, what are they? And, look in the right-hand column, at the number of beneficiaries affected. Millions and millions of people across this country have become over the years the beneficiaries of those expenditures. Each of them, of course, feels that he has an absolute entitlement to not only the benefits here provided, but even greater benefits.

So, if you take Social Security, the biggest one, we are down to retirement, Medicare, veterans' benefits, Medicaid, the whole works.

I think you can see some of the problems that are implicit in changing the course of this budget. But I didn't come in with the intention of proposing here to you any solution, but in fact to point out the difficulty of arriving at a solution, to get whatever thoughts that you have.

Because if we are to have a long-term fiscal policy that does not add to our problems in out-years and that even does something for the short-term years to deal with inflation, we certainly have to look at a budget growth that is not growing at the rate that it has in these last few years.

Looking at the last few years, just to recall some numbers to your mind, this year, as you have seen, we have a budget of $305 billion; last year, it was $278 billion; the year before that, it was $246 billion.

These numbers are going up so exponentially that if we don't all together find some answers to the rate of growth, we are just talking about a little problem today, but we will be talking about an even bigger one in the future.

So, while you have been sharing some of your problems with me, maybe all I am doing is sharing some of mine with you, but they are just not my problems. They are problems of every taxpayer in this country, because again, there is no such thing as Federal Government dollars. They are only taxpayers' dollars, and those taxpayers' dollars are mostly the dollars of people that you relate yourselves to.

And I merely say, on their behalf, I think it behooves us all to look at how we spend those dollars, to spend them wisely, to spend them prudently, and to look for places where we can spend a few less dollars, have the inflation rate go down as a result and, certainly, keep the tax rate from having to go up to pay for the out-years as we might see them from here, if we didn't take any action.

Thank you.

CHAIRMAN RUSH: Thank you very much, Roy.

Mr. Meany?

MR. MEANY: On the first item, mandatory spending, net interest, $23 billion. That is for fiscal '73.

MR. ASH: That is right.

MR. MEANY: Now, does that mean that that is all the interest you contemplate paying up to the end of fiscal '73?

MR. ASH: That amount, Mr. Meany, represents that amount that the Federal Government paid to the public for interest. It paid from one pocket to another another $7 billion.

That is, we have major trust funds, as you know. They include the highway trust fund, the Social Security trust fund, and others, where the Federal Government takes $7 billion out of one pocket and puts it into the other, but that is netted out in these numbers, and this is the amount that goes out to the general public in paying interest on the debt, rather than just internal bookkeeping, transfer of that interest.

So, our number is $30 billion in total, but $7 billion is moving from one pocket to another of the Federal Government.

MR. MEANY: And with the increased interest rate that may be down the road, that figure could be much higher?

MR. ASH: It could be a little bit higher. I think the observation you make is quite proper. It is important to the Federal Government, important to the taxpayers to get inflation down, to get interest down, to save -- to hold, first at this 23, because even that 23 is under stress.

MR. MEANY: What are we paying now for our borrowed money?

MR. ASH; Well, we are paying all different rates, depending upon the particular --

MR. MEANY: What rate are we paying now?

MR. ASH: We are paying eight percent, plus or minus --

MR. MEANY: How much were we paying two years ago?

MR. ASH: We were paying considerably less than that two years ago. In fact, I have some interesting data. I just might give you some numbers here that will -- no, I don't have them with me.

But to show that interest, as a percentage of gross national product, has been pretty much flat for the last 15 years, but interest rates have been going up, even as Federal debt has been coming substantially down, relative to gross national product --

MR. MEANY: What is the point of relating it to gross national product?

MR. ASH: Only again to say that, how much money does an individual, on the average, in this country have to deprive himself of the goods and services he might otherwise privately consume in order to pay interest. He has to deprive himself today the same percentage of what he otherwise might consume in order to pay interest as he had to do, say, 15 years ago.

That is the purpose of relating it to gross national product.

MR. MEANY: Is there any way to control this?

MR. ASH: Get interest rates down by getting inflation down.

MR. MEANY: To keep the interest rates down, because this thing will feed on itself.

MR. ASH: Absolutely, and there is, really, the problem. It is essential --

MR. MEANY: Isn't there some way that a certain amount of the available credit will be set aside for Uncle Sam? In other words, couldn't we appeal to the patriotic streaks that, I am sure, are in our banker friends, to make a special --

MR. ASH: Mr. Greenspan, for whom I needn't speak, has written a very, very interesting and insightful analysis of the demand on this country's credit that is called involuntary demands. That is, those who must borrow whether they like it or not -- how this adversely affects our credit market.

The Federal Government, in rolling over its debts, is certainly an involuntary borrower; we have no alternative but to borrow unless we raise taxes.

These kinds of involuntary demands on the credit supply are themselves one of the forces driving up interest rates and, clearly, a reason to reduce the Federal deficit is so that we don't have that Federal Government in the credit market, demanding billions of dollars of borrowing each year to cover its deficits, because we drive up the interest rates when we are in those markets -- all the more reason to reduce outlays, reduce deficits, in the process get out of the market, and let the people in that need the money for better purposes than we use it -- the productive capacity that we have talked about today.

We need money there. We need money for housing. We need money other than for financing the Federal Government debt that we can possibly get ourselves into such a posture.

This is the key problem. Yes, sir, you have certainly identified it.

