577

NATIONAL PRIORITIES—THE NEXT FIVE YEARS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PRIORITIES AND ECONOMY IN GOVERNMENT

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-SECOND CONGRESS

SECOND SESSION

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NATIONAL PRIORITIES—THE NEXT FIVE YEARS

TUESDAY, MAY 30, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Percy; and Representative Conable.

Also present: John R. Stark, executive director; Richard F. Kaufman and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. First, I apologize for keeping you waiting because this is an extraordinarily fine job you have done—very, very helpful to the Congress and to this subcommittee.

FOURTH ANNUAL PRIORITIES HEARING

Today marks the beginning of the fourth annual hearings on national priorities to be conducted by the Subcommittee on Priorities and Economy in Government.

We began this series in 1969 with a hearing entitled "The Military Budget and National Economic Priorities." In subsequent years the scope of our inquiry broadened to include the entire range of Federal activities having an impact on the allocation of national resources.

CIVILIAN SPENDING ALSO OF CONCERN

We are as concerned with the civilian side of the budget as the military and in the past several years we have identified large areas of inefficient and ineffectual domestic programs. This subcommittee has held hearings, commissioned studies, and issued reports critical of public works projects, water resources policy, urban renewal, the high costs of medicare, institutional aid for higher education, maritime policy, and aviation policy.

NONDEFENSE EXPENDITURES, REGULATORY AGENCIES, AND SUBSIDIES

Two years ago we pointed out that the executive branch had made no adequate cost analysis of the $128 billion of nondefense expenditures, or of the economic effects of the decisions of the regulatory

agencies. We recommended abolition of the highway trust fund and earlier this year we released a study disclosing the fact that in fiscal year 1970 Federal subsidies cost the taxpayer at least $63 billion, not including the administrative costs of handling them. We held these hearings on Federal subsidies in January and we plan further hearings later on this year. A compendium of cost-benefit studies of selected programs will also be released in 1972. I am convinced that we have only scratched the surface of the waste and poor policymaking in the civilian sector of Government.

MILITARY AND SECURITY-RELATED EXPENDITURES OF PRIMARY CONCERN

But our primary attention must continue to focus on military and security-related affairs. As the Brookings publication "Setting National Priorities—The 1973 Budget" points out, defense is still the largest single Federal program, consuming 30 percent of the budget and directly employing 3.4 million military and civilian persons. Another 2 million are employed in the defense industry, bringing total defense-related employment to about 5.4 million people.

BROAD DEFINITION OF NATIONAL SECURITY EXPENDITURES

If we broaden our definition of defense, as I believe we should, to incorporate all activities funded outside the Defense Department directly related to national security objectives, such as the portion of military assistance administered through the State Department and the space program, as well as payments for past wars and defense programs, such as veterans' benefits and interest on the national debt, the impact on the Federal budget is seen to be much greater.

When the items now excluded from the official figures for defense are put back in, total national security outlays are estimated at $111 billion for fiscal year 1973, compared to the $78 billion estimated in the budget document. Using this approach, the national security programs absorb 45 percent of the Federal budget.

MILITARY SPENDING IS INFLATIONARY

Few economic activities are as inflationary as military spending. Of course, we need to have a strong military establishment second to none. The defense budget is a national insurance policy and the premiums have to be paid. But we must recognize that defense outlays have the economic effects of increasing the demand side without increasing the supply side at all, that they involve huge opportunity costs and that they can contribute to an inflationary psychology. For this reason alone, it is imperative to cut every inch of fat out of the defense budget.

Looking at the official figures, one can demonstrate a moderate decline in defense spending in recent years, particularly when adjustments are made for inflation. This year, however, for the second consecutive time, the administration is requesting a substantial increase in obligational authority for defense. I believe Congress will cut the defense request and cut it sharply. But if Congress does not do so, or if the congressional cuts do not go very far, we will be faced once again with a rising defense budget.

DEFENSE SPENDING RISING

Indeed, actual defense spending is already rising. As measured in the national income accounts—NIA—defense outlays were at a $75.8 billion rate during the first quarter of calendar year 1972, reflecting an increase from the previous quarter of $3.4 billion and an increase over the first quarter of 1971 of $3.2 billion. The new spurt in defense spending is also significant because it coincides with the administration's decision to stimulate the economy in order to reduce unemployment. Now we know how the economy is being stimulated. It is being accomplished through the most wasteful and uneconomic method possible; through the defense budget. The hurry-up-and-spend directive of Admiral Zumwalt, recently disclosed by this subcommittee, takes on new meaning in light of the figures for the first quarter of this year.

Whether the policy of hiking the defense budget in order to solve the problems of the national economy will have the desired effect remains to be seen. Certainly there will be some stimulus and it is probably already being realized. But the price of priming the defense pump is not worth the short-term benefits, in my judgment. It is a disastrous policy, calculated to increase waste and governmental mismanagement and to divert scarce resources from other more deserving portions of the economy.

Meanwhile, the unemployment rate still hovers at about 6 percent; inflation is still a serious problem, and we seem to be no closer to its solution or to the solution of the many other serious social and economic problems that plague the Nation than we were in 1969 when these hearings began. In many areas—unemployment, for example—we appear to be further away from solutions than we were 3 years ago.

It is time, in my judgment, to take serious steps toward solving these problems.

5-YEAR BUDGETARY OUTLOOK

Our witnesses today, among other things recommend that the administration provide Congress with a 5-year budgetary outlook and that the Joint Economic Committee conduct hearings annually on the 5-year outlook. This is a useful recommendation, one that I am most enthusiastic about and very happy to support.

But I believe that a more far-reaching change is in order. It is time for this Nation to move toward the kind of planning on a long-term basis that is necessary if we are to make inroads on our most pressing problems. This, to me, means not only making budgetary estimates and forecasts but also adopting specific long-term goals, enacting programs to meet those goals, and measuring governmental performance by its success in attaining them.

3-PERCENT UNEMPLOYMENT GOAL AND TERMINATION OF FOREIGN MILITARY ASSISTANCE GRANTS

For example, why shouldn't the Federal Government establish as one of its major goals the attainment of a 3-percent unemployment rate over the next 4 or 5 years? This is the kind of goal that we ought to set for ourselves and it is one that we can achieve with a proper economic policy. Another specific goal that can and should be estab-

lished is the termination of all military assistance grants to foreign governments. If goals such as this one were adopted by the Federal Government, we would set ourselves on a course of action which would not only make more sense than the year to year ad hoc way things are done now but we would render ourselves—both the President and the Congress—more accountable to the public. The people could judge at the end of, say, a 4-year period, whether its President and elected representatives had met the goals that were established and they would have the opportunity to express themselves accordingly.

Each of our first four witnesses has a distinguished record of government service and is well known throughout the economic community as an expert in his respective field.

THE BROOKINGS' 1973 BUDGET STUDY

Charles L. Schultze, former Director of the Bureau of the Budget; Edward R. Fried, Alice M. Rivlin, and Nancy Teeters, all senior economists at the Brookings Institution, are co-authors of "Setting National Priorities—The 1973 Budget," the latest in a series of analyses of the Federal budget.

I must say that this year the authors have outdone themselves. "Setting National Priorities" is a brilliant exposition of how the taxpayers' money is being spent and of the long-term implications of current policy choices.

AMERICAN ENTERPRISE INSTITUTE STUDY

Following the Brookings' experts, we will hear from the eminent Murray L. Weidenbaum, former Assistant Secretary of the Treasury, whose views I always weigh heavily and one of the outstanding economists of the Nation; and Dan Larkins, an economist on the staff of the American Enterprise Institute for Public Policy Research.

Mr. Weidenbaum—now a professor at Washington University in St. Louis—and Mr. Larkins are coauthors of "The Federal Budget for 1973," apparently AEI's answer to Brookings. We are happy to provide equal time for the presentation of both these fine studies.

We will proceed in alphabetical order, beginning with Mr. Fried.

Importance of Educating Voters

Senator Percy. I would like to welcome our witnesses and indicate that I feel these hearings come at a very good time. We have an election campaign underway—a long, lengthy, tedious process, an endurance contest for the candidates as well as the American public. If we conduct our election as some of them have been conducted, notably, the 1970 election, it will be an utter, colossal waste of time, energy, and money. We should conduct this election as a great adult educational program, and address ourselves to issues as important as national priorities of spending—which I am happy to see the candidates on "Face the Nation" did the night before last. They had some sharp critical differences of opinion as to how we should spend money on defense and how we should spend money on welfare. If they continue that tonight on "Meet the Press" and if we engage in debate between

the parties on how we spend our money—the several hundred million dollars that we spend in an adult educational program of that consequence—will, I think, in the light of an excess of a $1 trillion economy, be a good expenditure.

Chairman PROXMIRE. If the Senator will yield at that point, I think these hearings could not be more timely——

Senator PERCY. That's right.

IMPORTANCE OF PRIORITIES DEBATE

Chairman PROXMIRE (continuing). Because the debate on Sunday indicated what Senator Humphrey and Senator McGovern are discussing, to a very great extent, priorities: and I think, as you say, this is extraordinarily helpful to our country to have this done in the bright glare of television coming into tens of millions of homes; and, thank heavens, at long last we are getting down to it.

We may not agree with what they are saying, but the fact is what they are discussing is of great importance. And now we have four outstanding experts in the country, not from a political standpoint but from an objective, economic standpoint.

Senator PERCY. I think their testimony should be put in the perspective of the whole presidential election. It is not only presidential. I am up for election this year, and I have instructed my campiagn committee not to spend a single dime on billboards, no billboards of any kind. I don't think that you can get a message of impact across in a billboard.

If you are going to put much on a billboard, you are going to cause automobile accidents if people look at it, so no billboards. Television is so short that you can't state a problem and state alternate solutions and which one the candidate thinks is the right solution for that problem. We are going to take the horrendous cost of the campaign which, I suppose, will run around $1 million, substantially less than I spent before, but we are going to spend $1 million—not to sell a person an LS–MFT type of approach, but to sell ideas, to provoke people into thinking of problems that the Nation faces. And I think if every candidate took a test like that and pledged himself and so instructed his campaign committees, we might become part of the adult educational process that I know our distinguished panel will present this morning.

We welcome you very much indeed, and I hope that the quality of your testimony will be approached by the quality of campaigning of many of the candidates for office this year.

Chairman PROXMIRE. I think—Mr. Schultze, did you want to lead off? Fine. I think that would be more appropriate. We would like to go alphabetically, but I think you have the leadoff statement here. Go ahead. Why don't you indicate the order you would like to follow, then, after that?

STATEMENT OF CHARLES L. SCHULTZE, SENIOR FELLOW, THE BROOKINGS INSTITUTION [1]

Mr. SCHULTZE. Yes, Mr. Chairman. My colleagues and I would like—all of us—to spend perhaps 5 to 10 minutes with a brief oral statement.

[1] The views expressed here are those of Mr. Schultze, and do not necessarily represent those of the trustees, officers, or other staff members of the Brookings Institution.

Chairman PROXMIRE. All right.

Mr. SCHULTZE. I will proceed first, then Mr. Fried, then Mrs. Rivlin, and then Mrs. Teeters, in that order, if it is satisfactory to the committee.

Chairman PROXMIRE. Fine. Go ahead.

Mr. SCHULTZE. We would be prepared at the end of this, of course, to answer any questions that the committee will have on the testimony.

Chairman PROXMIRE. Yes. I think it is best to have the entire panel deliver their statements. These are very short statements. Normally we time you to make sure you don't exceed 10 minutes, but I have read the statements; they are all concise, and I am sure you will all stay under 10 minutes.

Mr. SCHULTZE. We promise to read with relative speed, to stay within the 10 minutes.

I might note, by the way, on the business of spending several hundred millions of dollars in kind of adult education, we have run into a little bit of that problem ourselves. This is the third year in which we have—my colleagues and I—have published a book on setting national priorities. Each volume has gotten larger. We engaged in the game of projections, and we have projected out to the year 1980. If we continue this, it will cost more to discuss priorities than to meet them. But I promise you our testimony will not be that long.

We are pleased to be here at your invitation this morning to discuss with you the longer term implications of recent budgetary decisions.

As you know, my colleagues and I have just completed an analysis of national priorities in which we particularly emphasize the longer run consequences of the policies and programs contained in the 1973 budget. It might be most helpful to the committee if each of us spent 5 to 10 minutes summarizing particular highlights of our study. We would then, of course, be prepared to answer any questions the committee may have on our testimony or on any points covered in the study.

Mr. Fried will deal with foreign policy and national security. Mrs. Rivlin will discuss Federal financing of domestic programs such as health and education, and Mrs. Teeters will cover the areas of taxation and income support programs.

OVERALL BUDGET OUTLOOK—THE NEXT 5 YEARS

With your permission, I would like to begin by summarizing the overall budgetary outlook for the next 5 years and briefly discuss several developments in recent years that have substantially changed the nature of the priority setting problem.

BUDGETARY HISTORY

A review of U.S. budgetary history reveals that in periods of peacetime prosperity, economic growth persistently tended to generate a faster growth in Federal revenues than could be absorbed by the normal growth in Federal civilian expenditures. The resulting excess of revenues was available as a fiscal dividend for distribution through tax cuts or in new and expanded Federal services. As long ago as 1856, one can find the Secretary of the Treasury pondering what to do with the surplus revenues generated by economic growth.

And as recently as a decade ago, in the early 1960's, failure to channel the fiscal dividend back into the stream of income through tax cuts or expenditure increases was seen as the chief cause of the high unemployment rates which characterized the period.

FISCAL DIVIDEND LACKING

The next 4 years are almost certain to provide a sharp contrast to this historical pattern. There will be no fiscal dividend to distribute. The projection of Federal full employment revenues and expenditures to 1975 and to 1977 is shown in table 1 below. Revenues are projected on the basis of full employment conditions and existing tax laws, and on the assumption that the current rate of inflation will taper off gradually to about 2¾ percent per year.

(The table referred to above follows:)

TABLE 1.—PROJECTED FULL EMPLOYMENT REVENUES AND EXPENDITURES, FISCAL YEARS 1973, 1975 AND 1977

[In billions of dollars]

Revenue or expenditure items	1973	1975	1977
Revenues	$245	$283	$340
Expenditures	244	300	335
Excess of revenues (+) or expenditures (−)	+1	−17	+5
Excess in social security funds	+4	+6	+20
All other	−3	−23	−15

EXPENDITURE PROJECTIONS

Mr. SCHULTZE. Expenditures are projected at the levels necessary to maintain existing Federal programs and those new ones proposed by the 1973 budget, in the face of rising prices, wages, workloads, and numbers of beneficiaries eligible for various benefits.

The expenditure projections also take account of the full cost of military programs begun but not fully funded in the 1973 budget. Table 2 below shows the major elements giving rise to the expansion in budget outlays.

(The table referred to above follows:)

TABLE 2.—MAJOR FACTORS CONTRIBUTING TO PROJECTED INCREASE IN FEDERAL EXPENDITURES; 1973 TO 1975 AND 1975 TO 1977

[In billions of dollars]

Items of increase	1973–75	1975–77
Pay and price increases	$17.4	$17.5
Increase in workloads, beneficiaries, etc	12.2	12.2
Defense programs (excluding pay and price increases)	7.0	4.0
Excess of 1973 civilian appropriations over spending	2.0	0
Financial adjustments	6.6	0
New programs	10.7	1.0
Total increase	56.0	35.0

EXPENDITURE GROWTH EXCEEDS REVENUE GROWTH

Mr. SCHULTZE. As the tables make clear, expenditure growth exceeds revenue growth by a substantial amount over the next 2 years.

Barring a change in tax laws or a cut in existing programs, revenues will fall short of expenditures by some $17 billion in fiscal 1975. Perhaps it will read that $17 billion is shorthand for something on the order of magnitude of $15 to $20 billion. Obviously, the revenue projections are not that precise.

POSSIBLE 1977 FISCAL DIVIDEND

By 1977, revenues are projected to catch up with expenditures, providing a very slim fiscal dividend of some $5 billion, a magnitude well within the range of error in making these projections. Moreover, this overall surplus of $5 billion in 1977 is the net result of an annual $20 billion surplus in the social security trust fund and a $15 billion deficit in the other accounts of the Federal Government. Given the propensity of the Congress to increase social security benefits when faced with such trust fund surpluses—as seen in the current proposals to raise benefits by 20 percent or more—it is unlikely that the projected modest fiscal dividend in 1977 will be available for other purposes.

REASONS FOR LACK OF FISCAL DIVIDEND

What accounts for this reversal of past experience? Why, after a long history in which economic growth tended to generate a substantial fiscal dividend, are we suddenly faced with the opposite phenomenon in which the growth in expenditures on programs contained in the current budget is likely to equal and for a while exceed the growth in revenues? Three developments have occurred which produce this outcome:

Reduction of Federal Tax Base

First, Federal tax rates have been periodically reduced over the past 10 years. Personal, corporate, and excise taxes have been cut by a total of $45 billion—that is, Federal revenues would be $45 billion higher in fiscal 1973 if the tax laws of 10 years ago were still in effect. Excluding social security taxes, Federal revenues accounted for 16.8 percent of GNP in 1963; they will account for only 14.7 percent of GNP in 1973. While social security taxes have been raised sharply over the past decade, they generally tend to be matched by increases in social security benefits and raising them does not increase the fiscal dividend.

Increase in Federal Civilian Outlays

Second, the civilian role of the Federal Government has sharply expanded in the past 10 years. In 1963, Federal civilian outlays were 8.7 percent of gross national product; in 1973 they will be 13.5 percent. Because they are now a much larger fraction of GNP, their growth, to accommodate increases in workloads and handle rising beneficiary rolls, will absorb a larger fraction of the revenues which a growing economy provides. Moreover, the major new programs proposed in the 1973 budget, such as revenue sharing, family assistance, and family health insurance, will grow rapidly from about $6 billion in that year, 1973, to about $17 billion in 1975.

Increase in Defense Expenditures

Third, defense expenditures on the basis of the programs and policies proposed in the 1973 budget will rise fairly sharply over the next 4 years, increasing by some $10 to $11 billion in real terms, quite apart from the impact of higher wages and prices.

POTENTIAL COSTS OF PROPOSED FEDERAL PROGRAMS

Set over against these projections is the potential cost of a number of proposed new Federal undertakings, each designed to deal with admittedly high priority national objectives.

For example, the water pollution control bills now before the Congress would add $3 to $4 billion per year to budget costs; relieving local property taxes devoted to education and providing Federal aid for reducing disparities in educational expenditures among school districts would cost $18 to $25 billion per year; federally supported day-care programs for poor and middle-income groups could cost $12 to $15 billion annually; and the various proposals for federally supported health insurance range widely in cost but none are cheap.

FULL EMPLOYMENT DEFICITS ARE IMPRUDENT

Undertaking long-term governmental expenditure programs on the assumption that they can be financed by large and continuing full-employment deficits is, we believe, imprudent. Full-employment deficits are indeed needed from time to time in periods of weak private demand, like the present, as a means of promoting prosperity. But they should be handled by temporary changes in taxes and expenditures as the occasion demands and not be built into long-term budget planning.

PROVIDING RESOURCES FOR NEW NEEDS

Cutting back lower priority programs or raising taxes remain as the painful but necessary means of providing resources to meet new high-priority public needs in the years immediately ahead.

Whatever the specific decision taken with respect to adopting new programs, cutting some existing ones, or changing taxes, my colleagues and I are all agreed that these decisions should be made in the context of budgetary information and projections that extend further into the future than is now the case.

PROPOSED CHANGES IN BUDGETARY PROCEDURES

The current budget procedures lead both the Executive and the Congress to concentrate upon the immediate consequences of tax and spending decisions at the expense of evaluating their longer term implications. We have proposed a number of changes in budgetary procedures to counteract this tendency:

(1) The executive branch should each year submit to the Congress a 5-year budget projection, spelling out in detail the future consequences of tax and expenditure proposals contained in the current budget.

(2) The Joint Economic Committee should hold hearings and issue a report specifically evaluating the longer range projection and its implications.

(3) A 5-year defense plan should be submitted each year by the executive branch and defense authorizations by Congress should cover the entire 5-year period. Each year the plan could be updated and a new final year added.

(4) In the civilian programs, 3-year authorizations should be the rule and wherever the nature of the program makes it possible, appropriations should also be converted to a 3-year basis.

(5) Appropriation bill reports should contain a 5-year estimate of spending on the programs covered in the appropriation, assuming continuation of present policies and programs. Similarly, all major tax measures should be accompanied by an estimate of their impact on the 5-year budgetary outlook.

(6) The scorecard on congressional budgetary and authorization action now issued periodically during each session by the Joint Committee on Reduction of Federal Expenditures should be expanded to show the overall impact of congressional tax and expenditure actions on the 5-year budgetary outlook.

These proposed changes should help shift attention from the very immediate and often less-important consequences of specific budgetary decisions to their longer term impact on national priorities.

Thank you.

Senator Proxmire's Proposed Action on Recommendations

Chairman Proxmire. Before you go on with Mrs. Rivlin, let me tell you, since you have made specific recommendations, let me tell you right away I intend to write to Mr. Weinberger to ask him to submit the 5-year budget you have proposed here. As chairman of the committee I am going to try to do all I can to persuade the committee, in your No. 2 recommendation, that we should hold hearings and issue a report evaluating long-range projections in this committee.

No. 3, I will write to the Armed Services Committee—that is, to Senator Stennis, to ask for the 5-year defense plan and to the various chairman of the various committees to ask for their 3-year authorizations, although, in that case I must say I will have to do that noncommittally because I am not sure whether we will lose control of the program if we have 5- or 3-year authorizations; but I will tell you that your recommendations should be passed on.

I will write to Senator Ellender, chairman of the Appropriations Committee, in connection with your fifth recommendation, asking for the 5-year estimate of spending and the programs covered in the appropriations bills; and I will write to Senator Long and Congressman Mills about the sixth recommendation—that is, that the Joint Committee on Reduction of Federal Expenditures should be expanded to show the overall impact of congressional tax and expenditure actions on the 5-year budget outlook.

So I am happy to respond immediately that we will be very happy to act on those.

Minority Cooperation

Senator Percy. Mr. Chairman, if you will yield at that point, I think the minority would like to join you in providing a bipartisan action. I am ranking on the subcommittee so I would be very happy to join you and I am sure Congressman Conable will support that action.

Chairman PROXMIRE. Fine.

REQUIREMENTS OF PUBLIC LAW 86–801

Representative CONABLE. Let me ask you, Mr. Schultze, isn't this required by Public Law 86–801?

Mr. SCHULTZE. My understanding is that Public Law 801 requires that any new authorization proposal over a certain amount be accompanied—any new one—by a 5-year estimate.

Representative CONABLE. Five-year budget estimate of the costs?

Mr. SCHULTZE. That, to the best of my knowledge, (a) it has—I hate to say never, but I don't think it has ever been applied to continuing authorization bills; (b) it is seldom applied to even new legislation.

Chairman PROXMIRE. The reason it is not applied is because the initiative has never been taken by the committee chairmen to request it.

Representative CONABLE. Is that why it has occurred, or is there some other reason? Is the law ambiguous?

Mr. SCHULTZE. I can't answer whether the law is ambiguous; I don't recall the specific language. I think on the part of both the executive and congressional committee chairmen, they are very often not anxious to have this information. Sometimes the executive resists; sometimes congressional committees resist.

Chairman PROXMIRE. The staff indicates Congressman Conable is absolutely right. In the view of Mr. Kaufman, this does apply. The executive branch just hasn't complied with it, and I think it would be a good thing for us to try to stimulate them to get it.

Mr. Fried, please proceed.

STATEMENT OF EDWARD R. FRIED, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. FRIED. Thank you, Mr. Chairman and members of the committee.

PEACETIME DEFENSE POSTURE

This year's budget outlines a proposed defense posture for a time of peace. Defense spending in real terms has been brought down from peak Vietnam war levels to amounts close to those spent on military forces during the first half of the 1960's. This in itself reverses a significant trend. When military spending stabilized after the Second World War and again following the Korean war, it did so at higher than prewar levels.

To interpret this picture as a return to normalcy would be misleading; indeed, the defense budget this year may well mark an important new watershed in military spending. Savings from Vietnam are now almost entirely behind us. The end of U.S. military involvement will bring only marginal cost reductions and have virtually no impact on future force levels; in other words, the peace dividend has been mostly paid. Ahead is the prospect that programs now proposed or underway will require significant increases in defense spending; hence, the emphasis in your hearings this year on the long-term implications of recent budget decisions is particularly appropriate.

Prudence alone would call for giving more attention to this factor in current decisions regarding force levels, force structure, modernization rates, and manpower use.

OUTLAYS UNDERSTATE COST TRENDS

In terms of outlays, the 1973 defense budget of $76.5 billion is only slightly higher than the 1972 budget and will continue the steady decline that began in 1969 in the proportionate claim that defense makes on the Nation's resources. This year, however, outlays are a particularly misleading index of the future in that they substantially understate cost trends for peacetime forces.

Three factors are particularly important: First, when account is taken of the reduction in the cost of the Vietnam war between 1972 and 1973, the budget in fact provides for an increase of over $4 billion in spending on peacetime forces.

Second, requested obligational authority in the 1973 budget is $6 billion higher than projected spending. This means a steady increase in future defense budgets as expenditures catch up to authorizations.

Third, program decisions reflected in the budget indicate substantial increases in future requests for budgetary authority and hence in future defense spending.

COST CONSEQUENCES OF DEFENSE POLICY DECISIONS

We have tried in this year's Brookings study to project over the balance of this decade the cost consequences of these defense policy decisions both in terms of major force categories and budgetary appropriation categories. While this projection is subject to limitations inherent in the estimating procedures and in the available data, it clearly indicates an upward trend in costs.

By 1977, the cost of defense could increase by approximately $10 billion in real terms. When allowance is made for pay raises and inflation, and for the fact that the level of expenditures will rise gradually toward the level of authorizations, the defense budget in 1977 in current dollars could be in the neighborhood of $100 billion. This is not a prediction of what the defense budget will be but a rough measure of the future budgetary implications of current defense programs and policies.

INFLUENCE OF FOREIGN POLICY ON DEFENSE SPENDING

These trends are the more striking at a time when international tensions are declining as a result of East-West negotiations. They illustrate that defense spending, within a broad range, is influenced less by foreign policy than by three other factors: manpower costs, weapon costs, and the ratio of support to combat forces.

Manpower Costs

Increases in manpower costs have become the most important single determinant of changes in recent defense budgets. As a result of the comparability pay legislation and the pay incentives to underwrite the All-Volunteer Armed Force, a system that traditionally resulted in underpayment of military personnel is being replaced by

one relying on market prices to recruit military manpower. Defense costs as a result have risen dramatically.

Between fiscal 1968 and fiscal 1973, average military pay will have doubled. Manpower associated costs in 1973 will take up 56 percent of the defense budget compared to 43 percent in 1964 when there were 300,000 more military personnel. The 1973 defense budget would be $15 billion less if pay scales were at 1968 levels. In short, the element of the free good in military manpower—the element of cost hidden by conscription—has now been virtually eliminated.

Costs of New Weapons Programs

Similar trends apply to the cost of new weapons systems. The new high performance aircraft provided for in the budget cost three to four times as much as the aircraft they are to replace. The proposed modernization of strategic forces envisages a new strategic bomber that will cost $60 million and a missile-carrying submarine costing $600 million, in each case perhaps three times the cost of the system being replaced.

This cost experience results principally from the higher performance demanded of each system and the increasing complexity of the system needed to achieve it. These factors can be expected to drive up costs no matter how well the programs are managed. Sooner or later, however, increasing unit costs will mean that fewer and fewer weapons can be ordered, a trade-off that cannot continue indefinitely.

Combat Forces Support

Decisions on how to support combat forces also have a decided impact on the defense budget. In recent years there has been a marked trend toward higher defense overhead. At present, about 15 percent of military personnel have a combat job; the remaining 85 percent provide a variety of services to support these combat troops.

A wide range of decisions are involved in considering alternative support levels; for example, how frequently troops are transferred, the amount of training they receive, and the number of military bases that are kept in operation. The budgetary implications of this range of decisions are large. We have roughly estimated that if present combat forces were supported at the fiscal 1968 level, support costs would be reduced by $3 billion; if they were supported at the fiscal 1964 level, support costs would be reduced by $6 billion.

1970'S DEFENSE BUDGETS AS PERCENT OF GNP

These cost factors are the primary impetus underlying the prospective growth in the cost of military forces. They point to a defense budget that will continue to take up 6 percent or more of gross national product during the 1970's. In such circumstances, defense could not be counted upon to yield significantly to domestic needs in competing for shares of the increase in national output. Even at this level, moreover, it may be difficult to maintain forces believed to be necessary to satisfy the military requirements associated with present foreign policy objectives. As one defense analyst recently put it, "We may be in danger of pricing ourselves out of our strategies."

If this analysis is correct, hard choices will have to be made regarding tradeoffs among force levels, the pace of modernizing weapons systems, and the level of support. These choices alone, independent of the debate on foreign policy, can lead to a relatively wide range in defense spending.

HARD CHOICES AND ALTERNATIVE DEFENSE BUDGETS

To illustrate this point, our study outlines three alternative defense budgets, each of which assumes a common set of foreign policy objectives. Differences among the three options stem not from differing views of the contingencies to be met but from the differing interpretations of the military capabilities needed to meet them. Consequently, they represent a range of alternatives that is by no means extreme even though the difference in spending levels is substantial.

One alternative is a projection of the budgets that will result if current defense policies and programs are carried out. An option costing $6 billion a year more could be based on the view that selective increases in conventional forces are required as a result of approaching strategic parity between the United States and the U.S.S.R. An option costing $12 billion less could be based principally on cost and efficiency factors and on reducing the pace of modernizing weapons systems. The higher option would mean spending 6.5 percent of GNP on defense. The lower option would mean spending 5 percent of GNP on defense. It also indicates the kind of measures that would have to be taken merely to keep defense spending at current levels in real terms.

Other options both higher and lower could readily be developed and our study indicates the specific changes in forces that would be associated with them. Higher options might stem from an increase in international tension. Lower options probably would depend on decisions to change missions assigned to military forces or on a change in the way the United States defines its interests in the world.

LONG-RANGE CONSEQUENCES OF DEFENSE BUDGET

No matter what defense budget level seems most reasonable, the study emphasizes the need to assess defense policy decisions in terms of their long-range fiscal consequences. The defense posture is made up of weapons systems that require a long leadtime to develop and procure, of forces whose training entails costly investments, and of force deployments that are the product of political alinements developed over the years. Concentrating on current-year outlays sharply limits the scope of the review and the opportunity to consider fundamental changes. Moving in the direction of a longer term analysis would help to focus public and congressional reviews of defense spending on the most important questions.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you.

Mrs. Rivlin, are you next?

Mrs. RIVLIN. I am next.

STATEMENT OF ALICE M. RIVLIN, SENIOR FELLOW, THE BROOKINGS INSTITUTION [1]

GOVERNMENT'S DIFFICULT FINANCING DECISIONS

Mrs. RIVLIN. Mr. Chairman and members of the committee, over the next few years the Congress will have to make a series of difficult decisions about what role the Federal Government is to play in financing services to people—education, health, child care, and even the ordinary services of local governments. The sums of money involved in these decisions will be very large. If the Federal Government takes on a major responsibility for the financing of these types of services, the cost could easily run to $30 to $50 billion by the end of the decade.

Federal concern with services to people is relatively new. Twenty years ago, few citizens looked to Washington to insure that children had access to effective schools, that the poor as well as the rich received medical care, that students could pay for college. Hardly anyone saw the Federal Government as a source of financing for local government services. If the garbage was uncollected in New York or police protection was inadequate in Los Angeles, that was a shame, but it was not a Federal problem. Now, however, the Federal Government is under considerable public pressure to insure that individuals have sufficient funds to obtain basic services such as health care and higher education, as well as to insure that State and local governments are able to provide needed services to their citizens. Four sets of pressures and the dilemmas associated with them are discussed in "Setting National Priorities: The 1973 Budget"—health, child care, elementary and secondary education, and the fiscal problems of central cities.

COSTS OF SERVICES RISING

A common theme runs through the discussion of these services: The cost of producing all of them has been escalating extraordinarily rapidly. For example, the price of medical care has been rising twice as fast as the general price level for some years and expenditures per child in elementary and secondary education have doubled in a decade.

There are at least three reasons why these costs have been rising so rapidly: First, these services are produced mainly by people, not machines; and there is little scope for increasing productivity through mechanization. One would expect the cost of such services to rise as real wages rise in the economy generally. If autoworkers' wages rise at 3 percent per annum and productivity increases at the same rate, the price of automobiles need not go up. But if the wages of teachers rise along with those of autoworkers and their productivity does not rise—it still takes one person to teach 25 first-graders to read—then the cost of education relative to automobiles will go up.

Second, the wages and salaries of teachers, health workers, municipal employees, and the other people who produce these services have been rising faster than wages and salaries in the economy generally. This differential has been partly due to shortages of skilled personnel in the face of rising demand—the rising demand for medical care, for example, associated with rising incomes and wider insurance coverage,

[1] The views expressed are my own and are not necessarily those of other staff members, officers, or trustees of the Brookings Institution.

both public and private, has raised the incomes of doctors whose numbers increase only slowly. It has been partly due to "catching up" of groups widely regarded as underpaid—such as hospital workers and, until recently, teachers. It is also partly attributable to unionization and increasing militancy in wage bargaining, especially by teachers and municipal workers. As the book points out, "By any measure, the recent rise in the compensation of local government employees has been spectacular." (See page 296.)

Finally, the rapid cost increases reflect rising public aspirations and new concerns with the quality of these services. Intensive care units, openheart surgery, new drugs, and the like have changed the nature of medical care and increased its cost. Similarly, a "good school" is now thought to be one staffed not just by teachers but by remedial reading specialists, psychologists, counselors, and other professionals.

NATIONAL CONCERN FOR EQUAL OPPORTUNITY

The rapidly rising cost of these services has made them burdensome for low-income people and for governments with limited resources. At the same time, national concern with equality of opportunity has come to focus on these services, especially health and education. Moreover, the definition of what constitutes "equality of opportunity" is changing and it is not yet clear where it will come out. Americans no longer believe that equality is achieved if poor people get charity medicine in emergencies. Society has come increasingly to the view that everyone has a right to good quality medical care on a regular basis. Similarly, Americans no longer think that equality is achieved when everyone gets a chance to go to some kind of a school. They are now worried about the inequality inherent in unequal expenditures for education and in failure of the schools to compensate for the fact that children from different income levels get different amounts of education at home.

SUBSIDIZATION BY GOVERNMENT

There are two distinct ways for the Federal Government to intervene. For services produced at least partly in the private sector—health, child care, higher education—attention focuses naturally on ways that the Federal Government can subsidize individuals so that they can buy these services. For services produced primarily in the public sector—elementary and secondary education and regular local government functions—attention focuses on using Federal resources to supplement those of State and local governments.

Subsidizing individuals: Two major sets of questions—well illustrated in the health and child care areas—face the Federal Government if it is to assist individuals in financing these services: (1) Who should be subsidized? Should subsidies go only to the very poor? Should they extend to middle-income groups or to everyone? (2) To what extent should the Government intervene in the production of these services—as well as helping individuals finance them—either to insure quality or to keep a lid on costs?

FINANCING HEALTH CARE

It is clear that the problem of financing health care is not confined to the very poor. The big bills associated with major illness can be catastrophic even for middle- and high-income families. A federally financed health insurance system, however, which paid full medical costs for everyone would be extremely expensive and would remove the price of medical services from the discipline of the marketplace.

One solution would be to finance the full amount of health costs only for the very poor and to let premiums, deductibles, and coinsurance rise with income. But if the amounts that must be paid by consumers themselves rise steeply as income increases, two new problems are created: Some people will go without needed care, especially preventive care, and some may be discouraged from increasing their earnings by what is, in effect, a high tax on additional income. Moreover, it is not clear that consumer contributions which rise with income are administratively feasible or by themselves effective in keeping prices down. Insuring efficient use of medical resources and moderating medical inflation will probably necessitate direct controls on prices or drastic changes in the incentives facing the producers of medical care or both.

FEDERAL CONCERN FOR CHILD CARE

Child care is a newer area of Federal concern but presents similar dilemmas. At present, neither the Federal Government nor State and local governments devote major resources to the care and education of children before they reach school age. Responsibility for children too young to go to school—and for older children outside of school hours—rests primarily with families except in emergencies. At least three factors, however, are contributing to a growing pressure for a greatly expanded Federal responsibility for preschool children: (1) Concern with rising welfare rolls and ways of enabling welfare mothers to work; (2) concern with the rapidly growing number of children of working mothers at all income levels; (3) concern with early childhood development, especially for low-income children.

The number of mothers with preschool children who are in the labor force has been growing rapidly, but most of these mothers now make informal arrangements for the care of their children and do not pay much for them. Few pay as much as $20 a week for child care, although good quality child care, especially in an institutional setting, is generally thought to cost $30 to $40 a week. Hence, it would take a substantial Federal subsidy to insure that large numbers of children receive high quality care.

Deciding who should receive the subsidy raises dilemmas similar to those for medical care. The arguments for public subsidy for child care are strongest with respect to the very poor; but if only the very poor are subsidized, middle-income families are likely to resent the fact that they cannot afford the care that is given to poor families without charge. The chapter on child care presents some evidence that this is already happening—that current public programs provide higher quality care to a minority of the poor than middle-income families are able to purchase in the private market. On the other hand, subsidizing child care for everyone is extremely expensive. A

sliding scale of subsidies related to income is a possibility, but as in health, it is difficult to construct. If the private cost rises slowly as income rises, the program will be costly. If it rises rapidly, it is equivalent to a high marginal tax on income.

SLIDING SCALE FOR SUBSIDIES

As an example, the book describes a scheme under which day care would be made available free to families with income up to $4,000. Families with higher incomes would pay 25 percent of their income over $4,000 for the first child and 10 percent for additional children. If day care costs were about $2,000 per child, such a scheme might cost about $17 billion a year. This cost could be cut by making payments rise more steeply with income, but the result would be even higher marginal tax rates, especially on families with several children. The cost could also be lowered, of course, by settling for a less expensive variety of child care, but it should be recognized that once the Federal Government undertakes the financing of a major service such as child care, the pressures to raise standards and improve quality are likely to be very great.

SUBSIDIZING GOVERNMENTS

The difficulties of designing programs to insure that State and local governments have resources to provide adequate services for their citizens are no less great. The book looks at the fiscal problems of major central cities and finds them acute. The costs of providing city services are high and rising rapidly while the revenue bases of central cities are increasing much more slowly than those of the suburbs and in some cases are even declining. Neither present grant-in-aid programs nor proposed revenue-sharing plans do much to alleviate the fiscal crisis of cities relative to suburbs. Nor would welfare reform substantially improve the budgetary outlook of major cities because with a few exceptions States rather than cities carry the welfare fiscal burden.

The book concludes that substantial relief of central cities' fiscal crises will come only if revenue-sharing formulas are substantially tilted in their favor or if the Federal Government devises financial incentives for metropolitan fiscal cooperation, under which some of the growing suburban revenues would be channeled into central cities.

RISING COSTS OF EDUCATION

In elementary and secondary education, we find another example of a basic service whose cost has been rising rapidly and which happens to be financed by an extremely unpopular tax, the local property tax. Part of the pressure for Federal intervention arises out of a desire to relieve local property taxpayers of a share of the burden of financing education and provide the schools with a more elastic and less resented source of funds. Another set of pressures arises out of the wide disparities in educational expenditures both among and within States

which suggest that educational opportunities of children depend in large measure on where they happen to be growing up. Other pressures arise out of the problems of race and poverty and the challenge of providing truly equal education for minority and low-income children.

Unfortunately, these diverse objectives imply different kinds of Federal financing programs. Simply replacing local taxes used for education with Federal money would lead to an erratic and highly regressive distribution of funds, rewarding States and localities which happened to have been high users of the property tax in the past and generally giving more money to those who need it least. Federal programs designed to reduce disparities in education spending would put more money into areas with low tax resources. Such programs would also tend to be extremely expensive. Since it is neither desirable nor politically feasible to take funds away from high spending districts, equalizing will necessarily mean raising the expenditures of low spending States and school districts toward those of high spending areas. It should also be noted that equalizing expenditures will do little to enhance the educational opportunities of low-income and minority children since many of them live in central cities where educational expenditures are already high. In combination, property tax relief and expenditure equalizations would be very expensive, approaching perhaps $20 billion a year in costs.

These various large numbers, inexact as they are, underline the importance of 5-year costing or long-term planning.

Thank you.

Chairman PROXMIRE. Thank you very much, Mrs. Rivlin.

Mrs. Teeters, please proceed.

STATEMENT OF NANCY H. TEETERS, SENIOR FELLOW, THE BROOKINGS INSTITUTION [1]

INCOME DISTRIBUTION

Mrs. TEETERS. Mr. Chairman and members of the committee, I will address myself to the current issues concerning income distribution that are embedded in budgetary policy. The Federal budget affects the income distribution in two major ways: Through the type of taxes it collects and through the type of income maintenance programs that it funds.

TAX REVENUES AS PERCENT OF GNP

In the United States, total tax revenues, Federal, State, and local, account for approximately 32 percent of our gross national product. Of the major developed western nations, only three—Switzerland, Spain, and Japan—have lower taxes. Over the past 10 years there has been a shift in the tax structure. In 1954, 42 percent of Federal revenue was obtained from the individual income tax, 44 percent from corporate income and excise taxes, and 10 percent from payroll taxes

[1] The views expressed are my own and not necessarily those of other staff members, officers, or trustees of the Brookings Insitution.

In 1973, 43 percent will come from individual income tax, 23 percent from the corporate income and excise taxes, and 29 percent from payroll taxes.

FINANCING FEDERAL EXPENDITURES

In evaluating the possible sources of alternate Federal revenues, the prospect of financing an increasing proportion of expenditures by higher payroll taxes was rejected. Since there are no exemptions or deductions, it falls heavily on low- and moderate-income workers, and once earnings have exceeded the wage ceiling, the tax becomes regressive, taking a declining portion of rising incomes. Moreover, it treats people in comparable circumstances differently; two-earner families are taxed more heavily than single-earner families. Major increases in revenue, therefore, must come either from individual and corporate taxes or by imposing a new tax.

VALUE ADDED TAX IS A SALES TAX

One of the remaining forms of taxation not used by the Federal Government is a general sales tax. The one now under consideration by the administration is a tax on value added. Although it is levied at each stage of production, with the cost of goods purchased deducted before the tax is applied, in essence it is a sales tax. There are two objections to using a value-added or sales tax: First, it is a major source of revenue for 45 States and, second, the tax is regressive. Rent is typically exempt from either a sales or value-added tax. The tax could be made less regressive by, in addition, exempting food and medicine and its regressive impact, still further lessened if a low-income credit against income taxes were granted. But even with these modifications, sales and value-added taxes place the least burden on the rich and hit the working man hardest.

ALTERNATIVE REVENUE-RAISING METHODS

Since the amount of revenue that may be needed in the future is uncertain, alternate methods of raising $12 billion—5 percent of total revenues—were developed. The increase in liabilities under the five alternatives are shown in table 1 below. As can be seen from this table, a 3-percent value-added tax that exempts only rent, food, and medicine is the most regressive, with the tax as a percent of income highest for the lowest incomes. A 3¼ percent value-added that exempts only rent, but has a low-income credit, is progressive up to incomes of $20,000 to $25,000 and then becomes regressive.

(The table referred to above follows:)

TABLE 1.—CURRENT EFFECTIVE INDIVIDUAL INCOME TAX RATES AND RATE INCREASES UNDER VARIOUS METHODS OF RAISING ADDITIONAL REVENUE, BY INCOME CLASSES, 1972 INCOME LEVELS

[In percent]

Income class [1]	Effective rate, current law	Increase in effective rate [2] $12,000,000,000 tax increase: Narrow-base value added tax [3]	Broad-base value added tax with credit [4]	Percentage point income tax increase [5]	Income tax surcharge [6]	$10,000,000,000 tax increase (income tax reform [7])
0 to $3,000	0.5	1.8	0.1	0.1	0.1	0.3
$3,000 to $5,000	1.7	1.5	.6	.3	.2	.1
$5,000 to $10,000	5.1	1.5	.8	.8	.6	.2
$10,000 to $15,000	8.6	1.4	1.1	1.2	1.0	.4
$15,000 to $20,000	10.5	1.4	1.7	1.5	1.3	.6
$20,000 to $25,000	11.8	1.3	1.9	1.6	1.4	.7
$25,000 to $50,000	13.9	1.2	1.7	1.6	1.7	1.2
$50,000 to $100,000	22.2	.7	1.1	1.8	2.6	3.0
$100,000 to $500,000	31.0	.5	.8	1.6	3.5	8.4
$500,000 to $1,000,000	32.8	.2	.4	1.3	3.9	16.3
$1,000,000 and over	34.2	.2	.2	1.3	4.1	19.0
All classes [8]	11.0	1.3	1.3	1.3	1.3	1.1

[1] Income is equal to the sum of adjusted gross income, transfer payments, State and local government bond interest, and excluded realized long-term capital gains.
[2] Tax as percent of income.
[3] Narrow-base value added tax at 3 percent.
[4] Broad-base value added tax at 3.25 percent with full credit up to $5,000 for a 4-person family; credit is phased out completely at $20,000.
[5] 2.5 percentage point increase applied to each bracket rate.
[6] Surcharge of 11.8 percent on 1972 income tax liabilities.
[7] Tax reform package 3 outlined in table 2.
[8] Includes negative income class not shown separately.

Source: Based on the Brookings MERGE File of 30,000 family units for the year 1966 with incomes projected to 1972 level.

INCREASING INDIVIDUAL TAX RATES

Mrs. TEETERS. Two methods of raising the effective individual income tax rates were also analyzed. One method is an equal percentage point increase in each tax bracket. The one shown in table 1 assumes a 2.5 percentage point increase. A second method is a surcharge—a proportionate increase in everyone's tax bill. Table 1 shows the effect of an 11.8 percent surcharge. If the percentage point increase or the surcharge were applied to both corporate as well as individual income taxes, the rates would be lower: 1.8 percentage points and an 8.5 percent surcharge. The percentage point increase and value-added tax with a low-income credit have about the same impact on taxpayers with incomes up to about $17,000. For incomes between $17,000 and $40,000, the value-added tax would be more burdensome than the percentage point increase; and the reverse would be true for incomes above $40,000. The surcharge method would produce an increase in liabilities that is progressive throughout the income distribution, rising from an increase in liabilities of 0.1 percent for incomes below $3,000 to an increase of slightly more than 4 percent for incomes over $1 million. A fifth alternative is tax reform. The reform "package" we have investigated would be the most progressive in its impact. Table 2 below shows a set of reform provisions that would produce $10 billion of additional revenue from the individual income tax and $3 billion from the corporate income tax.

(The table referred to above follows:)

TABLE 2.—REVENUE EFFECT OF VARIOUS STRUCTURAL REFORMS OF THE INDIVIDUAL INCOME TAX UNDER ALTERNATIVE PACKAGES, 1972 INCOME LEVELS

[In billions of dollars]

Reform provision:	
Remove maximum tax on earned income	0. 1
Include 60 percent of realized capital gains in adjusted gross income and remove alternative capital gains tax provision	1. 5
Eliminate deduction of gasoline taxes	0. 5
Eliminate deduction of real estate property taxes	2. 3
Remove dividend exclusion	0. 4
Eliminate 50 percent of excess depletion advantages	0. 2
Place 3 percent floor on charitable contribution deductions	1. 9
Tax unrealized capital gains in excess of $5,000 transferred by gift or bequest at capital gains rates	0. 6
Remove $25,000 exemption allowed for excess investment interest deduction	1. 2
Revise preference income base [1]	-----
Revise preference income base [1] and raise tax rate on revised base from 10 to 20 percent	-----
Revise preference income base [1] and tax at one-half the regular income tax rates [2]	2. 4
Revenue from individuals [3]	10. 2
Revenue for corporations	3. 2
Total revenue	13. 4

[1] Revision of preference income base involves inclusion of state-local bond interest as a preference item and removal of deduction for current-year taxes paid.

[2] That is, tax the revised base at 7 percent to 35 percent—one-half the regular rates, which range from 14 percent to 70 percent.

[3] The total revenue effect of each package is not equal to the sum of the components because various provisions interact with one another.

Source: Based on the Brookings MERGE File of 30,000 family units for the year 1966 with incomes projected to 1972 level.

GOVERNMENT IMPACT ON INCOME DISTRIBUTIONS

Mrs. TEETERS. The Federal tax structure accounts for only part of the Government's impact on income distribution. Federal income maintenance programs, both cash and in-kind benefits, are one of the most rapidly growing areas of Federal expenditures. Income maintenance programs will have grown from $25 billion in 1960 to almost $102 billion in 1973, and in that year will absorb 39 percent of total expenditures and nearly 9 percent of gross national product. They are composed of a patchwork of programs. Benefits levels, eligibility requirements, ease or toughness of administration, and financing, all vary widely, often in ways which seem to make little sense. Many of the programs, mainly the retirement and unemployment compensation, require prior attachment to the labor force. Others, mainly the welfare programs, are based on need.

NEED VS. LABOR FORCE ATTACHMENT

The distinction between prior attachment to the labor force and need have become blurred. The replacement rates for social security are higher for low incomes; the earnings test reduces benefits for earned income under social security until age 72; people over 72 receive benefits even if they have never paid social security taxes; and welfare recipients are permitted to retain part of their benefits as earned income rises, but not a very large part. In fact, the proportion of bene-

fits that welfare recipients are permitted to retain as income rises is so small as to create serious disincentives to work. The high marginal loss of benefits—67 percent for each dollar earned above a certain minimum—combined with the positive taxes on earnings and the rising cost of in-kind benefits, such as food stamps, may leave people no better off or even worse off as a result of increased earnings.

NEGATIVE INCOME TAX

Replacing these programs with a universal negative income tax is not feasible because many of the programs, in whole or in part, were designed to deal with problems other than poverty. However, the number of categories could be reduced and a negative income tax designed to provide basic support for families whose income from whatever source—work, retirement benefits, veterans' pensions, unemployment compensation—is too low to provide a decent level of living.

RECOMMENDATIONS FOR REFORM

Our recommendations for reform include: (a) Consolidating the adult categories of welfare—aid to the aged, blind and disabled—with the old-age, survivors, and disability insurance programs; (b) replacing the current AFDC and food stamp programs with a Federal negative income tax based on need rather than the categorical status of the family and, perhaps, varying the benefits in accordance with regional wage levels; (c) providing automatic cost-of-living increases for all major cash income support programs; and (d) reforming the payroll tax by eliminating the wage ceiling and converting it to a family tax with personal exemptions.

Thank you.

Chairman PROXMIRE. Thank all of you very much.

As you know, there is so much interesting and important material in your volume here, "Setting National Priorities," and the testimony of the four of you this morning, it is hard to know where to begin.

Your analysis, as I understand, is divided into five parts: First, a fiscal forecast—that is, an interpretation of the changing nature of the Federal programs; then a discussion of the defense budget, and a discussion of selected portions of the domestic budget; and, finally, a series of recommendations.

GRIM ALTERNATIVES

I want to cover as much of this ground as possible within the limits of time, but it is going to be very difficult. You seem to leave us with grim alternatives: No. 1, sharply reduced spending in military and some other areas is a possibility that is implied, although you don't advocate it, of course. You indicate it as an option—a low, low option which you suggest and which very much corresponds with Senator McGovern's proposal to cut it down $20 billion.

No. 2, higher taxes, which, it seems to me, may well be unrealistic, regressive or both; and, No. 3, a position in which you apparently put the administration, in as much as they rejected higher taxes and indicate they want the military program, want the space program for next year, and that is no antipollution legislation, no welfare legislation, no health legislation with any meaning—that is, that can be funded.

WILL SALT AGREEMENTS INCREASE DEFENSE SPENDING?

Let's start with defense which, as I stated earlier, will be of paramount concern in any discussion of national priorities; and the No. 1 issue in this area today relates to the Moscow SALT agreement signed last week.

Secretary Laird's initial reaction on Friday was to make a public statement urging that we move forward on ULMS, the sea-based missile successor to Polaris/Poseidon. Laird's statement seemed to me to be inconsistent with the spirit of the summit and with the agreement, which, I believe, reduces tensions and points the way to an end of the arms race and a lightening of the terrific burden of the defense budget. It is possible—and I ask either Mr. Fried or Mr. Schultze to respond—it is possible that the strategic arms limitation talks will result in higher defense spending rather than lower, and if so, wouldn't this be a distortion of the purpose of the treaty?

Mr. FRIED. I doubt that it will. The first concrete result in terms of spending, Mr. Chairman, of the agreement in Moscow will be a reduction of something like $1.5 billion a year.

Chairman PROXMIRE. You think the effect of the Moscow agreement is a reduction of $1 to $1.5 billion a year?

Mr. FRIED. The first concrete result.

Chairman PROXMIRE. Because of the ABM?

Mr. FRIED. Because it will not be necessary to go forward with the full 12-site Safeguard program.

Chairman PROXMIRE. But that is not next year, is it?

Mr. FRIED. We estimate that over the period this, plus not going ahead with some of the missile improvement programs, would mean a savings of $1.4 billion a year.

Chairman PROXMIRE. A year, beginning when?

Mr. FRIED. Beginning this year.

Chairman PROXMIRE. There will be a saving this coming year, fiscal 1973, of $1.4 billion?

Mr. FRIED. It will be less this year; yes. I think, though, the point—your implication—that this gives no assurance as to what strategic defense spending will be, is right.

ARMS QUANTITY VS. QUALITY

Chairman PROXMIRE. Let me go back to—when you say $1.4 billion a year, as I understand the agreement, the agreement sets numbers; it does nothing about quality; it does nothing about research, about the intensity of effort, resources devoted to these areas where you could have a sharp increase. We may well say we have a limitation on the number of missiles but we can increase the number of warheads; we can increase our research very greatly to try to improve the quality of our operations and so forth.

Couldn't we do that?

Mr. FRIED. Yes; the agreement itself provides no assurance beyond the cut in the Safeguard program and the missile improvement program that there will be further reductions in strategic spending. As it is now, the strategic spending budget is a pretty high one. It provides for continued spending on modernizing all three systems. It includes provision for the accelerated development of a new sea-based

system, for MIRVing both the Poseidon submarines and half the Minuteman force, and it provides for the continued development of a new manned bomber as well as for continued research and development.

The agreement in itself will, as you rightly point out, not affect those other elements of spending in and of themselves. Over the future, a second round agreement—and the present agreement provides for further discussion—may provide greater——

Chairman PROXMIRE. If we follow the Secretary of Defense's recommendation, that is, that we press forward in some of these areas—ULMS and so forth, would this be consistent with your estimate of a $1.4 billion saving?

Mr. FRIED. Yes; it would, because the present program provides for accelerated development of the sea-based missile. The budget, we project as one of the lower budget options would suggest that there could be considerable savings in strategic forces through eliminating some of the less effective components of that force. For example, we could decide that it would make sense now to deactivate the older model B–52 bombers; doing that would still give us enough capability in the later model bombers to maintain an assured destruction capability in that element of the force itself.

Chairman PROXMIRE. That seems to me to be the general effect of this kind of an agreement. What you do is eliminate your least efficient and effective weapons, and also your least expensive weapons, perhaps, and press for your new weapons, more modernized, more effective, higher quality, greater fire power, more lethal impact; and I wonder if in doing so you may have condemned any notion some of us have as to an arms limitation. You don't reduce the terror very much in the world do you, if you pursue that line?

Mr. FRIED. Well, I think the real issue, the real hope of the agreement in itself, is whether it moves us further toward considerations of mutual stability rather than escalation of the arms race.

Chairman PROXMIRE. I say—let me get to that. Do you think that if we pursue as fully as we can within the technical limits to get a strong military force as we can within the technical limits, do we ease up the escalation of the arms race?

Mr. FRIED. Depending on what we do. Moving in some directions, such as moving toward a sea-based force, could contribute toward mutual stability. The real hope of the agreement is not only that it cuts or halts production of defensive systems but also that it begins to provide limits on the number of offensive systems and this could be taken further as we move along.

I would like to stress two points: First, I believe you are right in saying that the agreement in itself does not provide assurance that there will be significant reductions in future strategic force spending. I think that is absolutely right.

I would also like to stress that one could have significant reductions in strategic force spending if we are prepared now to make reductions in some of the less effective elements of our own strategic forces and possibly to slow down the pace of modernization of the strategic systems.

Chairman PROXMIRE. Mr. Schultze, do you want to comment on that? I have another question for you.

Mr. SCHULTZE. I just wanted to underline one point Mr. Fried brought out, which is there are substantial potential ranges of sayings if one looks at the costs of maintaining existing systems—I am not talking now about the major new systems but some of the costs of maintaining some of the existing ones. If you look at a table on page 53 of the book, "Setting National Priorities—The 1973 Budget," it gives a total cost of the strategic forces of $18.6 billion for fiscal year 1973, of which $10.6 billion or much more than half is for bombers and air defense, not counting ABM.

Chairman PROXMIRE. I see.

Mr. SCHULTZE. It is in those two areas alone that I think there is some reason to believe, as Mr. Fried has pointed out, there are a lot of questionable items with respect to the maintenance of more obsolete systems. That is a fairly sizable number—$10.6 billion out of $18.6 billion.

EFFECT OF SALT AGREEMENT ON MILITARY BUDGET

Chairman PROXMIRE. Right. Nevertheless, if we do follow the course of your analysis here, it would seem we are moving toward a $100 billion military budget and the SALT agreement wouldn't have a great effect on that. It might make it $98.5 billion, but it will be in that general $100 billion area unless there are changes in the meantime which seem unlikely.

COSTS OF CIVILIAN PROGRAMS APPALLING

In your presentation, Mr. Schultze, you indicate some appalling costs. You start off with the water pollution control bill now before Congress which would add $3 or $4 billion a year to budget costs. It seems very unlikely we will do that in view of your analysis about the availability of funds. Further it would seem virtually impossible that we could move to relieving local property taxes, which you say would cost $18 billion to $25 billion a year, and you say there is no money. And in table 1 of your statement, you point out that there is just no fiscal dividend at full employment. We have a big deficit in 1975 and the surplus in 1977 will be picked up undoubtedly by a social security benefit increase, in the face of all our experience, perhaps more than picked up.

Then you say Federal support of day care programs, $12 billion to $15 billion; that is impossible for us to get that. Then the health programs—you don't put a price tag on that. I have seen anything from $20 billion to $40 billion. Of course, that is ridiculously impossible.

Mrs. Teeters, I thought, gave us an excellent analysis of the availability of new taxes. I think she had a $10 billion to $12 billion range there; you could double it maybe by just doubling what she has, but I think even the $10 billion to $12 billion is going to be unrealistic and hard to get. So, gee, you just put us into a dilemma.

I don't know what we can do, where we can turn to, regardless of how hard we press; the alternatives are so painful it looks like we are not going to be able to do these things not only the presidential candidates of my party have been talking about but the President of the United States has been talking about.

Mr. SCHULTZE. Let me just throw one ray—I won't call it exactly optimism but maybe perspective on this problem.

It turns out, as we point out in the book, that given the very nature of our budgetary system and what a small role the Federal Government played in the civilian sector of it for most of our history, that the problem of national politics and national priorities with respect to the civilian budget of the Federal Government was fairly easy in retrospect, peacetime economic growth would always throw off enough revenues for the Federal Government to do additional things without having to raise taxes.

Economic growth alone would do that as a consequence of which the major political problem faced by a party or a leader of a party had to do with convincing people as to how to use that fiscal dividend.

What we are suggesting here is not that the United States of America, with its more than $1 trillion economy, can't afford to do these things. What we are saying here is that at least over the next 4 to 5 years, given the outlook, we can't afford to do them without devoting some additional percentage of our national income to these purposes.

Let me also point out that switching an additional 1 percent of our gross national product to important public needs in, let us say, the year 1975, means $14 billion. Now, while politically this is exceedingly difficult——

Chairman PROXMIRE. Yes, but $14 billion takes care of half of one of these programs; you need $100 billion, it seems to me, if you are going to do the kind of things you are talking about here.

Mr. SCHULTZE. But you can put packages together. If you take the lower of our defense options, for example, expressed now in 1975 prices—and it is not a radical option by any means, it doesn't require even changing, as we see it, foreign policy objectives—there are $14 billion in savings. Fourteen and 14 are 28. That is a beginning, although I do not suggest it is easy.

What I do want to point out——

Chairman PROXMIRE. You say $14 billion from the military economy and where is the other $14 billion?

Mr. SCHULTZE. I am saying the equivalent of 1 percent of our GNP. Our tax report—the illustrative tax reform proposal turns out when you take both corporate and individual taxes into account to be $13.5 billion, so let's say for round number purposes $14 billion.

Chairman PROXMIRE. The other $14 billion would come from the military?

Mr. SCHULTZE. Defense. If I stay away a moment from the political difficulty of the thing, just for the moment, in earlier volumes of "Setting National Priorities," we have also looked at some civilian programs which were, let me say, of somewhat lower priority; and while the sums are not large there, it seems to me, careful pruning without hurting any major national objective, would yield another $4 to $5 billion. So what I am suggesting is the difficulties are not economic or social in some fundamental sense as much as they are the political problem of having to have a different outlook on how you get additional public needs met.

Chairman PROXMIRE. Thank you.

Congressman Conable.

EFFECT OF TAX REFORMS ON REVENUE

Representative CONABLE. Do you think it is realistic to expect the tax reform effort to generate any additional sum of money?

Mr. SCHULTZE. Well, maybe all my colleagues ought to talk on that. I will give you my snap reaction which is, it may be a little less difficult than I would have thought 3 months ago before I listened to what has been going on in some of the primaries; but that is just an immediate reaction. It is still difficult——

Representative CONABLE. Well, you realize that when, in 1969, we got into tax reform we gave away in apples what we made in bananas, and that this was almost necessary because of the absolute conviction of the public that had been fostered by the press that any tax reform would result in a tax reduction for them because other people—"other people"—we never found out who they were—were not paying their share of the taxes.

Mrs. TEETERS. Tax reform tends to be sort of a Pandora's box and you do not always raise large amounts of money. In both of the reports of the Senate and the House on the 1969 Revenue Act, there was a statement to the effect that many of the incentives which had been given in the past should be reevaluated as to whether they are still pertinent to the present-day tax structure. If these incentives were thoroughly looked at, you could both improve the equity of the tax structure and increase revenue.

Representative CONABLE. You realize we did reevaluate in the 1969 act?

RISING TAX REVOLT

Mrs. TEETERS. It is difficult to do but I think there is a rising tide of tax revolt in the country which will lead to reform.

Representative CONABLE. Yes, but is the tax revolt really addressed to the graduated income tax or to the more regressive taxes?

Mrs. TEETERS. I think it is addressed to the two together. The payroll and individual combined have not resulted in much tax reduction for the middle-income people and I think they realize it. Most of the income tax reforms have gone to the top and bottom of the income scale and most of the increases in payroll taxes have fallen on the middle-income groups, especially those between $6,000 and $15,000.

Representative CONABLE. Any way you slice it, 80 percent of the tax burden is going to be carried by middle-income people?

Mrs. TEETERS. Yes.

TAX CUTS IN THE LAST DECADE

Representative CONABLE. Let me ask you, Mr. Schultze, you say the personal, corporate, and excise tax have been cut by a total of $45 billion over the past 10 years. Can you give us any kind of a breakdown on that? How much of it is the 1963 cutback, Mrs. Teeters?

Mrs. TEETERS. The net tax reduction was $28 billion; $45 billion on the corporate, excise, and individual tax offset by the increased social security taxes.

Mr. SCHULTZE. Let me try. My recollection is that in 1973 the combination of the 1969 and 1971 tax cuts will cost $15 billion. That leaves $30 billion as the combined impact of the 1964 large income tax

cut and the 1965 and later year cuts in excises. So, $15 billion from the 1969 and 1971 tax cuts, $30 billion from the earlier ones. I can't split the $30 billion out for you.

Representative CONABLE. Does this provide us with any guide, do you think, that it would be unwise to rely on where the cutbacks have been to try to determine where any additional revenue could be raised now? Do you feel that the historical guide is a reasonable one or not? For instance, I notice in your testimony, Mr. Schultze, that you talk about the very substantially reduced contribution to tax revenues of the corporate income tax, while both personal income and payroll taxes have gone up very sharply, particularly the payroll taxes, from $10 billion to $29 billion.

Now, of course, if you had a VAT, that would come out of the consumer, wouldn't it?

Mrs. TEETERS. Yes.

CORPORATE INCOME TAX EFFECT ON PRICES

Representative CONABLE. Does this mean that you would favor the kind of indirect tax that goes into the cost of goods and services that is involved in a corporate income tax?

Mrs. TEETERS. One of the problems with the corporate tax is that we really do not know who pays it. If you look at the distribution of taxes by type, it is fairly obvious that the corporate and excise taxes have been reduced. If you assume that they are passed on in the form of higher prices, you are not imposing on corporations, but one on consumers.

Representative CONABLE. Aren't they to a very substantial extent passed on? I realize this is the subject of debate.

Mrs. TEETERS. Nobody really knows.

Representative CONABLE. What?

Mrs. TEETERS. Nobody really knows whether they are passed on in prices or not. My presumption is that essentially they are.

Representative CONABLE. Yes.

Mrs. TEETERS. If you are going to raise taxes, and if you cannot get the needed revenue through reform, it seems to me that an increase in the income taxes would be needed, with increases in the corporate tax rate mainly for the same reason we reduced them in 1964, you cannot raise the individual income tax without raising the corporate income tax also.

Representative CONABLE. I realize there are some political realities to face there in all probability. I am not sure that it is reality or tactic or what it is.

FISCAL IMPACT OF SALT NEGOTIATIONS

Mr. Fried, do your figures include any assumption that there would be a successful conclusion of the SALT talk negotiations or is that impact outside your testimony? Did you make any assumptions in this respect?

Mr. FRIED. We do in our projections for the 1970's, and our projection of what the present programs will cost in 1977, specifically assume the conclusion of the first round SALT agreement.

Representative CONABLE. You made no assumption as to further negotiations?

Mr. FRIED. We made no fiscal assumptions of the consequences of further negotiations.

Representative CONABLE. Is the major benefit to be derived from this, say, the reduction of the number of contingencies which we have to plan for militarily?

Mr. FRIED. Of the SALT agreement?

Representative CONABLE. Yes.

Mr. FRIED. Of the negotiations?

Representative CONABLE. Yes.

Mr. FRIED The first major benefit, as I said, is that we specifically agreed to reduce the number of ABM's. We could go further and have limitations on offensive systems that are comprehensive in which we would give up some things in some systems or numbers in exchange for the Russians reducing numbers in other fields.

INTENSIFICATION OF COMPETITION IN NON-SALT AREAS

Representative CONABLE. Well, the chairman asked a question that indicated that he thought one possible untoward effect of the SALT agreement would be an intensification of the competition in those areas not covered by the SALT agreement which could actually increase the defense expenditures.

Mr. FRIED. And I was suggesting two things: First, that we—there will be considerable pressure building up to intensify activities in this country and probably in the Soviet Union as well, in building up expenditures in permitted areas; I think that is possible.

Representative CONABLE. But that is not really to increase the total expenditure, is it?

Mr. FRIED. But my point was that our present budget, strategic budget, does provide for fairly intensive expenditures in these fields. The first is an accelerated program for the development of the new sea-based system. That is already in there. That program can be slowed down if the decision is made to do so. As far—and I would like to stress again—as far as budgetary consequences are concerned, we could have some fairly significant savings by deciding to reduce numbers in less effective forces—in air defense, in old model bombers, in reducing some of the Minuteman system. This would be a decision we could choose to take unilaterally.

Representative CONABLE. To what extent are your figures influenced by what you anticipate our potential opponents will be doing since we are having to plan against contingencies? Some of these contingencies have been blocked for us and Russia, in this respect, or at least altered in some way. You must have had to consider what their probable reaction to mutual restrictions would be as well?

Mr. FRIED. Right.

We did include, in this year's study, a brief section on the Soviet defense budget, some estimates of how much they are spending, and what they are spending it on in the field of defense. It is quite clear that some expenditures we make can provoke their reaction; some things they do can provoke ours. Therefore, in some fields—and the strategic area is one—moving very heavily in some areas can detract from our security rather than add to it.

But we did specifically take into account what they are doing as well as our own programs.

Representative CONABLE. That is all, Mr. Chairman.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Schultze, I have not had a chance to read "Setting National Priorities" yet. I discovered the minority do not even have copies. Would it be possible for us to procure some additional copies for the Members and the staff?

Mr. SCHULTZE. Yes, sir.

Senator PERCY. I can't promise to read it word for word, page by page, but as I skim through it there are sections that are absolutely vital to our present analysis of the kind of problems we are going to have. I think it is an invaluable source of material for us if we are going to have to try to balance the budget.

It was indicated by Mrs. Rivlin in her statement:

> In combination, property tax relief and expenditure equalizations would be very expensive, approaching perhaps $20 billion a year in costs.

SKYROCKETING PROPERTY TAXES AND RELIEF FOR ELDERLY

Would it be sensible to provide—if we are going to reform property taxes or relieve the pressure and the load and absorb more at the Federal level—wouldn't it make more sense to start at least with the elderly, so many of whom are losing their homes now? I know in my own State 60 percent of the property tax goes for education and the elderly do not have children in the schools. They are not really directly benefiting, other than as citizens in society, from the expenditure of those funds. Wouldn't it be sensible to give high priority to some tax relief for at least lower income elderly who are being forced out of their own homes now simply because of the skyrocketing property taxes they have to pay?

Mrs. RIVLIN. I think it would be, and that this might relieve much of the dissatisfaction with the property tax.

The property tax has not been rising as a percent of gross national product. Everybody seems to think it has but if you look at the figures, it has not, and my own suspicion is that the real dissatisfaction with the property tax comes in very large measure from those people, many of whom are old, who own property but do not have incomes and have to face this tax which seems to them an unrealistic burden. Property tax relief to the elderly and low-income people, generally, might not be terribly costly. Some local governments have already done this, as you know, and have relieved the dissatisfaction with the property tax.

INCREASING NATIONAL PRODUCTIVITY

Senator PERCY. Mr. Schultze, whenever we are faced with a problem of allocating limited resources, we can go at it in two ways: Either cut down what you are spending or try to increase your revenue or the utilization of it. Certainly it would seem to me that increasing revenues is a valid area of emphasis. Isn't it possible that putting high priority behind increasing our national productivity, which will increase our competitive position in the world markets and reduce pressure on inflation—isn't that an area that we should give very high priority to now as a national goal?

Mr. SCHULTZE. Well, yes, sir. Roughly 20 percent of any increase in additional productivity would automatically flow into the Federal

Government in higher revenues. This is with today's tax laws, so you kind of get a 20-percent bonus. However, the only thing I want to point out is that the studies which have been done on means of increasing national productivity beyond, let us say, the 3 percent a year rate which has been growing in the postwar period, are very difficult and take a long time to pay off.

Edward Dennison has done a good bit of work on the specific payoff of various devices to do so, and, as I say, one of the central things that comes out of that is that there are ways you can do it but the payoff is well down the road. It just takes a long time.

Senator PERCY. Mrs. Rivlin states in her statement: "There is little scope for increasing productivity through mechanization," referring to child care, health, elementary and secondary education. I wonder if that is actually true? If we could increase productivity—and we certainly need to in Government offices; we can certainly do it in the Senate—isn't it possible that you can increase productivity in the medical and health field by the use of paramedical personnel? That would have the doctors, professional people, do only those things which only they can do and have the paramedical personnel do the kind of assisting jobs which will make far more productive use of the highly skilled doctors and professional nurses and so forth? Isn't this an area in which we need increased productivity?

Mrs. RIVLIN. Yes, it is, Senator; and I think that should be stressed very strongly. Medical care is not the only example. There may be ways of increasing productivity in teaching by using new methods and teachers' aides and so forth. Historically, however, these services have not been ones in which productivity was increasing.

INCREASING PRODUCTIVITY IN MILITARY SERVICES

Senator PERCY. Wouldn't increased productivity in the military services be important? They are used now as cheap domestic labor, conscripted—a couple hundred bucks a month and sometimes they don't get $10 a month of work. The military is now being forced to pay greater wages and showing the true cost is putting a squeeze on the military now. But if they don't start utilizing people now being paid $350 and $400 a month the way those people should be used, then there is going to be a terrible waste and we are going to run into astronomical costs.

But can't the military really go on a productivity drive very much as industry had to and did, and labor did back in World War II with their limited resources, limited amount of available capital for that purpose, and labor resources? From our own experience, isn't this area susceptible to a productivity increase and drive?

Mr. FRIED. I believe it is, Senator, and one of the points we tried to make in the study was to show that one area where this could be done is in the whole ratio of support to combat forces, that very significant savings would be possible at perhaps less sacrifice to security needs, the least sacrifice to security needs. Taking the new pay scale specifically into account makes it more essential to generate saving in the whole area of support.

3-PERCENT UNEMPLOYMENT GOAL

Senator PERCY. I would be most interested in any of your observations on the chairman's opening comment that we ought to make a national goal of reduction of unemployment to 3 percent. The last figures that I had seen were that it is not really realistic any longer to assume that 4 percent is a goal, that probably 4.5 percent is a more normal figure, taking into account the large flow and mobility of the population and so forth.

Do you feel it would be a worthy goal and a realistic goal to try to achieve a 3-percent unemployment level? Certainly that would be another way of increasing income and reducing costs, because the present level of 6-percent unemployment does impose tremendous costs on society today.

Mr. SCHULTZE. I am not exactly sure I know how to respond to that. I guess I would say something like this: My own view is that there is no reason to abandon the old interim target of 4 percent and go to 4.5. Very often those who talk about the necessity for setting a higher unemployment target like 4.5 percent are relying on the fact that a larger proportion of the unemployed nowadays, compared to 15 years ago, are teenagers and women. While this does make the inflation problem somewhat more difficult. I personally do not believe it is the reason to lower our sights, certainly for the 4 percent interim target. Going from 4 percent to 3 percent, again, it seems to me, is an extremely worthwhile objective and I think you have three options in doing it: One option is just to go ahead and do it by beefing the economy up to the point where the unemployment rate gets down to—gets pushed down to 3 percent. I think it could be done. I think at the present time at least it would cause one heck of a lot of inflation.

The second approach is to try to improve our manpower training, public employment programs and other things like this to try to get that extra 1 percent from 4 to 3. I think that is a very desirable way to go. The only problem with it is that we are not terribly confident about the success of our manpower training programs to date in doing this.

A third way of doing it, with which I must say, frankly, I have become somewhat more enamored myself, although not yet enough to want to recommend it, is to frankly use the old World War II approach: You run a drum-tight economy with tight wage and price controls and a really tight labor market, which is precisely the circumstances under which employers are forced to take on and train very unskilled labor because they don't have any other option. I think there are some permanent advantages to that.

My rather fuzzy reading of figures on income distribution and the economic status of blacks leads me to believe that the greatest single progress was made in income distribution and in the status of blacks, during World War II. This progress came because employers were forced to hire the unskilled and went further down into the labor market. So I must say that as time goes on and even though I don't fully like it, and I am not yet sure I would want to recommend it, the third alternative of running a drum-tight economy with really heavy-handed wage and price controls thereby forcing employers deeper into the labor market of unskilled workers and leading them to get rid of the arbitrary labor market tests, might be rewarding.

Senator PERCY. Thank you very much.

ADMINISTRATION POLICY TO "BUTTON DOWN"

Chairman PROXMIRE. Mr. Nixon made a policy decision to "button down." Mr. Erlichman in speaking for President Nixon said: "The difficulty with Brookings' analysis is it rejects the analysis of the economies in the Federal Government. We do not think the alternatives can be laid aside." And George Shultz, when he appeared—the new Secretary of the Treasury and certainly an outstanding economic spokesman for the administration, a man who succeeded you in the position you held—the other Shultz—said much the same thing, that the Brookings people are ignoring the possibility of economies. This has great appeal to me, but I wonder what your reaction is.

Mr. SCHULTZE. Well, I will give my own reaction and let my colleagues speak theirs, which may not be the same.

No. 1, there are two areas you can make savings: By definition, defense and nondefense. The budget which the administration itself has proposed, when you take into account everything that is in there will have a fairly substantial increase in military expenditures built into it over the past several years; and the Brookings publication, which we have all put together, gives some idea of where savings can be made in this area. And I am only too happy to see that Mr. Erlichman, I would presume, is thinking both of defense as well as nondefense in making savings; he is going to really take a look at cutting down in this area.

In the nondefense area, I would make the following points:

In the last two volumes of our look at national priorities, we did try to identify some lower priority programs. The total amount of money involved is not large but they clearly ought to be pursued, those savings. But they don't add up to much; and the political likelihood of getting them isn't very high and if one is going to be realistic about anything new over the next four years, the possibility of tax increases, it seems to me, has to be brought to the fore and can't be just shoved off as something that could never happen.

PROBLEMS OF WASTE

Chairman PROXMIRE. Aren't there areas of great waste, demonstrable waste, some of which have been called to our attention by staff studies—Mr. Hartman made one in higher education, for example; and there is waste in many, many other programs, which perhaps could reduce expenditures? Isn't there a considerable question about the public works?

Mr. SCHULTZE. Well, there are two kinds of things involved: There are, let's say, the public works type—the public works program type inefficiency where you are not getting much for your money and from my own personal point of view should cut back substantially because the benefits are not greater than the costs.

There are a number of such areas. I don't think they add up to a lot of money even though they should be pursued with great vigor. When I say not a lot of money, I don't want to sneeze at $4 or $5 billion savings a year, if you put all of these together.

There are other areas where programs are inefficient. For example, some parts of medicare and medicaid where it isn't a question of reducing expenditures, it seems to me, so much as making sure you get

your money's worth for what you are now spending. So, although I fully agree with you. Mr. Chairman, there are large areas for better program administration——

FOREIGN AID AND FOREIGN MILITARY ASSISTANCE

Chairman PROXMIRE. There is another area that is very important and there is nothing in the Brookings report. I discussed this with Mr. Fried on Friday. There is nothing in this report on foreign aid, especially foreign military aid. We used to go into this very, very carefully and we are convinced there are $10 billion for foreign aid, $6 billion of which is military foreign assistance. A great deal of this goes to Southeast Asia but it is for military assistance. I am not talking about what our forces use but talking about what we give. And we have a table here, a very big table, which we can show you there is more than $10 billion involved. As I say, I don't find a word here in your excellent study which confronts the fact that we have this amount, and it indicates that this may be an alternative to reduce.

I would like to see us phase out that $6 billion within the next 3 years; that would be a big savings—$6 billion of military aid—and I think much of the economic aid which goes to big projects is highly questionable.

Mr. Fried.

Mr. FRIED. On military aid, leaving aside the question of what definition you are using for your figures—$6 billion or $4 billion, a part of that is already included in our estimates. We have been assuming a reduction in Vietnam expenditures and about something over half——

Chairman PROXMIRE. I am not talking about the military Vietnam expenditures. I am talking about the fact we have service funded $2.5 billion for Vietnam.

Mr. FRIED. Well, that is in the defense budget, and we have been assuming in our projections that that figure goes down to $1 billion a year for a combination of military and economic assistance later on in the decade. That is an arbitrary assumption. We have already assumed some reduction in that figure in our projections.

Second, I happen to subscribe to your goal that we should seek to phase out security assistance programs as such.

Chairman PROXMIRE. There are 60 countries getting aid.

Mr. FRIED. I think it is a goal, by the way, that the Congress has subscribed to in the past, as has the administration. The issue, is to set a long-term program objective and then move toward it.

On developmental assistance, the amounts we spent have, in fact, been declining. I would argue that it has declined too much; and that our program is declining at a very time when other countries have consistently been prepared to increase their programs. To me, at least, it would make sense to think in terms of maintaining or enlarging our developmental assistance program as we phase down our military program.

FULL EMPLOYMENT

Chairman PROXMIRE. You say full employment, by which I presume you mean 4 percent unemployment.

Senator Percy talked about 3 percent. I would go to a more drum-tight war economy—2 percent. This is what you have in Japan and in Germany and other nations. As you say, if you are to have something politically acceptable you are gong to have to have airtight control, rationing probably and far stiffer controls than you have now. I am not supporting it by any means—but I think it is something which has not been considered. I am surprised no presidential candidate has put it forth. This would mean you really put people to work instead of having them on welfare, unemployment compensation, and so forth. It means you enormously increase your Federal revenues; it means you diminish your need for some of these other programs. If you did go down to first 3 percent and then to 2 percent unemployment, number one, what effect would this have on revenues?

Mr. SCHULTZE. Well, let's see if I can make a very quick mental calculation. Suppose you had an additional 1 percent lower unemployment, and I think I am going to have to assume in that case that you wouldn't get much additional output per man-hour because I think once you are pushing below 4 you are getting into an area where you are not getting a lot of slack productivity. So let's say an additional 1 percent. In order to get there some additional hours of work in addition to numbers of people will arise, so the hours of work are going to go up. As the labor market gets tight, some manufacturers won't hire more people; they will add the hours, so you may be adding one and a half percent addition to GNP.

If you go out to 1975 as a target, that means something like an additional $25 billion with the GNP we would then have. From this you would get $5 billion to $6 billion additional Federal revenues over and above what you would otherwise get.

I hope that calculation will stand up.

Chairman PROXMIRE. Then you get somewhat of a less productivity increase as you go from 3 percent to 2 percent, is that right?

Mr. SCHULTZE. That's right.

UNEMPLOYMENT RATE IN GERMANY

Chairman PROXMIRE. If I am correct, in Germany, the unemployment statistic is not comparable but from what I know about it, they have a more homogeneous society; from what we know about them they do have unemployment close to 2 percent—is that wrong?

Mr. SCHULTZE. It is in that ballpark but statistics are different.

UNEMPLOYMENT RATE IN JAPAN

Chairman PROXMIRE. Japan, about the same thing, and these are real competitors and these are the countries that have done well; they don't have totalitarian systems; they have democracies; they have free economic systems. They don't, however, have stiff controls that I think would probably be necessary because otherwise you would have a fantastic inflation.

Mr. SCHULTZE. The thing I would like to point out about it——

REDUCTION OF UNEMPLOYMENT AND WELFARE

Chairman PROXMIRE. Why isn't this a lot more attractive than a program that has been advocated by some of the presidential candi-

dates and advocated by some of the economists and others for an immense welfare program?

WAGE AND PRICE CONTROLS

Mr. SCHULTZE. I think the substantive reason, not the political reason, the substantive reason is for a period of probably 2, 3, 4 years, fairly stiff controls wouldn't do enough harm to the efficiency of your economy to offset the advantages you get—all kinds of advantages—economic and social—from running at very low unemployment. However, nobody knows how to get out of that situation. I think if you tried to do that——

Chairman PROXMIRE. Nobody knows how to do what?

Mr. SCHULTZE. How to get out of that. If you try to run that kind of a drum-tight set of controls for 10 years, probably you would do a lot of harm to your society in terms of its efficiency.

Chairman PROXMIRE. Well, have they had any harm to their society in Germany and Japan?

Mr. SCHULTZE. I am not familiar enough to give a precise answer but I think they have a different kind of society; and the statistics are different.

Chairman PROXMIRE. Did we do a lot of harm to our economy during World War II? Of course, there was a war and all kinds of costs, but it seems to me there were enormous benefits there, economic benefits, out of that experience as compared with the harm we did to our economy in the depression.

Mr. SCHULTZE. The other side of that, though, Senator, if you will remember the tremendous appeal in 1946 that decontrol of all kinds had, decontrol of beef prices——

Chairman PROXMIRE. Oh, yes.

Mr. SCHULTZE. I think after a period of 3 or 4 years controls would be unpopular.

Chairman PROXMIRE. Let me just say, I think the difficulty is this: There is great resistance—the Wallace vote—to some extent even the McGovern vote—is a protest against things as they are, a welfare system which is just plain wrong, bad for the people on welfare, bad for the taxpayer, and enraging for those who work in the middle class and so forth. At the same time, almost everybody would feel that somebody who wants to work should have a chance to work, whether it is a woman, a teenager, a black, whatever they are, whatever their minority status, whatever their difficulties have been in the past we have a far better society if they are producing something. It seems to me this is an alternative which this committee, which is charged with the Full Employment Act of 1946, should really look at with considerable care.

As I say, I am not supporting this this morning.

I interrupted you.

Mr. SCHULTZE. Well, I was going to make two points on it:

No. 1, I think if you ran a drum-tight economy with a very low unemployment rate for 3 or 4 years, even if you then relaxed it, you would have done some permanent good insofar as changing the whole nature and shape of what kind of people employers hire and what kind of manpower training programs we have.

Chairman PROXMIRE. Great opportunities in training. Here is where you get training men. No matter what kind of money we spend on training at the end the job is useless. This kind of training is good training.

Mr. SCHULTZE. Of course, how you get out of it is the question. I don't really believe you want to run those kind of drum-tight controls for 10 years, and the question is, how do you phase them out—that is where the work needs to be done, it seems to me.

Chairman PROXMIRE. Senator Percy.

As I say, I want to apologize to Mr. Weidenbaum, the next witness, because we want him to come right up with us as soon as we can, but I do want to get Senator Percy to ask his questions.

Senator PERCY. I would just like to, first of all, say I am filled with admiration for what you have done and I hope your report won't get bigger every year. I know I am up to page 68 of the report now and I haven't done anything but skim in the sections on health insurance, child care, fiscal problems of the cities, and education. These are matters we have to give high priority to. I might differ with some of those priorities. I would like to name a few that I think are crucial and we must do something about maybe even before some of these others where we have been terribly negligent.

IMPROVING THE LOT OF THE ELDERLY

In the field of the elderly, 5 million of the 20 million elderly in this country, I would say, are in the condition of abject poverty today, an absolute disgrace to this country. We are going to have to do something dramatic in the way of improving the lot of those people. The President is on record now for that. I have talked many times with him about this problem of priority, but I don't know whether you covered that problem here.

But we are talking about billions of dollars when we start in that area.

SOCIAL SECURITY INCREASE

I notice Senator Humphrey said the other night he wanted to see a 25-percent increase in social security right away. I don't know what that would cost. I support a 20-percent increase. I am modest, I guess, by his standard now, but we are going to have a terrible struggle getting it up to 20 percent. There is a 5-percent provision, I think, in H.R. 1 now—5 percent is it?

Chairman PROXMIRE. Five percent.

Senator PERCY. Five percent. Well, I can't imagine the Senate settling for 5 percent, and I certainly would struggle hard for the larger figure. But what would you say to a 20-percent increase now, which is really what you would have to do to help to just adjust for the cost of living. The cost of food and things of that type for low-income people is high. Would you place this fairly high in priority?

ACROSS-THE-BOARD SOCIAL SECURITY INCREASE NOT BEST WAY TO HELP ELDERLY POOR

Mrs. TEETERS. The 20-percent across-the-board increase is not the most efficient way to help the poor elderly. It helps all the elderly

over 65, and probably three-quarters of them are not poor. If you really want to get to the problem of the abject poverty of the elderly, you go at it with programs which are focused on that group.

Senator PERCY. Or 5 million, I will say, in abject poverty—how do we get at them?

Mrs. TEETERS. Directly?

Senator PERCY. Directly and quickly.

Mrs. TEETERS. I think you do it by increasing the aid to the aged under the welfare programs and not by an across-the-board increase in social security benefits.

The other thing is that probably the very poorest are the very elderly. The way the system works is to replace a certain percentage of income at the time that a person retires. People who retired in the 1950's and early 1960's may have the same replacement ratio that has been maintained for cost of living but it does not give them an adequate level of living. If we can find out who the really poor are among the elderly and design programs directly for them, rather than go on an across-the-board basis, it would result in a more efficient use of the funds in alleviating their problems.

100 PERCENT SOCIAL SECURITY PROPOSED FOR WIDOWS

Senator PERCY. I have a bill in to increase women to 100 percent of social security as opposed to 82 percent. How do you feel about that?

Mrs. TEETERS. I think it is a very good provision; certainly the widow has as high expenses as would a married woman. There is provision in H.R. 1 to raise it to 100 percent.

EARNINGS LIMITATION

Senator PERCY. Another provision which is very costly—but I cannot describe to you the inequity people feel that exists today—relates to the earnings limitation; a person can get $100,000 in earnings from dividends with no deduction from social security, but earn over $1,680 and you start deducting. I am asking for an increase to $2,400 and then to $3,000 next year. How high a priority would you put on this to help the lower income people who must earn a living to keep going over 65?

Mrs. TEETERS. Essentially, the earnings test is a means test that applies to people who are between the ages of 65 to 72. It goes off at age 72. It is obviously too low for people who must depend on earned income to supplement their social security benefits.

On the other hand, social security benefits are not taxable. A person who receives $1,000 a year in social security benefits has a tax-free grant. These should be put in tandem in essence. The ceiling could be taken off on earnings at the same time that taxes are put on the benefits so that what is lost in terms of increasing costs from removing the earnings ceiling could be partially recouped from beneficiary with large amounts of other income under social security.

Chairman PROXMIRE. If the Senator would yield, I would certainly support him in any increase in earnings, and it seems to me what we need is to take them off entirely; but the way you do that politically is you provide an economy where you don't have unemployment.

Organized labor objects to this because of competition for jobs which are available. If you had the full kind of employment economy you wouldn't have any trouble.

Senator PERCY. I would like to do it immediately.

HIGH COST OF UNEMPLOYMENT

Mrs. TEETERS. In connection with another study, we found that the number of people going on and off social security beneficiary rolls, which is very easy to do, is responsive to the unemployment rate. It looked, from the data I had, that essentially people would first take their unemployment benefits. When they ran out, they would then go onto the social security rolls. There is a high cost of unemployment in the social security. Certainly, a high rate of employment would reduce the costs of the program.

USE OF GOVERNMENT POWER ON NONGOVERNMENT PROGRAMS

Senator PERCY. Have you given consideration to programs also that do not cost money by the Federal Government but the power of the Government can be used?

Mr. SCHULTZE. Yes, sir.

Senator PERCY. For instance, to help the elderly—they are the most immobile group in America for many reasons and it is the cost of transportation, for one thing. It wouldn't take a penny for us to require that any mass transit system that gets Federal funds provide half fare for the elderly during nonrush hours. That would automatically mean that the elderly will adjust their schedules to the needs of mass transit to stay off them when the working people are on them. Half fare for them and the same thing for every airline, every bus and every railroad. They ought to provide the same benefits to the older people who will travel on a seat availability basis and wait for their turn so they don't have empty seats. I don't understand why these transportation companies don't do it anyway. KLM decided to do it and I commend them for it.

But are things like that feasible? I have legislation in now to provide for this and I am hopeful that the airlines would agree to support it. Those are the kinds of noncostly things that could dramatically provide more mobility and provide for a need for the elderly in a way that does not cost the Federal Government any money. Filling empty seats will bring more revenue and tax revenue.

Mr. SCHULTZE. That particular one I have never given any attention to. It is a form of maximizing your revenues by giving low fares in cases where people decide to go or not to go because of the low fare and it might make some sense. We just have not given that one any thought particularly.

BETTER CONTROL OF EXPENDITURES

Senator PERCY. Mr. Schultze, I would like to ask you about what we can do to help better control our expenditures. I participated, as you might recall, with Senator John Williams some years back in sponsoring with him a bill to put a ceiling on Government expenditures. The Johnson administration didn't like it very much and they had a

cut—I have forgotten; it was somewhere between $6 billion and $10 billion, but it gave us the first balanced budget we had in the Nixon administration. We tried to impose that ceiling again this year. I know my good friend, Mr. Shultz, the other Shultz—George Shultz—did not like it. He said, "Trust us; you can trust us to hold expenditures down." But I finally did support it again but as you know, it is now a rubber ceiling because of many examples. Does that approach by Congress offer any way of helping? We almost do it out of frustration rather than anything else, but what other steps can we take or is that step an inadvisable step for us to take?

CURRENT YEAR EXPENDITURE CUTS NOT VERY EFFECTIVE

Mr. SCHULTZE. Well, personally, I don't like that step. I don't think it is very effective or efficient. In my view, one of the major problems in controlling expenditures is the fact that everybody looks at the immediate budget year. But most everything you can really do, either to decrease expenditures or to increase them in a high priority area, doesn't have much impact the first year. So by concentrating on an expenditure ceiling for the fiscal 1973 budget or concentrating attention on the 1973 appropriations as they affect only 1973, it seems to me, and the same thing with tax changes, is the biggest single problem making it difficult for the Congress and the Executive to control the budget. What happens with an expenditure ceiling, everybody looks not for where you ought to cut but where you can cut in a hurry, so it will affect the immediate year.

Public works—you can cut the devil out of public works and you won't even notice it for 3 years running, so my own suggestion would be more concentration on longer term impacts.

Senator PERCY. Thank you very much.

Chairman PROXMIRE. I would like this panel to remain, but I would like you to lock horns with Mr. Weidenbaum.

Mr. Weidenbaum and Mr. Larkins are the authors of "The Federal Budget for 1973," which preceded the Brookings study by 2 months. It is an excellent study. As I say, there are some differences and I understand that, Mr. Weidenbaum, you will be able to summarize your statement quickly and then we will go right into questions and we can get into a discussion.