MR. MEANY: Well, what I am thinking of is, in terms -- something in terms of a campaign that started 30 years ago in the Treasury Department that we in the trade union movement were associated with and are still associated with.

In other words, we were selling -- I don't know what we called them at the time, but I know that back in World War I, we called them Victory Bonds, Liberty Bonds -- we were selling special bonds, and they were converted later to what we call E Bonds.

We were selling these bonds, and are still selling them, in industrial plants with a payroll deduction plan, with the complete cooperation of the trade union movement.

When this started, it was during war time, and this was a patriotic venture which everybody joined in. Now we've got a war, but we've got a different kind of a war. And I am wondering if there isn't some way to get this out to the American people, that Uncle Sam can get his money a little cheaper.

He got it cheaper during the war because we were selling these bonds to workers in industrial plants. It was less than what they could get in the savings and loan, in the ordinary savings bank, but we were selling them on a payroll deduction plan, and these plans, of course, have been continued.

Of course, the interest rates on the so-called E bonds have been adjusted upward by shortening the expiration of the bonds.

But I am wondering, on this particular item, if there isn't some way that this item can be brought down. Now, you are talking about $5.4 billion that the President wants to get off of Fiscal '75.

Within the last year, I am quite sure our debt service has advanced, taking the old rate and the new rate, at least $5 billion.

Now, shouldn't some special attention be paid to this, some special to the people of the country, to the bankers, or something, to get this particular item now?

MR. ASH: Well, certainly, we do have, as you know, Mr. Meany, continued Treasury Department effort. I don't think

Bill Simon is here. If so, he should speak for it. But, a continued --

MR. MEANY: He had to go on some show --

MR. ASH: Probably out selling E Bonds.

(Laughter.)

MR. ASH: I hope he is out selling E Bonds on that show.

But there are, of course, continued efforts of the Treasury Department to sell securities directly to a broad based public.

I think we would all have to recognize that that public today may be a little more sophisticated than it was in World War II times and finds other alternatives dangled in front of it, and is a little more perceptive of interest rates, particularly when they get up to these high numbers.

And, I must say, it is a difficult job -- more difficult than it was then -- but I certainly agree with you, and the Treasury Department agrees with you, and has moved interest rates up to pay to the individual lender higher interest rates, to attract as much money as is possible without at the same time taking advantage of individual investors or savers who do have alternatives.

MR. MEANY: Looking at the discretionary non-defense outlays and the so-called entitlement programs, as a practical matter, I don't think you are going to do much with those in an even-numbered year.

MR. ASH: Well, I have made that same statement, Mr. Meany, a number of times. This is an even-numbered year.

(Laughter.)

MR. ABEL: Roy, aren't we again seeing an example of the double standard we talked about in industry on E Bonds and H Bonds, which are now six percent, as against the nine percent you just paid for the recent bond issues in the higher denominations to the people who have more to buy higher amounts with?

MR. ASH: I agree that is a problem. There are people that provide a market for these treasury securities that prefer a Treasury security, in low amounts, though, in contrast to the big amounts, and it takes --

MR. ABEL: You know you can buy a $500 E Bond and you pay six percent. Our -- you would pay nine percent for a $1000 treasury note.

MR. ASH: There is no question but these are problems and there has been a lot of comment about what should be done. I could argue either way. Whichever side you want, I could argue the other side. But I agree with you --

MR. ABEL: The guys who got the most, fine, they get the most. The little fellow that can only buy in certain denominations from his government, he is going to get less consideration.

MR. ASH: That is something we want to look into.

MR. ABEL: I paid just as much for my E Bond as you have for your $10,000 bond, you know.

MR. RUSH: You are right. Mr. Finley you were next.

MR. FINLEY: It is hard, in a corner, to get into this thing. Mr. Chairman, I understand the need and the concern for reducing the budget. It should -- it sounds good but let me direct myself, if I will, with one aspect of the presentation of Mr. Ash. When you get all done it sounds simple. The only place we are going to solve our budetary problems is cut some expenditure on health, for child nutrition or education programs. I submit this is the wrong way to look at it.

This is not merely a problem of inflation, but as also was said earlier, it is a problem of employment and it is a problem of the standard of living of our people. And it is a problem of who should bear the burden of the runaway inflation and of the unemployment that exists.

It seems to me to say that the burden of the federal government is to be said, "We'll have to cut down some education programs, cut down some health programs, cut down some child nutrition programs-- " I am reading the discretionary -- is an upsidedown way of approaching this problem.

Because you are hurting the people who can least afford it, who are now suffering the most under the problems of inflation. Now as submitted, if it is a problem of balancing the budget, not only look at it in terms of who pays our taxes,-- for example, in the last decade, in the 1960s, the tax load of the corporations and their proportion that they pay, dropped from 33 percent of the tax burden to 25 percent of the tax burden.

I submit the capital gains tax, the investment tax, all the tax programs that have been put into effect, have shifted the burden from those who could pay to those who can least pay our taxes.

I think we could probably reverse this and balance our budget by shifting our priorities as was said earlier, I think by President Meany and others, at the beginning.

The budgetary answer isn't saying I'll cut the programs and the appropriations from those who suffer the most now, but why don't we address ourselves to attacking those who can most afford to pay taxes and I submit if we would do this, if we would reform our tax system, overhaul it, the capital gains tax, the depletion tax, the corporate tax, the tax on multi-nationals, or rather, the tax benefits they now get, we could wash away the bulk of this problem.

We would put the burden where it belongs, on those who can afford it, and not put it on the backs of the people who already are the biggest sufferers from the mismanagement of our economy and I think this is the direction.

It's not charts. It's not numbers. It's a kid who doesn't have enough nutrition when he goes to school; the school lunch programs; you should put a picture of the kid on the board who is denied the school lunch program, not a picture of a graph going up and down and that's who we all deal with.

It disturbs me, if this is the program of our Administration, who thinks that their contribution, in terms of budget problems, is to cut those people the benefits and the programs on the backs of those who can least afford it today.

MR. RUSH: I appreciate your comments.

MR. QUIE: Dr. Ash, I'd like to ask you a question on that educational programs, if you know what you're talking about, because discretionary funds in education are much greater than that $1.1 billion and where do you get it down to that?

Title One of ESEA is $1.885 billion just for that one program.

MR. ASH: These are -- the parts of all of the total programs that aren't already contracted or committed or have become the obligation to third parties to the federal government at this time.

That is, we've already obligated or committed or given out to others, states, cities, and some cases, programs for individuals, an entitlement, where we had no remaining discretion in this fiscal year to deal with.

I'm talking about this fiscal year. We have amounts, of course, and this gets back to that technical side of the budget, the budget authority and outlays, that are greater amounts of authority, budget authority, that those give rise to outlays in future years, just as this year we're paying off, through outlays, amounts that were obligated in earlier years, so this is the amount of cash that would be spent this year as a result of obligations made this year, in contrast to the whole flow of money over a longer period of time.

There's the main difference on this and so many other of these programs have the same thing. You only $57 billion of the defense budgets here because the remainder of the defense budget is already under contract as a result of last year's actions so that's the -- the classification that I've used here is not the size of the program annually but the amount of remaining discretion there is this year on those programs.

MR. QUIE: Well, the entitlement programs then, that $143 billion, are those the programs you're talking about that are ongoing or that's something different again?

MR. ASH: No, we're talking about the non-entitlement programs.

MR. QUIE: The non-entitlement programs, what I'm going from before, are not discretionary. Is that how --

MR. ASH: That's right. The entitlement programs are a totally different breed, than the ones that are discretionary.

MR. QUIE: I want to point out where the rest of that education money is.

MR. ASH: All right. Separate from this meeting I can get you the scheduled program by program of what makes up those data.

MR. QUIE: Okay. The other question I have is that you're talking about something at least $5 billion and I guess it was a figure higher than that.

Now, the Congress -- the House has cut back the defense appropriations by $4 billion and the Senate Committee by $5 billion.

Now, what will that translate into in expenditure reduction if, say, either a compromise between the five and the four -- take a $4 1/2 billion cut in defense?

MR. ASH: That's a very proper question. Because of the long lead time and so many of the defense type of expenditures, the House version would generate a cash outlay reduction of about $1,400,000, the Senate version, about $2 billion, in between, about $1,700,000 or $1,800,000 would be the effect of the almost $5 billion budget authority reduction because so much of defense is long lead times.

You make a commitment today. You have a budget authority today and it doesn't result in cash until way down the road, so a billion-and-a-half to two billion, that's going to be affected by Congressional action this year.

MR. QUIE: The other three to four billion dollars, then.

MR. ASH: That is right. Correct.

MR. QUIE: Now, where are you going to get it?

MR. ASH: This is the shopping list. I asked you where do you think we should get it. We don't have our choice of where to get it.

MR. RUSH: Senator Packwood has a question, gentlemen.

SENATOR PACKWOOD: Let me ask Mr. Finley a question, because I think both he and Mr. Wurf put their finger on something earlier.

I sense a general agreement about a balanced budget except in times of extraordinary stress where we have to encourage demand and Mr. Wurf had some specific recommendations for cutting and raising revenue.

You, Mr. Finley, had some specific suggestions for taxing corporations and I think I would agree with many of them, especially the oil companies, which really gave us the greatest con job since Barnum last winter, but what happens when we increase those taxes on the corporation.

You can double the corporation tax on the Wonder Bread Company and they double the cost of Wonder Bread, which your members and everybody else's members buy.

I'm not sure that you are shifting the incidence of taxation very seriously by doubling the corporation tax unless, and nobody here has even suggested going back to it, we go to some kind of controls.

MR. FINLEY: Well, what about excise profit tax?

SENATOR PACKWOOD: Well, that's what we were coming to.

MR. FINLEY: Or the oil companies or something. I don't think there's a magic that every oil company has to make $600 million or a billion dollars after taxes.

SENATOR PACKWOOD: No, but that's the next question.

MR. FINLEY: I don't think they automatically have to pass it on to the consumer.

SENATOR PACKWOOD: I agree. They don't automatically --

MR. FINLEY: The fact they can do it is partially, I think, because there's a monopolistic situation and we've got no choice but that isn't because there's not a free market system.

SENATOR PACKWOOD: No. I think you and I totally agree and we would take the antitrust laws and either enforce them or change them if the present ones won't work.

But what is a fair return for a corporation?

MR. WURF: May I say something?