STATEMENT OF MURRAY L. WEIDENBAUM, MALLINCKRODT DISTINGUISHED UNIVERSITY PROFESSOR, WASHINGTON UNIVERSITY

Mr. WEIDENBAUM. Thank you, Mr. Chairman.

I would like to submit my prepared statement——

Chairman PROXMIRE. The entire prepared statement will be printed in full in the record.

Mr. WEIDENBAUM (continuing). And the report, which is a bare 86 pages——

Chairman PROXMIRE. Very good.

Mr. WEIDENBAUM (continuing). For the record and get to the heart of the matter.

Last March, Dan Larkins and I did a budget study for the American Enterprise Institute in which we showed that the current budget structure of the U.S. Government does not provide an allowance for

any significant new initiatives. I have warned repeatedly in the two months since the publication of our study that the fiscal cupboard is bare. I am pleased to note that just last week the Brookings Institution finished their study and reported fairly similar findings.

MEETING PRIORITY NEEDS WITHOUT TAX INCREASE

The reaction of many people has been to jump to the conclusion that a tax increase or a new tax is inevitable. I disagree with this conclusion.

This Nation can meet priority needs and avoid a tax increase but that will take some hard decisions.

I urge the following four specific types of actions to achieve that dual objective:

EDUCATION

Point 1: A tight-fisted approach on new initiatives, especially education. We must finance essential new initiatives but at minimum cost and in the year ahead when we say major new initiatives that is going to be primarily education. The key, I believe, will be making a sensible response to the very real and perhaps irresistible court pressures to provide quality education to students in poor schools.

The easy answer is to eliminate the local property tax and have the Federal Government finance all local public schools. That is undesirable for many reasons and that approach would place the largest burden on the U.S. Treasury.

The first hard but needed decision is to keep the existing school tax with all its inequities as well as its benefits.

REVENUE SHARING

The next thing to do is to avoid letting the State governments off the hook. If we truly believe in a federal form of government, then we should give the States a chance to respond to this challenge to the extent they can. Congress willing, the States will have revenue-sharing money to use for the purpose. I would not require the States to earmark their revenue-sharing allotments for education or any other purpose. Rather the Federal Government should fill a large part—but not all—of the gap between (a) the revenue that school districts can raise from existing sources and (b) the levels required to meet the court objections to the inequities existing between poor and rich areas; that would still leave a role to the States.

Realistically, I expect the Federal Government to bear the lion's share of the added costs of local public schools but that would be in a manageable amount, perhaps $10 billion a year.

MILITARY BUDGET LEVEL IN REAL TERMS

Well, how do we get the added funds? This leads me to point 2: We need a farsighted approach on existing governmental spending programs, particularly defense. It has become fashionable to advocate meeting civilian needs by cutting defense spending $10 billion, $30 billion or more. I believe this is misguided and, in the long run, self-defeating.

If we have learned anything from our studies of defense spending, it is that there is nothing more wasteful than a fitful stop and go ap-

proach. We must avoid crash efforts as well as excsesive cutbacks which only lead to subsequent crash efforts to catch up.

We now have a fairly level military budget in real terms.

Given the very strong upward cost pressures resulting from the move toward a more Voluntary Armed Force, it will take a great deal of effort just to keep the total military budget from rising. A stable level of defense spending would serve the long-term interests of both the economy and security, hence point 3:

NEED TO IMPROVE BUDGET CONTROLLABILITY

We need a comprehensive effort to improve the controllability of the Federal budget. Basically, the money for new civilian initiatives must come out of the hide of low-priority civilian areas. Over the years, too many sacred cows have found a comfortable home in the Federal budget. They have been sheltered by trust funds, permanent appropriations, indefinite appropriations, and fixed charges.

Given that situation, it will do little good for the Congress now to react by passing a ceiling on yearly expenditures. That will just be like letting my wife use my charge plate to her heart's content but then refusing to pay the bills when they become due.

The Congress should cut down on those charges in the first place. The way to do that is to make more of the budget subject to annual control by cutting down the trust funds, the permanent appropriations, and fixed charges. I don't believe that the public realizes that most of the civilian budget is, in practice, now immune from congressional budget scrutiny. In any event, a lid on new appropriations would make far more sense than a ceiling on actual spending.

It is not surprising that many of these hidden and uncontrollable charges are in the nature of subsidies to specific groups of the population. I am not suggesting that the Congress cut out all subsidies. Some provide necessary incentives to the private sector, to accomplish national objectives and often at lower costs to the taxpayer than if the Federal Government were to do the job itself—a point usually overlooked by the critics of subsidies. I do offer, however, a rationale for cutting back the proliferation of subsidies, and this is my fourth and final point:

RATIONALE FOR CUTTING BACK SUBSIDIES

We need a firm effort to eliminate Government spending which results from the dead hand of the past. Just reread the original justifications for some of these vestiges of the 1930's and 1940's: To deal with the problem of low wages in the construction industry (the Davis-Bacon Act)—Low wages in the building trades in 1972?; to deal with the lack of electricity on American farms (the Rural Electrification Administration)—No lighting in 1972?; to deal with the lack of inventory of metals for war production (the stockpile of strategic materials)—Protracted trench warfare in 1972?

I submit that these and many programs like them have outlived their usefulness. They just do not correspond to the realities and priorities of the 1970's. They should be given an honorable discharge or better yet, suitable burial.

NEED FOR FEDERAL GOVERNMENT RESPONSE TO NEW AND CHANGING PRIORITIES

To sum up, the Federal Government can and should respond to new and changing priorities. It can do so without a tax increase by cutting back older, lower priority programs. Sure this is difficult, but, gentlemen, I believe the task of Congress is to make difficult decisions. The place to start is by eliminating those expenditures, tax, and credit subsidies which are anachronistic vestiges of the depression years, now some four decades behind us.

There is no need for a tax increase if we can gear the activities of the Federal Government not to 1932 but rather to 1972.

NATIONAL SECURITY STATEMENT

Mr. Chairman, in your letter you asked us to comment on the national security statement in the report, the annual report of this committee. My colleague, Dan Larkins, has prepared an analysis showing how better priority decisions can be made on defense and nondefense programs within the confines of a Government-wide program budget and if you would like, he could take about 5 minutes to summarize that.

Thank you.

(The prepared statement of Mr. Weidenbaum and the report entitled "The Federal Budget for 1973: A Review and Analysis," referred to in Mr. Weidenbaum's oral statement, follow:)

PREPARED STATEMENT OF MURRAY L. WEIDENBAUM

DECISIONS ON NATIONAL PRIORITIES

It is a pleasure to have the opportunity to present to the Joint Economic Committee the results of our recent study of the Federal Budget for 1973.[1] As copies have already been furnished to the Committee, I will limit my remarks to the major findings and conclusions, particularly as they relate to changing national priorities. The views that I express of course are my own.

THE COMING FISCAL SQUEEZE

It is unlikely that, when the economy actually regains a position of roughly full employment, the federal budget will be anywhere near balance, unless some fundamental changes are made in expenditure or tax policy.

I am not pleading the case for the old-fashioned concept of an annually balanced budget. Rather, my point is that in times of relatively full employment, the income that the government injects into the private economy should not exceed the purchasing power it withdraws, unless we particularly need to introduce some further expansionary stimulus into the economy. Moreover, financing the government's deficit under such circumstances is likely to draw investment funds away from such vulnerable but high-priority areas as residential housing and state and local government.

The long term squeeze on the budget can be seen by examining the impact of the new legislation proposed in the fiscal 1973 budget. Table 1 shows the total spending in each of the years 1973–1977, which is expected to result from this one year's increment of legislation. Focusing on 1977 can be instructive. For that year, it is estimated that approximately $33 billion of expenditures will be incurred solely because of laws that would be passed to carry out the recommendations in the '73 budget. Perhaps it is a coincidence, but that figure slightly exceeds the

[1] Murray L. Weidenbaum and Dan Larkins, The Federal Budget for 1973: A Review and Analysis, Washington, American Enterprise Institute for Public Policy Research, 1972.

NOTE: Mr. Weidenbaum is Mallinckrodt Distinguished University Professor at Washington University and Adjunct Scholar at the American Enterprise Institute for Public Policy Research.

growth that is anticipated in 1977 in federal revenues ($32 billion), assuming the current tax structure and that 1977 is a year of full employment.

TABLE 1.—LONGER TERM IMPACT OF PROPOSED LEGISLATION

[In millions of dollars]

Department or program	Fiscal year—					Increase, 1973 to 1977
	1973	1974	1975	1976	1977	
Welfare reform	350	5,500	5,900	6,000	5,500	+5,150
Revenue sharing	5,600	8,540	9,903	10,222	11,399	+5,799
Contributions to international institutions	103	204	290	404	453	+350
Agriculture	−590	−285	−289	−294	−299	+291
Defense	680	783	750	736	634	−46
Health, Education, and Welfare	4,519	8,007	9,928	12,528	15,133	+10,614
Interior	27	49	55	61	62	+35
Environmental Protection Agency	22	55	65	70	75	+53
Veterans' Administration	334	332	309	308	297	−37
National Capital area	20	24	37	53	56	+36
Total	11,065	23,209	26,948	30,088	33,310	+22,245

Note: Excludes allowance for contingencies of $200,000,000 in 1973, rising to $600,000,000 in 1977.

Source: 1973 budget.

Rather than dreaming of the future fiscal dividends this nation will be able to enjoy, it would be more realistic to speak of a fiscal mortgage. In other words, we as a nation are making decisions now as to how we will spend most of our available revenues for many years in the future.

It has become fashionable in recent months to raise the possibility of new taxes, notably that trans-Atlantic import, the value added tax. Why is there so much interest in a new Federal tax? Frankly, because as a Nation we have been taking the easy route in reordering priorities. It is true that we have been spending more money on many programs—social security, medicare, environment, crime control, and so forth. However, a true shift in priorities is not completed until we have reduced spending on the lower priority items. So far, it is hard to see many places where we are cutting back.

Clearly, the current budget structure does not provide a cushion or reserve for the almost inevitable new initiatives which we should anticipate in the coming year. To put it bluntly, the fiscal cupboard is bare.

Yet, pressures are already visible for new or vastly expanded government spending programs. In the January state of the Union message, President Nixon emphasized two areas of potential increases in expenditures—education and research and development. However, neither was given a prominent position in the new budget. I believe the reason was simple—there is little room in the current budget structure for any costly new expenditure initiative.

Thus, it was not suprising that the President's subsequent special message on research and development in March was virtually entirely a repackaging of existing programs. However, education is another matter. The forcing factors are much stronger.

The courts in four states have held that continued reliance on the local property tax to operate the public schools is unacceptable. As a result, many people have suggested that the federal government should take over the entire responsibility for financing public education. Others have suggested keeping the existing property tax for schools but having the federal and/or state governments supplement the proceeds to enable the poorer districts to finance an acceptable level of educational expenditure.

One thing is clear. All of the school finance proposals under discussion would involve substantial amounts of additional federal expenditure. However, there does not appear to be an available margin of uncommitted fiscal resources to finance a new federal program of aid to education. Where will the money come from short of a new tax?

There is a postive way out of this dilemma. It is time to take a new look at the tremendous amount of current federal expenditures which really reflect the "dead hand of the past." Just reread the original justifications for some of these vestiges of the 1930's and 1940's:

To deal with the problem of low wages in the construction industry (the Davis-Bacon Act). Low wages in 1972?

To deal with the lack of electricity in American farms (the Rural Electrification Administration). No lighting in 1972?

To deal with the lack of an inventory of metals and minerals for war production (the stockpile of strategic and critical materials). Conventional trench warfare in 1972?

As this committee's staff has shown, the federal government extended subsidies of over $63 billion to a host of beneficiaries in the fiscal year 1970 alone (see Table 2). At today's income and price levels, these subsidies are probably now costing the American taxpayer closer to $70 billion a year. I am not suggesting that we simply eliminate each and every one of these subsidies. Some are quite desirable. Some provide necessary incentives to the private sector to accomplish national objectives at a lower cost to the taxpayer or more effectively than if the federal government were to do the job itself.

Nevertheless, I have examined enough of these subsidies to be convinced that not every one of them is worth the cost to the taxpayer. Here is one citizen-taxpayer who would sooner vote to reduce some of these special-interest subsidies than to impose another tax on us all.

THE CHANGING TAX STRUCTURE

As would be expected, considerable discussion has centered on the loss in income to the government that is resulting from the Revenue Act of 1971.

TABLE 2.—MAJOR TYPES OF FEDERAL SUBSIDIES

[Fiscal year 1970, in millions of dollars]

Function	Cash payment	Tax subsidies	Credit subsidies	Benefits-in-kind	Total
Agriculture	3,879	880	443	1,593	6,795
Medical care	973	3,150	52	4,617	8,792
Manpower	1,991	550			2,541
Education	1,976	785	434	409	3,604
International trade	106	420	623	34	1,183
Housing	195	5,680	2,550		8,425
Natural resources	330	1,970	22	712	3,034
Transportation	300	10		362	672
Commerce and economic development	2,051	15,635	59	1,510	19,255
Other		9,400			9,400
Total	11,801	38,480	4,183	9,237	63,701

Source: U.S. Congress, Joint Economic Committee.

However, a less dramatic trend but one of almost equal significance is occurring in another part of the nation's tax structure. Concurrently with the reduction in effective income tax rates, payroll tax withholdings for social security have been rising steadily. The increases in the social security base and tax rates, coupled with smaller increases in other revenue sources, just offset the effect of the tax reductions in the Revenue Act of 1971.

The result is a shift in the relative importance of federal revenue sources. The traditional pattern has been for the individual income tax to provide almost half of the revenues and the corporate income tax the second largest share, with social security payroll taxes, excises, and miscellaneous sources making up the relatively small remainder. As recently as 1967, revenues from the corporate income tax exceeded receipts from social security and related payroll contributions. Since 1968, payroll taxes for social insurance programs have become the second largest source of federal revenues. In the 1973 budget, these taxes account for 29 percent of projected government income and the corporate tax for only 16 percent.

The dark cloud on the economic horizon is the federal budget situation. This will be more of a trouble spot in 1973 than 1972. Many people were shaken up by the January forecast of a $38.8 billion deficit for fiscal 1972. It now appears that the deficit will be considerably less, perhaps less than $30 billion. I have to admit that I was not shaken up then, but I am now. The possibility of a very large deficit in 1972, a year of high unemployment, and a smaller one in 1973, when unemployment should be lower, impressed me as about right.

But now it seems likely that the fiscal '73 deficit probably will be larger than this year's. Unless taxes are raised—or a new tax levied—it is most unlikely

that the '73 budget will be in balance, even on a "full employment" basis. This can only make anti-inflationary efforts more difficult and place a great burden both on monetary policy and on the wage and price control system. Thus, both economic and fiscal factors point up the need for greater expenditure control.

CONTROLLABILITY OF THE FEDERAL BUDGET

One specific part of our study may be of interest, that dealing with how to improve the controllability of government spending. Many expenditures are in practice immune from change during the appropriations process. A large share of the budget authority requested each year is in the form of trust funds, permanent or indefinite appropriations, and fixed charges. The size of these types of appropriations is determined by factors outside of the budget process.

Some agencies virtually escape the scrutiny of annual budgetary review, while others are completely controllable. An interesting contrast can be drawn between the two agencies with the largest budgets, the Department of Defense and Health-Education-Welfare. Almost all of the defense budget, but only 12 percent of HEW's, is susceptible to effective annual review through the appropriations process (see Table 3). This fact may help explain why the defense budget goes through cycles of expansion and contraction while HEW outlays increase sharply every year.

Several key reforms in the area of increasing the controllability of government spending need to be instituted in order to make the annual budgetary process more effective.

Table 3.—Controllable share of 1973 agency budgets

	Percen
Justice	100
Executive Office of President	100
HUD	98
Defense—Civil	98
Defense—Military	95
Commerce	91
State	91
Judiciary	84
Legislative branch	82
Funds appropriated to President	55
Agriculture	51
Labor	33
Other agencies	31
Transportation	26
Veterans' Administration	21
Treasury	18
HEW	12
Interior	0
Average for Government	46

First, it is important to differentiate between naturally uncontrollable items and artificially uncontrollable items. For example, interest on the national debt is a natural uncontrollable, because the amount depends on the types of Treasury securities outstanding and on money market conditions. These are not the kind of factors that can be determined in the review of the Treasury budget.

It would be far more useful, in the direction of efficient government, for the Congress to rivet its attention on those areas which are artificially uncontrollable—programs made uncontrollable by statute, but which the Congress could adapt to annual review. For example, one program in the "artificial" category stems from a 1935 act which provides that 30 percent of annual customs receipts must be automatically funneled to a permanent fund to be used for the "removal of surplus agricultural commodities." The common factor in all such artificially uncontrollable items is that there is no relation between the amount appropriated and the current requirement for the money. Annual budget review is needed for these items in order to correct the situation.

In many cases, reform will mean amending the legislation that authorizes the permanent and/or indefinite appropriations, the fixed charges and the trust funds, so that annual review by the appropriations committees could be possible. With respect to the trust funds, the Congress should reexamine each of them and preserve only those which are most in keeping with the idea of a trust, i.e., money administered but not owned by a fiduciary. For example, the civil service retirement and disability fund is a logical candidate for a trust fund, but the highway

program is not. Spending money for highways is more similar to spending for ordinary government operations than it is to the fiduciary concept. In fact, this program was financed out of general revenues until 1954 when it was shifted to trust fund status.

Second, the Congress should examine permanent and indefinite appropriations to make sure that their amounts are not greater than the existing need. Some permanent and indefinite appropriations may be superfluous in terms of today's conditions. Other artificial fixed charges should be restored to annual review through substantive changes in the basic statutes.

Third, to avoid the problem of large relatively uncontrollable appropriations to continue construction projects that start off with a modest initial appropriation, the Congress should carefully assess the full costs of construction projects and other long-term investments at their inception. The "full funding" technique in which total costs are considered at the outset should be extended to all such long-term schemes.

Fourth, the Congress needs to emphasize the most effective point of effective control over government spending—the proposal stage when the legislation is being considered, prior to its enactment. Provisions to require annual budget review should be included in new legislation, so that future problems of uncontrollability will not arise.

If these steps are taken, the obstacles to efficient budget review would be substantially reduced. Moreover, the Congress would then be in a better position to finance new initiatives in response to changing national priorities, without having to increase taxes, consider new taxes, or postpone necessary public activities.

THE FEDERAL BUDGET FOR 1973

A Review and Analysis

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All years are fiscal years unless otherwise noted. All data for the text and tables are taken from *Budget of the United States Government, Fiscal Year 1973,* or *Special Analyses of the United States Government, Fiscal Year 1973,* unless otherwise noted.

PREFACE

This report is an analysis of President Nixon's proposed federal budget for the fiscal year 1973. It is not an alternative budget in any sense. In fact, the analysis uses the figures contained in the President's budget, although it rearranges them in some cases and comments on their realism in others.

The evaluations and opinions, particularly in the overview sections and in the chapter on federal credit programs, are those of the senior author, Murray L. Weidenbaum, Edward Mallinckrodt distinguished university professor at Washington University in St. Louis and adjunct scholar at the American Enterprise Institute for Public Policy Research. Dr. Weidenbaum served as assistant secretary of the treasury for economic policy during 1969-71 and as a fiscal economist with the Bureau of the Budget from 1949 to 1957.

He was assisted in this undertaking by Dan Larkins, an economist on the research staff of the American Enterprise Institute. Mr. Larkins had particular responsibility for the chapters on the controllability of the budget, the planning budget and the regional distribution of federal spending.

It is hoped that this report will be of value as an independent but informed appraisal of key trends and policy problems in the area of government spending and finance.

1

INTRODUCTION AND SUMMARY

On January 24, 1972, President Richard Nixon transmitted to the Congress *The Budget of the United States Government* for fiscal year 1973. In that document, he estimated that the federal government would take in $220.8 billion in revenues for the 12-month period ending June 30, 1973, disburse $246.3 billion in expenditures, and incur a budget deficit of $25.5 billion.

Administration supporters praised the new budget as an important economic stimulus to expansion and yet were pleased to note that the projected deficit was $13.3 billion lower than that expected for the current year. Moreover, it was pointed out that, on a "full employment" basis (that is, assuming the unemployment rate were down to 4 percent), the budget was in balance.

Critics attacked the new budget proposals, some damning its large deficit, the third in a row, and some faulting the administration either for failure to propose bold initiatives addressed to "urgent" national priorities or for timidity in the amount of fiscal stimulus being provided to the economy.

Both types of reactions may be short of the mark. Clearly, what the 1973 budget does do is to raise some key issues of public policy that are not likely to be resolved readily or easily. These issues may be grouped, and then analyzed, under four major categories:

1. *The budget and current economic conditions.* Questions such as the following will be discussed: How reasonable are the economic forecasts on which the budget is based? Given these economic assumptions, would adoption of the budget contribute to inflation? To

bringing down unemployment? Are there sensible alternatives that might be considered?

2. *The 1973 budget and subsequent events.* The following kinds of questions arise: How consistent have expenditure and revenue actions been? Are the income and outgo paths converging? Can we expect tax cuts? Tax increases?

3. *The new initiatives in the budget.* Special attention is devoted to research and development and to federal-state-local fiscal relations.

4. *The changes in existing programs.* A detailed analysis is made of each major functional area of federal expenditure.

The first three questions are dealt with in chapters one and two. Chapter three presents the functional analysis of the proposed changes in government programs. The remainder of this volume contains several special analyses of government activities, some hopefully covering a bit of new ground.

Economic Assumptions

Table 1 sets forth the economic assumptions on which the President's budget estimates are based. Clearly, administration policy makers expect that the economic upturn which began in calendar year 1971 will continue strongly in calendar year 1972.

Forecasts are always accompanied by uncertainty. History has not been kind to last year's set of economic assumptions. GNP for calendar 1971 was estimated at $1,065 billion, or $18 billion above the preliminary actual figure for the year, and corporate profits were expected to reach $98 billion, or $13 billion higher than the actual. There is no assurance, of course, that this year's set of assumptions will fare any better. However, they are launched with greater public and professional acceptance than those for 1971. The $1,065 billion estimate for last year was above the outer limits of the range of economic projections then being made by experienced forecasters. This year, the estimates are well within that range, albeit in the upper half of the distribution.

In essence, Table 1 depicts an expanding economy for calendar year 1972, one that could be expected to enjoy a declining unemployment rate, but not to attain full employment (i.e., an unemployment rate of 4 percent of the civilian labor force). Given the wage and price control programs and the recent trend of monetary expansion,

Table 1

ECONOMIC ASSUMPTIONS UNDERLYING THE 1973 BUDGET
($ in billions)

	1970 Actual	1971 Preliminary	1972 Estimate	Percent Increase 1971-72
Gross national product	974	1,047	1,145	9.5%
Personal income	804	857	924	8.0
Corporate profits before tax	75	85	99	16.0

it is reasonable to expect that the rate of inflation will continue to fall during the year but not necessarily to the 2½ percent target announced during the establishment of Phase II of the economic stabilization program.

The likely persistence of unemployment and inflation in fiscal 1973 makes the budget a source of genuine concern. Table 2 presents the highlights of the budget estimates. It can be seen that substantial budget deficits—in excess of $20 billion—are shown for three years in a row. Since an excess of government outgo over income is generally seen as a sign of economic stimulus, the primary concern of fiscal policy could be taken to be unemployment rather than inflation.

Table 2

BUDGET TOTALS, FISCAL YEARS 1971-73
($ in billions)

	1971 Actual	1972 Estimate	1973 Estimate
Budget receipts	188.4	197.8	220.8
Budget outlays	211.4	236.6	246.3
Deficit (−)	−23.0	−38.8	−25.5
Full employment receipts	214.1	225.0	245.0
Full employment outlays	209.2	233.1	244.3
Full employment surplus (+) or deficit (−)	+4.9	−8.1	+0.7

More detailed and perhaps more sophisticated analysis may be useful. First of all, the pattern of the deficits is interesting. By far the largest deficit occurs during the current year, when an unduly high 6 percent unemployment rate is still very much with us. A significantly smaller, but quite visible, deficit is indicated for the following year,

when further progress is anticipated on the employment front. Hence, it can be said that the fiscal path has been patterned to follow expected economic needs. This conclusion can be examined more carefully by referring to the "full employment" estimates.

The so-called "full employment" budget has been the source of considerable confusion and the object of more than a little derision. Some of the confusion may have been caused by the way the concept has been used recently. The concept has been used by economists for many years, and does not carry any particularly partisan connotation. However, its elevation to a central place in the budget message last year was accompanied by a claim that appears, in retrospect, to have been excessive—i.e., that the full employment budget was "in the nature of a self-fulfilling prophecy."

It is clear that the preparation or even attainment of a balanced full employment budget does not by itself achieve a fully employed economy, although it may make a useful contribution in that direction. What a "full employment" budget does do is to focus our attention on what revenues and expenditures would be if we had full employment. In practice, maintaining a balance in the "full employment" budget is a fairly good guide to a responsible budgetary policy which provides some stimulus during periods of less than full employment. Moreover, by holding outlays to full employment revenues, the budget is put on a path that is likely to generate an actual balance when full employment is reached, thus contributing to economic stability.[1]

The $8.1 billion full employment deficit in fiscal 1972 has been accompanied by a decrease in the rate of inflation. While some of the slowdown in inflation is probably attributable to the wage and price controls instituted in August 1971, it certainly appears that the alleged relationship between full employment deficits and price increases is not inviolable. Some sensible limits to incurring full employment deficits, however, do seem in order. In retrospect, the $25 billion full employment deficit in fiscal year 1968, a period when the economy was operating at full employment, seems to have been most unfortunate.

Certainly, an attempt to balance the actual budget for either fiscal

[1] A definitional change in the full employment budget concept was made in the January 1972 document. Rather than comparing actual (or anticipated) expenditures with full employment revenues, as was done last year, the new budget uses full employment expenditures in the comparison (which are lower because of reduced unemployment compensation, et cetera). This change would appear to be technically desirable. In the absence of this change, however, full employment revenues would fall short of expenditures in 1973 by $1.2 billion.

'72 or fiscal '73 would be likely to be self-defeating. That is, an attempted reduction of $38 billion (or even $25 billion) in government expenditures in just one year would represent such an abrupt economic depressant that actual revenues would fall substantially below the estimates and expenditures for such items as unemployment compensation would rise, with the result that the actual deficit might be larger rather than smaller. A comparable outcome would be produced by an effort to raise tax revenues by $25-38 billion in a 12-month period.

In essence, the current budgetary position of the federal government represents the results of a great variety of actions which the Congress and the executive branch have taken over an extended period of time, both to increase expenditures and to reduce revenues. Without endorsing each and every tax and spending decision (analyses of a number of these follow), it does seem that the sum of these decisions as expressed in the totals of the proposed 1973 budget is both reasonable and responsible. A much higher level of outlays and/or a lower level of income would surely exacerbate inflationary pressures. Conversely, with a 6 percent unemployment rate, any substantial budget-cutting or revenue-raising efforts would be ill-timed. However, the priorities within these totals may stand some examination.

Despite the appropriateness of the budget totals from the standpoint of economic stabilization, there is no particular need to defend the excessive amount of rhetoric that is usually found in high policy statements. For example, the 1973 budget message of the President contends that the budget for 1973 "acts as a barrier against the renewal of inflationary pressure." At best, the barely balanced "full employment" budget may not contribute to additional inflationary pressure. But any reasonable observer of the 1973 budget and its estimated $25.5 billion deficit is hard-pressed to find any substance to the inflation barrier claim.

The Revenue Estimates

Budget receipts in any given time period reflect both tax laws and economic conditions. As would be expected, a great deal of discussion has centered on the loss in income to the government that is resulting from the Revenue Act of 1971 (PL 92-178). As shown in Table 3, that law reduced fiscal '73 revenues by $6.9 billion from what they otherwise would have been.

Table 3

EFFECT OF THE REVENUE ACT OF 1971
($ in billions)

Revenue item	Fiscal Years 1972	1973
Individual income tax:		
Increased exemptions	−1.7	−1.2
Increased deductions	−1.0	−1.4
Investment credit	−0.4	−0.7
Revision of accelerated depreciation	+0.4	+0.3
Correction of withholding schedules	+0.7	+0.1
Total individual	−1.9	−2.9
Corporate income tax:		
Investment credit	−2.1	−2.9
Revision of accelerated depreciation	+2.0	+1.3
Tax deferral for exports (DISC)	*	−0.1
Total corporate	*	−1.7
Excise taxes:		
Repeal of auto and small truck excises	−2.5	−2.3
Total	−4.4	−6.9

* Less than $50 million.

However, a less dramatic trend but one of almost equal significance is occurring in another part of the nation's tax structure. Concurrently with the reduction in effective income tax rates, payroll tax withholdings for social security are rising steadily. Table 4 presents the post-1970 enacted and proposed tax changes that affect projected fiscal 1973 revenues. Perhaps the exact correspondence in the line 1 and line 3 figures for 1973 is coincidental. Nevertheless, the increase in the social security base and tax rates, coupled with smaller increases in other revenue sources, just offsets the effect of the tax reductions in the Revenue Act of 1971. Thus, the $23 billion increase in federal revenues from fiscal 1972 to 1973 is expected to come entirely from the expansion in the national economy.

The result is a shift in the relative importance of federal revenue sources. The traditional pattern has been for the individual income tax to provide almost half of the revenues and the corporate income tax the second largest share, with social security payroll taxes, excises, and miscellaneous sources making up the relatively small remainder. This was the pattern until the middle 1960s. As recently as 1967, revenues from the corporate income tax exceeded receipts from social

Table 4

CHANGES IN BUDGET RECEIPTS
($ in billions)

Revenue item	Fiscal Years 1971 Actual	1972 Estimate	1973 Estimate
1. Total receipts under tax laws in effect December 1970	185.6	199.4	220.8
Enacted legislative changes			
Revenue Act of 1971	—	−4.4	−6.9
Social security rate increase, January 1, 1971	+1.7	+3.6	+3.8
Social security earnings base increase, January 1, 1972	—	+0.1	+3.1
Social security rate increase, January 1, 1973	—	—	+2.2
Speedup of estate and gift tax payments	+0.1	+1.4	—
Airway and airport tax increase	+0.3	+0.3	+0.3
Unemployment tax increase	—	+0.1	+0.3
Other changes			
Administrative speedup of payments	+1.0	—	—
Administrative speedup of depreciation write-off	−0.3	−3.3	−3.5
Import surcharge	—	+0.5	—
2. Total receipts under existing legislation	188.4	197.7	220.1
Changes in receipts due to proposed legislation			
Social security earnings base increase, January 1, 1972	—	+0.1	+2.3
Social security rate decrease, January 1, 1973	—	—	−1.2
Other	—	—	−0.4
3. Total receipts under enacted and proposed tax changes	188.4	197.8	220.8

security and related payroll contributions. Since 1968, payroll taxes for social insurance programs have been a steadily rising portion of federal revenues. In the 1973 budget, these taxes account for 29 percent of projected government income and the corporate tax only 16 percent. When revenues from excises are added to payroll taxes, the combination accounts for 36 percent of budget receipts and comes close to rivaling the personal income tax, which brings in 43 percent

of all federal revenues. It would seem that the conventional notion that the federal government relies primarily on the progressive personal income tax for its revenues needs to be updated (see Table 5).

Table 5

BUDGET RECEIPTS BY SOURCE, FISCAL YEARS 1971-73
($ in millions)

Revenue source	1971 Actual	1971 Estimate	1972 Estimate
Individual income taxes	86,230	86,500	93,900
Corporation income taxes	26,785	30,100	35,700
Social insurance taxes and contributions	48,578	54,092	63,683
Excise taxes	16,614	15,200	16,300
Estate and gift taxes	3,735	5,200	4,300
Customs duties	2,591	3,210	2,850
Miscellaneous receipts	3,858	3,525	4,052
Total	188,392	197,827	220,785

One way to gauge the importance of non-income tax sources of federal revenues is to compare the individual tax burden with the income base. In 1963, federal individual income taxes plus social insurance contributions equaled approximately 13 percent of personal income. The current estimate for 1973—after a decade which witnessed several large reductions in federal income tax rates and related provisions—is still about 13 percent. Hence, in the aggregate, the social security type payroll tax increases have just about offset the reductions in the personal income tax.

The Expenditure Estimates

The January 1972 budget message of the President estimates that federal outlays will rise from $236.6 billion in fiscal 1972 to $246.3 billion in 1973, an increase of $9.6 billion. This increase is the net effect of a large number of individual increases and decreases which only in part cancel each other out.

One useful way of looking at the subject is to examine the role of proposed legislation, because such legislation may be considered as the birthstage of government spending. A little over $8.5 billion, or 89 percent of the proposed increase in budget outlays between 1972 and 1973, would result from new legislation which the President is

asking the Congress to pass (see Table 6). Two items dominate the list in terms of their fiscal impact, the proposed sharing of general revenues with state and local governments and the requested increase in social security benefits. The direction of movement reflected in the table is clear: all but one of the requested legislative items would result in a higher level of spending. The longer term impact of these changes is covered in the following section.

Table 6

INCREASED EXPENDITURES IN FISCAL 1973
DUE TO PROPOSED LEGISLATION
($ in millions)

Item	Amount
General revenue sharing	2,750
Special revenue sharing:	
Urban community development	490
Education	110
Contributions to international institutions	93
Converting farm operating loans to guarantees	−590
Reform of military retired pay and costs of all-volunteer Armed Force	680
Consumer safety and other health programs	59
Aid to desegregating schools, etc.	349
Social security reforms	3,487
Medicare changes	518
Welfare reform	350
Interior Department legislation	26
New environmental protection programs	22
Increasing veterans compensation rates	123
Raising Vietnam G.I. Bill benefits, etc.	43
D. C. financing bank and METRO bonds	20
Total	8,530

Note: Excludes allowance for contingencies to cover "relatively small and unforeseen items."

Turning to expenditures for existing programs, we find that the changes tend to be offsetting. However, in a way this observation may be misleading. The largest decreases are for what seem to be one-shot, nonrecurring items, while many of the increases represent the continuation of longer-term trends. For example, the largest expenditure reduction is in the Interior Department, whose spending pattern goes from a positive $1.1 billion of outlays in 1972 to an estimated negative $1.1 billion in 1973, reflecting an excess of program receipts over disbursements. This abrupt shift results in part from the Supreme

Court order requiring the payment to the federal government of over $1 billion of receipts from Outer Continental Shelf oil and gas leases that have been held in escrow due to a dispute about state boundaries. The second largest reduction ($1.5 billion) is in unemployment insurance payments, reflecting the projected economic improvement.

In contrast, the largest expenditure increases for existing programs are in social security (up $1.9 billion from 1972), interest (up $1.1 billion), medicare (up $0.9 billion), military functions of the Department of Defense (up $0.9 billion), civilian pay raises (an increase of $0.5 billion), and low income housing subsidies (another $0.5 billion increase). These programs generally show a rising outlay curve over time.

Government expenditure forecasting is a hazardous art and precise accuracy cannot be expected. In this 1973 budget, as in most budgets, there is a basis for wondering whether some figures are not a bit understated. The examples range from large to small, from dramatic to obscure. For instance, between 1971 and 1973, budget authority for the Department of Defense (military functions) rises by $10.4 billion, but outlays are projected to increase by only $1.4 billion. Even making generous allowances for the long lead time between appropriation and expenditure for some procurement and R&D categories, the gap here appears excessive. Moreover, a rising share of the military budget consists of compensation costs, which involve little if any lag.

As another instance of what may be an understatement of 1973 figures, the increase in Department of Health, Education, and Welfare outlays for 1973 is $8 billion compared to the larger figure of $10 billion in 1972. A smaller example is the Treasury appropriation for the payment of government losses in shipment which, after rising from $329 million in 1971 to an estimated $771 million in 1972, declines to an anticipated $300 million in 1973.

The Longer Term Outlook

It would be comforting to be able to say that when the economy actually regains a position of roughly full employment, the future flows of revenues and expenditures will be such that the federal budget will be in approximate balance. On the basis of the forward planning information contained in the budget document for the fiscal year 1973, that is not likely to be the case, unless some fundamental changes are made in budget or tax policy. The reader should not jump to the conclusion that this study is pleading the case for the old-fashioned

concept of an annually balanced budget. Rather, the point is that in times of relatively full employment, the income that the government injects into the private economy (its outlays) should not exceed the purchasing power it withdraws (its revenues), unless the goal of policy is to inject some further expansionary stimulus into the economy. Moreover, financing the government's deficit under such circumstances is likely to draw investment funds from the private sector, particularly from such vulnerable but high-priority areas as residential housing.

One indication of the long term squeeze on the budget may be obtained from a more detailed examination of the proposed legislation enumerated in the fiscal 1973 budget document. It may be recalled that Table 6 showed the extent to which the rise in spending in fiscal 1973 is attributable to the new programs. In contrast, Table 7 shows the total spending in each of the years 1973-1977, which is expected to result from this one year's increment of legislation. Focusing on 1977 can be instructive. For that year, it is estimated that approximately $33 billion of expenditures will be incurred solely because of laws that would be passed to carry out the recommendations in the '73 budget. Just coincidentally, that figure slightly exceeds the growth that is anticipated in 1977 in federal revenues ($32 billion), assuming the current tax structure [2] and that 1977 is a year of full employment. Rather than dreaming of the future fiscal dividends this nation will be able to enjoy, it might be more realistic to speak of a fiscal mortgage. In other words, as a nation we are making decisions now as to how we will spend most of our available revenues many years in the future.

A more comprehensive way of looking at this problem is to examine the so-called "budget margin" that is estimated in the fiscal 1973 budget. The projected budget margin for a given year is the estimated revenues that would be available from the existing tax structure (as modified by the current budget proposals) to cover new activities above and beyond existing government programs and those proposed in the budget. Thus, the budget margin represents the amount of discretion that will be available to policy makers in the future in using the projected proceeds of the current tax structure to pay for new or expanded government programs or tax reductions or debt retirement. In last year's budget, the margin for fiscal 1976 was projected at $30 billion. However, the tax and expenditure decisions that have been made during the past year have reduced that figure to

[2] Including the social security tax increase now pending in Congress.

Table 7

LONGER TERM IMPACT OF PROPOSED LEGISLATION
($ in millions)

Department or program	Fiscal years					Increase 1973 to 1977
	1973	1974	1975	1976	1977	
Welfare reform	350	5,500	5,900	6,000	5,500	+ 5,150
Revenue sharing	5,600	8,540	9,903	10,222	11,399	+ 5,799
Contributions to international institutions	103	204	290	404	453	+ 350
Agriculture	−590	−285	−289	−294	−299	+ 291
Defense	680	783	750	736	634	− 46
Health, Education, and Welfare	4,519	8,007	9,928	12,528	15,133	+10,614
Interior	27	49	55	61	62	+ 35
Environmental Protection Agency	22	55	65	70	75	+ 53
Veterans Administration	334	332	309	308	297	− 37
National Capital Area	20	24	37	53	56	+ 36
Total	11,065	23,209	26,948	30,088	33,310	+22,245

Note: Excludes allowance for contingencies of $200 million in 1973, rising to $600 million in 1977.

$24 billion. The new programs proposed in the 1973 budget would reduce it to $5 billion. In fact, if Congress does not adopt the proposed social security tax increases, even that modest margin is likely to disappear.

It is not the general idea of a fiscal dividend that is being criticized here. The growth of revenues from the existing tax structure is normally more rapid than the rising expenditure requirements of existing government programs, thus generating some discretionary revenue or, as it is called, a fiscal dividend. The difficulty is that we tend to commit that dividend before we receive it. Table 8 illustrates this point. According to the table, the budget margin is estimated to increase from $5 billion in 1976 to $23 billion in 1977. However, if the past is any guide, next year's budget is likely to show that the 1977 dividend has already been committed and that a substantial budget margin cannot occur until the following year.

Table 8

BUDGET MARGIN
($ in billions)

Item	Projected Increase Between Fiscal Years	
	1973 and 1976	1973 and 1977
Full employment revenues	69	101
Less:		
Costs of existing programs	45	57
Costs of new programs proposed in 1973 Budget	19	21
Budget margin	5	23

Of course, there is nothing inevitable about the current estimate of the budget margin for any future year. Some ongoing programs can be reduced or eliminated. Tax rates can be raised and new taxes instituted. Yet, our inability as a nation to make the hard choices between *alternative* expenditures or to couple expenditure increases with tax increases is discouraging. As Paul McCracken has stated in this connection, "History suggests that the assumption of running for five more years with no further new initiatives is scarcely consistent with the world as it is."[3] He has recommended that new gov-

[3] Paul W. McCracken, *Economic Priorities in the 1970s* (Ann Arbor, Michigan: Graduate School of Business Administration, University of Michigan, 1971), p. 13.

ernment spending initiatives be accompanied by measures to lower other probable claims on resources.

A subsequent chapter of this study presents another way of looking at expenditure choices and thus at the problem of determining budget priorities. The next chapter deals, among other topics, with the possibility for expanding the sources of federal revenues.

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2
NEW INITIATIVES

Recent presidential statements—notably the State of the Union Message and the Budget Message—have emphasized several areas as being of major presidential concern. In the former, President Nixon pledged "a set of major initiatives to stimulate more imaginative use of America's great capacity for technological advance, and to direct it toward improving the quality of life." He also spoke of "relieving the burden of property taxes and providing fair and adequate financing for our children's education."

The budget makes preliminary moves toward carrying out the first set of proposals. Action on the education finance problem is reserved for later in the year when some key commission reports become available. Attention to both of these topics may be pertinent.

Fostering Research and Development

The fruits of research and development activities are widespread and well-known—a better understanding of the world we live in, a higher standard of living, general progress and enlightenment, and so forth. R&D also is an important contributor to economic growth and productivity.

Many individual studies have been made in recent years in an attempt to quantify the economic effects of R&D. The underlying assumptions of these studies as well as individual numbers they produce, differ; but the overall results tend to be quite similar. The con-

tribution of R&D to economic growth and productivity appears to be positive, significant, and high.[1]

Investment in research and development, both public and private, has been one of the major sources of growth in output and productivity in the United States. To a considerable extent, those industries that have been heavy investors in R&D also tend to have high rates of productivity growth. Thus, the three industries with the highest ratios of R&D outlays to sales—aerospace, electronics, and chemicals —all show relatively high rates of increase in output per man-hour in recent years. Of course, it is the increase in productivity that makes possible noninflationary expansion in wages and other income and hence improvement in real standards of living.

Many of the high technology industries (those with a high ratio of R&D outlays to sales) are also those that have the largest surplus of exports over imports—such as aerospace and chemicals. In calendar 1970, the balance of trade for large jet transports and spare parts was nearly $1.5 billion, whereas the nation's net balance for all trade was only $2 billion; the calendar year 1971 comparison is even more striking, with aerospace continuing to show a favorable trade balance, whereas the nation's net trade balance was in deficit. In contrast, many of the low technology industries habitually show an excess of imports over exports. Food processing and textiles are the most obvious examples.

Recent trends in R&D financing in the United States present a necessary backdrop in public policy decision making. The following three comparisons are extremely revealing.

1. The growth rate of total R&D spending in the United States, government and nongovernment, has been slowing down substantially. From an average rise of almost 14 percent a year in the late 1950s, the growth rate fell to 9 percent in the early 1960s and to less than 5 percent in the late 1960s.

2. When R&D expenditure figures are adjusted for inflation, the slowdown in effective national R&D funding is even greater. From an average real rise of 11 percent in the late 1950s, the growth rate fell to 7 percent in the early 1960s and to three-tenths of one percent a year for the last five years.

3. Since 1964, this nation has been investing an ever smaller share

[1] Leonard L. Lederman, "Introduction and General Summary," in *A Review of the Relationship Between Research and Development and Economic Growth/ Productivity* (Washington: National Science Foundation, 1971), p. 3.

of its national resources in R&D. The bulk of this change in trend has resulted from the completion of a few large developmental projects, notably in the space and defense programs. An important positive offset in recent years has been the major expansion in public sector funding for civilian R&D. Between 1968 and 1972, federal expenditures for civilian R&D (excluding the SST) will have increased by more than 50 percent.

What should be done? For one thing, we should learn from experience and not simply give R&D a blank check on the nation's resources or on the federal treasury. Merely spending more money on R&D is not likely to eliminate poverty or bring lasting peace or make the American people happier. Science and technology are not a panacea for all of society's ills. In fact, some of the by-products of technological advances may, wittingly or unwittingly, contribute to some of those ills. Rather, R&D should be considered objectively, as one among many ways of investing this nation's resources of manpower, equipment, and money. Several basic points may be made in that connection:

A high and rising level of economic activity in and of itself is extremely important to providing encouragement to private sector R&D. A favorable economic environment is a positive influence in two ways: It increases corporate cash flows and thus the amount of internal investment funds available for R&D. It also provides business with greater incentive to undertake R&D by brightening the sales prospect for new and improved products.

In addition, a favorable tax structure exerts an important influence both on the availability of company investment funds for such purposes as R&D and on the incentive to invest. Several existing tax provisions are designed to accomplish these objectives. They vary from general liberalized depreciation to the specific expensing (immediate write-off for tax purposes) of all equipment purchased for research and development work. Despite the immediate (but not necessarily long-run) cost of these provisions, the alternative may be a larger public sector and a corresponding diminution in the scope of private enterprise.

The tax incentive route, in contrast to the direct government expenditure route, relies primarily on market forces and normal business incentives to allocate resources, including R&D resources. R&D does not become a free good under this approach, but merely a bit cheaper than it would be in the absence of the governmental assistance. There is still pressure on the business firm to make sure that it is getting a

favorable return on its R&D investment and thus avoiding obvious waste and inefficiency.

The 1973 budget itself contains few bold new programs for R&D, but instead steps up funding for a number of R&D projects. Funds for research on safe and pollution-free transportation are increased by $210 million between 1972 and 1973, by $93 million for research on a cure for cancer, by $88 million for developing electric power without pollution, and $55 million for educational R&D. Federal funds for civilian R&D in colleges and universities are projected to rise by over $230 million in 1973, mainly for HEW and National Science Foundation programs. All in all, new funding for civilian R&D is estimated to rise by $700 million between the fiscal years 1972 and 1973. For reasons explained in the next chapter, military-related R&D obligations are scheduled to increase by $800 million during the year.

Presumably the President's forthcoming special message on R&D will propose some new initiatives in this area, particularly incentives to foster private sector R&D in areas deemed to be of high national priority.

Financing Local Public Education

Recent court decisions in four states—California, Minnesota, New Jersey, and Texas—have focused national attention on the subject of financing local public education. In brief, these decisions have held that continued reliance on the current methods of financing local schools is unacceptable because the poorer school districts are unable to provide their students with the quality of education afforded to those youngsters lucky enough to live in the wealthier areas. Thus, courts in four states appear to have concluded that maintaining equal treatment under the law requires fundamental changes in the traditional method of financing of public education in the United States.[2] Similar cases are now pending in about half of the remaining states. To date, however, the courts have not indicated what would be an acceptable solution to the problem.

The court cases have spotlighted an important shortcoming that results from primary reliance on the local property tax for financing public education: poor school districts with relatively small amounts of taxable property are often unable, no matter how hard they try, to

[2] The Superior Court of Westchester County does not agree; see Spano vs. Board of Education, 40 Law Week 2475.

raise enough money to provide a reasonably adequate level of educational expenditures.

By and large, the public—as well as the professional—reaction to the court cases has been to jump to the conclusion that the property tax must go if public education is to be properly financed. Although this course of action may be desirable to some, it is not the only way of achieving the objective. Moreover, these decisions have not been reviewed by the Supreme Court of the United States. The disparities in wealth and educational resources that the court decisions addressed are not a newly discovered problem. They were observed by educational finance specialists many decades ago and have been fully analyzed in the scholarly literature.[3] Over the years, many states have taken action to alleviate the situation.

Not all of the state responses have been adequate, but a general approach has been developed which permits accomplishment of two objectives: (1) eliminating the inequities resulting from differences in the geographic distribution of income and wealth and (2) continuing use of the property tax. The basic idea is that a broader level of government (thus far, it has been the state government) supplements the revenues of the poorer school districts out of the taxes paid by the broader constituency. The most common method is the "foundation grant," which usually works as follows: The state government sets an acceptable (or desirable) minimum level of public expenditures for education per pupil enrolled in the public elementary and secondary schools of the state, let us say $500 a year. Then an estimate is made of the property tax rate that the wealthiest school district in the state (the district with the highest dollar value of taxable property per student) would have to levy in order to raise $500 a year per pupil. Let us assume that this would require a levy of $1.80 per hundred dollars of assessed valuation in that district. That school district presumably is wealthy enough not to require a foundation grant (although it might share in other kinds of state aid for education). But to every other school district, the state government then supplies an annual foundation grant to fill the gap between what an educational property tax rate of $1.80 *would* raise and $500. For example, the second wealthiest district might receive $20 per student because, in its case, the $1.80 millage rate would yield $480 per pupil in that district. In contrast, for the poorest school district, the $1.80 rate might only

[3] See Charles Benson, *Economics of Public Education* (Boston: Houghton Mifflin Co., 1968).

yield $200 per student. In that case, the annual foundation grant would be $300 per pupil.

In essence, what the foundation grant does is to adjust for the unequal yield of the property tax. In our hypothetical example, with the same local tax effort, every school district ends up possessing the resources to provide $500 in public education expenditures per pupil. The chosen target level of expenditure reflects the degree of concern for education felt by the people in the state. Several important aspects of the foundation grant approach should be noted.

First, this approach does not require that each and every school district have a uniform rate of property tax. Rather it enables the poorest district to achieve the same standard level of expenditures on education ($500 in our hypothetical case) with no greater tax effort than the wealthiest district. To be sure, an approach of this kind generally would require increasing current state, and perhaps federal, expenditures for aid to local education.

Second, it permits each school district to decide for itself what its tax rate for schools should be. This freedom would be lost if the local school property tax were eliminated. In practice, few school districts in states using the foundation grant system tax themselves at exactly the rate used to compute the grant. Those that value education highly may tax themselves at a higher rate. Conversely, those that give greater weight to recreation or welfare or some other public or private activity may have a lower school tax.

It is important to realize that, under the system, the differential would not be a function of the respective districts' ability to afford education but of differences in local priorities. There are many cases where school districts with relatively equal amounts of taxable property levy different school tax rates. On reflection, this should not be surprising. A wealthy individual may own an old Plymouth automobile (and perhaps a yacht), while another of equal wealth may own two Cadillacs (and hate the water). People's tastes differ, and not solely because of the amount of income they receive or property they own.

Whatever may be the solution to the problem of educational finance, a substantial amount of property tax relief might be desirable in view of the regressive nature of this tax and its growing unpopularity. President Nixon has requested the nonpartisan Advisory Commission on Intergovernmental Relations to present its recommendations later this year. In the spring, the President's Commission on School Finance is scheduled to issue its long-awaited report. Hence, it would seem that 1972 will be a year when considerable attention is

given to revamping the ways in which government finances education.

However, as shown in the preceding section of this report, there does not appear to be an available margin of uncommitted resources to finance a new federal program of aid to elementary and secondary education, should that be a desired part of the solution. It may be comforting to debate whether the problems presented by the recent court cases can best be met by tax credits (which presumably could also be extended to private school outlays), by federal revenue sharing with the states which would be distributed to local school districts, or by direct federal payments to these local governments.

Yet, the fundamental question in this area may be more basic, and more difficult, than any of those alternatives: *Where will the money come from?* One alternative is to raise federal income tax rates. Such a move, of course, would represent a sharp reversal of the trend in Congress since 1969 toward lightening the income tax load. Another alternative is to levy new kinds of federal taxes. In this connection, increasing public attention is currently being given to the possibility of a national value added tax (VAT). The VAT already is a controversial proposal, criticized by some on the grounds that it is a disguised form of a sales tax. An analysis of the pros and cons of a value added tax is beyond the scope of this study. However, it does present one of the last unused tax sources available to the federal government.

There is perhaps another alternative, that is, to "level down" outlays for education. This would entail rearranging those outlays so that some of the money currently being used for enrichment programs in the wealthier districts would be used instead to bring the poorer areas up to some standard. The foundation grant approach discussed earlier is a more positive approach in the sense that, in effect, it would "level up" the outlays for education.

In any event, it would seem that the coming public debate over how to finance local schools needs to incorporate fully consideration as to how any additional revenues that may be required are to be raised.

3

TRENDS IN GOVERNMENT PROGRAMS

Important changes are taking place within the rising total of federal spending. Perhaps the most dramatic is the emergence of the Department of Health, Education, and Welfare as the agency with the largest budget, with the Pentagon falling to second position.

The shift from warfare to welfare is evident in the budget figures. The category of human resources (which includes most of the HEW activities, plus veterans benefits and manpower programs) continues its steady rise—from 29 percent of budget outlays in 1963 to 32 percent in 1968 and to an estimated 45 percent in 1973. Simultaneously, national defense (which includes the Department of Defense, foreign military aid, and the Atomic Energy Commission) continues its decline —from 47 percent in 1963 to 45 percent in 1968 and to an estimated 32 percent in 1973. Important budgetary changes are indicated in each of the major program areas.

For purposes of more detailed analysis, the various government functions are classified here into four major categories: national defense, human resources, physical resources, and government operations (see Table 9). It should be noted that the Congress and its appropriations committees do not review the President's budgetary recommendations in terms of these classifications. Rather, they approach the budget on an agency by agency basis and act on the agency requests for new funds (appropriations and other forms of "budget authority"). The outlays that are actually made in a given year may come from budget authority enacted in previous years as well as in the year in which the outlay occurs.[1]

[1] See Murray L. Weidenbaum, *Federal Budgeting* (Washington: American Enterprise Institute for Public Policy Research, 1964).

Table 9

SUMMARY OF BUDGET OUTLAYS, BY FUNCTION
(fiscal years, $ in millions)

Function	1971 Actual	1972 Estimate	1973 Estimate
National defense*	77,661	78,030	78,310
Human resources:	88,605	103,516	110,801
Education and manpower	8,654	10,140	11,281
Health	14,463	17,024	18,117
Income security	55,712	65,225	69,658
Veterans benefits and services	9,776	11,127	11,745
Physical resources:	25,860	30,812	28,926
Agriculture and rural development	5,096	7,345	6,891
Natural resources and environment	2,716	4,376	2,450
Commerce and transportation	11,310	11,872	11,550
Community development and housing	3,357	4,039	4,844
Space research and technology	3,381	3,180	3,191
Government operations:	19,298	24,252	28,221
International affairs and finance	3,095	3,960	3,844
Interest	19,609	20,067	21,161
General government	3,970	5,302	5,531
General revenue sharing	—	2,250	5,000
Allowances for contingencies, etc.	—	550	1,275
Undistributed intrabudgetary transactions	−7,376	−7,877	−8,590
Total	211,425	236,610	246,257

* Includes allowances for civilian and military pay raises for the Department of Defense.

National Defense

Total outlays for the Department of Defense and related activities in the national defense category are budgeted for a modest increase of $280 million for 1973 over 1972. However, important changes in individual areas are proposed.

Personnel costs continue to take a rising share of military funds, reflecting both the wage trends evident in the civilian economy and the effort to attract enough volunteers to end the draft. Civilian and military personnel costs jumped from 43 percent of the Pentagon's

budget in 1964 to 52 percent in 1971 and may reach 57 percent in 1973. Average pay and benefits for military personnel are rising from $4,570 a year in 1964 to a projected $9,500 in 1973. Thus, whereas $1 billion could pay for 219,000 servicemen in 1964, it will support only 105,000 in 1973.

Table 10 shows the extent to which Department of Defense outlays dominate the national defense category. The military assistance function is related to foreign economic aid, which is discussed below under the heading, international affairs and finance. Atomic energy represents that borderline area which bedevils all attempts at neat classification. A major portion of AEC outlays—often roughly approximated at one-half—is devoted to production of nuclear warheads for weapons systems and related military work. However, major segments of the government's atomic energy activities are devoted to peaceful, civilian applications.

Table 10

OUTLAYS FOR NATIONAL DEFENSE
(fiscal years, $ in millions)

Program or Agency	1971 Actual	1972 Estimate	1973 Estimate
Department of Defense—military functions	74,546	75,000	75,900
Military assistance	999	800	600
Atomic energy	2,275	2,358	2,422
Defense-related activities	−70	90	79
Deduct: offsetting receipts	−89	−218	−692
Total	77,661	78,030	78,310

The remainder of the national defense category consists of smaller expenditures for the selective service system, the stockpile of strategic and critical materials, and civil defense activities in several government agencies.

The 1973 budget document vividly reflects the reorientation of our military establishment from emphasis on a shooting war in Vietnam to the more conventional cold war posture that characterized the period between the Korean and Vietnam conflicts. This shift shows up in two ways. First, new funding for the war in Southeast Asia is down substantially—from $19.3 billion in fiscal year 1968 to $6.5 billion in

1972.[2] Second, the areas of increased emphasis are noteworthy. New funding requests for strategic forces (ICBMs, B-52 bombers, and Polaris/Poseidon missile submarines) have risen from $7.6 billion in 1972 to $8.8 billion in 1973. Similarly, requests for research and development on new weapons have risen from $6.2 billion in 1972 to $7.2 billion in 1973. Both of these categories were squeezed during the Vietnam War.

The new budget calls for development and modernization across the spectrum of weapons systems. The following are major examples:

- Equipping Minuteman ICBMs and Poseidon submarine-launched missiles with MIRVs (multiple independently-targeted re-entry vehicles).
- Continuing development of a new manned strategic bomber (the B-1) and continuing modernization of the B-52.
- Carrying forward the deployment of the Safeguard ABM and developing a "hardsite" ABM system.
- Continuing production of the F-14 carrier-based aircraft.
- Beginning production of the F-15 Air Force fighter.
- Constructing seven destroyers and beginning work on a new nuclear-powered aircraft carrier.
- Building six high-speed nuclear submarines.

As shown in Table 11, the decline in the number of men in uniform is expected to continue through fiscal year 1973. With relatively few exceptions, however, the amount of military equipment is being maintained at its former level and, as indicated above, this equipment is being modernized.

Serious debate is taking place today concerning the adequacy of U.S. strategic forces. Given the limited amount of "hard" intelligence available in open sources, it is difficult to offer firm conclusions on this issue. Indeed, recent congressional hearings demonstrate the wide

[2] These figures cover only the added costs of the war, costs which will be reduced as American involvement in Southeast Asia decreases. For example, many of the B-52 bombers now being used in the Indochina war will continue being flown after the war is ended, but they will not be dropping bombs. Thus the cost of dropping bombs—costs such as the cost of the bombs, combat pay for the planes' crews, et cetera—is included in the $6.5 billion figure, but the cost of flying the planes—the cost of fuel, routine maintenance, base pay for the planes' crews, et cetera—is not included. See "Transcript of Department of Defense FY 1973 Budget Briefing," (mimeo) p. 9.

Table 11

ACTIVE MILITARY PERSONNEL AND FORCES

Description	Actual June 30, 1971	Estimated June 30, 1972	Estimated June 30, 1973
Military personnel (in thousands):			
Army	1,238	974	870
Navy	655	607	601
Marine Corps	234	203	198
Air Force	764	751	727
Total, Department of Defense	2,891	2,536	2,397
Strategic forces:			
Intercontinental ballistic missiles	1,054	1,054	1,054
Polaris/Poseidon missiles	656	656	656
Strategic bombers	575	512	511
General purpose forces:			
Land forces (divisions)	16⅔	16	16
Tactical air forces (wings)	36	36	37
Naval forces:			
Attack and antisubmarine carriers	18	17	16
Nuclear attack submarines	51	57	60
Amphibious assault ships	80	77	66
Airlift and sealift forces:			
Aircraft squadrons	17	17	17
Troopships, cargoships, and tankers	91	68	66

range of views among experienced scientific personnel with access to a good share of classified material.[3]

Conclusions tend to depend on the measure of adequacy used. Analysts who focus primarily on the number of strategic weapon carriers are concerned that, after a relatively slow start, the Soviet Union has taken a commanding lead in recent years in numbers of ICBMs (1,520 by November 1971 versus our relatively constant 1,054), and by the extent to which it is catching up in submarine-launched ballistic missiles (475 versus our relatively constant 656). These analysts tend to recommend either expanding our own strategic forces or placing even greater emphasis on the Strategic Arms Limitation Talks (SALT).

[3] See U.S. Senate, Committee on Armed Services, *Hearings on S. 939 (HR 8687)*, Washington, Government Printing Office, 1971, Five Parts (especially testimony of Drs. Foster, York, Agnew, and Panofsky).

In contrast, other analysts contend that "MIRVing" our Minuteman and Polaris/Poseidon fleets gives the United States a very considerable advantage in terms of a capability to bomb a wide array of targets. Moreover, some argue that the Polaris/Poseidon fleet is and will remain relatively invulnerable to enemy attack for some time and that, therefore, an increase in our nuclear delivery capability would merely represent unnecessary "overkill" and a further escalation of the arms race.

The outcome of these contrary positions remains to be seen, but some predictions can be ventured. It appears that, in the short run, both the economic and international pressures on military spending will continue to be upward. Almost paradoxically, the employment impact of the defense budget is likely to continue going the other way. As shown in Table 12, total defense-generated employment is declining below the 1964 level, that is, below the pre-Vietnam status. However, continued reductions in manpower are more than offset by two factors. The first is the increased pay levels that are a major element in attracting and keeping more volunteers in the service (military basic pay has doubled since 1964). The second is the continued rise in the costs of developing and producing highly sophisticated weapons systems embodying the latest technological advances.

Table 12

DEFENSE RELATED EMPLOYMENT
(millions of persons)

Fiscal Year	Industry	DOD Civilian	Military	Total
1964	2.3	1.0	2.7	6.0
1965	2.1	1.0	2.7	5.8
1966	2.6	1.1	3.1	6.9
1967	3.1	1.3	3.4	7.8
1968	3.2	1.3	3.5	8.0
1969	3.0	1.3	3.5	7.7
1970	2.4	1.2	3.1	6.6
1971	2.0	1.1	2.7	5.8
1972	1.9	1.0	2.4	5.4
1973	1.9	1.0	2.4	5.3

Source: Office of Management and Budget, *Budget Highlights Fiscal Year 1973* (Washington, 1972).

These pressures for increased military spending should be seen in perspective, however. The portion of the nation's resources devoted to military activities has declined from 9.4 percent in the fiscal year

1968 to 7.5 percent in fiscal 1971 and is projected to fall to 6.4 percent in fiscal 1973. Moreover, in "real terms" (when the effect of inflation is eliminated), the expenditures of the Department of Defense are about back to the pre-Vietnam level.

In its report on the military authorization bill for fiscal 1972, the Senate Armed Services Committee, which is hardly an aggregation of "peace radicals" and doves, stated that it now seems likely that "defense budgets are to remain more or less constant . . . and consume an ever smaller part of the nation's resources. . . ." Indeed, the current view of defense industry planners is that, for the remainder of this decade, the military budget is likely to represent a declining portion both of total federal spending and of the national economy. Any absolute dollar increases are expected to be eaten up by inflation.

Historical experience tends to support that conclusion. After an immediate postwar decline (which has already occurred, particularly in real terms), the overall level of military spending usually stays at a plateau during peacetime. For example, the level of defense expenditures in real terms was virtually flat during the decade between the end of the Korean conflict and the Vietnam expansion. The proposed real level of military spending for fiscal 1973 is about $4.5 billion lower than the real level of 1971.

Human Resources

Outlays for human resources have become the dominant element in the federal budget. However, despite the implication of the title, the great bulk of the money in this category is not for investment or development activities to enhance the productivity and capability of individuals. Rather, most of it is for income maintenance and related transfer payments—social security benefits, unemployment compensation, public assistance, medicare and medicaid, and veterans pensions and compensation. In fact, the projected $16.7 billion increase in these transfer payments from 1971 to 1973 exceeds the total developmental outlays for human resources estimated in 1973. Secondly, of the $22.2 billion increase estimated for total human resource expenditures in these years, only $3.2 billion is to go to developmental areas, i.e., education, general science, manpower training, health research, and related investment activities.

Thus, the shift in emphasis in the federal budget from defense to human resources is primarily in the form of expanded transfer payments for welfare, social security, and medicare. By design or other-

wise, this is the area that is receiving a significant portion of any civilian Vietnam peace dividend.

The following are the more significant specific program changes recommended in the new budget for each of the major human resource categories shown in Table 13.

Table 13

OUTLAYS FOR HUMAN RESOURCES
(fiscal years, $ in millions)

Program or agency	1971 Actual	1972 Estimate	1973 Estimate
Major transfer payments			
Medicare, medicaid, etc.	11,946	14,214	14,733
Retirement and social insurance	46,322	52,655	57,047
Public assistance	7,775	10,113	10,337
Veterans pensions, compensation and insurance	6,447	6,951	7,050
Subtotal	72,490	83,933	89,167
Major developmental activities			
Development of health resources	2,201	2,446	2,787
Education	5,541	5,987	6,412
Veterans education and training	1,660	2,239	2,437
National Science Foundation	522	538	596
Manpower training	1,800	2,108	2,271
Prevention and control of health problems	319	382	619
Rehabilitation services and facilities	528	593	653
Other research and training	66	81	106
Subtotal	12,637	14,374	15,881
All other			
Emergency public service employment	—	660	1,100
Employment services	802	876	934
Social services	1,022	1,804	1,537
Other veterans benefits and services	2,154	2,438	2,753
Subtotal	3,978	5,778	6,324
Deduct: offsetting receipts	−500	−569	−570
Total	88,605	103,516	110,802

Education and manpower. Expenditures for education (including general support of science) and manpower are estimated to rise from $10.1 billion in 1972 to $11.3 billion in 1973. A major increase ($440 million) results from the temporary program of public service employment in state and local government, a program that attempts both to

reduce unemployment and to assist hard-pressed states, cities, and counties. Another large increase ($300 million) is to furnish financial aid to school districts that are desegregating. Smaller amounts of funds are budgeted for two innovations: a new Foundation for Higher Education to spur needed changes in colleges and universities and a proposed National Institute of Education to provide leadership in education research and development. As part of the President's overall effort to spur R&D, expenditures for the National Science Foundation are projected to rise from $538 million in 1972 to $596 million in 1973.

Perhaps the most important presidential statement on federal expenditures for education appeared in his State of the Union Message. There, as noted above, President Nixon stated that later this year he would make recommendations for relieving the property tax burden and "providing both fair and adequate financing for our children's education."

Health. Federal expenditures for health—mainly medicare and medicaid—continue to be an expanding part of the budget. A harbinger of future trends may be the proposal to establish guaranteed health insurance coverage for employees and their families, with the cost borne jointly by employers and employees. For low income families not covered, a federally administered Family Health Insurance Plan (in part, federally financed) would provide a basic level of health protection. Under FHIP, premiums and copayments would be scaled to a family's income.

Income security. With the ever expanding social security rolls and frequent increases in benefit rates, federal outlays for retirement, public assistance, and unemployment benefits and related income security efforts are becoming the dominant civilian portion of the budget. The 1973 level of $69.7 billion represents an increase of $4.4 billion over the current year, mainly for OASI. The 1973 budget message also proposes to increase social security benefits by another 5 percent, with future rises tied automatically to the cost of living. In addition, the President has renewed his request for speedy congressional action on his welfare reform proposal.

Veterans benefits and services. Projected outlays for veterans benefits and services are estimated at $11.7 billion in 1973, compared to $11.1 billion in 1972. The budget envisages an increase in education and training benefit levels of 8.6 percent, to $190 a month for a single veteran. This proposal is designed to encourage veterans to make

more use of the available human investment programs. (Thus far Vietnam veterans have not used the "GI Bill" to the extent that World War II ex-servicemen did.)

Physical Resources

Federal expenditures for physical resources programs in the fiscal year 1973 are estimated at $28.9 billion, far less than the amounts for either national defense or human resources. In contrast to the case of human resources programs, the major share of the disbursements in this category is of a developmental nature (see Table 14). Nevertheless, a significant portion of the money is to go not for investment or developmental outlays, but rather for income transfers and other current operating expenses. Yet the $18.9 billion here estimated as 1973 expenditures for developing the physical structure of the economy exceeds the $15.9 billion of developmental programs in the human resource category.

"Income and price" programs. One of the largest single items in the civilian portion of the federal budget comprises outlays for the price support and related farm income programs of the Department of Agriculture. For 1973, these outlays are estimated at $5.0 billion and constitute more than one-sixth of all physical resource disbursements. Low income housing subsidies and the postal deficit are the other large subsidy-type programs in this category.

The programs in this category mainly bolster the income (either in cash or in "kind") of some element of the population. To that extent, they are comparable to the income maintenance programs classified under the human resources category. However, in most cases some particular production (agriculture) or consumption (housing) activity is required in order to qualify for these subsidies. In practice, the line between the two becomes hazy, notably in the medicare area where the federal government is subsidizing the cost of medical services rather than directly bolstering the income of the recipients.

Developing the physical structure of the economy. The two largest items in the developmental portion of physical resource outlays are highway construction and water resource projects (largely of the Corps of Engineers). To some extent, these activities have become controversial in recent years. Persons concerned with the physical environment question the possible adverse effects some of these projects may have on the quality of air and water or, in the case of road

Table 14

OUTLAYS FOR PHYSICAL RESOURCES
(fiscal years, $ in millions)

Program or agency	1971 Actual	1972 Estimate	1973 Estimate
Developing the physical structure of the economy			
Pollution control and abatement	727	1,340	1,590
Recreational resources	479	642	639
Mineral resources	266	270	279
Land management	837	935	918
Agricultural resources and research	889	984	1,000
Highway construction	4,727	4,830	5,068
Other ground transportation	343	582	652
Airways and airports	1,547	1,682	1,634
Geological and meteorological surveys	266	305	357
Area and regional development	717	816	857
Community development	1,699	1,995	2,734
Water resource projects	2,390	3,004	3,207
Subtotal	14,887	17,385	18,935
"Income and price" programs			
Price support and other farm income programs	3,651	5,501	5,011
Postal deficit	2,183	1,943	1,409
Housing subsidies	1,243	1,674	2,066
Subsidized REA loans	390	417	485
Maritime subsidies	428	465	468
Airline subsidies	55	60	54
Subtotal	7,950	10,060	9,493
All other			
Space research and technology	3,381	3,180	3,191
Agriculture Department operations	183	430	388
Coast Guard	617	724	756
Regulation and aid to business	649	623	439
Community action agencies	789	750	765
Miscellaneous housing programs	−319	−380	−725
Subtotal	5,300	5,327	4,814
Deduct: offsetting receipts	2,277	1,960	4,316
Total	25,860	30,812	28,926

building, on the viability of individual neighborhoods and communities. There have been instances, for example, where dredging a river to promote navigation has meant merely moving pollutants from the river to a nearby lake, thus aggravating existing environmental

problems in the lake. To the extent such results are produced, it is debatable whether the physical structure of the economy has been improved.[4]

Viewing these items from another angle, economists question whether many of them actually contribute to the nation's income and welfare. Some contend that proper measurement of the costs and benefits would yield an excess of cost in many cases.[5] Official calculations generally show that the probable benefits from each project undertaken will exceed the costs. However, often the interest rate used to discount the future benefits of a project is significantly less than the Treasury's current borrowing costs.

On the other hand, many of the outlays in the physical resource category clearly do help develop the physical structure of the American economy. The most rapidly rising item is pollution control and abatement. Estimated 1973 expenditures of $1.6 billion for this item are more than double the 1971 level, clearly indicating a changing budget priority. Other large growth rates show up in outlays for community development, recreational resources, and non-highway ground transportation (mainly for the development of urban mass transit systems).

The following are the more significant specific program changes recommended in the 1973 budget for each of the major natural resource categories shown in Table 9:

Space research and technology. The major new development in this program area is the President's decision to develop the space shuttle. The resultant "reusable boosters," it is expected, will reduce the future cost of space operations. With the phasing out of the Apollo manned lunar landing project, NASA expenditures are leveling out at the $3.2 billion level in 1972 and again in 1973.

Agriculture and rural development. The administration's recommendation that some farm lending programs be shifted to insured loans (which do not involve direct budget outlays) accounts for the decrease in total estimated agricultural outlays from $7.3 billion in 1972 to $6.9 billion in 1973. Legislation will be proposed to create a new credit program to promote economic development in rural areas and to convert the farm operating loan program to an insured basis. Thus,

[4] See Murray L. Weidenbaum, *The Modern Public Sector* (New York: Basic Books, 1969), Chapter 1.

[5] See U.S. Congress, Joint Economic Committee, *Federal Expenditure Policy for Economic Growth and Stability* (Washington: U.S. Government Printing Office, 1957), pp. 658-667.

the trend toward financing more activities outside of the budget proper is likely to continue.

Natural resources and environment (previously, simply natural resources). With respect to this category of budget spending the focus of the public's attention is on environmental activities. Indeed, significant expansions are budgeted for 1973 for pollution control and abatement, which is projected to rise $254 million to a total of $1.5 billion, and for other similar activities. Yet, outlays for conventional programs still dominate the overall category, although not to the extent of earlier years. Corps of Engineers and Bureau of Reclamation water and power projects are estimated at $2.3 billion in 1973, an increase of $263 million from 1972.

Commerce and transportation. Total outlays for commerce and transportation are estimated at $11.6 billion in 1973, compared to $11.9 billion in 1972. The decline is more than explained by the anticipated reduction in budgetary support for the Postal Service. Areas of expansion include aid to urban mass transit systems, which rises from $280 million in 1972 to $390 million in 1973. The entire category continues to be dominated by highway construction which rises from $4.8 billion in 1972 to $5.1 billion in 1973.

Community development and housing. Budget expenditures for community development and housing continue their upward trend, rising from $4.0 billion in 1972 to $4.8 billion in 1973. The proposed urban community development revenue sharing program accounts for the bulk of the increase. In addition to consolidating many existing urban aids, this special revenue sharing effort would involve a net increase of $490 million for urban areas. However, the bulk of federal assistance to housing and homeowners will continue to be in the form of credit aids such as mortgage guarantees which are not included in the budget.

Government Operations

Approximately $28 billion—or less than one-eighth of the 1973 budget—is devoted to the category that comprises the traditional operating functions of the government, domestic and international, as well as some items that cannot be assigned to any of the substantive functions discussed above. The largest component, listed at $21 billion for the year, is in the form of government interest payments to the public.

The major innovation in this area is the President's proposal for the enactment of a general revenue sharing program, retroactive to January 1, 1972. An alternative plan has been introduced by Congressman Wilbur Mills and appears to be under active consideration by the Committee on Ways and Means of the House of Representatives. Both approaches would funnel approximately similar amounts of federal funds to state and local governments. However, their distributional formulas and other specific provisions differ.

The following are the more significant program changes in the 1973 budget for the major government operations categories:

International affairs and finance. This category, which includes foreign economic aid and State Department operations, shows a decline in expenditures of $116 million in fiscal 1973. Two points should be noted. First, the entire decline is traceable to a $275 million decrease in the Food for Peace program. Second, the Export Expansion Act of 1971 (PL 92-126) moved the Export-Import Bank out of the budget even though outlays of the Bank—which continues to be a wholly federally owned enterprise—still generate requirements for federal debt to finance its operations. The Eximbank's extra-budgetary position permits substantial increases for international affairs and finance to take place without affecting the budget figures.

Interest. Payments of interest, mainly on the national debt, are projected to rise from $20.1 billion in 1972 to $21.2 billion in 1973. The rise results primarily from a larger public debt to be serviced.

General government. Overhead and multi-functional programs (budgeted under the category, general government) are estimated at $5.5 billion in 1973, compared to $5.3 billion in 1972. The net increase occurs entirely in law enforcement activities, an area of rising priority, and primarily in the relatively new program of law enforcement grants to state and local governments.

General revenue sharing. In the new budget, President Nixon reaffirmed his support for sharing a portion of federal revenues with state and local governments. The estimated 1973 expenditures are $5 billion. The annual amounts would grow steadily each year because the revenue sharing appropriation would be a fixed percentage of the federal personal income tax base. The money would be divided among the various states and the District of Columbia on a per capita basis, with an adjustment for relative revenue effort (meaning that those states that try harder to meet their own needs would get a bonus).

Each state would be required to pass on a designated part of its revenue share to each city and county. Aside from this and other minor restrictions,[6] decisions on how to spend the money would be made by the respective state or local governments.

Concluding Observations

If some budgetary leeway is considered necessary in order to provide for new initiatives (such as local school financing), policy makers might be well advised to take a fresh look at the various subsidies and special benefits that have become part of the federal budget over the years. This is not to suggest a wholesale condemnation of subsidies, but rather that this area of government expenditure, as well as all others, should be subject to continuing public scrutiny. A subsequent

Table 15

MAJOR TYPES OF FEDERAL SUBSIDIES
(fiscal year 1970, $ in millions)

Function	Cash Payment	Tax Subsidies	Credit Subsidies	Benefits-in-Kind	Total
Agriculture	3,879	880	443	1,593	6,795
Medical care	973	3,150	52	4,617	8,792
Manpower	1,991	550	—	—	2,541
Education	1,976	785	434	409	3,604
International trade	106	420	623	34	1,183
Housing	195	5,680	2,550	—	8,425
Natural resources	330	1,970	22	712	3,034
Transportation	300	10	—	362	672
Commerce and economic development	2,051	15,635	59	1,510	19,255
Other	—	9,400	—	—	9,400
Total	11,801	38,480	4,183	9,237	63,701

Source: U.S. Congress, Joint Economic Committee.

[6] *"The only requirements that would be imposed on the states, besides the pass-through to localities are: (a) maintenance of existing state-local revenue sharing effort and other state aid; and (b) recipient governments must provide a reasonable amount of information to the Department of the Treasury regarding the expenditure of the funds they receive.* In addition the provisions of Section 602 of Title VI of the Civil Rights Act of 1964 apply; these provide safeguards against discrimination in all grants of federal funds to states." From Legislative Analysis Number 7, *General Revenue Sharing Proposals* (Washington: American Enterprise Institute for Public Policy Research, 1971).

chapter of this study deals with the specific area of federal credit programs, an area where many hidden subsidies exist.

The Joint Economic Committee of the Congress recently has issued a detailed report on various aspects of government subsidy programs.[7] Although individual analysts may differ as to which government activities constitute subsidies and especially as to the desirability of a given subsidy, increased public and congressional attention to the question of subsidies would seem to be desirable.

In that spirit—and without offering any value judgments on each item—Table 15 is set forth here. It is a composite of the various federal subsidies identified by the staff of the Joint Economic Committee. Some of the items, particularly in the tax area, would seem to be substitutes for direct government operations and hence may represent, all in all, a desirable private enterprise-oriented alternative.

[7] U.S. Congress, Joint Economic Committee, *The Economics of Federal Subsidy Programs* (Washington: U.S. Government Printing Office, 1972).

4
TOWARD A PLANNING BUDGET

The federal budget, or any other budget for that matter, is essentially a device for choosing among alternatives. In the traditional U.S. budget process, choices are made basically along agency and subagency lines: how much money should be appropriated for the Department of Agriculture and how much for HEW, and, within the Department of Agriculture, how much for program A and how much for program B. This type of review makes it difficult for the Congress to focus on the more important questions of setting broad national priorities. In recognition of this fact, for some years now programs have been identified in the budget according to function (national defense, income security, et cetera) as well as according to administrative agency. These functional categories do not, however, constitute the framework within which the budget is reviewed. Rather, they are essentially a device for describing decisions already made. Even if Congress were to attempt to review the budget along these functional lines, so many functions are distinguished—14 in all—that ordering priorities would remain quite difficult.

In this chapter we return to basics and present a type of budget designed to focus attention clearly on broad national priorities. This so-called planning budget also has the advantage of making more explicit the alternative program choices that are available for reaching national objectives and of facilitating the kind of economic analysis that might lead to an improved allocation of government funds.[1]

[1] An earlier version of this analysis is contained in Murray L. Weidenbaum, *Federal Budgeting* (Washington: American Enterprise Institute, 1964), pp. 59-69.

Basic Government Functions

Four basic functions of government are distinguished: national security, public welfare, economic development, and routine day-to-day general government operations. The reader may challenge, or change, these categories if he wishes, just as he may later wish to reclassify some of the programs assigned to these categories. But the very fact that such objections can be raised illustrates the advantage of this approach: the planning budget focuses attention on the basic purposes of government in a way that the unified budget does not.

Table 16 presents the 1973 budget restated in terms of the four principal governmental functions. For purposes of comparison, the 1964 budget is also shown. The basic purpose of government is to further the common good, or, to put it another way, to increase the welfare of the body politic. The four categories shown in Table 16 can be seen as different means of achieving this end, and the distribution of expenditures among these categories can be seen as reflecting a national judgment as to what "mix" will best forward this end. Whether by accident or design, there has been a striking change over the past 10 years in this mix. In the 1964 budget, requests for obligational authority in the field of national security and public welfare accounted for 46 percent and 34 percent of total budget authority, respectively. These proportions are almost exactly reversed in the 1973 budget.[2]

Table 16

PLANNING BUDGET, 1964 AND 1973
(requested budget authority)

	1973		1964	
	Amount ($ billions)	Percent of total	Amount ($ billions)	Percent of total
National security	91.2	34	63.9	46
Public welfare	119.0	44	46.9	34
Economic development	34.0	13	14.3	10
General government	25.7	9	13.6	10
Total	270.9	100	138.8	100

[2] As can also be seen from Table 16, this reordering of priorities was accomplished by increasing the public welfare budget over the 10-year period much more rapidly than the national security budget, rather than by actually reducing the national security budget. In "real" terms (after removing the effect of inflation) there has been little change in the amount of resources devoted to national security.

The planning budget casts the problem of choosing among alternatives in a different light from the traditional budget. Currently, budget reviewers tend to look at a program in isolation; the planning budget highlights the interrelationships of various programs and program types. The categories in Table 16 represent four approaches for improving the well-being of U.S. citizens. The obvious question is, would a reallocation of funds among these categories result in a net increase or decrease in well-being? For example, there is obviously a close connection between economic development programs and public welfare programs. Would the reallocation of a billion dollars from the public welfare budget to the economic development budget be desirable? This type of shift would reduce the public welfare budget by less than 1 percent, but would permit a 3 percent increase in spending for economic development. Might not such a shift of funds result in increased jobs, thus reducing the number of people requiring public assistance? Asking this question does not imply any judgment as to what the answer might be; the only judgment implied is that this type of question is useful and almost unavoidable in the planning budget context.

National security programs. There are, of course, many ways to forward each of the national objectives represented by the categories listed in Table 16. National security, for example, is enhanced by a strong and credible military posture; it can also be increased by foreign aid, by scientific research and development on the part of such agencies as the AEC and NASA, and by psychological competition of the kind conducted by the United States Information Agency. The logical way to make choices on how any one of the four objectives is to be pursued is to group together all the programs that are designed to

Table 17

NATIONAL SECURITY BUDGET, 1973
(requested budget authority)

Program	Amount ($ billions)	Percent of total
U.S. military forces	82.4	89.0
Foreign military aid	1.7	3.2
Foreign nonmilitary aid	4.4	4.7
Scientific competition	3.4	3.6
Psychological competition	0.3	0.4
Total	92.2	100.0

achieve a particular objective and then to try to determine whether changing the relative importance of the programs increases or decreases the amount of national security, public welfare, or whatever. Table 17 presents an illustrative list of prgrams in the national security area, using figures from the 1973 budget. If a budget of this type were actually submitted to Congress—or if Congress itself were to rework the official budget into this form—it would provide a superior framework for choosing among alternatives. It would permit, for example, more rational evaluation of the net change in national security that would result from a small reduction in the budget for military forces (say on the order of $100 million) and a proportionately large increase in USIA activities.

Public welfare programs. Table 18 presents an illustrative public welfare budget. More than half of the $119 billion allocated to public welfare is directed to insurance and retirement programs, and the lion's share of insurance and retirement programs, in turn, is for the social security system. Given the problems with social security—which

Table 18

PUBLIC WELFARE BUDGET, 1973
(requested budget authority)

Program	Amount ($ billions)	Percent of total
Insurance and retirement	60.8	51
Public assistance	11.0	9
Veterans' benefits	12.4	10
Aid to farmers and rural development	5.7	5
Housing and community facilities	3.7	3
Specialized welfare	2.5	2
Antipoverty programs	2.7	2
Health services	20.1	18
Total	118.9	100

have been stressed by observers on both the left and the right—one might ask whether we as a people want to rely so heavily upon this program when there are other ways to promote public welfare. Might it not be at least possible that a reallocation of funds from insurance and retirement programs to, say, direct public assistance would increase total public welfare? The point here is not that such a change would necessarily be desirable, but rather that the possibility of its desirability should be examined and that the framework of a planning budget facilitates this examination.

Given certain existing conditions, an examination of this type might be a mere formality. The existence of trust funds and permament appropriations, as pointed out in the following chapter, makes meaningful review of many programs impossible within the context of the appropriations process. However, an inquiry along the lines suggested here could lead to changes in the substantive legislation that authorizes a particular trust fund or permanent appropriation, thus increasing the flexibility of the budget.

Development and operations. Requests for obligational authority for FY 1973 in the two areas of economic development and of general government operations are shown in Table 19 and Table 20, respec-

Table 19

ECONOMIC DEVELOPMENT BUDGET, 1973
(requested budget authority)

Program	Amount ($ billions)	Percent of total
Natural resources and regional development	6.3	18
Manpower development	4.4	13
Transportation facilities	10.4	31
Education and research	8.0	23
Health research and development	3.6	11
Business aids and subsidies	1.3	4
Total	34.0	100

Table 20

GENERAL GOVERNMENT BUDGET, 1973
(requested budget authority)

Program	Amount ($ billions)	Percent of total
Interest on debt	21.2	82
Judicial and law enforcement	2.1	8
General government	3.7	14
General aid to states and localities	5.3	21
Foreign relations	.5	2
Allowances	−7.1	−27
Total	25.7	100

tively. In each of these budgets, marginal analysis—that is, what is the net result of a reallocation of a small amount of funds from one program to another?—can be applied, just as it was in the budgets devel-

oped earlier. As was stated in the beginning of this chapter, opinions may differ as to the most appropriate classification schedule to be used. The reader may also dispute whether certain programs actually contribute to the attainment of national goals. The very existence of sharp differences of opinion, however, emphasizes the need for a better means—such as is provided by the planning budget—of evaluating the worth of respective programs.

Some Further Analysis

This level of detail also permits not only comparisons within each of the four major functions of government, but cross-comparisons of items included in different functional areas. For example, the $10.4 billion budgeted for transportation facilities (primarily highways) exceeds the sums estimated for education ($8.0 billion), manpower development ($4.4 billion), or health R&D ($3.6 billion). Would some reallocation within the economic development category from physical investments to "human resource" types of outlays increase the overall effectiveness of the nation's developmental efforts? Or vice versa?

Also, the $3.6 billion for developmental work in the health field just about equals the $3.7 billion net outlays for housing and community facilities in the public welfare category. Would some reallocation between the two be in order? Again, raising these questions is not meant to signify any value judgments but, rather, to emphasize the need for a new pattern for decision making in the allocation of governmental resources.

In concluding this chapter, the reader should be reminded that the treatment of the subject of budgetary alternatives has been limited to examinations of trade-offs in expenditures among programs, and a more basic alternative has been ignored. The fundamental choice, of course, is whether funds that would be required for a given purpose should be spent at all. So, in addition to the types of questions asked throughout this chapter, one more must be asked. Would national welfare be increased by eliminating a particular program and, via tax reductions, permitting increases in private spending?

A Technical Note

Any attempt to classify government programs by function necessarily involves an element of arbitrariness. For example, economists gener-

ally tend to view education as an investment in "human capital"—and, as such, as a means of increasing productivity. Viewed from this angle, education should be classified as economic development (as it was in this chapter). From another point of view, however, education can legitimately be called a "consumer good," the possession of which, quite apart from any consideration of productivity or "practicality," increases an individual's personal well-being. If this view is adopted, education might better be classified as public welfare.

The classifications used in this chapter were developed from Table 14 (pages 513-525) of the fiscal 1973 budget. This section presents the underlying data that were used so that the reader may, if he chooses, make changes in the classifications to suit his own preferences.

National Security	*$ Millions*
(1) U.S. military forces	
Department of Defense	81,656
Defense-related activities	114
Atomic energy (assumed to be 50% of AEC budget)	1,281
Deductions for offsetting receipts	—692
	82,351
(2) Foreign military aid	
Military assistance	1,722
(3) Foreign nonmilitary aid	
Economic and financial assistance	3,769
Food for Peace	895
Deductions for offsetting receipts	—268
	4,396
(4) Scientific competition	
Space research and technology	3,378
(5) Psychological competition	
Foreign information and exchange activities	297
Total, National Security	92,152

Public Welfare	
(1) Insurance and retirement	
Retirement and social insurance	60,795
Deductions for offsetting receipts	—21
	60,774
(2) Public assistance	
Public assistance	11,032
(3) Veterans benefits	
Veterans benefits and services	12,441
(4) Aid to farmers and rural areas	
Farm income stabilization	5,739
Deductions for offsetting receipts	—41
	5,698
(5) Housing and community facilities	
Rural housing and public facilities	761
Urban community development revenue sharing	490
Low and moderate income housing aids	2,040
Maintenance of the housing mortgage market	360
	3,651
(6) Specialized welfare	
Social and individual services	2,514
(7) Anti-poverty programs	
Community planning, management and development	2,757
(8) Health services	
Providing or financing medical services	20,115
Deductions for offsetting receipts	—22
	20,093
Total, Public Welfare	118,960
Economic Development	
(1) Natural resources and regional development	
Atomic energy (assumed to be 50% of AEC budget)	1,281
Agricultural and water resources	341
Research and other agricultural services	946

Natural resources and environment	2,945
Area and regional development	831
	6,344
(2) Manpower development	
Manpower training and employment services	4,084
Other manpower aids	397
Deductions for offsetting receipts	—32
	4,449
(3) Transportation facilities	
Air transportation	1,536
Water transportation	1,352
Ground transportation	6,187
Postal service	1,424
Deductions for offsetting receipts	—143
	10,356
(4) Education and research	
Elementary and secondary education	4,102
Higher education	1,406
Vocational education	554
Education revenue sharing	224
Other education aids	1,029
General science	653
	7,968
(5) Health research and development	
Development of health resources	2,851
Prevention and control of health problems	738
	3,589
(6) Business aids and subsidies	
Advancement of business	1,311
Total, Economic Development	34,017
Operations	
(1) Interest	
Interest	21,161
(2) Judicial and law enforcement	
Regulation of business	157

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Judicial functions	195
Law enforcement and justice	1,798
	2,150
(3) General government	
Legislative functions	312
Executive direction and management	92
Central fiscal operations	1,747
General property and records management	792
Central personnel management	303
National Capital region	539
Other general government	312
Deductions for offsetting receipts	—344
	3,753
(4) General aids to states and localities	
General revenue sharing	5,300
(5) Foreign relations	
Conduct of foreign affairs	496
(6) Allowances	
Allowances	1,500
Undistributed intragovernmental payments	—8,590
	—7,090
Total, Operations	25,770
GRAND TOTAL	270,900

5

CONTROLLABILITY OF THE FEDERAL BUDGET

In the preceding chapter, we presented a proposal to improve the budget process. That proposal was based on the assumption that the budget totals and individual program requests are susceptible to meaningful review. In point of fact many programs cannot be reviewed meaningfully in the appropriations process. A large share of the budget authority requested each year is in the form of trust funds and permanent or indefinite appropriations. The amount of these types of appropriations is determined by factors outside of the normal appropriations process. In this chapter we will examine the extent to which the 1973 budget is effectively controllable and make some recommendations for increasing the degree of controllability in future budgets.

Since we are concerned here with congressional review of the budget, we will define controllable and uncontrollable charges in reference to that review, i.e., the appropriations process. From this viewpoint, four types of appropriations may be classified as uncontrollable.

Nature of Uncontrollable Items

Trust funds typically are completely immune from annual congressional review. In fact they are usually not even included in the appropriations bills which are considered by Congress. The reason is that almost all trust funds are financed through permanent appropriations, under which the managers of the funds are authorized to incur obligations at the time the fund is established and no further action of the Congress is required. Trust funds range in size from the mammoth social security trust fund ($61.5 billion) to the minuscule USIA

trust fund ($13,000). In the 1973 budget, such funds amount to $86.5 billion, or one-third of total budget authority.

Trust funds are the major instance of permanent appropriations, but not the only one. Sizable numbers of other programs are also financed in this way—for example, interest payments on the national debt ($22.7 billion in 1973) and appropriations to remove surplus agricultural commodities ($0.8 billion)—and they constitute the second type of budget authority that is uncontrollable in the normal appropriations process. A third type consists of indefinite appropriations which are, in effect, blank checks good for one year. They authorize an agency to spend whatever amount is necessary to meet a specified requirement.

The fourth type of appropriations which are relatively uncontrollable is actually a catch-all category designated in this analysis as other fixed charges. Programs whose appropriations are set by an underlying piece of substantive legislation, such as salaries for the President and members of Congress, are included in this category. Also included are programs which, though funded by current definite appropriations, are in fact open-ended. An example of this type of program is the one providing for pay to retired military personnel. Total annual payments disbursed under this program depend on the number and rank of retired personnel and the retirement benefit schedule. None of these factors can be directly controlled through the normal appropriations process.