What's a fair minimum wage for a worker? If $2.10, and it was vetoed, if you remember, a year ago, is considered fair for a worker, I'll give you a good low figure for profits, too.

SENATOR PACKWOOD: What percent?

MR. HARDY: Two dollars on every dollar they make.

SENATOR PACKWOOD: Two dollars on every dollar they make?

(Laughter.)

MR. WURF: The important problem, the word discretionary and the word non-discretionary and Murray Finley very rightly said, a kid without food, a retiree with perhaps a retirement of $2,000 a year without medical care, these are the kinds of things that Mr. Ash is talking about and I suggest to you that it's a -- there's an argument whether there should be a budget -- you know, a cut or a non-budget cut, but what is troubling us is that the richest nation in the world, the important thing that Finley said, and he was specific as I was specific about other things, was that, in essence, instead of the Administration addressing itself to the disproportionate burden of taxes on the poor, on those who work, those who work and are not poor, and letting the corporations get away with blue murder is just outrageous.

The statistic that he pointed out, where, in effect, the proportion of taxes paid by the corporations goes down and down and down.

There's relief for them three times in a row by the present Administration and his predecessor Administration. And in essence, the load falls heavier and heavier on our people and when Mr. Meany bore down hard on the $23 billion we pay in interest, the kind of answers we get just simply are not the kind of answers that our members consider credable.

SENATOR PACKWOOD: No, they're not the kind of answers that I would give you in budget cutting and I agree with you about the charts and Roy Ash and I have talked with them and they seem kind of cold and impersonal but I'm not sure, as I sit on the banking committee and the finance committee, that increasing the corporation taxes and lowering individual income taxes, which I'll support, is going to result in a change of the incidence of who is paying the cost of government.

MR. WURF: The kind of thing Paul Hall talked about, I could go around this table. The kind of hustle that takes place, where they buy oil from the shakes and instead of buying it for dollars like I buy my groceries and you buy your groceries, it's called taxes and our federal government recognizes that hustle, and that these oil corporations are making profits out of this world.

This statement made by the President of the Mine Workers Union, their profits are going up into the -- you know, into triple digits.

SENATOR PACKWOOD: I saw that last year when we had the price controls and we have many American lumber companies that produce in the United States and in British Columbia, only there is no price freeze on imported lumber so they would simply slow down their production here.

You probably saw this in the paper industry and increased their production in Canada and ship it in here. Granted, nothing gained, shortages here, and price increases and what I would regard as excessive profits but until we come to a conclusion as to what roughly what a fair profit is, and I don't think it's a fair answer to say, what's a fair wage.

MR. WURF: Well, we're not going to deprive a kid of a school lunch.

SENATOR PACKWOOD: No, I'm not going to deprive him.

MR. WURF: Well, that was Mr. Ash's suggestion.

SENATOR PACKWOOD: Well, I don't think he's that heartless.

(Laughter.)

MR. RUSH: I think Mr. Hardy is the next gentleman.

MR. HARDY: The budget is $305 billion. Mr. Ash says he wants to reduce it to $300 billion. Now, that's about a two percent reduction, so Mr. Burns, who's not here and should be here, he's going to raise the interest rate.

Now, what the hell does it mean by reducing the budget at all, because it's going to be higher.

Instead, when you cut $5 billion -- $2 billion off or $5 billion -- you're going to end up paying more for the budget of 305.

You're not going to save anything because we're talking about the interest rate. Mr. Burns controls the interest rate, as I understand it.

Now, he controls everything that we live, eat and breathe when we work for a living, and he's too tight on it.

Now, let's talk about a balanced budget. Mr. Ash talked about it. Now, I think 1974 is the smallest deficit we ever had.

Forget we have the highest goddamned inflation in the history of our country. Now, it don't make sense. There's just no sense to your arguments and this is what I say.

Now, President Meany hit on one thing. We got high interest rates. We talked during World War I and World War II, we had war bonds. I know, I was a G.I. and you had to buy $10 worth to get a leave on the weekend or something, a G.I. bond and they had you by the b---.

Now, I just say this to you. The banks, as I understand it, the banks, they want to give you a loan and they want 12 percent, 14 percent.

Now, Mr. Ash, you loaned money out in $1,000 lots and they stood in line and you gave them eight percent and you had $1,000 to buy a federal reserve or federal note or something just about a month ago.

Now, it seems to me that that is the answer to this high interest rate. Now, if you can sell on the open market to the public and they stand in line and I think you sold $2 billion worth of bonds at eight percent and you wer paying nine and ten, and I still think you sold some last week maybe at the federal loan bank or whatever it is, maybe ten percent, I'm not sure, but isn't it far better to go to the public and get these bonds at $25 and $10 like you did to us in the service and we buy a $10 bond and you pay us eight percent instead of us putting our money in the banks and Christ knows they got more money than they ever can count and the same thing for savings and loan;

I think we should look about going to the American people and saying this is your government. We need your money but don't ask the poor worker to come up with $1,000 because you're shoving him out of the way.

But I think you can get money, all the money you want, for seven and eight percent, if you just go around and cut it to $25 bonds, Series E, or whatever you want and this is the answer and I don't that, no matter how you balance the budget, you're going to stop this inflation.

You have got to hit the oil companies with an excess profit tax. You've got to take them in there. You should nationalize the oil companies.