The reader may think of other appropriations which are relatively uncontrollable. Partially completed construction projects come quickly to mind. Other examples are the completion of a long term moon-landing project and production of various military weapons systems. Undoubtedly there are some projects that should never have been started in the first place because their cost is greater than the benefits they will yield. But once the project has been started, it is probable that the benefits from its completion will exceed the additional costs of completing it. Add this to the fact that refusing to appropriate funds for completion would mean, in many cases, that money previously spent on it was wasted—an admission that Congress might understandably be loath to make—and one can see that uncompleted projects constitute a fifth type of relatively uncontrollable appropriation.

However, uncompleted projects are theoretically controllable, if not practically. And even if it were desired to treat them as uncontrollable, the budget estimates do not clearly identify appropriations for

uncompleted projects, except in a few cases (notably such projects of the Army Corps of Engineers and the General Services Administration). Since we cannot include all uncompleted projects, we have not included any. To the extent that uncompleted projects are uncontrollable, the estimates presented later in this chapter are understated.

As was mentioned earlier, the term "uncontrollable" as used in this chapter refers to uncontrollability in the normal appropriations process. Ultimately, of course, all government programs are controllable. Trust funds were created by legislative action and they can be eliminated in the same way. Permanent appropriations can be converted to current appropriations, and indefinite appropriations and other fixed charges can either have a limit imposed on them, making them definite appropriations—or, theoretically at least, they can be terminated. None of these actions, however, can be taken in the normal appropriations process.

Estimates of Uncontrollability in the 1973 Budget

Table 21 presents estimates by agency of the uncontrollable portions of the 1973 budget. In deriving the data for this table, the tests for controllability were applied sequentially. Almost all trust funds are funded by permanent indefinite appropriations; and they were counted only once, as trust funds. Permanent appropriations were taken to include all permanent appropriations except those for trust funds.

As indicated by the table, uncontrollable charges in the 1973 budget amount to $148 billion, or 54 percent of the total budget authority requested. Such items are $11 billion higher in fiscal 1973 than in 1972, a figure that accounts for half of the overall increase in total budget authority requested for 1973. It should be emphasized that the estimate of uncontrollable charges used here is biased downward. Wherever the budget and its accompanying materials were ambiguous, or did not provide sufficient detail, the program was classified as controllable.

Perhaps more meaningful than the absolute dollar amounts in Table 21 are the percentage shares of relatively controllable items in agencies' budgets which are shown in Table 22. Some agencies virtually escape the scrutiny of annual budgetary review, while others are completely controllable. An interesting contrast can be drawn between the two agencies with the largest budgets, HEW and DOD. Almost all of the defense budget, but only one-tenth of HEW's, is susceptible to effective annual review through the normal appropriations process.

Table 21

UNCONTROLLABLE CHARGES IN THE 1973 BUDGET, BY AGENCY
($ in millions)

Legislative Branch	86.5	HUD	1,213.0
Judiciary	30.4	Interior	683.6
Executive Office of President	0.2	Justice	—
		Labor	6,343.3
Funds Appropriated to President	2,921.8	State	57.5
		Transportation	6,347.3
Agriculture	5,804.5	Treasury	23,077.1
Commerce	138.3	Veterans Administration	9,770.9
Defense—Military	4,331.3		
Defense—Civil	42.0	Other independent agencies	10,607.6
HEW	76,819.3		
		Total	148,274.6

Table 22

CONTROLLABLE SHARE OF 1973 AGENCY BUDGETS

Justice	100%	Funds Appropriated to President	55%
Executive Office of President	100	Agriculture	51
HUD	98	Labor	33
Defense—Civil	98	Other agencies	31
Defense—Military	95	Transportation	26
Commerce	91	Veterans Administration	21
State	91	Treasury	18
Judiciary	84	HEW	12
Legislative Branch	82	Interior	0
		Average for government	46%

Table 23

DISTRIBUTION OF 1973 CONTROLLABLE BUDGET REQUESTS, BY AGENCY

Defense—Military	62%	Veterans Administration	2%
HEW	8	Commerce	1
Agriculture	5	Defense—Civil	1
Treasury	4	Justice	1
Other agencies	4	Legislative	*
HUD	3	Judicial	*
Labor	3	Executive Office of President	*
Funds Appropriated to President	3	State	*
Transportation	2	Interior	0
		Total	100%

* Less than 1 percent.

This fact may help explain why the defense budget goes through cycles of expansion and contraction while the HEW budget increases every year.

A few large programs account for the great bulk of uncontrollable items. The social security trust funds alone equal more than two-fifths of all uncontrollable charges in the 1973 budget, and interest on the public debt accounts for another 15 percent.

The 1973 budget requests $125 billion in controllable appropriations. Table 23 shows how this $125 billion is distributed by agency. The Department of Defense appropriation, which represents 30 percent of the entire federal budget, accounts for more than 60 percent of the relatively controllable portion of the budget. A handful of other agencies account for most of the remainder.

Suggestions for Reform

A first, and somewhat valid, reaction to the problems set forth in this chapter would be a mixture of apathy and despair. With over half of the requested budget authority in 1973 labeled uncontrollable in terms of the annual budgetary process, and with the remainder consisting largely of wages and salaries (a politically and currently economically unfeasible target for budget cutters), one could view the prospects for moderating budget requests with great pessimism. However, several reforms could be instituted to make the annual budgetary process more meaningful by enlarging the controllable portion of the budget.

Firstly, it is important to differentiate between naturally uncontrollable items and artificially uncontrollable items. For example, the interest on the national debt is a natural uncontrollable, because the amount depends largely on the types of debt issue outstanding and on money market conditions and only very little on the kind of factors that can be determined in the budget review.

Another case of a natural uncontrollable is VA payments to disabled veterans, an item whose annual size is determined by the number of disabled veterans currently demanding benefits. Repeated attempts in the Congress to cut this area of the budget have been unsuccessful. However, from time to time when funds become inadequate in relation to the government's obligations, Congress has to vote supplemental funds.

It would be far more useful, in the direction of efficient government, for the Congress to rivet its attention on those areas which are

artificially uncontrollable, meaning programs made uncontrollable by statute, but which could be adapted to annual review. One program in the "artificial" category stems from a 1935 act which provides that 30 percent of annual customs receipts is automatically funneled to a permanent, indefinite, special fund to be used for the "removal of surplus agricultural commodities." Other examples in this category are the grants of $50,000 to each state for agricultural and mining colleges, the earmarking of Yellowstone National Park admission fees for educational expenses of dependents of park personnel, and the payment of admission fees from Grand Teton National Park to the state of Wyoming in effect in lieu of taxes. The common factor in all these artificially uncontrollable items is that frequently there is no relation between the amount appropriated and the existing need. Annual budget review is needed in this area to correct these inequities.

In many cases, reform would mean amending the legislation that authorizes the permanent and/or indefinite appropriations, the fixed charges and the trust funds, so that annual review could be possible. First, with respect to the trust funds, the Congress would need to reexamine each of them and preserve only those which are most in keeping with the idea of a trust, i.e., money administered but not owned by a fiduciary. For example, the civil service retirement and disability fund is a logical candidate for a trust fund but the highway program is not. Spending money for highways is more similar to spending for ordinary government operations than it is to the fiduciary concept. This program was financed out of general revenues until 1954 when it was shifted to trust fund status. An alternate approach would be to handle it within the regular budget process as a special fund to be financed with earmarked taxes.

Second, the Congress should also examine permanent and indefinite appropriations to make sure that their amounts are not greater than the existing need. Some permanent and indefinite appropriations may be superfluous. Third, those fixed charges that, due to their natural uncontrollability, might more readily become permanent and/or indefinite appropriations could be made so. Other more artificial fixed charges could be restored to annual review through substantive changes in the basic statute.

In addition, to avoid the problem of large relatively uncontrollable appropriations for continuing construction in the future, the Congress should carefully assess the full costs of a construction project and other similar long-term projects at their inception. The "full funding" technique used to review budget requests for military projects, in

which total costs are considered at the outset, could be extended to all such long-term schemes. At the same time, the Congress should be aware that often the only point of effective control over government spending is at the proposal stage of the legislation. Provisions to allow for annual budget review should be enumerated in new legislation, so that future problems of uncontrollability will not arise.

If these steps are taken, the institutional obstacles to efficient budget review would be substantially reduced and government activity would become more controllable. Moreover, the Congress would then be in a better position to finance new initiatives in response to changing national priorities, without having to curtail private demand via tax increases.

A Technical Note

Trust funds and the permanent and indefinite appropriations are clearly identified in the budget. This note lists those items which were included in the category "other fixed charges," so that the reader may, if he wishes, make changes and calculate his own estimate of uncontrollability.

Legislative Branch—Senate:

- Compensation of Vice President and Senators
- Expense allowance of Vice President and majority and minority leaders
- Mileage of President of the Senate and Senators
- Payments to estates and widows of deceased members of the Senate

Legislative Branch—House of Representatives:

- Compensation of members
- Mileage of members and expense allowance of Speaker
- Members' clerk hire
- Payments to widows and heirs of deceased members of Congress

Judiciary:

- Salaries of Judges

Executive Office of the President:

- Compensation of the President

Department of Agriculture:
- Commodity Credit Corporation—price support and related programs

Department of Defense:
- Retired pay, defense

Department of Health, Education, and Welfare:
- Retirement pay and medical benefits for commissioned officers
- Grants to states for public assistance
- Payment to Social Security Trust Funds

Department of Labor:
- Federal unemployment benefits and allowances
- Federal workmen's compensation benefits

Department of State:
- Payment to foreign service retirement and disability fund

Department of Transportation:
- Retired pay

Department of the Treasury:
- Claims, judgments and relief acts
- Payment of government losses in shipment

Veterans Administration:
- Income security
- Readjustment benefits
- Veterans insurance and indemnities
- Service-disabled veterans insurance fund
- Veterans reopened insurance fund
- Veterans special life insurance fund

Civil Service Commission:
- Annuities under special acts
- Government payment for annuitants, employees' health benefits

Foreign Claims Settlement Commission:
- Payment of Vietnam and U.S.S. *Pueblo* prisoner-of-war claims

Interstate Commerce Commission:
- Payment of loan guarantees

Railroad Retirement Board:
Payment for military service credit

General Services Administration:
Payments, public buildings purchase contracts

6
FEDERAL CREDIT PROGRAMS

The federal government provides, at below market prices, many types of goods and services to selected groups of the population. The difference between the market price and the lower government price is the amount of subsidy being received by the particular group.

This chapter deals with a generally neglected type of subsidy, the hidden subsidies which take the form of below market interest rates on government loans or of governmentally assisted credit. A case in point is the situation where the Treasury pays an interest rate of about 7 percent to borrow money and then turns around and makes available 2 percent loans for rural electrification and related activities. Clearly, in this case, the federal taxpayer is subsidizing the people who profit from rural electrification. Moreover, the subsidy may be unintentional, or at least was initially, in the sense that when the Congress passed the original REA legislation, the Treasury was paying about 2 percent interest on the national debt.

Substantial subsidies, in the form of below market interest rates, are now provided through federal credit programs to a great many sectors of the American economy—housing, agriculture, transportation, health, education, state and local governments, business—as well as to foreigners. Indeed, most federal loan programs contain some element of subsidy. As will be shown, the magnitude of these hidden subsidies is substantial. In the fiscal year 1971 alone, the use of the governmental credit power resulted in hidden but very real subsidies of $5 billion; the estimate for '72 is $7.4 billion and for '73 it is $7.5 billion.

The Measurement of Credit Subsidies [1]

The use of the term subsidy here refers to the cash cost to the government of federal credit programs, including both direct interest subsidy payments and implicit interest subsidies arising from the difference between the rates at which the government is currently lending and the rates at which it is currently borrowing. Not included are the costs of administering the loan programs, and the defaults on such loans, to the extent that these costs are not covered by fees or other charges imposed on private borrowers or lenders.

An important limitation of the analysis needs to be acknowledged. The degree of subsidy which is identified depends in good measure on the discount rate which is used as the basis for comparison. The figures in this chapter, which are based on data in Special Analysis E of the fiscal '73 budget, are calculated on the basis of an 8 percent rate. This rate is used because it is approximately equivalent to the private market rate on federally guaranteed loans, after making an allowance for guarantee costs. A rate of 8 percent (in contrast to the Treasury borrowing rate) has the advantage of valuing direct loans near the price which they would bring if sold to private investors. Thus, it more nearly measures the benefits provided to borrowers than would a less-than-market rate.

The amount of the interest subsidy varies directly with (1) the difference between the interest rate paid by the borrower and the market rate of interest, (2) the maturity of the loan, and (3) the extent to which interest is forgiven or amortization delayed during the life of the loan.

Federal Credit Activity

Federal credit is provided in four major forms:

1. *Direct loans by federal departments and agencies.* Loans of this type, such as the 2 percent loans made by the Rural Electrification Administration, generally involve significant subsidies because of low lending rates. In many cases, the government also absorbs the administrative expenses and losses arising from loan defaults, thus

[1] For a more detailed analysis, see Murray L. Weidenbaum, *Subsidies in Federal Credit Programs*, Joint Economic Committee (forthcoming) and Dan Larkins, *The Economics of Federal Credit Programs*, American Enterprise Institute (forthcoming).

further increasing the amount of the subsidy. Commitments for new loans in this category are estimated to decline, from $10.5 billion in fiscal 1971 to $8.1 billion in 1973 (see Table 24). However, the recent congressional legislation moving the Export-Import Bank out of the budget accounts for virtually all of the drop.

Table 24

NEW COMMITMENTS FOR DIRECT FEDERAL LOANS
(fiscal years, $ in millions)

Agency or Program	1971 Actual	1972 Estimate	1973 Estimate
Funds Appropriated to the President:			
International security assistance	688	350	493
International development assistance	718	790	918
Overseas Private Investment Corporation	2	10	25
Agriculture:			
Commodity Credit Corporation	2,727	3,628	3,143
Rural Electrification Administration	487	662	689
Farmers Home Administration	463	286	11
Commerce:			
Economic Development Administration	60	63	73
Maritime Administration	—	1	—
Trade adjustment assistance	—	25	25
Health, Education, and Welfare	329	440	204
Housing and Urban Development:			
Low-rent public housing	171	175	216
Community development loans	623	662	705
Federal Housing Administration	17	50	50
Government National Mortgage Association	537	293	188
New communities fund	—	28	28
Other mortgage credit	75	100	100
Interior	14	24	27
Transportation	90	57	80
Veterans Administration:			
Housing loans and guarantees	239	285	287
Insurance policy loans	143	130	123
District of Columbia	41	143	190
Export-Import Bank [a]	2,362	319	—
Federal Home Loan Bank Board	6	19	8
Small Business Administration	572	633	375
Other agencies	88	132	100
Total	10,451	9,304	8,057

[a] Excluded from the budget by statute (PL 92-126) on August 17, 1971.

2. *Loans guaranteed and insured by federal departments and agencies.* These loans account for the greatest share of the current

expansion in federal credit programs. Their growth can be explained in part by the fact that they are not included in the budget and thus are not subjected to the delays and difficulties of the budget process. Also, there has been a substantial increase in programs under which the federal government pays part of the interest on insured loans, for

Table 25

NEW COMMITMENTS FOR FEDERAL LOAN GUARANTEES
(fiscal years, $ in millions)

Agency or Program	1971 Actual	1972 Estimate	1973 Estimate
Funds Appropriated to the President:			
International security assistance	46	200	136
International development assistance	56	121	105
Overseas Private Investment Corporation	9	31	51
Agriculture:			
Farmers Home Administration	1,898	2,426	3,288
Commerce:			
Economic Development Administration	[a]	4	6
Maritime Administration	281	344	439
Trade adjustment assistance	—	50	50
Health, Education, and Welfare	1,644	2,251	2,972
Housing and Urban Development: [b]			
Low-rent public housing	1,709	1,748	2,159
Community development loans	1,091	2,622	800
Federal Housing Administration	22,629	25,377	29,243
New communities fund	50	160	300
Other mortgage credit	263	200	200
Transportation	106	55	109
Veterans Administration:			
Housing loans and guarantees	4,356	7,409	7,691
District of Columbia	20	20	70
Emergency Loan Guarantee Board	—	120	30
Export-Import Bank	3,507	4,512	4,176
Small Business	863	1,318	1,965
Other agencies or programs	20	16	21
Total	38,547	48,983	53,816

[a] Less than $500 thousand.
[b] To avoid double counting with data in Table 24, excludes GNMA commitments for guarantee of mortgage-backed securities.

example, low income housing. New commitments for federal loan guarantees are estimated to increase from $38.5 billion in fiscal 1971 to $53.8 billion in fiscal 1973 (see Table 25).

3. *Interest subsidy payments on loans made by private lenders.* As noted above, interest subsidy payments are made in connection

with some guaranteed loans. They are also provided for certain loans which are not guaranteed, such as college housing loans.

4. *Loans by federally sponsored agencies, such as the Federal National Mortgage Association, the Federal Home Loan Banks, and the farm credit agencies.* Loans of this type involve relatively little direct subsidy. However, an indirect subsidy is involved in two ways: (a) these federally sponsored agencies, ostensibly privately owned, enjoy various tax advantages; and (b) they are able to borrow funds in the market at low interest rates because of the implicit government backing of their activities. (To some minor extent, in addition, this ability may increase the cost of Treasury borrowing.) Loans made by sponsored agencies have increased sharply over the past decade, largely because of the secondary market support provided for housing. New commitments in fiscal 1973 are estimated at $11.3 billion, up from $10.1 billion in 1972 (see Table 26).

In recent years, the great bulk of federally extended or federally assisted credit has been in the form of federal guarantees of credit

Table 26

NET CHANGES IN OUTSTANDING LOANS FOR MAJOR GOVERNMENT-SPONSORED CREDIT PROGRAMS
(fiscal years, $ in millions)

Agency	Increase or decrease (−)		
	1971 Actual	1972 Estimate	1973 Estimate
Housing and Urban Development:			
Federal National Mortgage Association	2,168	4,987	4,702
Export-Import Bank	—	1,329	1,187
Farm Credit Administration:			
Banks for Cooperatives	287	196	223
Federal Intermediate Credit Banks	812	886	1,019
Federal Land Banks	585	625	630
Federal Home Loan Bank Board:			
Federal Home Loan Banks	−2,995	1,159	1,900
Federal Home Loan Mortgage Corporation	469	876	1,600
Total	1,326	10,058	11,261

provided by private sources via these governmentally sponsored intermediaries. Such guarantees in the fiscal year 1973 are estimated to represent $26 billion of the total increase of $28 billion in federal credit for the year. On a cumulative basis, federally guaranteed and

Table 27
ESTIMATED INTEREST SUBSIDIES IN MAJOR FEDERAL CREDIT PROGRAMS, FISCAL YEAR 1973
($ in millions)

Agency or Program	New Commitments	Average Interest Rate	Capitalized Value of Subsidy*
Direct Loans			
Funds Appropriated to the President:			
International security assistance	493	5.3%	72
International development assistance	900	2.5	477
Agriculture:			
Commodity Credit Corporation:			
Price support	1,983	3.5	75
Public Law 480	705	2	318
Rural Electrification Administration	563	2	300
Farmers Home Administration	310	4	112
Health, Education, and Welfare:			
Capital for student loans	53	1.9	17
Higher education facilities	3	3	1
Housing and Urban Development:			
Urban renewal	615	6	10
Low-rent public housing	216	0	13
College housing	100	3	48
FHA fund	316	5.6	54
Veterans Administration:			
Insurance policy loans	122	4	20
Export-Import Bank	7,400	6	464
Small Business Administration:			
Business and investment fund	275	5.6	32
Disaster loan fund	100	4.1	12
Total, subsidized direct loans	14,195	—	2,025
Guaranteed and Insured Loans			
Agriculture:			
Rural housing insurance	2,144	7.2	158
Agricultural credit insurance	1,144	5	351
Health, Education, and Welfare:			
Student loan insurance	1,351	4.4	204
Higher education facilities	400	7	37
Housing and Urban Development:			
Urban renewal	800	3.4	30
Low-rent public housing	2,159	0	1,532
College housing	200	3	86
Mortgage insurance (subsidized)	5,799	2	3,053
Export-Import Bank:			
Portfolio sales	50	6	2
Total major subsidized guaranteed and insured loans	14,343	—	5,454
GRAND TOTAL, FEDERAL CREDIT PROGRAMS	28,538	—	7,479

* Estimated value of subsidy based on an 8 percent rate of discount.

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insured loans are estimated at $189 billion or three-fifths of the total of $306 billion in federal credit outstanding on June 30, 1973.

It is not hard to see the reasons for the growing popularity of these governmental credit programs. Most of them are not included in the federal budget and, hence, seem to be a relatively painless way of furthering some national objective. Moreover, the programs are acclaimed by those individuals and groups that enjoy the various benefits that are offered.

The effect of the subsidy is to change the allocation of resources in the economy. A credit subsidy increases the market power of the subsidized borrower, and thus "crowds out" some potential buyers. At the heart of a subsidy is a political decision to favor some at the expense of others.

Credit Subsidies

Table 27 provides subsidy estimates for the major federal credit programs. As can be seen, the operation of these programs in the fiscal year 1973 will result in ultimate interest subsidies to the direct beneficiaries of these programs of $7.5 billion.

Housing programs account for the bulk of the estimated subsidies. Other substantial amounts of subsidies are found in foreign aid, farm price supports, student loan assistance, and export promotion.

More meaningful than the dollar values of subsidies, perhaps, is the ratio of estimated subsidy to the total amount of the loan extended or guaranteed. In several federal credit programs, the estimated subsidy is equal to more than one-half of the total amount of the loan. For example, in the case of the zero interest rate loans of the low-rent public housing program, the subsidy could be provided alternatively in the form of an initial cash grant of 71 percent of the loan amount, with the remaining 29 percent extended at an 8 percent interest rate. Interest subsidies equal one-half or more of the principal of the loan in four major federal programs: rural electrification, higher education facilities, low-rent public housing, and subsidized housing mortgage insurance (see Table 28 for details).

Conclusion

Federal credit programs are growing rapidly and several problems are associated with this growth.

First, in fiscal year 1973 *all* of this growth will occur in credit

Table 28

RATIO OF INTEREST SUBSIDY TO TOTAL AMOUNT OF LOANS, FISCAL YEAR 1973

Agency or Program	Ratio of Subsidy to Loan
Direct loans	
Funds Appropriated to the President:	
International security assistance	15%
International development assistance	5
Agriculture:	
CCC: Price support	38
CCC: Public Law 480	4
Farmers Home Administration	4
Rural Electrification Administration	53
Health, Education, and Welfare:	
Capital for student loans	3
Higher education facilities	50
Housing and Urban Development:	
Urban renewal	2
Low-rent public housing	6
College housing	48
FHA fund	17
VA: Insurance policy loans	16
Export-Import Bank	6
Small Business Administration:	
Business and investment fund	12
Disaster loan fund	12
Average, major subsidized direct loans	14%
Guaranteed and insured loans	
Agriculture:	
Rural housing insurance	7%
Agricultural credit insurance	31
Health, Education, and Welfare:	
Student loan insurance	15
Higher education facilities	9
Housing and Urban Development:	
Urban renewal	4
Low-rent public housing	71
College housing	44
Mortgage insurance (subsidized)	53
Export-Import Bank: Portfolio sales	4
Average, major subsidized, guaranteed and insured loans	39%

Source: Calculated from Table 27.

programs excluded from the budget, i.e., federal loan insurance and guarantees and loans of federally sponsored agencies. Exclusion of these programs from the budget shields them from congressional

scrutiny. Second, the subsidy element of federal credit programs—even in the case of those programs that are included in the budget (i.e., direct federal loans)—is not clearly identified in the budget document. When the subsidy is hidden, grants in effect masquerade as loans, and this distorts the decision-making process. As federal credit programs grow, this distortion becomes progressively worse.

Also associated with the rapid growth of federal credit programs is the strong probability that federal and federally assisted borrowing will absorb close to half of all the funds lent in private credit markets in fiscal 1972. Borrowing on such a massive scale has potentially serious implications not only for the allocation of resources, but also for GNP, interest rates and inflation. There is at present no agency that adequately supervises and controls this borrowing.

To help alleviate these problems, many students of fiscal affairs believe that all federal credit programs should be reviewed and coordinated along with all other federal programs when the government's budget and economic plans are being prepared. The proposed federal financing bank offers a means for bringing about this coordination.[2] Annual congressional review to ensure that extra-budgetary programs are consistent with the nation's overall economic goals is also important, however. The fact should not be overlooked that decisions to give certain groups of borrowers more or better access to credit markets than would otherwise be the case may permit reductions in direct government spending programs in the same functional area. To achieve the necessary review, Congress could require that the President submit an auxiliary budget which covers federal loan insurance and loans of federally sponsored agencies. In the absence of such an auxiliary budget, Congress might at least impose ceilings on:

1. the overall volume of debt created under federal loan guarantees, and

2. the total borrowing of federal and federally sponsored agencies. While these ceilings, like the ceiling on the national debt, may have to be raised periodically, they would at least bring the whole question of extra-budgetary credit programs under congressional purview.

Regarding credit subsidies, all proposals to create new federal credit programs or to broaden existing ones could be accompanied by an appraisal of the extent of the subsidy that would be involved. In particular, this appraisal should spell out the relation between the

[2] S. 3001 (92nd Cong., 1st Sess.).

interest rate charged under the program on the one hand, and the rate that would be charged by competitive and efficient private lenders and the rate necessary to cover the government's costs on the other. This would not require that all credit programs should necessarily be self-supporting, but rather that subsidies should be identified as such in the budget so that the Congress and the public may be fully aware of their nature, their beneficiaries and their size.

The positive effects of federal credit programs also need to be kept in mind. The credit mechanism has become an important method of using governmental power to achieve various public objectives, such as better housing, more educational facilities, and increased exports. As in the case of other governmental programs, the relative costs and benefits of the credit programs need to be compared both with each other and with other public and private uses of economic resources.

APPENDIX

The Geographical Distribution of Federal Government Spending

The body of this report, like most analyses of the federal budget, is limited to the national totals. This appendix, in contrast, attempts to shed some light on the geographical distribution of federal spending.

Table A-1 shows some of the differences in how expenditures under major federal government programs are disbursed over the nation. For purposes of comparison, the states have been grouped into the eight standard "income regions" used by the Department of Commerce.

Some of the differences in the geographic distribution of federal funds are well known. For example, the Mideastern and Far Western states, with their concentration of aerospace and electronics industries, receive large shares of military and NASA contracts. In contrast, the Plains and Southern states receive most of the direct benefits of such agricultural programs as farm price supports. Several categories of federal programs serve particularly to bolster the income of the poorer states, especially those located in the Southeastern and Southwestern regions. It can be seen in Table A-1 that grants-in-aid to state and local governments and military wage payments (the latter reflecting the location of major defense installations) to these regions are substantially above their shares of personal income and, in some cases, of population.

Procurement

This analysis of the regional impact of federal procurement uses data on contract awards by the Department of Defense (DOD) and the

Table A-1

REGIONAL DISTRIBUTION OF SELECTED FEDERAL PROGRAMS
(percentage shares)

Region	Share of Population	Share of Personal Income	Share of Federal Program: Military contracts	NASA contracts	Civilian wages	Military wages	Grants-in-aid	Farm price supports	Veterans	Social security
Mideast	20.9	23.8	21.3	21.1	26.7	11.5	22.0	0.1	20.9	23.2
Far West	12.8	14.2	21.3	30.4	15.3	20.6	16.0	6.1	12.4	12.2
New England	5.8	6.5	9.2	5.2	4.6	4.3	5.9	*	6.2	6.4
Great Lakes	19.8	20.6	12.0	3.6	12.4	6.1	14.1	9.2	17.0	20.3
Plains	8.1	7.6	7.5	4.3	6.1	5.7	7.2	41.0	8.7	8.7
Rocky Mountains	2.5	2.3	1.4	3.5	3.9	3.5	3.2	2.6	2.8	2.1
Southwest	8.1	7.3	11.1	10.8	9.4	14.1	8.5	14.7	8.8	6.9
Southeast	21.6	17.5	15.8	20.9	21.1	33.9	22.5	26.2	23.0	19.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from Tables A-3 through A-10, below.

Table A-2

ALTERNATE ESTIMATES OF DEFENSE PURCHASES

Region	Percentage Distribution					Rank				
	Dept. of Defense	Library of Congress	Bolton	Employment	Average	Dept. of Defense	Library of Congress	Bolton	Employment	Average
Far West	28.1	22.6	22.6	29.5	25.7	1	1	1	1	1
Mideast	22.0	20.9	21.9	20.9	21.4	2	2	2	2	2
New England	9.0	8.4	8.6	12.6	9.6	5	5	5	4	5
Great Lakes	12.6	15.4	14.8	13.8	14.2	3	4	4	3	3
Plains	6.3	6.1	5.8	6.7	6.2	7	7	7	6	7
Rocky Mountains	4.2	2.4	2.7	2.1	2.9	8	8	8	8	8
Southwest	6.6	8.3	7.5	5.5	7.0	6	6	6	7	6
Southeast	11.2	15.9	16.1	8.9	13.0	4	3	3	5	4
Total	100.0	100.0	100.0	100.0	100.0					

Source: Murray L. Weidenbaum, "Shifting the Composition of Government Spending: Implications for the Regional Distribution of Income," *Regional Science Association: Papers*, 1966.

National Aeronautics and Space Administration (NASA). These two agencies account for about 65 percent of federal procurement. However, the available data are not perfectly suited to the analysis. The DOD series represents prime contract awards and does not reflect subcontracts that may cross state and regional boundaries; the NASA series includes only a sample of subcontracts.

Other studies of the regional impact of defense purchases have attempted to circumvent the subcontracting problem by using Census of Manufactures data [1] or employment in major defense-related industries.[2] Census of Manufactures data reveal considerably more equality in the distribution of DOD purchases than does the series on prime contract awards. Prime contract awards, however, are more

Table A-3

DOD PRIME CONTRACTS, FY 1970

Region	DOD Prime Contracts ($ billions)	Percent of DOD Prime Contracts	Percent of Population	Percent of Personal Income
Mideast	6.3	21.3	20.9	23.8
Far West	6.3	21.3	12.8	14.2
New England	2.7	9.2	5.8	6.5
Great Lakes	3.6	12.0	19.8	20.6
Plains	2.2	7.5	8.1	7.6
Rocky Mountains	0.4	1.4	2.5	2.3
Southwest	3.3	11.1	8.1	7.3
Southeast	4.7	15.8	21.6	17.5
Totals	29.6	100.0	100.0	100.0

Source: Department of Defense, *Military Prime Contract Awards by Region and State*, Fiscal Years 1968, 1969, 1970, pp. 1-2.

equally distributed than employment in defense-related industries. The most significant difference among the several approaches was in the share of DOD purchases in the Southeast and the Southwest. The studies that used Census of Manufactures data assigned about 24 percent of defense procurement to these regions, whereas these regions received only about 18 percent of DOD prime contracts and accounted

[1] I. M. Labovitz, *Federal Revenues and Expenditures in the Several States*, Library of Congress, Legislative Reference Service, Washington, September 19, 1962, and Roger Bolton, *Defense Purchases and Regional Growth* (Washington: Brookings Institution, 1966).

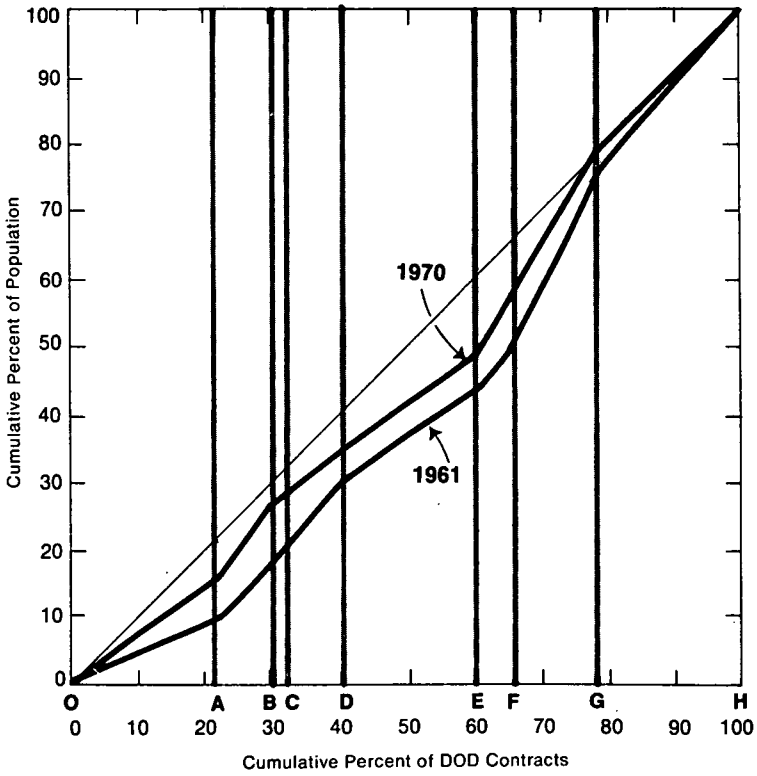
[2] Murray L. Weidenbaum, "Shifting the Composition of Government Spending: Implications for the Regional Distribution of Income," *Regional Science Association: Papers*, 1966.

for only about 14 percent of defense-related employment. The overall ranking of the eight regions under the different approaches, however, was strikingly similar.

The regional rankings were somewhat different by 1970 (see Table A-3), and these changes appear to reflect more than simple year-to-year fluctuations around relatively stable regional shares. The average share of DOD prime contract awards received by the Far West declined from 27 percent in 1961-64 to 21 percent in 1967-70, the Rocky Mountains' share dropped by three percentage points, and the

Figure A-1

DEPARTMENT OF DEFENSE PRIME CONTRACT AWARDS, FY 1961 AND 1970



OA—Southeast
AB—Southwest
BC—Rocky Mountains
CD—Plains
DE—Great Lakes
EF—New England
FG—Far West
GH—Mideast

Mideast's by two. On the plus side, the Southern regions increased their average share by four percentage points apiece.

Overall, the regional distribution of these contracts is considerably more equal now than it was a decade ago. This conclusion is indicated in Figure A-1 which presents Lorenz curves for DOD prime contract awards in FY 1961 and FY 1970.

Lorenz curves enable the reader to obtain a visual conception of the overall regional distribution of defense contract awards (or other federal expenditures). On the horizontal axis, the eight regions are ranked in ascending order of per capita personal income in 1970, each region occupying a length of the axis equal to its percentage share of the population. For example, the Southwest had the second lowest per capita income of all the regions, so it occupies the second position and it accounted for 8 percent of the population in 1970, so it occupies 8 percent of the axis—the 8 percent between 22 and 30. Each region's share of DOD prime contracts is plotted along the vertical axis. The Southwest, for example, received 11 percent of these contracts in 1970, so its portion of the Lorenz curve for that year corresponds to 11 percent of the vertical axis—the 11 percent between 16 and 27.

The straight line stretching from the lower left hand corner to the upper right hand corner is a 45 degree line of equality. This line maps points on the horizontal axis into points of identical value on the vertical axis. If a region's section of the Lorenz curve has the same slope as (i.e., is parallel to) the 45 degree line, then that region's share of federal expenditures is equal to its share of population. The Mideast is an example of a region which received a share of DOD contracts in 1970 equal to its share of population (22 percent).[3] If a region's share of the Lorenz curve is steeper than the 45 degree line, then that region's share of federal spending is greater than its share of population. The Far West is in this category, accounting for 13 percent of the population and 22 percent of prime contract awards. If the slope of a region's section of the Lorenz curve is less than the slope of the line of equality (as it is for the Great Lakes), that region receives a share of federal expenditures smaller than its share of the population. (The Great Lakes region received 12 percent of DOD prime contracts in 1970 and had 20 percent of the population).

NASA's purchases were analyzed using NASA prime contract

[3] The Mideast's section of the Lorenz curve for 1970 in Figure A-1 coincides with the line of equality. This is not, in general, an essential requirement for a region's shares of expenditures and population to be equal; all that is required is that the Lorenz curve have the same slope as the 45 degree line.

Table A-4

NASA PRIME AND SUBCONTRACTS, FY 1970

Region	Value of NASA Contracts ($ millions)	Percent of NASA Contracts	Percent of Population	Percent of Personal Income
Mideast	596.4	21.1	20.9	23.8
Far West	859.3	30.4	12.8	14.2
New England	147.0	5.2	5.8	6.5
Great Lakes	101.8	3.6	19.8	20.6
Plains	121.5	4.3	8.1	7.6
Rocky Mountains	98.9	3.5	2.5	2.3
Southwest	305.3	10.8	8.1	7.3
Southeast	590.8	20.9	21.6	17.5
Totals	2,826.7	100.0	100.0	100.0

Source: National Aeronautics and Space Administration, *Annual Procurement Report*, Fiscal Year 1970, p. 61.

awards of $10,000 or more and a sample of subcontracts. The sample is limited to large first- and second-tier subcontracts.[4] Nevertheless, the sample does significantly improve the picture of the state by state distribution of NASA procurement.

In FY 1970, reported subcontracts totaled $444 million. The subcontracts were awarded to firms in 40 states and the District of Columbia; the prime contracts which generated these subcontracts, on the other hand, were distributed to only 22 states and the District of Columbia.[5] Seven states received subcontracts totaling more than $5 million.[6]

Despite the difference that subcontract data make on state shares of NASA procurement, they influence the regional shares only slightly. The largest change in the share is New England's, which rises from 4.1 percent of prime contracts to 5.2 percent of total NASA procurement; all of the other regions register a change of less than

[4] NASA contractors report first-tier subcontracts of $10,000 or more on each prime contract in excess of one-half million dollars. Each first-tier subcontractor with a contract in excess of $50,000 reports all second-tier subcontracts in excess of $10,000.

[5] National Aeronautics and Space Administration, *Annual Procurement Report Fiscal Year 1970*, p. 58.

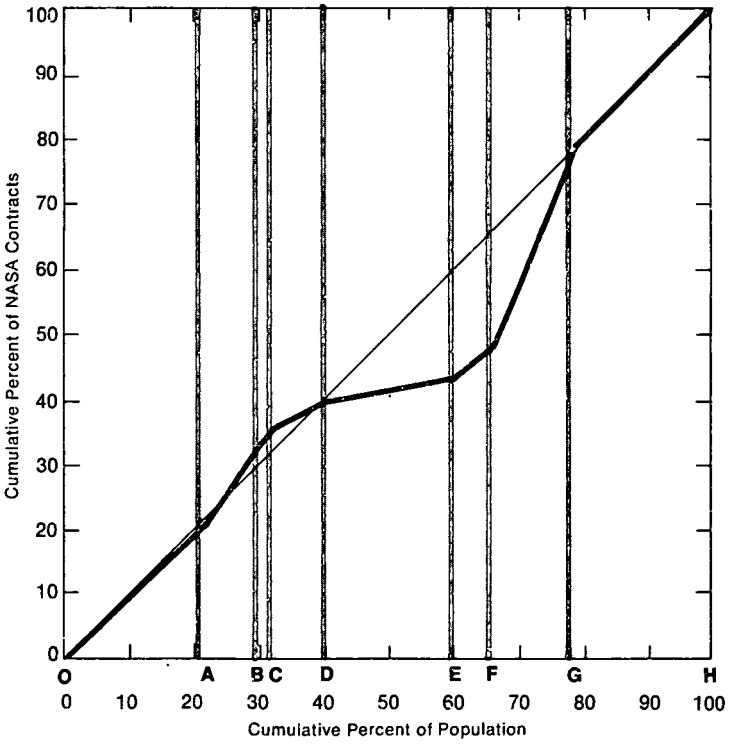
[6] Pennsylvania, New Jersey, Massachusetts, Texas, Connecticut, Arizona, Minnesota.

one percentage point. The difference in the impact of subcontract data on state and regional shares highlights a limitation of this analysis. By concentrating on regional groupings, we obscure variations within regions. Pennsylvania and New Jersey received 3.5 percent of prime contract awards and 5.9 percent of all NASA contracts. This increase does not show up in the total for the Mideast region, however, because New York state's share of NASA contracts declines by two percentage points when subcontracts are included, leaving a net change for the region of less than one-half of one percent.

NASA procurement contracts are roughly proportional to popula-

Figure A-2

NASA CONTRACT AWARDS, FY 1970



OA—Southeast
AB—Southwest
BC—Rocky Mountains
CD—Plains
DE—Great Lakes
EF—New England
FG—Far West
GH—Mideast

tion in five of the eight regions; the exceptions are the Plains (8.5 percent of population and 4.3 percent of procurement contracts), Great Lakes (20 percent of population and 3.6 percent of procurement), and Far West (12.5 percent of population and 30 percent of procurement).

Federal Wages and Salaries

The federal government paid $42.5 billion in wages and salaries in

Table A-5

FEDERAL CIVILIAN WAGES, CALENDAR 1970

Region	Civilian Wages ($ billions)	Percent of Civilian Wages	Percent of Population	Percent of Personal Income
Mideast	7.4	26.7	20.9	23.8
Far West	4.2	15.3	12.8	14.2
New England	1.3	4.6	5.8	6.5
Great Lakes	3.4	12.4	19.8	20.6
Plains	1.7	6.1	8.1	7.6
Rocky Mountains	1.1	3.9	2.5	2.3
Southwest	2.6	9.4	8.1	7.3
Southeast	5.8	21.1	21.6	17.5
Totals	27.5	100.0	100.0	100.0

Source: U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business*, August 1971, pp. 32-36.

Table A-6

MILITARY WAGES, CALENDAR 1970

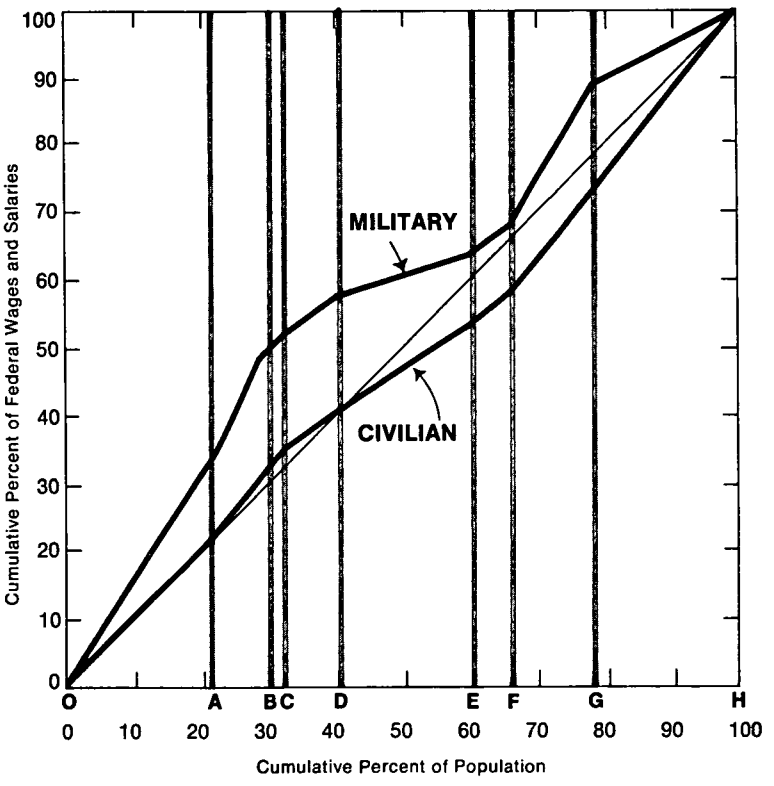
Region	Military Wages ($ billions)	Percent of Military Wages	Percent of Population	Percent of Personal Income
Mideast	1.7	11.5	20.9	23.8
Far West	3.1	20.6	12.8	14.2
New England	0.6	4.3	5.8	6.5
Great Lakes	0.9	6.1	19.8	20.6
Plains	0.9	5.7	8.1	7.6
Rocky Mountains	0.5	3.5	2.5	2.3
Southwest	2.1	14.1	8.1	7.3
Southeast	5.1	33.9	21.6	17.5
Totals	15.0	100.0	100.0	100.0

Source: U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business*, August 1971, pp. 32-36.

1970,[7] $27.5 billion to civilians and $15 billion to the military. The regional effects of civilian and military wages are quite dissimilar, as Figure A-3 and Tables A-5 and A-6 show. In the four lowest income regions (Plains, Rocky Mountains, Southeast and Southwest), the shares of civilian wages are quite close to the shares of population. In the Great Lakes states and, to a decidedly lesser extent in New England, the share of civilian wages is less than the region's share of

Figure A-3

FEDERAL WAGES AND SALARIES, FY 1970



OA—Southeast
AB—Southwest
BC—Rocky Mountains
CD—Plains
DE—Great Lakes
EF—New England
FG—Far West
GH—Mideast

[7] U.S. Department of Commerce *Survey of Current Business* (August 1971), p. 32. The data in this section refer to calendar years.

population. The two high income regions, the Mideast and the Far West, with about one-third of the population, received more than two-fifths of federal civilian wages.

The two low income regions, the Southwest and Southeast, fared much better in the distribution of military wages than in the distribution of civilian wages; their share of military wages was 18 percentage points higher than their share of population. This constitutes a considerable improvement in the position of these regions over 1961, when their share of military wages was about 12 percentage points greater than their share of population. Corresponding to the greater than average share of military wages received by the two southern regions is a lower than average share of military wages received by four middle income regions. These four accounted for 36 percent of the population in 1970 but only 20 percent of military wages. Corresponding to the increase in the share of military wages going to the two southern regions from 1961 to 1970 is a decrease in the share, from 24 percent to 19 percent, going to middle income regions. The Mideast and Far West high income regions together received a share of military wages in 1970 roughly equal to their share of population.[8] The experiences of the two high income regions are quite different, however. The Mideast, with 22 percent of the population, received only 12 percent of military wages, while the Far West, with 12 percent of the population, received 21 percent.

Federal Grants-in-Aid

In fiscal 1970, there were 97 federal grant-in-aid programs for state and local governments, totaling about $24 billion. Six of the eight regions received a share of these grants which closely corresponded to their share of the country's population. The two exceptions were the Great Lakes region (with 20 percent of population and 14 percent of grants) and the Far West (with 12 percent of population and 17 percent of grants).

A greater dispersion, however, exists when the regional shares of grants-in-aid are compared to their proportion of personal income. Some redistributive impacts are visible. That of course should not be surprising in view of the extent to which many of the aid formulas specifically take account of differences in average income levels in the various states. The Southern states, with less than 25 percent of the

[8] This situation has not changed since 1961.

income (but over 29 percent of the population) received 31 percent of the grants-in-aid. The extent of the "income redistribution," however, is quite limited. The two wealthiest regions—the Mideast and the Far West—with 38 percent of the income (but less than 34 percent of the population) received 38 percent of the aid funds. The reason for this, as is given in more detail below, is that these regions contain some of the nation's major urban areas and much of the more recent aid legislation is urban-oriented.

Table A-7

GRANTS-IN-AID, FY 1970

Region	Grants ($ billions)	Percent of Grants	Percent of Population	Percent of Personal Income
Mideast	5.2	22.0	20.9	23.8
Far West	3.8	16.0	12.8	14.2
New England	1.4	5.9	5.8	6.5
Great Lakes	3.3	14.1	19.8	20.6
Plains	1.7	7.2	8.1	7.6
Rocky Mountains	.8	3.2	2.5	2.3
Southwest	2.0	8.5	8.1	7.3
Southeast	5.3	22.5	21.6	17.5
Totals	24.5	100.0	100.0	100.0

Source: The Department of Treasury, Fiscal Service—Bureau of Accounts, *Federal Aid to States, Fiscal Year 1970.*

Various types of grants, however, are quite dissimilar in their effects. The poorer regions received more than a proportionate share of education grants, while the Great Lakes and New England (middle income regions) received less than a proportionate share. The Southeast received less than a proportionate share of unemployment compensation grants, while the high income regions received more. Public assistance grants are smaller than what would be received on a straight per capita basis in the middle income regions, and significantly more than would be received on this basis in the high income regions. Less than a proportionate share of grants for urban development are received by all regions except New England and the Mideast, which received more than a proportionate share. The four highest income regions received somewhat less health aid per capita than the two lowest income regions. Grants to the Southeast, Southwest, Rocky Mountains, and Far West regions in the agriculture and natural resources category were greater than they would have been if distributed on a

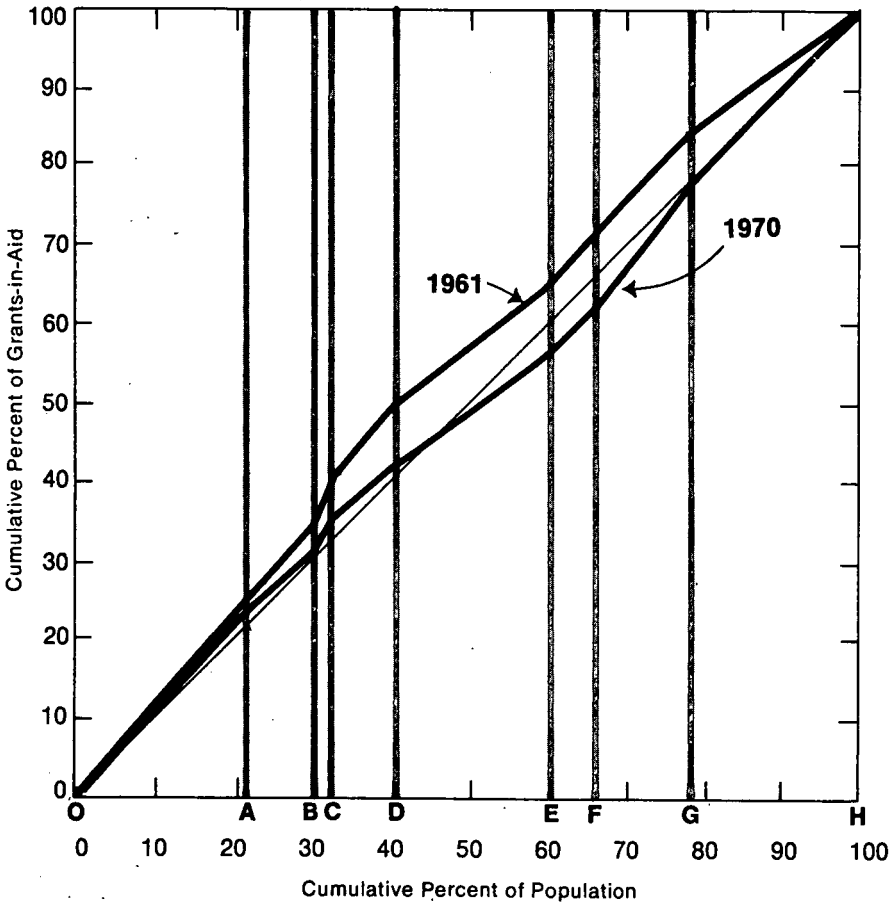
84-466 O - 73 - 10

straight per capita basis. The Great Lakes and Mideast regions received considerably fewer of these type of grants than they would have on a straight per capita distribution.

However, as was noted earlier, total grants in 1970 were roughly

Figure A-4

GRANTS-IN-AID, FY 1961 AND FY 1970



OA—Southeast
AB—Southwest
BC—Rocky Mountains
CD—Plains
DE—Great Lakes
EF—New England
FG—Far West
GH—Mideast

proportional to population except in the case of the Great Lakes and Far West regions. This picture contrasts sharply with the distribution of grants a decade earlier. In 1961, the four lowest income regions, with 41 percent of the country's population, received 49 percent of federal grants and the two highest income regions, with one-third of the population, received 29 percent of the grants. This change is illustrated by the Lorenz curves in Figure A-4. There are two principal reasons for this shift. First, grant programs which benefit high income regions have grown more rapidly than other grant programs and are, therefore, a larger percentage of the total than they were 10 years ago. As an example, consider urban renewal and urban planning assistance grants which are designed to deal with problems faced by large central cities. In 1961, these grants, which benefited primarily the high income regions, constituted 2 percent of all grants. By 1970, they constituted 4.5 percent of all grants. Secondly, some new programs initiated during the 1960s have tended to benefit high income regions more than low. Grants in the urban category can again be taken as an example. In 1961, there were only two programs in this category, urban renewal and urban planning assistance and these programs, as noted, accounted for only 2 percent of all grants. By 1970, there were eight programs in this category and they accounted for more than 6 percent of all grants.

Agricultural Price Supports

The great bulk of price support payments is made in the form of nonrecourse loans by the Commodity Credit Corporation of the Department or Agriculture. A farmer receiving a price support loan surrenders his commodities to the CCC as collateral. Subsequently, any time during the life of the loan, the farmer may repay the loan and sell his commodities on the market. If the market price is such that sale of the commodities would net less than the amount of the loan, the loan is not repaid and the commodities are forfeited to the government. Since some loans are repaid, loans are an imperfect measure of actual price support payments. CCC loans will be used in this section as a proxy for price support payments, however. It is assumed that the percentage distribution of these loans over geographic regions is roughly similar to the distribution of price support payments.

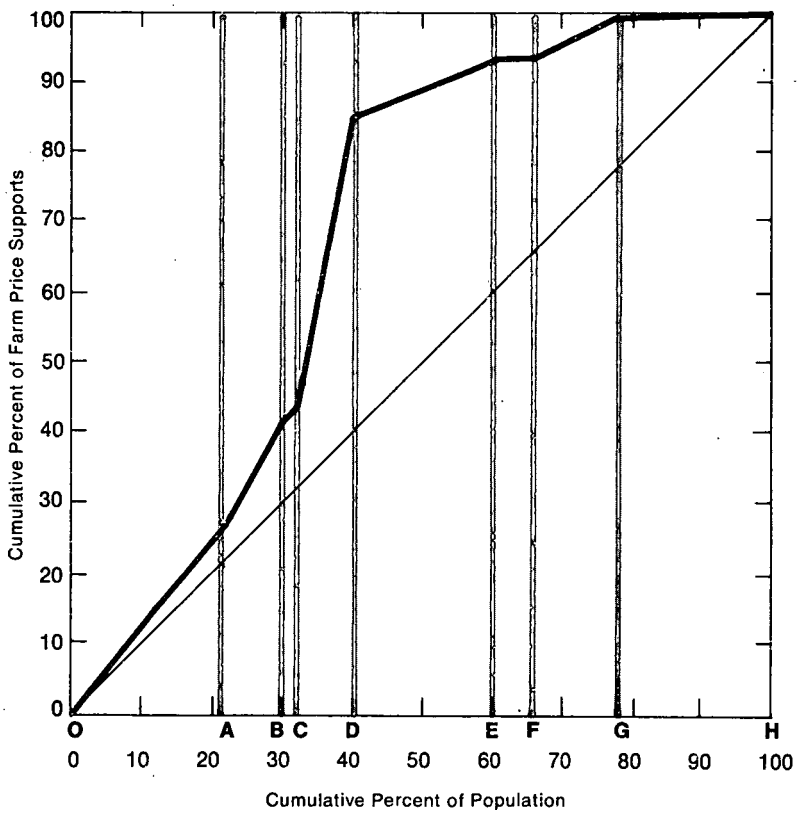
As would be expected, most price support loans were made to the Southeast, Southwest, and Great Plains regions, the primary agricul-

ture regions. It might be surprising, however, to discover the degree to which price supports are concentrated in these three regions. In calendar 1970, more than 80 percent of the almost $2 billion in CCC loans went to these regions which accounted for about 30 percent of population. When it is recalled that these three regions are the lowest income regions, one can see how price supports are a significant force for greater regional income equality.

It should be noted that one of the limits of the present type of analysis is that it does not shed any light on the distribution of price

Figure A-5

FARM PRICE SUPPORTS, FY 1970



OA—Southeast
AB—Southwest
BC—Rocky Mountains
CD—Plains
DE—Great Lakes
EF—New England
FG—Far West
GH—Mideast

Table A-8

AGRICULTURAL PRICE SUPPORT PAYMENTS, CALENDAR 1970

Region	Price Support Payments ($ millions)	Percent of Price Support Payments	Percent of Population	Percent of Personal Income
Mideast	2.4	.1	20.9	23.8
Far West	122.5	6.1	12.8	14.2
New England	0.8	*	5.8	6.5
Great Lakes	183.0	9.2	19.8	20.6
Plains	818.2	41.0	8.1	7.6
Rocky Mountains	50.7	2.6	2.5	2.3
Southwest	294.8	14.7	8.1	7.3
Southeast	522.8	26.2	21.6	17.5
Totals	1,995.2	100.0	100.0	100.0

* Less than .05 percent.
Source: U.S. Department of Agriculture, *Agricultural Statistics*, 1971, pp. 542-43.

support payments to different categories of the population *within* regions.

Veterans Payments

More than three-fourths of total veterans payments are transfer payments, and the remainder are for construction and administration. The largest single component of veterans expenditures, accounting for more than half the total, is compensation and pensions. The geographical distribution of total expenditures is almost identical to the distribution of compensation and pensions. Thus, the percentages will not differ much whether we select pure transfer payments or total expenditures. Since another example of pure transfer payments is available (OASDHI benefits) and since total expenditures are the larger figure, total expenditures will be used to analyze the regional impact of veterans payments.

As Table A-9 shows, each region receives a share of veterans expenditures almost equal to its share of population. The two lowest income regions receive slightly more—and the highest income region slightly less—than they would if VA expenditures were distributed on a straight per capita basis. These differences are quite small, however.

Table A-9

VETERANS EXPENDITURES, FY 1970

Region	Veterans Expenditures ($ billions)	Percent of Veterans Expenditures	Percent of Population	Percent of Personal Income
Mideast	1.9	20.2	20.9	23.8
Far West	1.2	13.3	12.8	14.2
New England	0.6	6.2	5.8	6.5
Great Lakes	1.5	16.4	19.8	20.6
Plains	0.8	8.7	8.1	7.6
Rocky Mountains	0.3	2.8	2.5	2.3
Southwest	0.8	9.0	8.1	7.3
Southeast	2.1	23.4	21.6	17.5
Totals	9.2	100.0	100.0	100.0

Source: Veterans Administration, *Annual Report of Administrator of Veterans Affairs*, Fiscal Year 1970, p. 137.

Social Security

Benefit payments of the Social Security Administration are taken to illustrate the regional impact of a pure transfer payment.[9] In fiscal year 1970, the Social Security Administration distributed more than $26 billion in benefit payments.

The percentage distribution of benefit payments among regions is quite similar to the percentage distribution of population. However, as Table A-10 shows, there are mild departures from the regional distribution of income.

[9] Essentially a transfer payment consists of taking government revenues, which are raised through taxes or borrowing, and distributing them to people without requiring those people to provide anything in return. This contrasts to government using tax money to purchase goods and services.

Table A-10

OASDHI BENEFIT PAYMENTS, FY 1970

Region	OASDHI Benefit Payments ($ billions)	Percent of OASDHI Payments	Percent of Population	Percent of Personal Income
Mideast	6.6	23.2	20.9	23.8
Far West	3.5	12.2	12.8	14.2
New England	1.8	6.4	5.8	6.5
Great Lakes	5.8	20.3	19.8	20.6
Plains	2.5	8.7	8.1	7.6
Rocky Mountains	0.6	2.1	2.5	2.3
Southwest	2.0	6.9	8.1	7.3
Southeast	5.7	19.9	21.6	17.5
Totals	28.5	100.0	100.0	100.0

Source: U.S. Department of Health, Education, and Welfare, Social Security Administration, *Social Security Bulletin*, June 1971, p. 66.

Chairman PROXMIRE. All right, sir; go ahead, Mr. Larkins.

STATEMENT OF DAN LARKINS, ASSISTANT TO THE DIRECTOR OF RESEARCH, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, WASHINGTON, D.C.

UNIFIED BUDGET CONCEPT

Mr. LARKINS. Thank you, Mr. Chairman. I am grateful to the subcommittee for this opportunity to appear. The gist of my remarks is that I believe the Congress should classify all the programs in the unified budget along functional lines and then review the budget along those lines. The functional classification system employed in the unified budget suggests itself as the natural scheme for Congress to adopt for this purpose.

While the classification system of the unified budget might well be the one that Congress should adopt, I would like, for expositional purposes, to offer a different system, one with fewer categories and one which, perhaps, better captures the basic purposes of the Federal Government.

PLANNING BUDGET

The governmentwide planning budget I suggest contains four basic functions: National security, public welfare, economic development, and routine general governmental operations. These four functions may be viewed as different avenues by which the Government attempts to increase the well-being of the Nation.

Table 1 of my prepared statement reflects the judgment implicit in the 1973 budget as to the best means of achieving this increased welfare.

For purposes of comparison, the priorities implicit in the 1964 budget are also included in table 1 of my prepared statement. Whether by accident or design, there has been a striking realinement of these priorities over the past 10 years. In the 1964 budget, requests for new obligational authority (NOA) in the fields of national security and public welfare accounted for 46 and 34 percent of total NOA, respectively. These proportions are almost exactly reversed in the 1973 budget.

This planning budget framework immediately suggests the types of questions that the Congress should consider in attempting to set national priorities. Does the Congress really want to validate the priorities implied in the unified budget, or does it want some other set of priorities? Are we allocating a big enough piece of the pie to national security, for instance, or is its piece already too big?

There is an obvious connection between spending money for economic development and spending money for public welfare. Would the reallocation of $1 billion from the public welfare budget to the economic development budget be desirable? This shift of funds would reduce the public welfare budget by less than 1 percent but would increase the economic development budget by about 3 percent. Might not such a shift result in increased jobs——

Chairman PROXMIRE. Will you pull the microphone a little closer; it is hard to hear. Pull it closer.

Mr. LARKINS. Might not such a shift result in increased jobs or productivity, thus reducing the number of people requiring public assistance?

Asking this question does not imply any judgment as to what the answer might be; the only judgment is that this type of question is useful, indeed inescapable, in setting priorities in a rational manner, and that it is almost unavoidable in the context of the planning budget.

The determination of these broad priorities in Congress should be made by a congressional body with a broad constituency, such as the Congress as a whole. Once the allocation of funds among these broad categories of governmental functions has been determined, the question of how the funds should be allocated within each of the categories would be performed by the appropriations subcommittees.

The subcommittees' approach should be similar to that used to choose among the broader priorities. Each of the objectives identified in table 1 in my prepared statement may, of course, be promoted by a variety of programs. National security, for example, may be enhanced by a strong and credible Military Establishment, by aiding our actual or potential allies, and by scientific and psychological competition.

NATIONAL SECURITY BUDGET

Table 2 of my prepared statement shows how requests for new funds in the 1973 budget are divided among these different approaches.

By subsuming all programs of similar functional purpose under a single broad heading, the planning budget demands that questions be raised about the usefulness and efficiency of a particular program relative to that of other programs in the same categroy. The advantages, or disadvantages, for example, of reallocating funds away from our own military forces and toward foreign military aid—if this is to be an age of partnership in defense planning—or toward scientific and psychological competition—if this is to be an age of negotiation rather than confrontation—these advantages and disadvantages are, perhaps, no more readily measured in the planning budget context than in the present one. The important point is these questions are unavoidable in the planning budget.

In conclusion, let me just suggest that the development of improved methods of setting national priorities is itself a matter of high priority. I believe that the planning budget approach has much to recommend——

Chairman PROXMIRE. The what approach?

Mr. LARKINS. The planning budget.

Chairman PROXMIRE. I am sorry; what was it.

Mr. LARKINS. The planning budget approach.

Chairman PROXMIRE. All right; OK.

Mr. LARKINS. I believe that the planning budget approach has much to recommend itself in this regard, and I respectfully request that this committee consider it.

I should apologize for my voice. I am just recovering from a cold. Thank you.

(The prepared statement of Mr. Larkins follows:)

PREPARED STATEMENT OF DAN LARKINS[1]

TOWARD A PLANNING BUDGET

I am grateful to the committee for this opportunity to appear and discuss the setting of national priorities. Professor Weidenbaum has spoken of the priorities implicit in the 1973 budget; I will address myself, if I may, to the procedure used to determine priorities. The gist of my remarks will be that the current budget process is inadequate to achieve a true re-ordering of priorities and an efficient allocation of scarce federal dollars. I will make a suggestion as to how I believe this process can be improved.

As you know, executive formulation and congressional review of the budget are currently carried out along agency lines: agencies submit proposals to the President which are revised along agency lines and then transmitted to the Congress where they are reviewed along agency lines. As the President has said, "[not] even the best planners can set intelligent spending priorities . . . unless they have an opportunity to consider the full array of alternative expenditures." (Message to Congress on the Reorganization of the Executive Branch, March 25, 1971.) The agency-by-agency approach of the present budgetary machinery prevents such consideration because the functions of the federal government are not conterminous with agency jurisdictions. Programs within the broad functional classification of education and manpower, for example, are administered by the departments of Labor, Interior, HEW and HUD, as well as by more than a dozen independent agencies. The budget requests of these agencies are handled by three or four distinct Appropriations subcommittees. The total amount of funds devoted to education and manpower programs, thus, is beyond the control of any one congressional body. (Of course since each subcommittee reports to the same parent Appropriations Committee, the committee itself could, in theory, exercise the role of coordinator of the various subcommittee reports, and could see to it that a certain level of funds is set for any given type of program, such as education and manpower. In practice, however, the committee almost always ratifies the report of the subcommittees without due consideration of how all the pieces fit together.)

The shortcomings of this procedure have been recognized by both the Executive and the Congress. Executive recognition is reflected in the functional classification system now used to describe each major government program. Unfortunately, this system is used more as a device to explain choices that have already been made, than as the framework for making those choices. Congressional recognition of the problems with the present procedures is evidenced by the attempt of this committee to develop a comprehensive "National Security Budget." (*1972 Joint Economic Report*, March 23, 1972, pp. 54–55.)

I would like to suggest that the Congress should classify all of the programs in the unified budget along functional lines and then review the budget along those lines. The functional classification system employed in the unified budget suggests itself as the natural schema for Congress to adopt for this purpose—the number of functional classifications closely corresponds to the number of Appropriations subcommittees, so that, with only a little rearrangement of the classifications, no member of a subcommittee need be in danger of having his power reduced, and adoption of this classification scheme—as opposed to developing a new scheme from scratch—would probably result in significant savings in terms of time and money. (Of course if the Congress were to decide that the classifications of some programs are misleading, reclassification of these programs could still be made under the general categories distinguished in the budget.)

While the classification system of the unified budget might well be the one that Congress should adopt, I would like, for expositional purposes, to offer a different system, one with fewer categories, and one which, perhaps, better captures the basic purposes of the federal government.

The government-wide planning budget I suggest contains four basic functions: national security, public welfare, economic development, and "routine" general government operations. These four functions may be viewed as different avenues by which the government attempts to increase the well-being of the nation. Table 1 reflects the judgment implicit in the 1973 budget as to the best means of achieving this increased welfare. (For purposes of comparison, the priorities implicit in the 1964 budget are also included in Table 1.) Whether by accident or design, there

[1] The views expressed are my own and should not be attributed to the American Enterprise Institute, its trustees, advisers, officers, or other staff members.

has been a striking realignment of these priorities over the past ten years. In the 1964 budget, requests for new obligational authority (NOA) in the fields of national security and public welfare accounted for 46 percent and 34 percent of total NOA, respectively. These proportions are almost exactly reversed in the 1973 budget.

TABLE 1.—PLANNING BUDGET, 1964 AND 1973 (REQUESTED BUDGET AUTHORITY)

	1973		1964	
	Amount (billions)	Percent of total	Amount (billions)	Percent of total
National security	$91.2	34	$63.9	46
Public welfare	119.0	44	46.9	34
Economic development	34.0	13	14.3	10
General government	25.7	9	13.6	10
Total	270.9	100	138.8	100

Source: Murray L. Weidenbaum and Dan Larkins, The Federal Budget for 1973, A Review and Analysis (Washington: American Enterprise Institute, 1972), p. 40.

This "planning budget" framework immediately suggests the types of questions that the Congress should consider in attempting to set national priorities. Does the Congress really want to validate the priorities implied in the unified budget, or does it want some other set of priorities? Are we allocating a big enough piece of the pie to national security, for instance, or is its piece already too big? There is an obvious connection between spending money for economic development and spending money for public welfare. Would the reallocation of a billion dollars from the public welfare budget to the economic development budget be desirable? This shift of funds would reduce the public welfare budget by less than one percent, but would increase the economic development budget by about three percent. Might not such a shift result in increased jobs or productivity, thus reducing the number of people requiring public assistance? Asking this question does not imply any judgment as to what the answer might be; the only judgment is that this *type* of question is useful—indeed inescapable—in setting priorities in a rational manner, and that it is almost unavoidable in the context of the planning budget.

The determination of these broad priorities in Congress should be made by a congressional body with a broad constituency, such as the Congress as a whole.[1] Once the allocation of funds among these broad categories of governmental functions has been determined, the question of how the funds should be allocated within each of the categories would be performed by the (suitably reconstituted) Appropriations subcommittees.

The subcommittees' approach should be similar to that used to choose among the broader priorities. Each of the objectives identified in Table 1 may, of course, be promited by a variety of programs. National security, for example, may be enhanced by a strong and credible military establishment, by aiding our actual or potential allies, and by scientific and psychological competition. Table 2 shows how requests for new funds in the 1973 budget are divided among these different approaches.

TABLE 2.—NATIONAL SECURITY BUDGET, 1973 (REQUESTED BUDGET AUTHORITY)

Program	Amount (billions)	Percent of total
U.S. military forces	$82.4	89.0
Foreign military aid	1.7	3.2
Foreign nonmilitary aid	4.4	4.7
Scientific competition	3.4	3.6
Psychological competition	.3	.4
Total	92.2	100.0

Source: Weidenbaum and Larkins, op. cit., p. 41.

[1] I realize that the setting of the broad priorities raises some procedural questions. Perhaps a resolution on these priorities could be submitted for congressional consideration and action by a "priorities group" composed of the chairman and ranking minority member of each of the Appropriations subcommittees. Presumably this arrangement could be worked out without any changes in the rules of the House or the Senate.

(One may, of course, disagree with the types of programs included in, or excluded from, Table 2. All of the budget statements I am discussing are illustrative in the sense that they represent only one view of the program composition of the various budgets. Someone else can easily rework the tables so that they are consistent with his own ideas on where various programs belong. The very fact that sharp differences of opinion can occur over these questions is itself, I believe, an argument in favor of the planning budget approach.)

By subsuming all programs of similar functional purpose under a single broad heading, the planning budget demands that questions be raised about the usefulness and efficiency of a particular program relative to that of other programs in the same category. The advantages (or disadvantages), for example, of reallocating funds away from our military forces and toward foreign military aid (if this is to be an age of partnership in defense planning) or toward scientific and psychological competition (if this is to be an age of negotiation rather than confrontation—these advantages and disadvantages are, perhaps, no more readily measured in the planning budget context than in the current approach. But the questions are unavoidable in the planning budget, and so will be addressed, while they are likely to be ignored in the present budget review process.

Tables 3, 4 and 5 show how requested NOA for Public Welfare, Economic Development and general government operations are to be used. These budgets lend themselves to the same kinds of questions that were raised concerning the national security budget—What would be the effect on the broad objective of small reallocations of funds from one program to another? Would a reallocation increase or decrease the total benefits of the programs in the category?

The budget review process, if based on the planning budget approach, would not stop at this level of aggregation, of course. Most of the items in each of the four classifications that have been distinguished are, in turn, headings for groups of programs, rather than single programs. In the economic development budget, for example, education and research encompasses elementary and secondary education, higher education, vocational education, education revenue sharing, general science and other education aids. After the economic development budget is decided upon budgets should be developed for education and research and for the other categories in the general economic development budget. The process would be continued, breaking down the items in each budget statement.

In conclusion, let me just suggest that the development of improved methods of setting national priorities is itself a matter of high priority. I believe that the planning budget approach has much to recommend itself in this regard, and I respectfully request that this committee consider recommending its adoption.

TABLE 3.—PUBLIC WELFARE BUDGET, 1973 (REQUESTED BUDGET AUTHORITY)

Program	Amount (billions)	Percent of total
Insurance and retirement	$60.8	51
Public assistance	11.0	9
Veterans' benefits	12.4	10
Aid to farmers and rural development	5.7	5
Housing and community facilities	3.7	3
Specialized welfare	2.5	2
Antipoverty programs	2.7	2
Health services	20.1	18
Total	118.9	100

Source: Weidenbaum and Larkins, op. cit., p. 42.

TABLE 4.—ECONOMIC DEVELOPMENT BUDGET, 1973 (REQUESTED BUDGET AUTHORITY)

Program	Amount (billions)	Percent of total
Natural resources and regional development	$6.3	18
Manpower development	4.4	13
Transportation facilities	10.4	31
Education and research	8.0	23
Health research and development	3.6	11
Business aids and subsidies	1.3	4
Total	34.0	100

Source: Weidenbaum and Larkins, op. cit., p. 43.

TABLE 5.—GENERAL GOVERNMENT BUDGET, 1973 (REQUESTED BUDGET AUTHORITY)

Program	Amount (billions)	Percent of total
Interest on debt	$21.2	82
Judicial and law enforcement	2.1	8
General government	3.7	14
General aid to States and localities	5.3	21
Foreign relations	.5	2
Allowances	−7.1	−27
Total	25.7	100

Source: Weidenbaum and Larkins, op. cit., p. 43.

Chairman PROXMIRE. That was a terse summary. We appreciate it very much.

As I say, the entire prepared statement will be printed in full in the record.

A POLITICAL QUESTION RE CONNALLY, SHULTZ, AND WEINBERGER

I would like to ask you one political question before we get into the substantive questions: Mr. Weidenbaum, since you left your office at the Treasury Department, many other major changes have occurred. Secretary Connally has departed; Mr. George Shultz has moved from the Office of Management and Budget to become Secretary of the Treasury; and Mr. Weinberger is now in charge at OMB.

I have always had a high regard for Mr. Shultz in the labor relations field. I had some doubts about his abilities in the financial area. I also thought Mr. Weinberger might have made a good record with the Federal Trade Commission, but I have difficulty seeing him as the overseer of the budget.

Would you care to share your views with us on these matters?

Mr. WEIDENBAUM. Surely, Mr. Chairman.

Chairman PROXMIRE. I want to say I don't expect you to get into the personalities but to see some of the headaches in the Treasury-Budget Bureau setup the way we have it today.

Mr. WEIDENBAUM. I am delighted to have the opportunity.

I forecast that the incoming Secretary of the Treasury will find that he has been bequeathed a full quota of fiscal headaches by the outgoing Director of the Budget.

Chairman PROXMIRE. Full quota of what?

Mr. WEIDENBAUM. Headaches by the outgoing Director of the Budget.

Chairman PROXMIRE. Headaches—what aspirin takes care of?

Mr. WEIDENBAUM. It will take more than aspirin; and I think there is some poetic justice to that relationship. Let George do it.

Chairman PROXMIRE. I think that was an excellent deduction. You remind me of the barber who was a terrific latherer but never got to the razor. Give us the razor.

Mr. WEIDENBAUM. I wish George Shultz great success, even greater success than he enjoyed as Budget Director.

Senator PERCY. You should be a politician. [Laughter.]

Chairman PROXMIRE. I am not so sure.

Mr. WEIDENBAUM. My students say that I used to be one.

Chairman PROXMIRE. Well——

Mr. WEIDENBAUM. I think the departure of John Connally is a great loss to the Government. I truly admired Secretary Connally.

Chairman PROXMIRE. Well, I disagreed with Mr. Connally on many, many things but I think he brought terrific force and intelligence and color and personality; and I think we need all those attributes, although I think he is wrong in almost everything.

I would like to get to your approach which is quite the reverse of what we heard lately, both on television and testimony, and so forth, and it does raise some fascinating questions to me.

TAX INCREASE UNNECESSARY

You argue that we should not have a new tax increase, that we can have a balanced budget of full employment without a tax increase and we can do the job we need to do. This seems to contradict what the Brookings people tell us and what experience tells us.

EDUCATION AND REVENUE SHARING

You start off with education and say instead of relying on the kind of educational approach we have been talking about before, we ought to rely on revenue sharing. How much revenue sharing? $5 billion? Will that do the job so far as education is concerned?

Mr. WEIDENBAUM. Mr. Chairman, I am a little surprised that my views come to you as a surprise.

Chairman PROXMIRE. They don't come to me as a surprise from you; they come to me, as I say, something different from what we have been hearing, is all.

Mr. WEIDENBAUM. Well, because our American Enterprise budget study was written up extensively in the Norfolk, Va., Pilot; in the Monroe, La., World; in the Las Vegas Sun; in the Corpus Christi Caller; and the Miami Herald—apparently you don't read the newspapers?

Chairman PROXMIRE. I read the Las Vegas Sun. Hank Greenspun is a good friend of mine.

Mr. WEIDENBAUM. I do think it is important to make sure that the States do have full opportunity. I am very serious on that——

Chairman PROXMIRE. Answer my question. How about the $5 billion? What will that do, really? You are talking about—is Mr. Shultz wrong when he talked about a $25 to $30 billion need here?

Mr. WEIDENBAUM. Yes, because—as I understand it—that is based on the Federal Government's taking over the responsibility for financing public schools, and I think that would be a grievous mistake. I think it is important that we set up a financing system for the public schools whereby two objectives can be met simultaneously. We discuss such a system in our study: The first objective, of course, is to meet the problems of the Serrano and the four key court decisions which say, as I understand them, poor school districts no matter how much they try often can't raise enough money to provide an adequate level of education. There, I think, is an overriding and compelling case for State and Federal Government to supplement the existing revenue of the school district.

NEED FOR MAINTAINING SCHOOL DISTRICT AUTONOMY

But the fundamental objective, as I see it, is to maintain the autonomy of the school district so that school districts with equal wealth, school districts with equal incomes, still could indicate, still could express their different priorities for education vis-a-vis other matters. We obviously need a floor to prevent students in poor districts from achieving an inadequate education. But we should avoid going to the other extreme of complete egalitarian approach because when you stop to think of it, it is not surprising that people with the same income and wealth position may have different tastes. One man may prefer an old Plymouth and a yacht; another one may hate the water and get himself two Rolls-Royces.

If you look at school districts with roughly comparable wealth, you will find substantial differences in their tax rates which, when you stop to think of it, reflects differences in priority, and I would oppose a system that would prevent them exercising their different priorities.

PROPERTY TAX RELIEF AND QUALITY EDUCATION

Chairman PROXMIRE. Let me just interrupt to say I think the problem that troubles me is not this, as much freedom as possible, which I would agree with wholeheartedly, but just the plain arithmetic of how much is going to be needed to provide either some degree of property tax relief or the kind of quality education improvement in terms of adequate teacher pay, in terms of the other fundamental necessities that you have to have for education improvement; and then I would like to ask Mr. Schultze to respond.

PROPERTY TAX SHOULD NOT BE ELIMINATED

Mr. WEIDENBAUM. OK. I am not talking about property tax relief. In my prepared statement, frankly, I say one of the hardest decisions we have to make is to live with the property tax. Now, that does not mean that specific situations such as the elderly can't be taken care of. But I urge you not to eliminate the property tax but to soften its regressive impact and to supplement its revenue yield. If you talk about supplementing the property tax by both State and Federal programs, you are talking about a far more manageable fiscal problem, a far more manageable burden on the U.S. taxpayer, than if you go whole hog and replace this carefully constructed system of local financing with a uniform system of Federal financing.

I also find it amazing that, in all of the current discussions of the inequality among school districts in a given State, there is practically no discussion of the existing efforts, inadequate to be sure in many cases, to remedy these inequities by means of foundation grants (what we in the public finance field call Strayer-Haig plans). Under a system of foundation grants a broader level of government, the States at the present time, does supplement the revenues of the poorer school districts.

Federal assumption of full financing of local schools is just one among many other alternatives that need to be carefully explored.

Chairman PROXMIRE. Mrs. Rivlin.

Mrs. RIVLIN. It may be surprising but I agree with most of what Mr. Weidenbaum has said. However, let me clarify the record a little bit. Our report does not make any recommendations for education spending—neither $25 billion nor any other number. It points out that there are different possible objectives for the Federal Government, that relieving the property tax is one and equalizing the expenditures is another and they are not the same; and if you try to do both it gets very expensive.

I personally believe it would be a mistake to get rid of the local property tax as a source of funds for education. As I indicated in answer to Senator Percy's question, I believe there is a lot one can do to reform the property tax relatively inexpensively to make it a less onerous tax.

Mr. Weidenbaum, if I understood him correctly, he did say that additional Federal revenues would be necessary for the equalizing purpose, and he mentioned $10 billion. That is quite a lot of money. It is nearly a quarter of current expenditures for education. I would regard a $10 billion program which was directed primarily toward equalizing among and within States as a very important contribution to equalization.

WHERE IS MONEY COMING FROM?

Chairman PROXMIRE. Then, Mr. Schultze, are we still—or am I wrong—aren't we still with the problem of where this money is coming from without a tax increase of some kind or reduction in military budgets or elsewhere? You nod; will you give me your reaction on this?

Mrs. RIVLIN. We have only talked about one program so far. The point we were making is, there are a lot of other public services that America is under pressure to finance; child care is one; health is another.

CIVILIAN PROGRAMS SHOULD BE STRIPPED OF BUDGETARY SCRUTINY

Mr. WEIDENBAUM. Mr. Chairman, I would like to emphasize the recommendation in my oral statement, but which also pervades our written study, that the vast bulk of civilian programs be stripped of their protection from budget scrutiny. I think that we are in a fiscal box now. You are a member of the Appropriations Committee and I am sure you see this clearly. Congress, in reviewing the annual budget, in effect can only review in terms of changing the most modest fraction of civilian expenditures; and I think the fundamental way of getting out of this box of meeting important new priorities, and certainly we should, and avoiding a tax increase, is to get down into the base of the budget and to root out the low priority programs that don't correspond to current needs; eliminate, for example, the trust fund status of the highway program.

Chairman PROXMIRE. The committee has recommended that. Of course, we don't have much success with the rest of the Congress. We recommended that reduction.

EXPENDITURES AND LOST REVENUES INVOLVED IN SUBSIDIES

Mr. WEIDENBAUM. Excellent. If you eliminate the trust fund, you might conceivably save $1 billion and that is not anything to be

sneezed at. If you want something that adds up, I call your attention to the study that several of us participated in with your staff that showed that, in 1970, $63 billion of expenditures and lost revenues were involved in a host of Federal subsidies. I would estimate that given today's levels of income and prices, it is closer to $70 billion.

Now, I don't think anyone reasonably would suggest eliminating the entire $70 billion of subsidies; but I suggest, in terms of priority ranking, the bottom $10 billion of those subsidies have far lower priority than the first $10 billion of many new and proposed programs.

Chairman PROXMIRE. As you know, a good amount of that went into tax subsidies; you know a great deal about this; very few people know more. You served in the Treasury Department and you know how tough it is to get on top of these loopholes in some cases or where the subsidies are not just. But I am not sure we can make a great deal of progress in that area.

Some of the rest are credit subsidies and others that are very, very hard to see dollar savings of the kind we are talking about here.

SUBSIDIES IN CREDIT PROGRAMS

Mr. WEIDENBAUM. My estimation of the subsidies in the credit programs for the current year is in excess of $5 billion. We document that in our study. I see no reason in the case of most of these credit subsidy programs; for example, why the Federal Government, even if the Congress thinks the credit should be extended, needs to extend credit at, say, 2 percent. And some of these programs, when I say they are historical anachronisms——

Chairman PROXMIRE. REA?

Mr. WEIDENBAUM. Yes, REA is precisely a historical anachronism because when Congress enacted that program 2 percent was not a subsidy rate of interest. I believe the 2 percent corresponded to the interest rate the Treasury was then paying on the Federal debt. It is just historical accident that instead of saying that the interest rate on REA loans should correspond to the interest on the public debt, the Congress put in the exact figure; and 2 percent, to use that phrase in my statement, does not correspond to the present reality.

Chairman PROXMIRE. I wouldn't argue with that. My time is up. I would like to ask Mr. Schultze if he would like to comment. Do you want to comment?

SCHULTZ-WEIDENBAUM DIFFERENCES

Mr. SCHULTZE. I think what you really have is a disagreement in terms of what one ought to try to do; in terms of the kind of programs that Mr. Weidenbaum is talking about, I suspect if you put us in separate rooms we would come up with just about the same lists.

I think, however, there are differences (a) in total magnitude as to what is feasible and likely. For example, if you eliminate all the subsidy in REA loans and simply started charging full interest, you have got to remember that it would take then about 30 years in terms of making new loans before you build up to the full amount of saving because the subsidy you are now paying in REA comes out of loans made for the last 30 years.

So that if one draws up a realistic estimate of what with eminent good will and perseverance the Congress and the Executive are likely to do in terms of eliminating or cutting back on older civilian programs, my own judgment is that if you were exceedingly lucky, you will maybe knock $5 billion out of the budget. I think Mr. Weidenbaum has a much higher number and it is in that area of practicality and what you can do and how long it would take that we disagree.

I think there is a second area of minor disagreement. I don't like trust funds myself but I don't think that putting things on annual appropriation bases, taking them out of permanent appropriations, eliminating trust funds, is going to make very much difference. You know the Commodity Credit Corporation is an annual appropriation. The public assistance is an annual appropriation; medicaid is an annual appropriation, but the very nature of these programs is such that unless you change the programs, not the appropriation, you are not going to change anything. So I would move in a sense in somewhat the opposite direction almost from Mr. Weidenbaum and try to focus Congress' attention on the longer term impact of its decisions by forcing the Congress to authorize over longer periods of time and appropriate over longer periods of time and I think we do have a disagreement here as to what is the best technique of getting control over the budget.

Mr. WEIDENBAUM. Mr. Chairman, if I may—incidentally, in our recommendations we do say that full funding of long-term investment projects should be made so that the Congress can evaluate total program costs and benefits at the outset.

But I appreciate, having grown up and having spent perhaps 8 years in what was the old Budget Bureau, the difficulty of rooting out existing Government programs. But let me draw a parallel here.

PEACETIME TAX INCREASES RARE

In peacetime we rarely get a tax increase per se. I recall no instance in the last 30 years of Congress, the public supporting and having this effect of a tax increase to help the Government out of its budget system. What do we have? We have a new expenditure program—an increase in social security benefits or a road building program, for example—and along with that new expenditure program is a tax increase—whether it is a social security tax or a highway related excise. But the sweetener gets the public support and the method of financing just comes along with it.

CUTTING LOW PRIORITY PROGRAMS PREFERABLE TO TAX INCREASE

Well, I suggest we try a variation of that. Sure, you are not going to get much support anywhere just for cutting back benefits to some group that is going to howl like mad when you try to eliminate its benefits. Where the emphasis has to be placed is on the new initiatives, the new benefits to the American public, and along with that the financing of those new benefits not by a new tax but by cutting back lower priority spending programs.

I think the carrot or sweetener has to come first inevitably.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Professor Weidenbaum, you have indicated that unless we have a new source of revenue or a reduction in programs, that we are going to have in 1973 a budget that will encounter a full employment deficit which could seriously encumber anti-inflationary efforts.

CONTINUATION OF CONTROLS INTO 1973 AND 1974

Is it your feeling that if no corrections are made in the 1973 budget at full employment, a full-employment budget, do you perceive that the economic stabilization program could possibly continue on into 1973 or 1974?

Mr. WEIDENBAUM. I would like to put it this way, if I may, Senator. Unless action is taken in 1973–74 we are going to have substantial full-employment budget deficits which are going to put greater pressure both on monetary policy and on a wage and price stabilization effort and, hence, make more difficult the achievement of the wage-price stabilization objectives which would enable us to dismantle the control system.

SETTING PRIORITIES IS IN ITSELF OF HIGH PRIORITY

Senator PERCY. Mr. Larkins, I would like to pursue your prepared statement, which I agree with, of improved methods of setting national priorities in that it is in itself a matter of high priority. But you point out that the current budget process is inadequate to achieve a new reordering of priorities. I would really hate to think we have to wait until we change the whole procedure before we could change priorities.

I will admit we can do it a lot better with a different procedure, but isn't it possible that you can reorder priorities substantially under the present system?

HOUSING PRIORITIES REORDERED

The chairman and I participated in a reordering of priorities on housing alone by a number of devices in the Housing Act of 1968, 1970 and so forth, to stimulate unit housing to the point where we are building almost at the required level now of about 2.5 million homes a year; double what they were a couple of years ago.

SST ELIMINATED

Knocking out the SST, I think, saved us not only national embarrassment and a huge white elephant, a flying Edsel, as we called it, but also billions of dollars if we had to pay every penny of preproduction costs. Within the system we were able—the two of us—to really knock out that program. As each day goes by the decision looks better to me than it did even at the time we were fighting it.

DRUG ABUSE APPROPRIATIONS INCREASED

Also, we have been able, for instance, in the drug area recently—which the President said is a No. 1 priority, we got a bill through without a single dissenting vote in the Senate and the House to increase appropriations $800 million in 3 years for drug abuse pre-

vention. So I wouldn't want to leave the impression that we can't move when we really want to move.

ALCOHOLISM DESERVES HIGH PRIORITY

I would like to name a few other areas, not just the elderly, that were not covered in the study here. But as we give attention to drug abuse we seem to overlook the problem of alcoholism which creates 25,000 deaths on the highway every year. There are 7 million people who are alcoholics in this country. The cost of lack of production alone must be horrendous. Isn't it possible within our system to put far more funds into that by, say, earmarking a part—10 percent of our highway trust fund for alcohol prevention programs. If we put 10 percent of the alcohol revenue aside, you more than double what we are spending now to combat the trouble of alcoholism. Isn't that a matter that ought to deserve high priority right now?

PRIORITIES CAN BE AND HAVE BEEN CHANGED

Mr. LARKINS. Senator, my point was that I believe priorities can be set in a better manner. I overstated my case when I said it is impossible to reorder priorities at the present time, given the present mechanism. Table 1 of my prepared statement clearly shows that priorities can be, and have been changed. But I do believe that a restructuring of the appropriations process so that programs are reviewed along functional lines rather than agency lines would be a major step toward improving the process.

Mr. WEIDENBAUM. Could I elaborate on that? In Mr. Larkins' prepared statement he shows our proposed economic development budget where we array the whole gamut of governmental spending activities that might contribute to developing the American economy and it is quite clear that transportation facilities—and that is overwhelmingly highways—whereby this Nation fosters the development of the American economy.

HIGHWAY TRUST FUND

If we didn't have the trust fund protection around highways, and if the Congress did look at the budget, the whole budget, in this program sense, I would be surprised if the lion's share of the $34 billion in the 1973 budget which we classify as economic development, would go to transportation, and so much smaller shares would go to manpower or education.

I believe that investments in human resources, as opposed to investment in physical resources, might get a far higher priority if the Congress were not bound by the trust fund and the fixed charges implicit in substantive legislation and could make these decisions de novo.

TRANSPORTATION TRUST FUND

Senator PERCY. Well, is there a middle ground here though? I have a bill in—I just testified on it recently—to abolish the highway trust fund and establish a transportation trust fund. Wouldn't that be a practical interim step——

Mr. WEIDENBAUM. Yes, sir.

Senator PERCY (continuing). To at least then give us adequate revenue for the programs that are starved now for funds and to not have $3.5 billion of unused funds in the highway trust fund as it now is established.

Mr. WEIDENBAUM. Senator, I think your proposal for a transportation trust fund would be a major improvement over the current situation.

Senator PERCY. I am very delighted that the UAW, Leonard Woodcock, testified right along with me for it, and Henry Ford has come out for it; so I think there is a chance that we can make some really basic changes there.

I would like to name one other area and just ask the entire panel if there aren't ways we can go about this. I always try to think of ways that you don't have to just appropriate money to solve a problem.

IMPORTANCE OF PRISON REFORM

Prison reform is an urgent matter of very high priority right now. We spend $1.5 billion in our Federal prison system and it just seems to me there ought to be a more imaginative way to go about the rehabilitative process, and so forth, and at the same time even save money.

For instance, we could do away with the laws that do not permit prison labor to receive more than 20 cents; and laws that say that no product can go into the mainstream of commercial activity from prisons. It would seem to me sensible to set up factories on prison property and let people work at union wages and have them join unions and then get the support of unions rather than their opposition and have them work there and pay their room and board, which is today $11.76 a day, and provide for their families who are today on welfare; 55,000 families are on welfare today of people who are in prison. Then they would have the ability to support their families and then have the work experience to move them as rapidly as possible to a half-way house. Then they could move more rapidly into work on the outside.

I mention that as an example. Aren't we going to have to be far more imaginative in setting our priorities and in thinking through solutions to these problems and get away from some of the restrictions that we have now imposed upon ourselves? The present system is simply not working. Don't you have to do something to break down the prejudice which somehow gets us lined up behind the present procedures we are using?

Would any of you care to comment on that as a problem on changing our priorities?

Mrs. RIVLIN. Well, it seems to me the answer to that is a resounding yes, sir. I am not an expert on prison reform but it is clearly a neglected area in which one could both save money and do some good.

Mrs. TEETERS. To some extent we addressed that problem in the last chapter of the book. We pointed out that one of the frustrations of the last 5 to 7 years is that money has been appropriated and many of the programs have not worked, such as education or welfare. We have suggested that the Federal Government spend more money in

experiments to find programs which will work rather than just spending more money.

Mr. WEIDENBAUM. Mr. Chairman, and Senator Percy, if I could make really not an original suggestion but one which I think is appropriate, and I believe my colleagues on my left might agree as well as on my right, of course——

Chairman PROXMIRE. Colleagues on your west, you mean? [Laughter.]