That's your answer. Until you do, you're not going to control it and I'm not an economist. I wish to hell I was, because I could do a hell of a lot better job than what is being done by the government.

MR. RUSH: I think Mr. Hall is next.

MR.HALL: Mr. Rush, I think that the previous speakers have covered my point. I was going to reply to your question.

I think you could look at the foreign oil depletion tax, the foreign tax credit, and the favored treatment of the big oil corporate structures.

There is the difference in your budget.

It is interesting, for example, not only do the oil companies have those advantages that our friends have been referring to, but at this very moment in the State of New York, in which I have the privilege of residing, not quite as good as Alabama, but it's pretty good, the -- all seven of the majors are under indictment for price fixing with the intent in mind of driving the small independent businessmen out of business.

Now, I don't want to belabor the issue, but I think that Murray Finley put the thing in the proper context. I would do it a little differently and say that you would have to look at both sides of the coin.

I think everybody wants to see the budget balanced for a great number of reasons, but not at the sacrifice of some of the people who are the most helpless.

I wonder and I keep wondering why that someone has not taken a good look at the structure of these oil people because in that area alone there are those tax-favored situations which have no benefit whatsoever to the American public, which are terrible liabilities and a terrible burden for them to carry.

And I would intend to urge those who are here from the legislative body to take a good look at this at the appropriate time and place. I think it's outrageous.

MR. STALL: Mr. Rush?

MR. RUSH: Mr. Shouker is next, gentlemen.

MR. SHOUKER: I would like to address myself to a point that Mr. Ash made and also one that Mr. Finley made and try to relate them.

Mr. Finley spoke of the human problems that are behind some of these budget concerns, and Mr. Ash spoke of the fact that the budget for various social services is growing and growing and is concerned with what would happen in 1976 and 1978 and 1980.

I think we are all concerned with that. I think if we all look at one page of this budget, and we see food stamps at $4 billion and public assistance at $4.6 billion, and rehabilitation at $3.1 billion, and medicaid at 6.3, and unemployment insurance at 8.3, we see a sum of money there which is about $25 billion and growing very rapidly.

This represents assistance to groups of people who for the most part, through no fault of their own, society has because in that area alone there are those tax-favored situations which have no benefit whatsoever to the American public, which are terrible liabilities and a terrible burden for them to carry.

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This represents assistance to groups of people who for the most part, through no fault of their own, society has not reached early enough to help, and therefore, they are a burden on the taxpayer, and they don't feel very good about it themselves, being in this particular position.

And unless we can find a way of intervening early enough to do something about it, that number is going to grow and grow and grow.

We are going to find 30, 40, 50, 60, 70 billion in taxpayers' money going to people who are unable to work and unable to produce -- if you want to talk about productivity, probably the greatest lack of it is the huge number of people who aren't working represented in this particular category.

Now, how are we going to intervene to change this? I think that we recognize that programs designed to intervene after people have gone through school and can't read or can't write or can't count or haven't acquired certain skills, whether it's in the coming to work on time, or whether it's in job skills or something else, the longer you wait the less likely it is that any kind of a change is going to be made.

And it seems to me that what we've been doing here is we've been waiting until it's too late. We wait until the child leaves school, is an illiterate, and then we have Job Corps programs and aid programs and welfare programs, and we don't put that investment in at a time when the child is 3, 4, 5, 6, 7, 8, 9, 10 years of age, a time when that child's life could be changed so that when they grow up they will not be in this 25 billion category that is growing and growing, and this doesn't represent the amounts that state and local government also has to put into helping these people.

Now, that's what concerns me so much about any kind of a talk about cutting budget in an area where it's going to -- it seems to me that maybe if we are concerned with 1980 and beyond 1980, if we are concerned with eventually being able to trim some of these programs, we've got to make an investment now.

And maybe it will cost. It will cost for the next few years to reach the children that are at that particular age.

I would like to speak for a few minutes about a program that's been working and which will be in jeopardy as a result of budget cuts.

Back in 1967-68 all across the country thousands of para-professionals were hired in schools. In New York City we have about 10,000 of them.

They were all welfare mothers, unemployed, receiving all kinds of assistance. They didn't have a high school diploma.

As a result of their employment in the school system they got their high school diplomas. 6,000 out of the 10,000 are now enrolled in college programs.

2,000 of them will have college degrees next year. Now, here is an investment that was made. And instead of being unemployed and on welfare for the rest of their lives, they are going to be graduating, and if we had a job market where they could find a job, they would be employed.

Unfortunately, after having gone to college all these years they are about to graduate and get their degree only to find out that they will be part of the large pool of unemployed teachers.

Now, instead of cutbacks, why not a program of universal early childhood education to reach these young kids before it's too late, and to put to work these welfare mothers who became para-professionals and who are about to become teachers.

What I see is this concern about $5 billion now may do something now, but it isn't going to do anything about whether we are still spending money on public assistance and unemployment and food stamps and everything else.

We are not talking about a strategy of how do we start cutting down on these things five and ten and fifteen years from now.

MR. STETIN: I can't quite follow the logic that we were trying to fight this problem of inflation. We've talked about fighting the war on poverty, which hasn't been won yet.

I wonder what we did during the Second World War -- and I'm not an economist -- I wonder whether we thought about cutting the budget to win the war.