EXPERIMENTS IN SOCIAL POLICY

Mr. WEIDENBAUM. Yes, sir; and that is rather than always embarking on major crash, new innovations, start more humbly, start with introducing to a greater degree what my colleague Ed Kalachek called in a paper a number of years ago "experiments in social policy." Frankly, I developed the same feeling toward military procurement. Don't start off each change with the idea this is going to be the new approach which is going to work, announcing it with great fanfare and investing billions of dollars in a crash effort. Rather experiment; admit—modesty being appropriate here—we are not sure what approach will work. Let's try several approaches at modest levels and run some controlled experiments. I think Senator Percy's approach in the prison system could be conducted directly along those lines.

CONTINUED USE OF PROPERTY TAX

Senator PERCY. One last question on your comment, Mr. Weidenbaum, on financing of local school systems through the continued use of local property taxes.

You have seriously questioned the regressive nature of the property tax and I know it is a very popular political thing now to offer some hope of getting rid of it. I happen to think you can't get rid of it. I am going after it to reduce it to help the elderly because I think there is an inequity here. But if property taxes were eliminated, how would you provide additional revenues for the school system?

REGRESSIVE NATURE OF PROPERTY AND OTHER TAXES

Mr. WEIDENBAUM. Several ways. Incidentally, as you know, we have other regressive taxes in the system. Perhaps the largest regressive tax is the Social Security tax. It has become fashionable to link the elimination or reduction of the property tax with that trans-Atlantic import, the value-added tax. On its surface, I think, the value-added tax is not, as some contend, a disguised sales tax; I think it is a plain, undisguised sales tax.

Senator PERCY. Wouldn't that be far more regressive?

Chairman PROXMIRE. He says it is an undisguised sales tax.

Mr. WEIDENBAUM. I think it would be regressive. You can soften the regressive impact obviously, as many States do. I understand from previous testimony—you know, sometimes I also learn things when I am at this end of the table—that the State of Wisconsin uses its income tax to soften the regressivity of its sales tax. Obviously the regressivity of a value-added tax could be softened through modifications in the income tax but, of course, that would further reduce the importance of our progressive income tax. It is hard for me to

see how eliminating the property tax would generate net benefits to large numbers of the American population. But that is not to say that circuit breakers, special acknowledgment of the problems of the aged, couldn't be incorporated to a greater extent than at present.

INEQUALITY OF PROPERTY ASSESSMENTS

Senator PERCY. One possibility would be there to better equalize the assessment values.

You have got racetracks in Chicago that are assessed at 3 percent of their value and you have homes that are assessed at a very high portion of their value. It is so grossly inequitable and such random politics are involved in it that certainly there has got to be some incentive or penalty. Maybe the Federal Government can play a role here if there isn't fairer equalization of assessments. I think that is an area of reform but for anyone who simply promises we are going to eliminate all property taxes and replace it with something else, I just can't see that at all. I agree with you.

Thank you very much indeed.

Mrs. TEETERS. We tried to assess where the liability of the property tax lies in discussing the value added. You have to make one or two assumptions. If you assume it is paid by renters and consumers, it is a highly regressive tax. If you assume it is paid by capital it is not, except for incomes under $3,000 where there are a large number of elderly people who own their own homes.

Senator PERCY. Thank you.

CONCLUSION

Chairman PROXMIRE. I want to thank all of you very, very much. I wish I could keep you longer because I have many more questions, but I am afraid I would go deep into the afternoon.

I would like to make one observation: Both the Brookings and the Weidenbaum approaches press for experimentation, and Mrs. Teeters and Mr. Weidenbaum both indicated, this is very appealing, but the trouble is we tried that and it hasn't worked very well, We tried it with Model Cities and tried it with Operation Breakthrough. You experiment and what happens is that the program just seems to die—experiment after experiment, and you never really move ahead.

One of the great strengths and advantages of the New Deal, it seemed to me, they did experiment, but in a massive way. They had some failures but fantastic successes. NRA was a failure and maybe the farm program was a failure, but in failing they assisted people greatly.

But at this time we have such great economic injustices in our system with the unemployed, with the minority groups and others, that it would take years and years to experiment with programs that have great appeal in some ways, but I am afraid it just isn't a very satisfactory way to answer the immediate, urgent needs of so many people in our society who are losers now.

Mr. WEIDENBAUM. But, Mr. Chairman, I think if we look at the private sector we find more new products fail than succeed. Human frailty, I think——

Chairman PROXMIRE. Yes; you have to recognize failure, but what I am saying is if we view this as a pilot project to take a few years to study, then we just never seem to move ahead with it even if it is a good project. Model Cities is an example of that. Some people tell me OEO is an example. Some people argue that the Peace Corps should have been expanded more than it is. It is a good program, but they never seem to move it.

Mr. WEIDENBAUM. Mr. Chairman, if I may, I want to thank you for the implied compliment. Early at the outset of these hearings this morning, you indicated that Dan Larkins and I would get equal time, and I take the implied compliment to the relative productivity of the two organizations for which I thank you.

Chairman PROXMIRE. I am happy to give you equal time, Mr. Weidenbaum, but unfortunately the clock makes it very difficult to do. We wanted to give you a full day but you are going to Europe and Europe seems to need you perhaps as much as we do.

Mr. WEIDENBAUM. The ugly American.

Chairman PROXMIRE. Yes.

Mr. WEIDENBAUM. Incidentally——

Chairman PROXMIRE. If you would like to come back, we can give you all kinds of full days, but I understand you are committed. It was your decision to come this morning and not ours.

Mr. WEIDENBAUM. I also want to explain——

Chairman PROXMIRE. Isn't that right?

Mr. WEIDENBAUM. Yes.

Chairman PROXMIRE. We are giving you conservatives equal time.

Mr. WEIDENBAUM. I also want to explain why the Brookings study came out two and a half months after ours. They had so many more people working on theirs.

Chairman PROXMIRE. Thank you very much for a very fine job, and I would like to submit a series of questions, more than I ever have, I think, for the record, for you to respond to, if you will when you correct your remarks.

(The following information was subsequently supplied for the record:)

RESPONSE OF MURRAY L. WEIDENBAUM TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN PROXMIRE

LOW PRIORITY PROGRAMS

Question 1. Most experts believe that we ought to cut back on low priority programs in order to avoid the fiscal squeeze you and the Brookings' study forecast and so as to make resources available for higher priority programs. But there is a strange reluctance to specify the programs that ought to be cut. Can you identify some programs or Federal activities that you think ought to be cut back or terminated?

Answer. I would like to see many of the subsidy programs cut back or eliminated entirely. In my testimony I cited three specific candidates as having outlived their usefulness: The Davis-Bacon Act, the Rural Electrification Administration subsidy loan rate, and the stockpile of strategic and critical materials. That would be a good start, particularly since labor, agriculture, and business each would be affected.

Question 2. In your statement, you suggest that at least a portion of the huge subsidies, which you now estimate cost the taxpayer $70 billion, ought to be reduced. Can you tell us which ones?

Answer. There are many other government programs which should be reduced in favor of spending the money on new initiatives, and thus avoiding a tax increase. In addition to the three mentioned above, I cite the Jones Act, the six-

month holding period for capital gains, and foreign aid (specifically the high-subsidy "soft" loans). The JEC staff subsidy study lists a host of these special privileges and benefits.

FISCAL YEAR 1973 DEFICIT

Question 1. You forecast a larger deficit for FY 1973 than for FY 1972. Can you give us your best estimate of what that deficit will be?

Answer. Given the facts at hand, I anticipate that the FY 1973 budget deficit will be in the neighborhood of $35 billion. Recent actions on social security and Vietnam emphasize the upward pressures on expenditures.

Question 2. Are you concerned with the fact in itself that there will be a large deficit in FY 1973 or with the composition of that deficit? You are obviously troubled with the effects of a large deficit on anti-inflationary efforts, but what about unemployment? Aren't we more likely to reduce unemployment with a large deficit? Shouldn't unemployment be our principal concern?

Answer. I am concerned that next year, when the unemployment rate is likely to be lower, the deficit will be larger. Good economic analysis would have called for reversing the relationship—the bigger deficit in '72 and the smaller one in '73. If unemployment has become the greater concern—and I believe that it should be—then the composition of recent tax and expenditure changes should have been different. Personally, I argued for a more "Keynesian" approach in designing the fiscal stimulus measures enacted last year. To be sure investment incentives are useful, particularly for fostering longer-term growth. However, if the concern is to bring down the current unemployment, I cannot think of anything more effective than directly putting unemployed people to work.

Question 3. You call for greater expenditure control. Where in terms of the FY 1973 budget requests would you apply expenditure controls?

Answer. The expenditure controls that I call for are mainly procedural. The key problem that I would deal with is to remove the special provisions that shelter the great bulk of civilian programs from effective congressional review. Thus, I urge the Congress to eliminate most of the trust funds and fixed charges, requiring more programs to go through the annual budget and appropriations process before they receive their money. On the revenue side, Congressman Mills' suggestion to review the special tax provisions is an excellent idea, and follows the same line of thought.

REVENUE SHARING

In table 1 of your prepared statement showing the fiscal impact of proposed programs, two items stand out: Revenue sharing; $11½ billion in 1977. Health, Education & Welfare, $15 billion in 1977. You have long been known as an advocate of revenue sharing, so let me ask you several questions about this:

Question 1. How does the 1977 cost of the Mills' bill, now before the House, compare to the Administration's proposal?

Answer. In general orders of magnitude, I find that the cost of the Mills' bill is approximately equivalent to that of the original administration proposal.

Question 2. Do you think the Mills' bill is a good bill? Do you approve of the provision limiting local use of the funds to such things as police, highways, and sewers?

Answer. I think that the Mills' bill is a good bill. On balance, I believe that it will be a constructive change in our federal fiscal system. Frankly, I would have preferred eliminating the provision that limits the local use of the funds to several key program areas. However, the areas listed are so important in local budgets that I see no major problem arising from that provision.

Question 3. How can we know that in 1977 State and local governments will need $11½ billion (or any other particular number)? How can your advocacy of revenue sharing be made consistent with your objection to legislation creating uncontrollable expenditures?

Answer. Forecasts are always difficult to make. Yet, approximately $11 billion strikes me as an appropriate figure for general Federal aid to state and local governments in 1977. It would surprise me if that proves to be too much. But if that turns out to be the case, the Congress could reduce the amount. With reference to the controllability question, I have made several necessary distinctions in my various statements on the subject to the JEC. Interest on the public debt is a necessary "uncontrollable", as is veterans compensation. Because of the high priority I assign to the need for strengthening our federal form of government, I believe that revenue sharing should be placed in that category.

Question 4. Are you still as enthusiastic as ever about revenue sharing even though here is no longer any fiscal dividend to distribute?

Answer. I am as enthusiastic as ever about revenue sharing. The basic case that I have been making for revenue sharing is that it deserves a higher priority than many existing programs. Thus, I would not wait until any fiscal dividend arises.

Chairman PROXMIRE. The subcommittee will stand in recess until tomorrow morning at 10 a.m., when we will hear from the Honorable Robert C. Moot, Assistant Secretary of Defense.

(Whereupon, at 1 p.m., the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, May 31, 1972.)

NATIONAL PRIORITIES—THE NEXT FIVE YEARS

WEDNESDAY, MAY 31, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Percy; and Representative Conable.

Also present: John R. Stark, executive director; Richard F. Kaufman and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

As we begin the second day of this year's hearings on national priorities, I think we would all be well advised to keep two salient facts before us:

First, the war in Vietnam continues and as far as I can tell no end is in sight. We are reminded constantly of the troops that have been withdrawn from Vietnam since 1969; but the killing goes on. It is true that U.S. casualties are down and we can be glad of that. On the other hand, Americans are still being killed and thousands upon thousands of Vietnamese are being killed as well. The recent flareup, once again, in my judgment, underlines the failure of our foreign and military policies in Southeast Asia, the failure of Vietnamization and the foolhardiness of pouring so many billions of dollars into that miserable war.

For these reasons and others, I am determined to vote against any further appropriation of funds for the war in Vietnam unless the appropriation bill is tied to a firm commitment to terminate U.S. involvement within 4 months. I am opposed to our continuing involvement in this war on economic, political, and moral grounds and if it requires an extended debate on the floor of the U.S. Senate to explain why I cannot vote for further appropriations for this war, then we will have such an extended debate.

Second, defense spending is once again scheduled to take off. It is true that the defense budget has declined modestly in the past few years. However, this year the executive branch is requesting a huge $6.3 billion increase in new obligational authority. Actual defense outlays have already jumped by more than $3 billion in the first quarter of calendar year 1972.

New weapon programs, cost overruns and military pay increases are creating pressures on the defense budget which, together with the increase requested by the administration, assures us of a defense budget of record proportions in the near future unless Congress acts soon to cut this budget. Yesterday, Charles L. Schultze and others of the Brookings Institution estimated that the defense budget could rise to $100 billion by 1977.

That forecast is based on current defense outlays and requests. But we have shown in the past few years that military spending can be cut back. The real issue today, therefore, is where do we go from here? I would feel that I was not doing my job as a Senator if I sat back and watched the budget of any governmental department grow to the $100 billion mark. When the budget in question is that of the Department of Defense, I would be guilty of gross negligence if I did not pay the closest attention to spending requests as well as ongoing activities.

Our witness this morning is Robert C. Moot, Assistant Secretary of Defense—Comptroller. Prior to his appointment to his present position in 1968, Mr. Moot served as Chief Officer of the Small Business Administration and in a number of other capacities in the Federal Government since 1946.

Mr. Moot, you have appeared before this subcommittee before and we are always pleased to hear from you. The last time you testified you gave us an excellent statement and were most candid and responsive during the questioning. We received your prepared statement yesterday morning and it is, as you know, quite voluminous, to put it modestly; running to 94 pages of text and another 18 pages of tables. Obviously, you have gone to a great amount of trouble and have put much effort into what is a very fine prepared statement.

I read that prepared statement in full last night and I read it carefully. I was concerned about the fact that it is primarily a historical record. Now, it is a very useful historical record; you cover proper points about the emphasis that some of us have been giving to defense spending. I think it is salutary and helpful to state that nondefense spending which is so much higher, other Federal spending has gone up a great deal compared to defense spending—you are absolutely right about that. But there is very little or nothing about the future. At the end of your prepared statement you discuss procedures about the future but there is very little about the amount of spending in the future. In fact, I don't recall that you said very much, if anything, about the obligational authority which, of course, tells us what we are going to have—the $83—what is it—$83 billion of obligational authority, that is the warning we have of what the future budgets may be, and about the $100 billion projection that the Brookings Institution made.

Of course, you may disagree with that entirely, but that was something before this committee and I see no indication of your analysis of that possibility.

My questions, therefore, will be about those matters which we indicated in our letters and press releases we would want to hear about and others I am sure you were able to anticipate.

Representative Conable.

PROXMIRE OPENING STATEMENT NOT COMMITTEE POSITION

Representative CONABLE. Mr. Chairman, I am not familiar with the practices in the Senate, but I personally regret the chairman's feeling that he should make a personal statement at the beginning of each one of these meetings. It is a personal statement and not a statement for the committee as a whole, and I have no desire to make a statement myself except that I don't wish my silence at the outset of one of these hearings to indicate any acquiescence as a member of this committee in some of the conclusions that he has drawn in his opening remarks.

I prefer, as I say, not to make such a statement; but when the chairman makes a very strong personal point, I want to be sure that it is understood that my silence does not indicate acquiescence and I don't want to make this statement every day.

Chairman PROXMIRE. Well, I appreciate that, and I have been in many hearings, as Congressman Conable has, too. Different chairmen have different positions. Most chairmen make an opening statement of some kind. Sometimes its includes their personal views; sometimes it simply introduces the witnesses.

Representative CONABLE. I understand that, sir; but because of your great distinction and, as chairman of this committee, of course, what you say at the outset does carry additional weight and all I am doing is entering my reservations in the record here at this point. You certainly are entitled to your opinion and I don't mean to quibble about it. I simply don't want it to appear to be a committee position at this stage in the hearings.

Chairman PROXMIRE. That is a very proper reservation. My statement certainly is not a committee position. It is strictly my position. Members of this committee, as all Members of Congress, differ, especially on the Vietnam war.

Your entire prepared statement will be included in the record including the 18 pages of tables. We have had a custom of providing for a 10-minute presentation with 2 minutes of leeway, 10-minute warning and then you have 2 more minutes, 12 minutes altogether; and if you could summarize it, that would be fine, I would appreciate it very much

Representative CONABLE. Otherwise you will have to read nine pages a minute.

Chairman PROXMIRE. That's right.

STATEMENT OF HON. ROBERT C. MOOT, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER), ACCOMPANIED BY CLIFFORD J. MILLER, DEPUTY COMPTROLLER (PLANS AND SYSTEMS)

Mr. MOOT. Thank you, Mr. Chairman. Am I on my 10 minutes?

Chairman PROXMIRE. If you would like to make some introductory remarks, you may.

Mr. MOOT. I would like to say it has been 3 years since we have had an opportunity to testify before this committee and I do appreciate the chance to update the committee on the defense program; and I

would also like to introduce my colleague, Mr. Clifford Miller, who is Deputy Comptroller for Plans and Systems in the Department of Defense.

We have submitted, as you noted, Mr. Chairman, a very comprehensive prepared statement, responsive, I hope, to the committee's areas of indicated interest and, hopefully, productive in the committees consideration.

We have also prepared a summary of that prepared statement which I will also submit for the record, but I would like to use these few minutes available to address specifically some of the indicated areas of committee interest in the chairman's communication to me. You will recall, Mr. Chairman, that you did indicate you wanted me to discuss spending trends in the Defense Department and the relationship of those spending trends to trends in other public spending segments of the economy.

You also wanted to discuss the disposition of the peace dividend with specific reverence to the current increase in requested defense spending.

You also indicated an interest in discussing the national security budget concept as advanced by the Joint Economic Committee and, also, of course, the Brookings Institution report on the 1973 budget as well as the point you made in your opening statement concerning the need for better long-range planning in both the legislative and executive branches of the Government.

DOD SPENDING TRENDS

So I would like to touch briefly on one or two highlights of each of those particular points; and the first would be, of course, the spending trends concerning the Defense Department and the balance of the public sector.

It is an excellent place to start because to understand future spending trends it is necessary to understand the past and the present, both in terms of absolute spending and in relationship to the total public sector.

The points I would make are quickly as follows:

National defense resources currently in constant dollars are at the lowest point in over 20 years. National defense is not now using any of the real growth in this Nation's economy gained in the past 20 years, and that growth in constant calendar year 1958 dollars equates to some $300 billion. National defense is not using any of it. In terms of the manpower of this country, whether we are talking military personnel, civil service personnel, or those in industry directly engaged in defense deployment, personnel now utilized in the defense effort is again at the lowest point in the last 20 years. All of the labor force growth in the past 20 years is devoted to nondefense pursuits in the economy.

Since the peak Vietnam period, the Defense Department has reduced military and civil service employment by 1,440,000, a 30-percent reduction.

Since the peak Vietnam period, purchases from industry have been reduced by the Defense Department by 40 percent in real terms. That means in 1973 dollar values the Defense Department has cut

back its purchases from industry by $17.4 billion and in so doing has reduced employment engaged in defense effort in industry by 1,316,000 people, making a total employment reduction since 1968 of approximately 2.8 million people in the labor force engaged in defense.

So the basic point by any measure—gross national product, Federal budget administrative, Federal budget unified, net public spending, public employment, the labor force—the defense share is at the lowest point in 20 years and in some cases, Mr. Chairman, it is at the bottom point since before Pearl Harbor. This, I might add, and I noted Brookings' witnesses made the same point, is a first in history. Never before in the history of this country has the level of defense resources been brought to a prewar level, either after or during a war. Always there has been a ratchet effect so that the level of resources after a war has been higher than the level before the war. We are now back to a prewar level, back to the lowest level in the last 20 years.

This, I submit, indicates that there has been a reallocation of national resources and reordering of national priorities.

PUBLIC SPENDING UP

Now, while the Defense Department has been reduced to this extent, what has been happening in the rest of the public sector? Public spending other than defense in real growth, in real buying terms, spending power is up $185 billion since 1953—that same 20-year period. The increase is more than $260 billion in current dollars. National defense, remember, reflects a real decrease while other public spending is going up to this extent.

The real growth in nondefense public spending over this period of time is equal to more than twice the current total national defense budget; it is an increase of over 200 percent since 1953, and the trend has not shifted. There is growth of over $100 billion in the past 10 years.

Total public employment in the public sector aside from Defense in the past 20 years is up over 7 million people. Defense has decreased during this same period of time by 1.5 million people. So, 20 years ago the Defense Department was truly dominant in spending trends in this country because the Defense Department at that time spent twice as much as the rest of the Federal Government combined and the Defense Department also spent twice as much as State and local governments combined. This is no longer the case. The Defense Department no longer spends half of total public spending. The Defense Department now is slightly under 20 percent of total public spending. We are no longer the centerpiece of public spending trends.

Since 1968, during this period of defense cutbacks, in the past 5 years alone national defense is coming down in absolute as well as relative terms, in current as well as constant dollars, while State and local spending is up $80 billion and other Federal spending is up $74 billion.

Again, I submit that this is a reordering of national priorities and I submit that the attention and the emphasis of this committee's considerations need not, as much as it did in the past, concentrate on defense spending.

In either absolute or relative terms, the position of the Defense Department in public spending has truly changed dramatically over the last 20 years.

THE PEACE DIVIDEND

Now, let me address briefly the peace dividend and its disposition. It is obvious if national defense is now at the lowest point in 20 years in real spending power, that whatever the cost of war was has been returned because we are now back to a prewar level. The current dollar increase in defense, in the current 1973 budget, is up from pre-Vietnam spending levels by $25.7 billion. Pay and price increases from pre-Vietnam levels amount to $32.3 billion. The fact, Mr. Chairman, is that the Defense Department has taken a real cut of $6.6 billion due to the impact of inflation since before the war, so that we are at a lower than prewar resource level. The confirmation of this is that we have 326,000 fewer people in the defense budget for 1973 than we had in the defense budget in 1964, before the war, and in terms of constant dollars we have a procurement program in 1973 which is $4.8 billion lower than the procurement program in 1964.

The peace dividend, in fact, has gone to meet the cost of inflation and, in addition, to meeting the cost of inflation we have actually returned to the Treasury real funds which are being used in other programs.

Just since 1968, the real reduction in 1973 dollar values in the defense program is valued at $32.7 billion, a reduction greater than any cost of the war, either full or incremental.

IMPACT OF INFLATION

Now, I would like to make a further point: That defense is not unique in being impacted by inflation. Some people believe that the Defense Department pays any prices, whatever are asked, and the Defense Department pushed for pay increases and, therefore, is unique as to the impact of inflation. This is not the case.

Wherever in the economy defense is significant in its purchases in any industry segment, the inflation impact in that particular defense significant segment is less than the economy average. This means that the Defense Department is not contributing to inflation in the sense of its large purchases.

Chairman PROXMIRE. You have 2 more minutes.

Mr. MOOT. Thank you, sir.

PAY INCREASES

I would like to make the point also with reference to pay increases, that through the fiscal year 1971, the latest comparable data, regular military compensation has increased over 1964; the base point, the prewar period, regular military compensation has increased by 51 percent. Total civil service salaries have increased by 51.7 percent in that same time frame through 1971.

Total private sector compensation in this same period of time has increased 55.1 percent. It seems obvious that Government salaries, whether they be military or civil service, have not outstripped the private sector in terms of increases during this time frame. And

certainly if the demand pull during those years of 1964 to 1968 generally attributed to be the genesis of our inflation problems, if the demand pull during that period of time was due to public spending, I would submit that the Defense Department increase during that period was less than one-third of the total increase in public spending, including other Federal spending as well as State and local.

COST OVERRUNS

I would like to make another point that is frequently overlooked: Many allegations about our cost overruns and continually adding costs to our budget can be best answered by this simple fact: That in current dollars, Mr. Chairman, our investment program—including all procurement, military construction, research and development—our investment program in the 1973 budget in current dollars is within 1 percent of the level of those programs before the war.

It is obvious that if we have had massive cost overruns we have been absorbing massive cost overruns within the same dollar total.

Thank you.

Chairman PROXMIRE. Mr. Moot, again I apologize for having to abbreviate your statement. It is a very important statement. You obviously did have a great deal to tell us and your 94-page prepared statement is, as I say, most impressive. The entire prepared statement will be printed in full in the record.

(The prepared statement and summary of the prepared statement of Mr. Moot follow:)

PREPARED STATEMENT OF HON. ROBERT C. MOOT

Mr. Chairman, and Members of the Committee, I welcome this opportunity to discuss Defense programs in the context of national priorities. This is an especially appropriate time to consider these matters. It is becoming increasingly clear that in order to confront the profound problems which face us in the area of public finance, we need a much clearer perception of present-day reality.

For example, Mr. Chairman, we need a better general understanding of Defense budget trends, in both absolute and relative terms. The facts are clear. Spending for National Defense in FY 1973, in dollars of constant buying power, represents the lowest level since before the Korean War. Our military and civil service manpower, general prupose force levels, and real purchases from industry will be at the lowest level for more than 20 years. We have paid the peace dividend in full, and more than that. Our manpower and our real purchase levels are significantly below prewar.

Yet, Mr. Chairman, charges are frequently made that the Defense budget is rising, that other sectors of public spending are being starved to provide for Defense, and that Defense spending is the central element in our resource allocation problems for the future. Twenty years ago it was true that Defense was the central element of resource allocations in the public sector.

But 1973 is not 1953. In 1953, Defense did in fact place the major bite upon the American taxpayer. Defense spending was twice as great as all other Federal spending combined; today, other Federal spending is more than twice that of all state and local governments. Today, state and local spending is more than twice that for Defense. Today, one tax dollar in five goes for Defense, but it seems to enjoy more visibility than the other four which are rarely pulled together in one place.

Defense spending is indeed visible. For example, when Defense spending rose by $27 billion from 1964 to the war peak in 1968, the fact was observed and has been long-remembered. It is still cited in some quarters as the keystone of our present economic ills. The fact that non-Defense Federal spending rose by $35 billion at the same time seems to have gone widely unnoticed, as did the $33 billion in state and local spending. In the next four years, 1968–72, Defense spending drops slightly, other Federal spending rises by $64 billion, and state and

local spending by $63 billion. Of all these figures, though, it is the $27 billion increase in Defense spending five to nine years ago that is best remembered.

If it was true, Mr. Chairman, that Defense spending was at the root of our economic problems and the chief source of the crunch in public spending, then the Congress, exercising its very rigorous control over Defense resources in the authorization-appropriation process, could take the action it deems warranted. But that is not the nature of the problem. What is involved, rather, is an inability to fully preceive the impact of other key areas of public spending. These public spending sectors, which account for ⅔ of the tax dollar are only partly encompassed within the appropriation process.

Our ability to prescribe, Mr. Chairman, is limited by our ability to diagnose. We cannot do very well with respect to the future until we can come to a better understanding regarding the past and the present. We cannot cope with the course from 1973 to 1978 if the starting points are themselves 20 years apart—if, that is, our thinking is colored by the status and conditions of 1953.

I will cover each of these points in detail in my statement, Mr. Chairman. My statement begins with a description of the impact of pay raises and price increases, especially pay raises, upon Defense budgets from FY 1964 to FY 1973. In brief, the facts are these. Defense spending (for military functions and military assistance) in FY 1973 is $25.7 billion above the prewar level. Of this increase, $20.8 billion is for pay and related costs, and $4.9 billion for all other costs—purchase of goods and services from industry. The $20.8 billion rise in pay costs comes in spite of the fact that we have 326,000 less people (military and civil service) than we had prewar. The increase results from pay increases. Similarly the purchase increase since prewar, $4.9 billion, has been insufficient to cover inflation since that time. I am not referring to over-runs, but to general price inflation, estimated at 33.5% for the nine years. Taking this into account, our purchases in real terms are down about 12% from prewar 1964. Manpower, then, has been reduced by 9% and purchases by 12% from the prewar level. For National Defense as a whole, FY 1973 represents the lowest spending level since the Korean War in constant dollars.

The first part of my statement, and the accompanying tables, present a good deal of detail on pay raises and price increases. This includes rates for each pay grade (military and civilian) at each point, an analysis of increases for each element of military entitlement, and the percentage amount and effective date for each pay raise since 1945. We present data comparing DoD price increases with other sectors public and private. These data show that there is nothing peculiar or unique to us as regards inflation—our experience is consistent with that for other areas of public spending and other sectors of the economy. Defense industry has not experienced more inflation than other sectors; in fact, the opposite is true. We also assess the charge that Defense budget trends in the middle 1960's somehow cause the inflation; the facts show that Defense has a great deal of help in this respect.

We also explain our system for stating Defense spending in constant prices at considerable length, demonstrating that it is virtually identical to the system used by the Department of Commerce for many years in deflating the entire public sector of the GNP.

I hope, Mr. Chairman, that this part of my statement will answer a good many questions that have arisen regarding the impact of inflation upon the Defense budget estimates.

The second part of my statement goes into Defense budget trends from FY 1964 to FY 1973 in somewhat more detail. This part of my statement demonstrates that the peace dividend has been paid in full, and then some. In real terms—in terms of manpower and purchases at constant prices—FY 1973 spending is below the prewar level. All manpower and all purchase money added for the war have been removed, and more besides. It is therefore not correct to state that the peace dividend has been dissipated. This implies that some of the manpower and real purchases buildup added for the war remains in the Defense budget. But if dissipation is the term to be used, it should be made clear just how this dissipation came about: by pay increases, which could take effect only with Congressional approval. The increase in budget authority from FY 1972 to FY 1973 is also put in perspective in this section of my statement. It is true that there are real increases for modernization, but these are more than offset by decreases elsewhere, especially in manpower. The $6.2 billion increase in budget authority is more than accounted for by pay increases ($4.2 billion), 2.8% purchase inflation ($1.3 billion) and a technical financing charge which adds nothing to the program ($1.1 billion).

The next two parts of my statement are devoted to longer-term trends, from 1939–73, but with particular emphasis upon the reversal of roles between Defense and other sectors of public spending over the past 20 years. I go into considerable detail at this point to make it clear that we can no longer assess economic trends or public spending trends in terms of the assumption that Defense spending is still dominant. It is clear, Mr. Chairman, that the economic impact of Defense in the mid-1960's did not begin to approach that of the Korean period, and that the trend since 1968—by any real measure—has been massively away from Defense spending. The impact of Defense programs upon the economy and upon American society—the real burden of Defense, absolute and relative—is at its lowest point since 1950 and, in some instances, since before Pearl Harbor.

Next, Mr. Chairman, I devote two sections to the matter of ground rules for assessing public spending trends and magnitudes. Some critics, for example, allege that Defense spending consumes the greater share of the total—but to do this they leave out of account some of the largest areas of non-Defense spending, which give rise to some of the taxes paid. Others would allocate all or a large share of such items as debt interest to Defense, since most of the debt was allegedly incurred in war periods. This was true enough in 1953, but not in 1973.

The facts show that National Defense and other costs are reasonably stated in the budget as now presented. One can conclude that Defense costs are understated only by (a) ignoring trends since 1953 in the debt and debt interest, and significantly overstating real net costs of the debt, (b) using allocation criteria that are so broad and vague that, if they were applied Government-wide, would result in showing that several other functions are understated much more than Defense and (c) ignoring some clear-cut cases where Defense costs are now overstated in the budget.

With that, Mr. Chairman, I am ready to take up the points in my statement in the order I indicated.

PAY RAISES AND PRICE INCREASES

Mr. Chairman, it is not possible to understand recent Defense budget trends without an appreciation of the impact of pay and price increases upon our budget over the past several years. I refer to these developments as inflation, which is what they are in the elemental meaning of that term: the need to spend more dollars to hire the same number of people or to purchase the same items. A great deal of the current controversy surrounding the Defense budget stems from a failure to appreciate the impact of inflation upon our estimates.

Overall spending trends

There is a very good reason for misunderstanding Defense program trends in the budget totals themselves. These are as follows:

MILITARY FUNCTIONS AND MILITARY ASSISTANCE

	Fiscal year—		
	1964 (Prewar)	1968 (War peak)	1973 Estimate
Outlays (billions):			
Pay and related costs	$22.0	$32.6	$42.8
Purchase of goods and services	28.8	45.4	33.7
Total outlays	50.8	78.0	76.5
Military and civil service manpower (end-strength, thousands)	3,720	4,834	3,394

The key question obviously involves Defense spending. This rose by $27.2 billion from prewar 1964 to the wartime peak in FY 1968, then falls by only about 2% from 1968 to 1973 with war spending largely out of the picture. Our FY 1973 spending estimate of $76.5 billion is very nearly equal to the wartime peak.

The problem quickly comes into focus if one looks at the first broad breakdown of the figures. Note that outlays for purchase of goods and services rose from $28.8 billion in FY 1964 to $45.4 billion in FY 1968, then fall to $33.7 billion in FY 1973—a drop of $11.7 billion, or 26% and these figures have not been adjusted to take account of inflation. This is roughly the trend that one would expect to see as war costs decline.

Observe, however, the trend in pay and related costs: these costs rose from $22 billion in FY 1964 to $32.6 billion in FY 1968, an increase of $10.6 billion. This is not altogether surprising, since there was a sharp increase in manpower over this period. However, pay and related costs *rise* by an additional $10.2 billion from FY 1968 to FY 1973, while manpower drops by 1,440,000. This is the point which has been most difficult to comprehend. Manpower cost increases (largely pay raises) have amounted to:

$10.2 billion, with a loss of 1,440,000 people, measuring from FY 1968 to FY 1973.

$20.8 billion, with a loss of 326,000 people, measuring from prewar FY 1964 to FY 1973.

To put it another way, *after* cutting out all the people that were added for the war, and 326,000 more than that, our payroll is $10.2 billion above the wartime peak and $20.8 billion above the prewar level.

Program trends in constant prices

To understand Defense budget and program trends, then, it is necessary to consider the matter in terms of constant prices—dollars of constant buying power. Our approach is essentially the same as that followed for many years by the Bureau of Economic Analysis (formerly Office of Business Economics), Department of Commerce, in deflating government purchases in the national income and product accounts.

Several points should be noted, however. First, we go into considerably more detail than the BEA. The BEA merges Defense and other Federal purchases in a single aggregate, while we not only break out Defense but carry the deflators to the appropriation level and below. Second, the BEA uses a CY 1958 base year. This is not a particularly relevant base year for Defense. We use the budget year—FY 1973 in this instance—so that the various aggregates can be considered in terms of the program levels being requested. We have checked this matter by calculating the figures using other base years, and the results do not differ significantly.

Third, BEA simply excludes most military retired pay from the totals. We include this item, in order to reach a recognizable budgetary total, but we include it for all years at the base-year amount. The result, insofar as considering year-to-year changes in constant-price spending is concerned, is identical under either approach: retired pay has zero effect.

Fourth, BEA publishes data quarterly, and calculates seasonal and timing adjustments. Since we are keyed to annual budget totals we do neither.

Except for the four points just enumerated, the two approaches are identical.

In stating the Defense program in constant prices, we break the total down into five major areas:

Military basic pay and items denominated therein.
Other military pay and allowances.
Civilian payroll.
Military retired pay.
Purchase of goods and services.

Rates of pay

Tables 1, 1A, and 2 provide data on payroll costs. Tables 1 and 1A show military basic pay and classified civilian salaries by grade at four points in time: July 1963, the beginning of FY 1964; July 1967, the beginning of FY 1968; the present rates, which went into effect in January 1972; and the rates contemplated to be in effect in January 1973 under the pay raise assumptions reflected in our FY 1973 budget totals. I should emphasize that military basic pay and civilian salaries are not comparable. With the caveat, note that FY 1973 pay rates for the lowest enlisted grades will be more than four times the prewar level; for lieutenants (O–1 and O–2) pay rates have about tripled, and for all other military pay grades except generals pay rates have more than doubled. Civilian salaries have also climbed sharply.

Table 1 shows the rates in effect at particular points in time, and the increases vary greatly among the pay grades. It is necessary to translate these into average rates in effect for each year as a whole, as is done in Table 2. The left side of this table shows the amount and effective date of each pay increase since 1945. The right hand side presents this pay history in terms of an index, with FY 1964 equal to 100.

The budgetary impact of these developments becomes clear in Table 3, where the FY 1964 program is repriced at FY 1973 pay rates and price levels.

Military basic pay was $7,855 million in FY 1964. For FY 1964 manpower, at FY 1973 rates of pay, this cost would have been 134.5% greater—$18,420 million. (The index of 234.5, in contrast to the 224.8 shown in Table 2, is explained in the footnote to Table 3.)

Other items denominated in basic pay have risen since FY 1964 much more rapidly than basic pay itself, largely because of the addition by law of the Variable Re-enlistment Bonus in 1966 and the employer share of FICA. FICA costs, for the FY 1964 manpower mix, have risen by 252.3% (an index of 352.3) from FY 164 to FY 1973.

As Table 3 shows, the, basic pay and items denominated therein have risen 141.9% from FY 1964 to FY 1973.

Other military pay and allowances amounted to $4,475 million in FY 1964 and, for the same strength, would cost $6,161 million in FY 1973 as shown in Table 3. The first group of items involve statutory pay and allowances unchanged since July 1, 1963. The major items here include incentive pay for flight, submarine duty, and parachute jumping; special pays for physicians, dentists, and veterinarians, for sea duty, and for duty in certain places; and officers' uniform and subsistence allowances.

Items added since June 30, 1963, include the family separation allowance; SGLI; interest on savings deposits; incentive pay for flight deck duty; special pay for submarine officers; and the combat arms enlistment bonus. Had all these items been in effect for the full FY 1964, the cost in that year would have been $182 million.

The basic allowance for quarters (BAQ) has risen 47.7% since FY 1964, almost entirely due to the provisions of PL 92–129 enacted last fall.

While there was a legal provision for hostile fire pay in FY 1964, none was paid in that year. The rate was raised from $55 to $65 per month on September 1, 1965.

Permanent-change-of-station travel and transportation has been subject to inflation of 43.7% since FY 1964. This is a mixture of (a) statutory increases in some weight allowances and per diem rates; (b) commercial travel and transportation rate increases; and (c) some statutory allowances which are unchanged.

The next group of allowances shown in Table 3 (cost-related allowances) include a 20% increase for enlisted clothing; a 114% increase in the overseas station allowance; and a 35.2% increase in enlisted subsistence.

Military assistance, service funded (MASF) did not exist in FY 1964. Other active force costs ($8 milllon in FY 1964) are estimated to have been subject to inflation of 33.5%, the same as for purchases. This is discussed more fully below. Non-basic pay items for the reserve components reflect 37.7% inflation from FY 1964 to FY 1973, the average rate applicable to active forces.

For active and reserve military personnel appropriations, then, pay, allowance and price increases since FY 1964 have amounted to 106%. The manpower that cost just under $13 billion in FY 1964 would cost $26.8 billion at FY 1973 rates, without adding or promoting a man.

Civil Service pay rates, shown next in Table 3, have increased by 69.6% from FY 1964 to FY 1973. This is the net of a 64.5% increase in classified (GS) salaries, shown in Table 2; a 75.2% increase in pay under the wage system (blue collar); and a ½ of 1% increase in the employer contribution to the Civil Service Retirement Fund.

Retired pay increases from $1.2 billion in FY 1964 to $4.9 billion in FY 1973, quadrupling. This growth is the result of increases in the retired population, pay increases, and increases tied by law to growth in the Consumer Price Index (cost-of-living)—the latter formula accounts for a 45% growth from FY 1964 to our FY 1973 estimate. These retired pay increases, from a budgetary standpoint, are the same as pay raises or purchase price increases, in that they involve payment of more dollars without adding to current forces or providing additional hardware. As already noted, retired pay is excluded (except for a small part) from Defense purchases in the national income and product accounts. The treatment which we follow is comparable, insorar as year-to-year comparisons are concerned.

In addition to the method we have used for treating retired pay and the method used in the national income and product accounts there are several additional ways in which retired pay could be reflected. We believe the method we have chosen is the simplest and the most clear-cut. It preserves the tie-in to budgetary aggregates, while clearly displaying the rapid growth in retired pay costs. At the same time, we do not intermingle retired pay increases with program trends, which would clearly be inappropriate. For example, retired pay will increase sharply in the next five years, the result of increases in the retired population and increases in military pay and the consumer price index.

The retired population five years from now will consist of personnel already retired plus those now on duty who have served, roughly, from 15 to 25 years. This retired population will not be significantly influenced by changes in active duty manpower over the next five years, and certainly will not be a function of the FY 1977 active manpower level.

The personnel entering the retired population in the next five years will have realized all the pay raises since 1958, while a large number of current retirees have not. Pay raises over a 19-year span are thus involved in considering changes in averages per man—not merely pay raises for the next five years.

For these and other reasons, we believe it is appropriate to segregate retired pay from Defense program trends, while providing full disclosure of the costs.

Purchase prices rise by an estimated 33.5% from FY 1964 to FY 1973. The year-to-year increase in purchase prices is presented in Table 2. This covers all the goods and services we purchase from industry, except for clothing, rations and transportation costs already covered in connection with manpower costs. The term "goods" covers everything from weapons to office supplies, and "services" include transportation, communications, contractual equipment, maintenance, and so forth.

Figures from FY 1964 through FY 1971 were furnished by BEA. These represent the non-compensation component of the deflator for Federal purchase of goods and services. The data are based on the wholesale price index, weighted in accordance with the proportion of Federal purchases in each segment. It should be emphasized that these figures are not based upon an analysis of Defense price experience. They represent, rather, an approximation of the inflation rates that any buyer would experience who was dealing with the same wholesale segments. The FY 1972 and FY 1973 figures are our estimates. They assume price increases of 3.7% in FY 1972 and 2.8% in FY 1973.

The result is summarized in Table 3, in terms of our program for FY 1964—the last prewar year. Applying the factors I have just described it can be seen that the military payroll (basic pay and items denominated therein) which amounted to $8,511 million in FY 1964 would cost $20,590 million at FY 1973 rates of pay—a $12 billion increase without adding or promoting a man. Similarly, the civilian payroll would rise by $5.1 billion for the same number of personnel in the same grades. All told, then, our FY 1964 program would cost $83.1 billion at the pay and price levels of FY 1973, without adding a man or a piece of equipment. Inflation will have added $32.3 billion, or 63.6%, to Defense costs from FY 1964 to FY 1973. Projected Defense spending in FY 1973 is $76.5 billion—about $6.6 billion, or 8%, below the prewar level in terms of constant dollars. This picture is entirely consistent, as we shall see presently, with Defense manpower and program trends.

Comparisons of inflationary trends

Mr. Chairman, when one finds that inflation has added $32.3 billion to Defense costs since FY 1964, a great deal of attention must be devoted to the subject. There are many who find it just about impossible to believe that inflation could have added that much to Defense costs, and I can certainly sympathize with that view. Others have charged that Defense caused the inflation in the first place, and is now using it as an excuse; or that the inflation we reflect in our figures somehow comprehends the spectacular cost overruns with which we are charged. In general, this area is not very well understood and I would like to comment further, and consider some implications for the future, before leaving this matter.

Table 3 shows that inflation amounts to 63.6% from FY 1964 to FY 1973. The figure from FY 1964 to FY 1971, calculated in exactly the same way, would be 40.7%. The deflator for Federal purchases in the national income and product accounts for the same period is 40.4% almost exactly the same. (See Table 6.)

The experience of state and local governments provides another benchmark. Data on the impact of inflation on state and local government spending are maintained by the Department of Commerce. These data indicate that, from FY 1964 to FY 1971, state and local governments collectively experienced slightly more inflation than did the Department of Defense (45.3% for state and local governments compared to 40.7% for the Department of Defense). State and local government spending is well over double that of the Department of Defense. As in our case, over half of their spending goes for payroll. They do not buy as much complex equipment as we do, but they do spend proportionally more for construction, were inflation has been very high. Overall, the experience of other units of government is roughly consistent with ours.

Inflation and budget trends

I cannot tell you what causes inflation, Mr. Chairman, but I can comment on the charges that Defense caused this inflation. This charge comes in many forms. In the simplest terms, it is alleged that inflation was caused by the rapid buildup in Defense spending from FY 1964 to FY 1968. It is true that National Defense spending rose by $26.9 billion (50%) during that period. But it's also true that Federal social and economic spending rose by $28.7 billion (65%) and state and local spending by $33.1 billion (47%) during the same period. It's hard to conclude from this that Defense caused the inflation all by itself. It becomes even harder when one considers that the inflation has been most acute since 1968, with Defense spending falling while other public spending continues to rise sharply.

As to manpower, Defense added 1,114,000 military and civil service personnel from prewar 1964 to the 1968 wartime peak. Other public employment (Federal, state and local) rose by 2,135,000 during the same period. Even if we add in Defense-related employment in industry, the Defense growth was still smaller.

It has been said that the buildup in Defense in FY 1966 and FY 1967 caught the economic policymakers by surprise. Perhaps. But there were unforeseen increases of comparable magnitude in other Federal spending at the same time. Here are the figures for FY 1966:

CONSOLIDATED CASH BASIS, SPENDING

[In billions]

	Fiscal year 1966—		
	Estimate submitted in January 1965	Actual	Change
National defense	$52.6	$58.5	$+5.9
All other	74.8	79.3	+4.5
Total	127.4	137.8	+10.4

It is not possible to make complete comparisons of original submissions and final figures for the FY 1967 and FY 1968 budgets because of the conversion to the unified budget in the fall of 1967. For FY 1967, a comparison can be made of the original (January 1966) and mid-year (January 1967) submission. The figures are as follows:

CONSOLIDATED CASH BASIS SPENDING

[In billions]

	Fiscal year 1967 estimate submitted in—		
	January 1966	January 1967	Change
National defense	$61.4	$71.3	+9.9
All other	83.6	89.6	+6.0
Total	145.0	160.9	+15.9

This surge of some $10 billion in Defense spending, announced in January 1967 (the mid-point of the fiscal year) is often cited as a key factor in the evolution of our economic problems. It is almost never mentioned that a $6 billion increase in non-Defense spending estimates materialized at the same time.

The final FY 1967 consolidated cash spending figures were lower than the mid-year estimates, apparently due in part to changes involving participation certificates. When FY 1967 was over, Defense spending was $10 billion higher than had been estimated in January 1966, and receipts (also on a consolidated cash basis) were $8 billion higher.

For FY 1968, an estimate of $76.8 billion (consolidated cash) was submitted for National Defense in January 1967. Actual FY 1968 spending was about $81.8 billion, or $5 billion higher. (Defense spending under the administrative budget was also up $5 billion.) Comparable estimates of non-Defense spending and of

receipts are not available. However, the Federal deficit (on a unified budget basis) was $25.2 billion in FY 1968. This can hardly be ascribed to a $5 billion mis-estimate of FY 1968 Defense spending.