When we went into Korea, when we became involved in Laos, when we became involved in Vietnam, in Cambodia, and spent billions of dollars that were wasted, I wonder whether we took into consideration that we ought to cut down some of this.

It seems to me that in an area where the Government should have done something, because it is my judgment, and I've been around over 40 years in the labor movement, I remember when John L. Lewis was questioned by the Government because it was said he was slightly against the Government and against the American people.

But recently the oil industry conducted what I consider to be the most effective slight that anybody has ever conducted, either against labor or management or government; they conducted a slight against everybody together with the owners of the oil over in the other countries who blackmailed us.

And I am at a loss to understand why this

Government, in these last two years especially, when this slight was being conducted, and they doubled their price in order for us to get gas. We have done nothing about it.

To me, I think it is a national mistake to keep on muddling through in this area of inflation without some degree of regulation and control over profits and interest rates which played a major role -- and I was glad to hear Mr. Greenspan say that wages were not responsible for the inflation that we are involved in today.

It is these elements of prices going up and profits going up; I just had a man tell me the other day -- and I naturally can't mention the name or the company -- where it cost that corporation $1,250,000 for an increase in the wages of the employees. And he told me that he knows that this corporation increased their prices to their customers to the tune of $2,500,000 to make up for a cost of $1,250,000.

And as I said this morning, it is my judgment that we are reaching a state where you just can't have the free play of the economy, leaving it up to the corporation executives to decide, without any controls over them, and today, more and more these companies are part of the principle of the run away shop, and I come from the textile industry. I remember when there were 35,000 textile workers in the Patterson-Passaic area where I live -- and the principle of the run away shop, of one section competing with the other for lower taxes, and so they went to New England in the textile industry and then they went south, and now they are going overseas.

And, gentlemen of the Government, and I say to you that unless we deal with this multi-national corporation which is engulfing over us, unless our Government has a great word in what these gentlemen do when they go overseas, we are going to be in real trouble.

It is equally a mistake to try to fight inflation without achieving full production through national planning and making certain that every single human being in these United States who wants a job should be given a job either by private industry, or if private industry can't supply that human being with a job, then it should be Government as the last resort.

And if you want to call that some other name, I don't particularly care. As far as I'm concerned, when a man wants to work, and he can produce, we are losing billions of dollars that could have been in the gross national product, if we could develop a system in which every person works.

And one more thing, we talked about effective productivity. It's never going to be achieved with a constant conflict with the bulk of the American workers, especially in the southern part of these United States, and when they are denied their rights under law.

Gentlemen, I suppose I'm taking a little more time than I intended to, but I say to the Administration, we want to cooperate. We want to work with the Congress, and we want to work with the White House.

But by golly, you should do something about an effective system of regulation so that jobs are provided for anyone who wants to work.

MR. CHESSER: Mr. Ash, why do you list railroad retirement? There are one or two related items here in the Federal budget.

MR. ASH: Because, in this case, the Federal Government does pay the railroad retirement benefits to the extent that they are here listed in the budget.

MR. CHESSER: The Federal Government doesn't pay one penny of railroad retirement benefits. Not one red cent.

MR. ASH: It sure does.

MR. CHESSER: Where?

MR. ASH: Out of the Federal Treasury, out of the taxpayers' revenues that we collect.

MR. CHESSER: To railroad retirement?

MR. ASH: Yes, the railroad retirement fund is one that we pay out of to retirees of the railroad systems.

MR. CHESSER: But you are only a caretaker. The

Federal Government doesn't put one penny into it, not one penny.

It has been a contribution of the employees and the employer.

MR. ASH: The contribution hasn't been adequate to meet the obligations that the benefits schedules have imposed upon that fund.

MR. CHESSER: Oh, but you haven't put one penny into it, and don't leave that impression here. Because you can't prove that statement.

You haven't put one penny into it. In other words, just the opposite, Mr. Ash, we have subsidized that fund because you have not, the Treasury Department -- we fought them for years and years for us to pay us the going rate of interest,and we couldn't get it done.

And the Federal Government hasn't subsidized that fund one red cent. You owe us a lot of money, and we are coming to you for it.

MR. ASH: We can sit down and discuss the specifics and it will, maybe, take some time. But, certainly, the general taxpayer is contributing to that fund in order to --

MR. RUSH: Mr. Chesser --

MR. CHESSER: I've got to get this cleared up because I read in the press every now and then how much the railroad worker is costing the Federal Government in pensions.

And I defy any man in the Federal Government or in this room to prove to the taxpayer,to me, that he is paying one red cent.

We even pay for writing the checks.

MR. ASH: Let's get some time after this session we can go over the data to see if we --

MR. CHESSER: Our contribution and to the employer -- is to the railroad retirement fund. And if we are costing a cent, get loose of it because I can make more money.

All I know is how to switch boxcars, but I can make more money out of it than you have been making out of it or the Treasury Department has.

MR. ASH: I agree, we haven't been making much out of it.

MR. CHESSER: Because we've been subsidizing this government. Now, this is the facts, and those in the Congress that know something about this subject can tell you today on your note that you are talking about paying 8 percent on, you know what they are paying us?

About 5, if they are paying us 5. And that's our money. That's our money. And this Federal Government hasn't got a penny in there.

MR. SCHWEIBER: I agree with Mr. Chesser.

The main point that I would like to just raise, Mr. Chairman, is that I think one of the areas that we do seem to agree on is the effect that tight money and high interest rates have had.

And I happen to believe that while they well may solve some problems they certainly create a lot more than they solve.

And I think, just as the Wall Street -- I read an article the other day called "Stagflation", which, in essence, said that all the economic professors are throwing away and burning their old textbooks, and a textbook written as recently as a year ago is obsolete.

I think we ought to approach the economic problem before our country in that way, that we have to look at a new problem, a new challenge, and new solutions.

And every industry or businessman changes their technology every year or two, not every 20 years. And the basic economic approaches to our problems haven't really varied in 20 or 30 years, and no wonder we are in a mess.

I think we've got to be a little more selective and sensitive to these areas. Now, I think we've heard some good suggestions here today about credit.

And it would just seem to me that one very logical outgrowth of suggestions here, which is sort of composite while they are said, some kind of two-tier credit policy, a lower tier of interest rates on things that were essential for the survival of this economy. Housing is one of them.

I think areas that create jobs is another. I think that areas that reduce shortages is another. Energy might well be another, domestic energy, not foreign energy.

And I think let the second tier go on the matter of non-essential spending. The guy wants to build the second house or a swimming pool or some construction that we don't need, then let's do that.

We talk about two-tier goal system. This concept isn't new. We use it now on student loans. We've singled out student loans, and we say that is an important element of education.

Give us lower credit there. And it just seems to me we've gone on now 30 or 40 years with tight money always coming in. In fact, I think it's killing us.

Now, there are areas where we should have some tight money, but let's have the grace and the intelligence to see the difference and to change some of our policies in this area.

That's all I --

MR. RUSH: Thank you, Senator Schweiker.

Mr. Edwards, would you like to make some comments on this subject?

MR. EDWARDS: Mr. Chairman, I had a prepared statement I was going to read into the record, but this one has been chewed up so many ways by so many people -- and I agree, incidentally, with most that was said.

I have a question I would like to ask Mr. Ash. He said for the last 25 years, if I heard him correctly, defense expenditures have been going down, and that in 1975 this would be the strongest, perhaps, of the 25 years.

Our records indicate that it has been going down, defense expenditures, since the early '60s, but in 1975, according to your budget for defense, it will for the first time be going up.

That's question one. If I can do my second question, then I'll be off. And the question of tax advantages in the area of oil company operations, our records indicate that it will account for about $3 billion in 1975, or more than the Government is planning to spend on energy and research.

I think the Government ought to be doing more in this area so that the oil companies will not have an absolute monopoly over the consumer.

Those are my --

MR. ASH: I think I can answer at least the first one quickly and maybe even take a cut at the second one.

Defense expenditures in 1975 will be the lowest percentage of gross national product for the last 25 years. Also, on a constant dollar basis they will be a third lower than they were in 1968, and, as you observed, lower than they have been for many years.

It is true, though, in 1975 over 1974, before at least the Congress dealt with the defense budget there was a step back up of a small amount on a constant dollar basis.

But the Congress has affected its will on that, and I'm sure that you will see when we finally go into this year with appropriations fully in front of us that it will again set a new low record for defense expenditures.

So I think your data are right. There was a slight fill up, but, on the other hand, the Congress has even dealt with that.

To answer the other part of your point -- I think it's an answer. And it's also an answer to Mr. Hall. You may know that we did propose, the Administration proposed almost a year ago now the elimination of the foreign oil depletion allowance. It hasn't been dealt with by the Congress, but we did propose it.

Certainly, the windfall profits tax on the oil companies -- hadn't that tax been into effect from the day that it was proposed -- of course that's a little unrealistic because that gives Congress no time to act -- we would have collected a few billion dollars of those oil revenues that you've all been talking about here that have -- that the oil companies have earned the last few months.

And that would have gone toward some of the other points made of "Why not raise taxes?".

I guess the only consolation is we've seen a number of these things exactly the way that you are expressing them,did do so nearly a year ago, did initiate action in going those same directions. It hasn't yet come through the system.

But it isn't that we see it differently. We see it the same. We just have a little slow process at work to get the legislation that is necessary.

MR. LYONS: Another point. I think this charge here does show what the basic Government policy is, and that is that it desires to increase the services to the people over the recent years.

However, I think that's a good policy. However, if he would take a chart of population growth -- if we were to compare the same chart with population growth, I think you would show that we were going down, or at least totally mobile, not increasing at this rate, which, I think, we should have been doing.

And then I think if we would make at least two other comparisons, one, make a comparison with the dollars that we received by taxes into the Government back here in 1961, and the sources of those dollars, and then make the comparisons today with the sources of those dollars.

And you would see what is being said around here at the table, that the tax burden, the money coming into the Government, is actually being shifted away from the profits -- away from the taxes on profits that it was 15 years ago to the taxes on people.

And it is that shift that's creating that problem that all of the low-paid workers and the problems of the people who can't afford this inflation that we are on.

And a chart to that, I think, that goes industry by industry is specifically the same route -- who has found the loopholes in these systems?

As a lot has been said about oil here today, that I imagine that there are a lot others who have found the loopholes for multi-nationals and others that are today paying a much less share of the total tax burden than they did before.

And that's the area that should be corrected. But I think to lay this out against the population would be a more clear picture of what is the Government doing for its people.

And I think that it is doing less.

MR. ASH: I think if you turn to the third chart, we can mentally adjust the third chart to answer that question, because, certainly, we know the population that has increased from 1961 to 1975 has been, let's say -- let's see, 15 percent, or some small amount.

Defense has gone down. Interests and other has gone down. Payments to individuals and grants to state and local governments have tripled, which is really the payments to individuals and, obviously, the population has far from tripled in the last 15 years.

So that there has been a very very substantial increase in payments to individuals and grants to state and local governments that in turn repay those amounts to individuals,compared to population.

So I think that that third chart makes the point very clearly that there has been a very significant increase per capita -- very significant per capita -- of payments to individuals, whether directly or through state and local governments.

MR. DELLUMS: Mr. Chairman, I wanted to join Mr. Chesser in this portion of the -- on the retirement tax. If Mr. Ash is able to prove that there is any other taxpayer's money involved in the railroader's tax, I want to be on the mailing list of that crew.

I suggest that they check the Railroad Retirement Act and the Retirement Tax Act of 1937, I think you will find out that Mr. Chesser is 100 percent correct.

MR. ASH: We've had a little discussion up here. It may be illegal when everything else is going on. But that we are -- I am going to provide him the information I have.

And I particularly would like to learn his view of this, because it is a point that we would want to make sure that we all saw it as nearly alike that the data will allow.

And we are ready to exchange data and analyses of those data.

MR. CHESSER: Well, I think the act itself, as Mr. Dellums has mentioned, takes care of just what you are talking about, and there is no provision in the act anywhere at the present time that any of that money would be -- would come from the Federal Government.

So it's just not there.

MR. KIRKLAND: I think a part of this program --

MR. ASH: No, it never has an interest fund like the social security, but it is our trust fund. But you are not treating it very trustworthy, is that right, at the present time.

MR. KIRKLAND: Part of this problem, and part of what I could regard as a heavy bias in this presentation.

of the budget, and I am not suggesting that Mr. Ash intended it.

Some years ago social insurance systems were consolidated in the budget. The heavier element of that increase represents an exemption of the fact that the old age and survivors insurance system, receipts and expenditures, outlays as well as railroad retirement and other social insurance systems incorporated in it.

And although they are financed essentially by the payroll tax. We regard this as a mistake, as giving an erroneous, completely erroneous picture of the Federal role, and, in fact, the only appropriate element of the budget that ought to be reflected in this kind of a presentation would be any contributions from general revenues by the Federal Government to these funds which are financed from the payroll tax.

MR. ASH: I should think that's consistent with the point I was making earlier, that the Federal Government's role has changed from just running the government operations to collecting a lot of cash, and particularly social security cash, and repaying it so that we are just a conduit or a funnel.

MR. KIRKLAND: Yes, you are only a funnel, but you show expenditures. You show the proceeds and the payments of the pensions to people who financed it out of their payroll taxes as a human resources outlay of the Federal Government. And I think it gives a completely distorted --

MR. ASH: And, in fact, even the non-social security human resources programs have gone up almost exactly the same proportion as social security that has tripled in the 15 years.

So,either way it cuts about the same in proportionate increase or per capita increase.

MR. RUSH: I think, perhaps, we might move on.

There are participants in our meeting room that haven't had a chance to speak or who have not elected to say anything.

I wonder if Mrs. Comer would like to give us any new policies or ideas with regard to the subjects that we have or those outside the subjects that we've discussed?

MRS. COMER: I just wanted to kind of reenforce some of the arguments that have been made for not cutting people's programs.

In my view, any cutback on the food supplement program for expectant mothers and children age 1 to 6 would be indefensible when we know that protein deficiency could and does result in permanent damage.

And massive dosages in later years will not correct the damage in zero to 6 years of age. And so while Mr.

Shouker,and I agree with him totally, worries about the education, I worry about the damage that might be brought about by malnutrition, by not properly feeding.

And I understand that there is a thought by the Government to cut back to age 4, and I would beg you to reconsider and not cut back.

On the issue of prices I called for a Congressional probe on the price increases, and I would ask again that we have a Congressional probe on any of the price increases on the basics, on the basics that people need, on beans, on sugar, on gasoline, on antifreeze, on these very basic foods and commodities.

I would call for a Congressional probe and let all the facts be aired publicly, let everyone know where the gouging is.

And in this way we would inhibit corporations from just going out and cutting or raising prices to increase all their profits.

I would ask that contracts be opened again and we deal with this inflation the way we should in negotiations because the cost of living adjustment has not properly covered our people, our retirees and senior citizens.

This is about all I have to say.

MR. RUSH: Thank you very much,Mrs. Comer.

Has anyone else not spoken? Does anyone else wish to address any other subject?

If not, I shall like to, on behalf of the President and on behalf of all of us in the Administration, to thank you very much for what I consider to be a very productive and a very useful conference.

We've had some excellent ideas come out of this conference that will be given very serious weight and which will be discussed at the summit.

And, of course, we'll be participating in all the other pre-summit meetings that we are going to have.

And I know that the President is anxious to have the input of all segments of society and of our economy, but particularly, one of the most important ones, which is, of course, the labor movement.

So I want to thank you very much and I am looking forward to working with you for the rest of this summit and for the rest of the -- for the years to come.

Thank you.