In looking back over the FY 1964–68 period, we see outlay totals as follows:

OUTLAYS

[Dollar amounts in billions]

	Fiscal year 1964	Fiscal year 1968	Change	Percent
National defense	$53.6	$80.5	+$26.9	+50
Debt interest, veterans, space, international	23.8	29.9	+6.1	+26
Social and economic programs	44.2	72.9	+28.7	+65
Offsets	−2.9	−4.5	−1.6	−55
Net total	118.6	178.8	+60.2	+51

It is almost certainly true that economic policymakers did not fully foresee the magnitude of these increases, especially for Defense and for social and economic spending. There is nothing in the record, however, to suggest that Defense spending alone caused the FY 1968 deficit and our other economic problems.

Inflation by industry sector

The impact of inflation has varied greatly among the different sectors of American industry. It is interesting to note that the rate of inflation seems to be highest in those segments where Defense is least involved. Data on this point are presented in Table 4. These data are currently available only through Calendar 1970, but the 6-year period shown is highly significant for the point under consideration. The highest inflation by far over this period (61.9%) was in construction; Defense spending in this area is small as a per cent of the total, and the Defense work accounted for only 1.2% of total U.S. construction employment in CY 1970. Four other sectors had greater-than-average inflation, and in these sectors Defense accounted for from .1 of 1% to 2.8% of sales, and from 1.1% to 4.2% of employment.

The largest Defense impact (15.5% of sales and 12.1% of employment) was in durable goods manufacturing. The inflation rate here was 12.1%, far below average. The second and third largest areas of Defense impact (transportation and mining) had even lower rates of inflation. It is clear from the table that inflation has been greatest in the areas where the Defense impact is the smallest, and that the smallest rates of inflation are generally in the areas of greatest Defense impact.

Another point stands out in the table. There is only one economic sector (durable goods manufacturing) where Defense accounted for more than 7% of the total in 1970, and only one more (transportation) where the Defense share exceeded 5%. These figures are considerably lower today, and will be even smaller in 1973. As another point of perspective, it is useful to bear in mind that:

> Defense manpower of all types—military, civil service and industry—amounted to 7.9% of the labor force in FY 1964, rose to 9.7% in FY 1968, and has fallen steadily since then to an estimated 5.8% in FY 1973.
>
> Defense spending was 8.3% of the gross national product in FY 1964, rose to 9.4% in FY 1968, and has fallen steadily since then to an estimated 6.4% in FY 1973.

In short, Defense does not loom very large in the economic or manpower aggregates, either in terms of totals or by industry segment, and inflation is greatest where Defense impact is smallest. In light of these facts, it is difficult to support the charge that inflation has resulted from Defense.

Our figures on purchase inflation (33.5% from FY 1964 to FY 1973, or 9 years) are based upon data maintained by the Department of Commerce through December 1971, with our estimates for the ensuing 18 months. The Department of Commerce does not derive these data from our specific contracts and price experience. Rather, it distributes our purchases by industry segment, and then applies the rate of inflation applicable to each such segment nationwide. In other words, the rate of inflation they determine for us is the same as would apply to any buyer who was dealing with the same segments of industry. It is important to remember that this approach makes no allowance whatsoever for higher costs due to advancing technology. The Commerce data are meant to indicate what it

would cost to buy the same item in one year as compared to another. I will return to this point later.

Pay trends

It is also important to compare pay trends in Defense with those in the labor force as a whole. Data on this point are presented in Table 5. This table shows data for classified civilian salaries; total civilian pay rates (including wage board employees); and for regular military compensation. We use regular military compensation (RMC) in lieu of basic pay at this point, because RMC is more nearly comparable to civilian pay. RMC is defined in the table.

Also shown are five series reflecting earnings in the private sector, one covering state and local employment, and a Commerce series covering all employment (public and private).

Note that state and local government rates of pay rose by 41.1% from FY 1964 to FY 1970, the last data available. Defense civilian pay rates over the same period rose by 40.9%, almost identical.

Federal classified salaries are pegged by law to the Professional, Administrative and Technical (PAT) survey. Classified salaries have risen by a greater amount over this period because of the one-time catching-up provided in law. Military raises (aside from the Volunteer program) are in turn pegged by law to Federal classified raises. Since most of our pay is thus pegged to the PAT survey, it is important to compare trends in this series with the others. It will be noted that the PAT survey shows almost the lowest growth rate of any. Except for the one-time catching-up, which is now behind us, Federal civilian salaries and regular military salaries are moving about in line with those in the economy as a whole. There is nothing unique about our pay experience. As to FY 1972 and FY 1973, the civil service and regular military pay increases we have projected are in accord with the guidelines to be applied to the economy as a whole. The Volunteer Program (which first appears in FY 1972) will cause military pay to rise by a much greater amount.

Table 5 includes data for average hourly earnings in manufacturing of transportation equipment. This includes manufacture of aircraft and parts, the major industry segment where Defense impact is the greatest. It will be noted that the pay trend here is about the same as for all manufacturing. I mention this because the charge is sometimes made that pay rates in Defense industry have risen much more rapidly than in other industries.

In summary, our pay experience—costly as it has been—is in no way unique or peculiar to us. In considering what has happened, and in looking ahead beyond 1973, it is important to bear certain points in mind.

The comparability pay (government with industry) principle, embodied in law in 1967, caused unusually large pay raises during this period to achieve a one-time "catch-up." Another 1967 law tied military raises to classified civilian raises.

Meanwhile, pay raises in industry over this period were themselves very high, as Table 5 shows; Government raises, geared to these, were thus further accelerated.

FY 1964 pay rates were disproportionately low for military personnel in the lower pay grades, the result of a deliberate policy followed for many years before 1964. Specifically, the basic pay for personnel with less than two years of service was unchanged for 13 consecutive years—from 1952 to 1964, inclusive. It was not only necessary to eliminate these inequities during the 1964–73 period under consideration here, but to add large additional amounts to move toward a volunteer force.

The retired military population grew very rapidly during this period, the after-effect of World War II, and costs were affected as well by pay raises, cost-of-living increases, and other developments.

In other words, a great many long-standing bills became due during this period, and our manpower cost trends reflect a huge element of one-time catching up. Looking ahead, it is reasonable to expect much more moderate rates of growth in manpower costs. Going over the four items just enumerated, pay comparability with the private sector has been achieved; the President's economic program should hold future private sector pay increases to much more reasonable levels than those experienced in the recent past; the inequities regarding personnel in the lower military pay grades have been removed, and a large part of the cost of moving to a volunteer force is paid in the FY 1973 budget; and the increase in retired pay costs should moderate. We should be past the point where pay costs consume a rapidly-growing proportion of the Defense budget, and we can move instead toward directing more resources into the critical investment area.

Let me summarize, then, concerning the effect of inflation on our budget estimates. It is a fact that inflation has added $32.3 billion (63.6%) to Defense costs from prewar FY 1964 to FY 1973. It is also a fact that our manpower and program cutbacks since FY 1968—priced in FY 1973 dollars—would amount to a spending cut of $32.7 billion; actual spending drops by only $1.5 billion, and inflation consumes the rest. In comparing this experience with other sectors of the economy, we find that there is nothing unique or inexplicable in the Defense trends—there is no evidence that we are particularly inflation prone, nor that we have caused or been associated with abnormal inflationary trends. Our experience, as I have demonstrated here, is consistent with developments throughout the economy over this period.

Productivity has been mentioned on several occasions in connection with constant-price data for Defense programs, and it might be helpful to address this matter here. In developing the constant-price figures, we have made no explicit adjustment for productivity changes. This is consistent with the treatment followed in deflating Federal, state and local purchases in the national income and product accounts and, indeed, in deflating the entire GNP. We are not aware of any cases where constant-price figures are explicitly adjusted for productivity changes. Any argument for adjusting constant-price figures in line with productivity changes would apply not only to Defense but to other government purchases in the GNP (Federal, state and local) and to other segments of the GNP (such as services, in part) as well. Some very complex conceptual and practical problems would obviously be involved in adjusting "real" GNP in such a manner—problems which far transcend the Defense budget. Other government purchases alone (Federal, state and local) are more than double the Defense totals, and are growing rapidly.

Productivity increases are in large part implicit in the Defense constant-price totals. To the extent that productivity gains in industry are reflected in prices paid, these gains are automatically reflected in the totals through the deflator. Today's aircraft pilots are more productive than those of 10 years ago in large part because they are flying more advanced, and more costly, aircraft. These cost increases, which produced the greater productivity, are incorporated in our constant-price figures.

According to the U.S. Department of Labor (*Economic Report of the President*, January 1972, Table B–34, p. 234), the index of output per man-hour in non-farm industries has grown as follows:

Calendar years:	*Compounded annual rate of increase*
1960–71	2.6
1964–71	2.1
1968–71	1.3

These are measures of output per man-hour, not of total factor productivity. Incorporated in these figures are productivity gains resulting from investment in equipment, for example. Figures such as these could not be applied to Defense constant-price totals, which include not only manpower costs but equipment, training, and other items which would produce greater productivity.

Experts have been critical of the per-man-hour productivity figures *per se*, and moreover have reached diametrically opposite conclusions as to the critical matter of sorting out manpower productivity gains from other factor productivity. The May 1969 issue of the *Survey of Current Business* was devoted to "Some major issues in productivity analysis." In a summary on page one, it was noted that:

"These differences in concepts and procedures yield strikingly different conclusions. According to Denison, a substantial part of the postwar growth in national output has been due to an increase in productivity; according to Jorgenson-Griliches almost all of the increase has been due to an increase in factor inputs".

These types of problems just outlined apply to productivity measures in general, including those private sectors where there are clearly-defined units of product. The problems are much greater in the public sector where outputs are not so clearly defined. There are especially difficult problems for Defense, where the

job to be done (the output desired) must be constantly redefined in terms of the capability of potential opponents who are also making major technological advances.

In short, the matter of incorporating productivity considerations into constant-price data involves some extremely complex problems that far transcend the Defense budget. Since productivity gains are to an extent already implicit in the data, and since the overall output measures are so difficult to define, it is not clear that any adjustments would be warranted at all—and, if so, in what amounts and in what direction.

DEFENSE PROGRAM TRENDS, FISCAL YEARS 1964–73

Table 7 presents data on Defense outlays and manpower, for FY 1964 (the last prewar year), FY 1968 (the wartime peak), FY 1971, FY 1972 and FY 1973. I will be referring in this part of my statement only to DoD military functions and military assistance, and not to the entire National Defense function as set forth in the President's budget.

Prewar base and wartime peak

FY 1964 has been selected as the most representative prewar year to use as a starting point because it was the last peacetime year (some war costs were incurred in FY 1965) and because FY 1964 comes closest to the FY 1962–65 baseline average. Data on this point are presented in Table 8.

Budget authority (BA), for example, was somewhat over $50 billion in current prices for each of the four years, with FY 1964 closest to the average. In constant prices, FY 1964 is again closest to (slightly below) the 4-year baseline average. The same is true of total obligational authority (TOA).

As to manpower, FY 1964 is once again very close to the 4-year average. The 3,736 thousand average strength in FY 1964 was just 8 thousand below the 4-year baseline average.

Similarly, as to prime contract awards, in either current or constant prices, FY 1964 data are almost exactly equal to the 4-year baseline average.

These figures show quite clearly that Defense programs in the FY 1962–65 period were proceeding in the $50–$51 billion range. Financing levels (TOA and BA), manpower, contract awards, and forces were all geared to that level. FY 1965 outlays, however, fell to $47.1 billion—well below the level that would normally have been expected after four straight years of budget authority in the $50–$51 billion range. FY 1965 outlays are clearly out of line with all other financial and program magnitudes. In fact, FY 1965 outlays were estimated at $51.2 billion in the FY 1965 budget. Actual outlays (these figures are stated in terms of the budget concepts in effect at the time) were $47.4 billion, or $3.8 billion less than had been estimated. In addition to this, FY 1964 outlays had fallen some $1.2 billion short of the original estimates.

This condition, of course, was noted at the time. It became clear in the fall of 1964 that FY 1965 expenditures were going to fall far short of the budget estimates, and that a shortfall even greater than that for FY 1964 was in prospect. A study was undertaken, at the direction of the Secretary of Defense, to determine the facts. The study, covering the period from December 21, 1962 to December 31, 1964, was completed on February 19, 1965. The study found that the problem was almost entirely in the procurement area. Congressional actions did not contribute significantly to these expenditure shortfalls. The prinicpal problems arose from delays in program execution as a result of deferrals pending review of requirements or resolution of technical problems and changes in contracting procedures. It will be recalled that major changes in system acquisition procedures were being instituted during this period. The report noted many instances where systems were delayed pending completion of RDT&E effort. Procurement programs are normally forecast to have relatively small outlays in the first year, with a large percentage of the outlays occurring by the third year. Expenditure estimators at the time failed to allow sufficiently for the stretchout in the development/procurement cycle that was in fact occurring. The delays in the FY 1962, 1963 and 1964 programs had some impact upon FY 1964 expenditures, but a much larger cumulative impact in FY 1965.

Had financing (BA and TOA) continued at the FY 1962–65 levels, however, there is not question that outlays would ultimately have settled down at such a level. The study showed that, if programs had been executed more promptly, FY 1964 outlays would have been about $1.2 billion greater than they were and FY 1965 some $3.8 billion greater. All things considered, the FY 1964 program and outlay level is a reasonable representation of the FY 1962–65 Defense levels—a reasonable takeoff point for assessing prewar to postwar trends.

FY 1968 is reflected in Table 7 as the wartime peak because Defense manpower and spending and authority (in constant prices) peaked in that year. Prime contract awards, however, peaked in FY 1967 and war spending peaked in FY 1969, as did total Defense spending in current prices. FY 1968 was very close to the peak in each of these respects, however.

Cost, manpower and force trends

The upper portion of Table 7 presents data in terms of current dollars—that is, in amounts actually spent, or proposed to be spent, for the years indicated.

The middle portion of the table shows the data in terms of constant dollars—that is, the amounts that would be spent at the pay rates and price levels of FY 1973.

The bottom portion of the table shows manpower data. Note that military strength in FY 1973 is considerably below the prewar FY 1964 level—end-strength is down 327,000 and average strength is down 295,000. Civilian average employment is at the prewar level, and civilian end strength is 1,000 higher than prewar. Together, military and civilian manpower at June 30, 1973 will be 326,000 below the 1964 level, and 1,440,000 below the 1968 peak, and lower than for any year since pre-Korea 1950. (The previous low was 3,528,000 military and civil service personnel in June 1960; the June 1973 estimate is 3,394,000.) Defense-related employment in industry, also shown in the table, is estimated at 1,857,000 at June 30, 1973—about 1.3 million below the 1968 peak, and 423,000 below prewar 1964. Total Defense manpower—military, civil service, and industry—is estimated at 5,251,000 in June 1973. This is 2.8 million below the 1968 wartime peak, three-quarters of a million below prewar 1964, and the lowest figure since 1950.

This table illustrates quite clearly the extent to which our budget has been dominated by pay and other operating costs. Note, for example, that from FY 1964 to FY 1973:

Pay and related costs rise by $20.8 billion—an increase of 95%.

O&M costs other than pay rise by $4.6 billion—an increase of 74%.

Procurement, RDT&E and construction together rise by $334 million—just over 1%.

These are current dollar figures, as actually spent or proposed to be spent. They are not adjusted for inflation, and the FY 1973 figures include war costs. This means that all the inflation since 1964, plus FY 1973 war spending, has had to be absorbed within investment spending programs that are essentially at the prewar level.

Pay costs as shown in Table 7 were 43% of the budget in FY 1964, and rise to 56% in FY 1973. We have used here a very narrow definition of manpower costs. If we include such items as CHAMPUS and Volunteer Force costs financed outside the military personnel appropriations, manpower costs would be 57% of the FY 1973 outlays. However manpower costs are defined, it is clear that they comprise by far the largest share of our budget, and that they have accounted for almost the entire increase in our budget since prewar.

As Table 7 shows, pay and related costs *rise* by $10.2 billion from FY 1968 to FY 1973, while military and civil service manpower *drop* by 1,440,000. That is, over this period, rising pay costs (largely pay raises) have cost us $10.2 billion plus 1,440,000 jobs. Measured from prewar FY 1964, pay costs *rise* by $20.8 billion while military and civil service manpower *drop* by 326,000.

To put the matter in its simplest terms, we are reducing manpower by 1,440,000 from 1968 to 1973; we will pay the remaining people as the law provides, and our payroll costs will rise by $10.2 billion.

I emphasize these points, Mr. Chairman, because it is very clear that they are not generally understood. The matter is especially confusing when war cost trends are introduced. I believe that the simplest way to present this matter is as follows:

OUTLAYS

[In current billions of dollars]

	Fiscal year—				
	1964	1968	1969	1972	1973
Incremental war costs:					
Pay and related	0	$5.8	$6.6	$2.7	NA
All other	0	14.2	15.0	4.4	NA
Total	0	20.0	21.5	7.1	NA
Baseline force:					
Pay and related	$22.0	26.9	28.7	37.7	NA
All other	28.8	31.2	28.4	31.0	NA
Total	50.8	58.0	57.1	68.7	NA
Total outlays:					
Pay and related	22.0	32.6	35.3	40.4	42.8
All other	28.8	45.5	43.4	35.4	33.7
Total	50.8	78.0	78.7	75.8	76.5

Note: Figures may not add due to rounding.

Figures are shown for FY 1964, the last prewar year; FY 1968, when Defense manpower and total Defense spending (in real terms) reached a peak; FY 1969, when incremental war spending peaked; FY 1972, the last year for which an unclassified war cost breakout can be shown; and FY 1973. These figures are in current dollars, not adjusted for pay and price increases.

Estimated war spending drops from a peak of $21.5 billion in FY 1969 to $7.1 billion in FY 1972—a drop of $14.4 billion. Defense spending in total drops by just $2.9 billion. The obvious question is: Where did the other $11.5 billion go? The answer is shown in the table: $9 billion went for increased manpower costs in the baseline force, and $2.6 billion into other baseline costs.

As to manpower, we have less baseline manpower in FY 1972 than in 1964, 1968, or 1969. This ought to be clear enough. We have less manpower *in total* than we had prewar. Our manpower reductions have been greater than the manpower buildup for the war. Clearly, then, this $9 billion represents no diversion of wartime buildups to the baseline force.

Other baseline costs increase by $2.6 billion from FY 1969 to FY 1972. This is much less than the rate of purchase inflation over this period (14.2%, or $4 billion). Compare the $31 billion in FY 1972 non-pay baseline costs, with the $31.2 billion spent in 1968, or $28.8 billion spent in FY 1964. Inflation amounts to 29.9% from FY 1964 to FY 1972; 18.5% from FY 1968 to FY 1972. With any allowance for inflation at all, these FY 1972 baseline amounts are significantly below the amounts for the earlier years.

Although a war cost estimate cannot be shown for FY 1973, the totals show clearly enough what is happening. Payroll spending again rises, but manpower is dropping (military and civilian average strength drops by 193,000 from FY 1972 to FY 1973). All other spending drops by $1.7 billion, without adjusting for inflation. There clearly is no room for diversion in these figures.

The acid test is to compare prewar (FY 1964) spending with total FY 1973 spending. Pay costs rise by $20.8 billion, as we have already noted, but FY 1973 manpower is 326,000 below the prewar level—there is simply no way that any part of the war manpower buildup could have been diverted to the baseline force. All other spending rises from $28.8 billion in FY 1964 to $33.7 billion in FY 1973. This $4.9 billion increase is far less than the sum of (a) purchase price increases—33.5% over this period, plus (b) war spending in FY 1973.

To this point, Mr. Chairman, I have been addressing spending trends largely in terms of current prices, not adjusted for pay and price increases. A much more accurate program trend is portrayed in the middle portion of Table 7, with all years portrayed in terms of FY 1973 pay rates and price levels. As indicated earlier, the FY 1964 program—priced in these terms—would have cost $83.1

billion. In the same terms, Defense spending peaked at $109.2 billion in FY 1968, and falls to $87.7 billion in FY 1971, $81.3 billion in FY 1972, and $76.5 billion in FY 1973. Defense spending thus increased by $26.1 billion from prewar 1964 to the wartime peak in 1968, and has been cut $32.7 billion (about 30%) from 1968 to 1973.

This marks the first time in our history, Mr. Chairman, that military spending after or during a war has returned to the prewar level, measured in constant dollars. In the past, military spending has always been higher after a war than it was before.

This is all the more remarkable in light of the fact that our FY 1973 estimates include significant amounts for war spending. We are paying for these war costs within a budget that is significantly below the prewar level, and with considerably less manpower than we had prewar. These extra war costs cover manpower, and such items as hostile-fire pay, combat rations, and similar costs; extra amounts for munitions, fuel, supplies and equipment for the war; and support of Allies. These costs have had to be met, as I have said, within a budget level that is significantly lower than prewar. This budget does not even provide for the force level maintained in prewar 1964. These forces, in fact, have been sharply cut back, as indicated in Table 9. This shows, for example, that from prewar 1964 to 1973:

Army divisions are reduced by 3⅓.
Attack/ASW carriers are reduced from 24 to 16.
The fleet has been reduced by 338 ships.
Fixed wing aircraft decline by 6,520.

The entire Defense budget, Mr. Chairman, can be used in only two ways: to hire manpower, or to acquire goods and services from industry. As to manpower, the FY 1973 budget provides 326,000 (9%) less than prewar and, indeed, the lowest levels since 1950. And purchases from industry, in dollars of constant buying power, have dropped by nearly $5 billion, or 12%, from the prewar level. The peace dividend has been paid in full. We are operating with a smaller Defense program than prewar.

Fiscal year 1972–73 changes

At this point, Mr. Chairman, I will address briefly the major changes in our estimates from FY 1972 to FY 1973. Table 10 presents a summary of these changes. (including all pay raises and legislative items), as follows:

Total obligational authority (TOA) increases by $5,087 million.
Budget authority (BA) increases by $6,234 million.
Outlays increase by $700 million.

These figures, which I will be discussing throughout this portion of my statement, include our total estimates for FY 1973, although some of these amounts have not yet been formally transmitted. These were the best estimates we could make, as of January 1972, of the totals we will be requesting of the Congress for FY 1972 and FY 1972.

Budget authority increases by more than TOA because of the falloff in financing adjustments, as shown in Table 10. These changes in financing adjustments are summarized:

	Financing adjustments (millions)		
	Fiscal year 1972	Fiscal year 1973	Change
Prior-year balances used to finance new program	$1,049	$79	−$970
Sales without replacement	172	33	−139
Transfers from revolving funds	430		−430
Total affecting appropriations	1,651	112	−1,539
Trust fund changes and other adjustments related to budget concepts	−706	−313	+392
Total financing adjustment	945	−201	−1,147

Budget authority therefore increases by $1.1 billion more than TOA because of this falloff in financing adjustments which, as the table shows, results largely from changes in the application of prior-year balances.

In comparing our FY 1972 and FY 1973 estimates, it is necessary to consider the impact of pay and price increases between those years. The data are sum-

marized in Table 10. Note, for example, that TOA increases by $5,087 million from FY 1972 to FY 1973, as shown at the top of the first column. However, our FY 1973 TOA estimates must cover $5,594 million in costs not incurred in FY 1972. These additional costs are summarized in the middle section of the table. They include the cost of annualizing the November 1971 pay and allowance package and the January 1972 pay increases, which were incurred for only part of FY 1972 but will be paid for 12 months in FY 1973; new legislation; two pay increases in FY 1973; a $932 million increase in military retired pay; and purchase inflation of $1.3 billion. Just to remain even with FY 1972, then—to hire the same people in the same grades, and to buy exactly the same things—our estimates would have to increase by $5,594 million. Our increase of $5,087 million therefore means a drop—in terms of real buying power—of $507 million, as shown at the bottom of the table. It is important to note that this drop is the net of a $2.1 billion cut in the personnel area and a $1.6 billion increase for purchases—largely for research, procurement and construction.

The picture is essentially the same for budget authority, with the added factor of the decline in financing adjustments, already mentioned and shown in Table 10.

For outlays, as Table 10 shows, a $700 million increase in current prices is converted, by inflation, to a $4.8 billion drop in constant prices.

What these figures show, Mr. Chairman, is that pay and price increases—extra money we have to pay without adding a man or buying an additional item—add about $5.6 billion to our costs in a single year. For two years—from FY 1971 to FY 1973—the figure is over $12 billion. These amounts are much greater than any if the program changes involved, and it is essential that these items be clearly understood when Defense budget trends are considered.

While there is a decrease in the overall budget from FY 1972 to FY 1973 in dollars of constant buying power, there is an increase of some $1.5 billion in the authority (TOA or BA) requested for investment, as shown in Table 10. The increase for the baseline force is somewhat greater than this, because of the falloff in war-related procurement authority (TOA and BA) from FY 1972 to FY 1973. We are seeking this increase, while cutting manpower even further below the prewar level, (average manpower, military and Civil Service, drops by 193,000 from FY 1972 to FY 1973). We are seeking to reverse the recent budget trend, Mr. Chairman, and it might be helpful if I comment briefly on this point.

Recent budget trends

For the years that we have been considering here, Mr. Chairman—the decade from FY 1964 through FY 1973, inclusive—Defense budget trends have been dominated by two massive developments: the build-up and fall-off of war spending, and the doubling of pay costs War costs have fallen to just over one-fifth of the 1968–69 peak, but the pay costs are still very much with us. What this has meant to the allocation of resources within the Defense budget is suggested in Table 7. Note, at the top of the table, that from FY 1964 to FY 1973:

Pay costs rise by $20.8 billion (with fewer people).

Operating costs, other than pay, which include large amounts for people-related items, rise by $4.6 billion.

Spending for procurement, RDT&E and construction—that is, for modernization of weapons, forces and facilities—rises by $334 million.

The increase for pay and other operating costs—about $25.4 billion—is due entirely to pay raises and price increases. We have less people than prewar, and are operating at lower levels. This $27.4 billion *increase*—all due to inflation—is greater, by a wide margin, than war spending was at the peak; the $25.4 billion *increase* is more than the *total* we are spending on modernization in FY 1973 ($22.9 billion). It is clearly no exaggeration to say that these increases have dominated our budget.

This upsurge of pay and operating costs has levied a heavy toll on the funds available for modernization. The top part of Table 7 (in current prices) shows that modernization (procurement, RDT&E and construction) spending is up about 1% from FY 1964 to FY 1973. In constant prices, however—shown in the in the middle of the table—modernization outlays drop from $30.2 billion in FY 1964 to $22.9 billion in FY 1973, and the FY 1973 figures include war costs. For the baseline force itself, there is a 30% drop in modernization spending.

This, in general terms, is the point to which we have been brought by the funds provided in recent years, which are materializing in FY 1973 outlays, But even

this fails to present the full extent of the problem. Let me illustrate, still referring to Table 7. As the table shows, we spent $22.6 billion on modernization in FY 1964—to develop and produce certain aircraft, ships, missiles, and other weapons, to construct certain facilities, and so forth. The general level of inflation in the economic sectors with which we are engaged has been such that it would cost us 33.5% more in FY 1973 to buy *the same item* that we bought in FY 1964. That is, if we were buying the same quantities of the same aircraft (and ships and missiles and other items) in FY 1973 that we procured in FY 1964, we would have to pay $30.2 billion, rather than the $22.6 billion we spent in FY 1964. With $22.9 billion in FY 1973, we would be able to buy much less than we bought in FY 1964—even if we were still buying the same types of items.

This is the standard, accepted, approach to stating programs in constant prices, applied throughout the Government and indeed to the entire economy, and we do not question its validity. What must be understood, however, is that this approach makes no allowance for qualitative differences. We are not buying the same kinds of aircraft and other items in 1973 that we bought in 1964. The 1973 weapons are much more advanced and therefore much more expensive than those we bought in 1964. This is not reflected in the price indices.

Our 1973 outlays, then, could provide us with 70% of the same kinds of weapons that we bought in 1964. But since 1973 weapons are more expensive, for reasons other than general inflation; the cut is much greater. Consider fixed-wing aircraft:

We bought 1,431 in FY 1962; 1,599 in FY 1963; 1,246 in FY 1964; and 1,310 in FY 1965—an average of 1,396 in four prewar years.

For the 10 years FY 1956–65, inclusive, our aircraft buy averaged 1,818 per year.

Our current buys are as follows: 565 in FY 1971; 434 in FY 1972; and 383 in FY 1973.

In short, the combination of factors I have been describing has resulted in aircraft buys that are about 20 to 25% of the prewar level. This, Mr. Chairman, is a fair measure of the extent to which we have had to curtail our modernization efforts as a result. It is also clear, I believe, that we cannot hope to maintain an effective military posture unless the quantities of aircraft and other weapons procured are allowed to increase in the years ahead.

In considering the outlook for Defense budgets in the years ahead, Mr. Chairman, it is imperative to have a clear idea of our starting point—the FY 1973 budget, including the requested increases in budget authority which have drawn so much attention, provides the lowest level of manpower and forces in over 20 years, and provides for weapon procurement quantities that are only a fraction of those a decade ago.

THE DEFENSE IMPACT: A LONGER VIEW

Mr. Chairman, in World War II Defense spending totally dominated the public spending picture and indeed the entire economy. Twenty years ago, when Korean War spending reached its peak, Defense accounted for nearly two-thirds of the entire Federal budget, and for almost half of all public spending—Federal, state and local. Defense manpower, military and Civil Service, amounted to nearly half of all public payrolls in the United States. Defense manpower and Defense spending, then, were equal to the manpower and the spending of all other units of government—Federal, state and local.

These conditions pertained, Mr. Chairman, 20 years and more ago. Things are a great deal different today. Yet many of the critics of Defense programs seem to have a fixation with the economies and the budgetary allocations of the early Cold War period. Their arguments seem to be rooted in the budget for 1953.

The facts, Mr. Chairman, are as follows:

FY 1973 spending for National Defense, in dollars of constant buying power, is at the lowest level for more than 20 years.

In the same terms, National Defense spending has dropped sharply in each of the past five years. This cutback amounts to about $34 billion at FY 1973 budget pricing, or a 30% cut. In terms of manpower, the cut involves nearly 2.8 million, about 35%. This cutback is the largest in history, excepting only that following World War II.

In FY 1953, Defense spending was nearly double that of all other Federal agencies combined. Today, that relationship is more than reversed—other Federal agencies spend more than twice as much as Defense.

In FY 1953, Defense spending was nearly double that of all state and local governments combined. This relationship, too, is more than reversed—in FY 1973, state and local spending will be more than double that for Defense.

In FY 1953, Defense manpower—military and civil service—was nearly equal to all other public employment, Federal, state, and local, combined. In FY 1973 other public employment will exceed Defense manpower by a factor of nearly 4 to 1.

The Defense shares of public spending, GNP, the labor force, and other financial and manpower aggregates are in all cases the lowest for more than 20 years, and in some cases the lowest since before Pearl Harbor.

These facts, and others which I shall present, have same important implications. Among these implications are the following:

We can no longer regard the Defense budget as the central element in our resource allocation problem.

One is not well-advised to seek the answers to our economic problems in Defense budget trends—whether those problems involve inflation, productivity and civilian technology, balance-of-payments concerns, or the public spending crunch.

Defense has an impact in these areas, to be sure. But the size of that impact is only a small fraction of what it once was, and it is now possible for the economic aggregates to move in ways which simply cannot be explained in terms of Defense trends.

There is a strong tendency in many quarters to ignore these developments, which amounts to an obsession with Defense spending. There are many reasons for this—first among them the extreme unpopularity of the war in Southeast Asia. This in turn has provided fertile ground for the highly-publicized allegations of multi-billion management errors and waste in Defense spending. Budgetary mechanics undoubtedly play a role. Defense continues to be financed largely through a single, widely-publicized appropriations bill each year; domestic spending, now much greater than Defense spending, has followed a different route. The procedures are such that few are aware of the magnitude of domestic spending, and there seems to be a view in some quarters that it is not real money anyway. At the same time, we face a crunch of the first magnitude in public finance. Domestic spending needs have grown far more rapidly than revenues. The appropriations process, which covers a progressively diminishing share of the public resource picture, continues to be the only systematic mechanism available to the Congress for resource allocation. Another problem, similar to that of budgetary mechanics, arises from the fact that many who follow economic developments get their information from publications oriented to the national income accounts. These series cover, for the period involved here, some 95% to 98% of Defense spending, but less than 20% (and the percentage is declining) of non-Defense Federal spending. These data are not intended to represent the totality of spending and resultant taxing but, presented as they are, they can easily foster the misimpression that non-Defense spending continues to be an insignificant part of the total. The total taxing and spending picture—Federal, state and local—is almost never pulled together in one place and it is even more rare for projections to be reflected on this basis. Pay and price increases have contributed immensely to the misunderstanding. It is a fact that, in dollars of constant (FY 1973) buying power, the Defense budget has been cut by some $34 billion since FY 1968; it is also a fact that spending in current dollars has dropped only $2 billion, with pay and price increases (largely pay increases) consuming the difference. It is easy to grasp the fact that Defense spending, in current dollars, is near the 1945 and 1968 wartime peaks, and 50% above the 1953 or 1964 levels; the fact, equally valid, that the current program represents a 20-year low is not nearly so obvious.

It is understandable, then, that there are some profound misconceptions about the role of Defense in the American scene. But whatever the reasons for them, the fact remains that these misconceptions are indeed profound. Critics of Defense programs are able to ignore facts such as these:

Non-Defense Federal spending rises by $109 billion from FY 1964 to FY 1973, including $94 billion for social and economic spending—the *increase* alone is far more than the *entire* Defense budget.

State and local spending over the same period rises by $113 billion—another *increase* equal to more than the *entire* Defense budget.

Non-Defense public employment *increases* by 4.1 million from FY 1964 to FY 1973. This *increase* is greater by a substantial amount thn the *total* military and civil service manpower of the Department of Defense.

From prewar FY 1964 to FY 1973, GNP in constant (CY 1958) prices will grow by some $238 billion; Defense drops about $2 billion so that the entire real growth in the economy plus $2 billion—$240 billion—is available for civilian pursuits.

Over the same period, the labor force will grow by some 14.7 million people. Defense needs will drop by about 750,000. The entire growth in the labor force, plus the Defense drop—15.5 million workers—will be available for civilian pursuits.

These observations could be made, different in degree but not in direction, regarding comparisons of FY 1973 with any year in the past 20. These facts scarcely square with the picture of a domestic spending sector that is being starved for resources, money and manpower, to make room for a burgeoning Defense budget. In spite of the facts, cold-war economic conceptions have proved to be persistent indeed. Consider, for example, the efforts to relate the inflationary pressures of recent years to the Defense budget. This approach is possible only by ignoring facts such as these:

From FY 1964 to FY 1968, the war buildup period:

Defense spending grew by $27 billion, other Federal spending by $35 billion, and state and local spending by $33 billion.

Military and Defense civil service manpower rose by 1.1 million; other public employment by 2.1 million.

As to the accuracy of budget estimates and resultant inflation-producing deficits during this period:

For FY 1966, Defense spending was underestimated by $5.9 billion; other Federal spending by $4.5 billion.

For FY 1967, Defense spending was underestimated by $10 billion (comparable figures for civilian spending are not available due to the change in budget concepts). However, receipts were underestimated by $8 million. The budget was originally forecast to be slightly in surplus on a consolidated-cash basis. The change in Defense spending and in receipts would have converted this to a deficit of less than $2 billion. However, the deficit (on a unified basis) was $9 billion. Defense spending is obviously not the full explanation of what happened in FY 1967.

For FY 1968, Defense spending was underestimated by $5 billion—scarcely the full explanation for a $25 billion deficit.

The rate of inflation was much greater after 1968, when massive manpower and purchase cutbacks began in Defense, than it was before.

Even at the wartime peak, the Defense share of the GNP or of the labor force was only slightly above the shares of the late 1950's and early 1960's—periods of general price stability. Indeed, when the inflationary pressures became most acute, the Defense impact was far below those earlier levels.

Mr. Chairman, it is not my contention that the Defense budget had no impact at all upon the developments we have been experiencing—inflationary trends and the rest. Of course Defense has had an impact. My point is, rather, that other factors, with much larger impact, are very clearly at work. One can only ascribe recent economic developments to the Defense budget if he assumes that other public spending is not really spending, and that other public manpower is not really manpower. We learned in the 1940's and 1950's, Mr. Chairman, that Defense spending could, and did, cause inflation. Some people apparently learned this lesson so well that they have concluded that inflation, or any other undesirable economic development at any time, must somehow be relatable to the Defense budget.

In formulating our national security programs, we have long-since known that the simplistic concepts of the early cold war 1950's are not of much relevance to the real world of the 1970's. We recognize, as the saying goes, that the world is indeed a good deal more complicated than it appeared to be in the early 1950's. And so is the budget. Economic thinking that is rooted in 1953 is no more helpful than strategic concepts of that vintage. Before we can do much effective planning, we must have a clear picture of where we really are today—and this involves a full acceptance of the fact that 1973 is not 1953.

Mr. Chairman, I propose to present details on the matters I have just discussed in the next four sections of my statement. First, I will consider Defense and other trends since 1950, with earlier comparisons in some cases. Then I will address the resource-allocation problem as I see it, including measures of public spending in various areas and possible redefinitions. Finally, I will cover some issues regarding the Defense budget outlook.

1939–73 TRENDS

In this part of my statement I will refer repeatedly to Table 11, which provides data for selected years from FY 1939 to FY 1973. We have made this table as comprehensive as possible, to present a full picture and to avoid—if possible—

the charge that we are being selective, or that some rearrangement or reslicing would lead to different conclusions.

The data are shown (wherever available) for FY 1939, over two years before Pearl Harbor); FY 1945, the World War II peak; and FY 1950, the immediate pre-Korea year. FY 1950 is representative of the Defense levels maintained in the late 1940's as well. Force levels and budget levels at this time did not reflect several developments, occurring in rapid succession, which led to a sharp buildup after FY 1950. These included the attack in Korea (June 25, 1950); Soviet possession of a nuclear weapon (August 1949); the Communist takeover in China; and the buildup in response to our NATO commitment.

FY 1953 marked the Korean War spending peak, and FY 1956 represented the post-war low, and the first year after FY 1950 in which Korean War spending was out of the picture. President Eisenhower issued his famous warning regarding the military-industrial complex in the middle of FY 1961, and this was the last year under his Defense policies. FY 1964 was the last prewar year, and is reasonably representative of the Kennedy-Johnson budgets of the prewar 1960's. FY 1968 marks the war peak.

DOD/MAP budget trends

I will begin with some observations regarding the budget for Defense military functions and military assistance. I will not be addressing, for the moment, atomic energy and certain other Defense-related outlays which are included in the total of National Defense costs.

The top part of the table shows outlay data in current and constant prices, with a breakdown in FY 1956 and thereafter. Outlays for procurement, RDT&E and construction generally represent the investment or modernization part of our budget. This covers all RDT&E and the acquisition of all major items (such as ships, aircraft, and missiles). This line also covers all ammunition procurement, trucks and other common vehicles, as well as certain spares and components. In current prices, it will be noted, we spent $20.6 billion in this area in FY 1961 (and about the same amount in FY 1959 and FY 1960). FY 1973 spending will be $22.9 billion, or 11% more than the FY 1959–61 level. This means that, over a 12–14 year span, there is an 11% growth to cover:

Cost increases related to advanced technology.
Normal purchase inflation.
War costs.
Cost over-runs.

As the second section of the table shows, there is a sharp reduction from FY 1961 to FY 1973 if we allow for just one of these factors—normal purchase inflation.

I hope that this portion of the table will add some perspective, in several respects. First, that the procurements of all the glamorous systems that receive so much notoriety are covered, together with many more prosaic items, within a $22.9 billion piece of the Defense budget Second, that the cost over-runs and waste sometimes alleged to be in the tens of billions have been accommodated, somehow, within a total that has grown just $2.3 billion in the last 12 years—and some $300 million in the last 9. It is clearly inaccurate to allege that costs in this area are running away with the budget. Considering all that has been said about this area in the past few years, there are few who would be likely to understand the facts regarding Defense investment costs. The facts are these: putting it all together—normal inflation, technological growth, cost over-runs and war costs—it all adds up to a $2.3 billion increase in the 12 years since the last Eisenhower budget.

Manpower trends are shown next. Defense manpower (including Defense-related employment in industry) is estimated at 5,251 thousand in FY 1973—the lowest level since 1950. It is important to compare Defense trends with total public employment and with trends in the labor force. Total public employment is estimated at 16 million in FY 1973, including 3.4 million (military and civil service) for Defense and 12.8 million for all other units of Government In the last 20 years, Defense employment has dropped 1.5 million; other public employment has grown by 7.3 million. In the last 9 years, Defense drops by 326,000; other public employment grows by 4,137,000. This *growth* in non-Defense public employment is greater than the Defense manpower *total.*

As a percentage of total public employment, Defense comprised 29.3% in FY 1950, 47.2% in FY 1953, and 30% in FY 1964. The FY 1973 share will be about 20.9%, the lowest by far since before Pearl Harbor.

There is some significance in comparing Defense and total labor force trends for the Korea and Southeast Asia periods, as follows:

MANPOWER (THOUSANDS)

	Fiscal year 1950–53	Fiscal year 1953–56	Fiscal year 1950–56
Korea:			
Defense manpower change (including industry)	+5,481	−2,204	+3,277
All other	−2,742	+5,131	+2,389
Total labor force change	+2,739	+2,927	+5,666
	Fiscal year 1964–68	**Fiscal year 1968–72**	**Fiscal year 1964–73**
Southeast Asia:			
Defense manpower change (including industry)	+2,007	−2,756	−749
All other	+4,800	+10,666	+15,466
Total labor force change	+6,807	+7,910	+14,717

Note that the Korean buildup hit the economy many times harder than the Southeast Asian buildup. Defense added nearly 3 times as many people in 1950–53 as in 1964–68 (5.5 million vs. 2 million), and in fact took double the 1950–53 labor force growth. There were 2.7 million *less* people available for civilian pursuits in FY 1953 than in 1950. In contrast, there were 4.9 million *more* people available for civilian pursuits in 1968 than in 1964.

The Defense cutback from the Southeast Asia peak is somewhat greater than from the Korea peak.

Considering the two cycles as a whole, there were 2.4 million more people available for civilian pursuits in 1956 than in 1950. From 1964 to 1973, however, the number of workers available for non-Defense pursuits grows by 15.5 million—more than 6 times as much. Defense took well over half of the FY 1950–56 labor force growth, but none of the FY 1964–73 growth. One result is that the economy had to make 2.4 million non-Defense jobs in 6 years over the Korea cycle versus 15.5 million in 9 years now required.

It is also interesting to compare the impact of the Southeast Asia buildup and cutback in terms of the record labor force growth of recent years. The post-World War II baby boom began to enter the labor force around 1964 and, for the next four years, Defense manpower increases kept about 30% of this growth off the civilian job market. Then the Defense trend was reversed. The result: 10.7 million people are available for civilian jobs from 1968 to 1973, over twice the growth in the 1964–68 period The Defense manpower trend has had the effect of concentrating the impact of the baby boom upon the civilian labor force. It is clear that the Defense manpower cutbacks—2.8 million since 1968, with 1.8 million coming in a 2-year period, 1969–71—contributed in a major way to current unemployment problems. It should also be clear that the Defense budget is not being used to create jobs.

Prime contract awards reflect the trends we have already discussed. Worldwide awards are estimated at $36.3 billion in FY 1973, about 35% below the wartime peak, 6% below the prewar (1964) level, and about half the Korea peak, in constant prices.

GNP figures are shown next in Table 11. In constant (CY 1958) prices, it will be noted that FY 1973 purchases are about $17 billion (27%) below the wartime peak, and about 4% below the prewar (FY 1964) level. It is interesting to compare the allocation of real GNP growth from each of the years shown to FY 1973:

GNP IN BILLIONS OF CONSTANT CALENDAR YEAR 1958 DOLLARS

Fiscal years	Total GNP growth	Defense	All other
1939–73	+586.7	+42.6	+544.1
1945–73	+471.1	−119.9	+591.0
1950–73	+470.6	+28.1	+442.5
1953–73	+398.1	−11.6	+409.7
1956–73	+360.6	+2.9	+357.7
1961–73	+318.4	+.8	+317.6
1964–73	+238.4	−1.8	+240.2
1968–73	+114.9	−17.0	+131.9
1971–73	+78.8	−4.1	+82.9
1972–73	+48.0	−.8	+48.8

It is not too much to say that Defense has taken none of the real growth in the economy for more than 20 years.

The wartime impact will be summarized next, Mr. Chairman, by comparing the Korea and Southeast Asia periods. First, let us consider what happened during the two buildup periods.

	Changes: Fiscal years—	
	1950–53	1964–68
Defense manpower	+5,481	+2,007
Other public employment	+191	+2,135
All other changes	−2,933	+2,665
Total, labor force (thousands)	+2,739	+6,807
Defense purchases	+$39.7	+$15.2
Other government purchases (FSL)	+3.7	+18.4
Other GNP increase	+29.1	+89.9
Total, GNP (calendar year 1958, dollars, billions)	+72.5	+123.5
National defense outlays	+$37.3	+$26.9
Federal social and economic outlays	+2.6	+28.8
Other Federal outlays	−5.9	+6.2
State and local spending	+5.9	+33.1
Offsets	−.8	−9.7
Net public spending (current dollars, billions)	+39.1	+85.3
Federal debt (current dollars, billions):		
Gross	+$9.1	+$53.0
Held by public	−.6	+33.0
Interest cost	+.7	+3.9
Wholesale price index (percent increase)	+13.7	+6.8
Consumer price index (percent increase)	+12.6	+10.2

It is abundantly clear that Defense spending dominated the economy and public spending during the 1950–53 period; it is equally clear that this was not the case in the 1964–68 period. Defense took double the entire labor force increase, 1950–53, versus 30% in 1964–68—a difference in impact of about 7-to-1. Similarly, Defense took nearly 60% of real GNP growth, 1950–53, versus about 12% from 1964 to 1968—a difference in impact of about 5-to-1. Defense accounted for about 96% of the public employment increase and 95% of the public spending increase from 1950 to 1953. The figures for FY 1964–68 are, respectively, 49% and 30%.

By the same token, it is clear that other areas of public spending had a minor impact in the 1950–53 period. In 1964–68, however, their impact was significantly greater than that of Defense.

It is also important to note that the Federal debt grew much faster, however measured, in the 1964–68 period than in 1950–53. There were, of course, some important differences in tax policies and economic policies in the two periods.

I believe that two observations are especially important. First, it is obviously not true that the economy or public spending in the FY 1964–68 period was dominated by Defense; other sectors of public spending played a much larger role. Second, it is clearly inaccurate to state that the Federal debt represents almost exclusively a cost of war, and that the debt can be traced entirely to periods when war spending dominated the economy.

Next, let us turn to the postwar phasedown periods, using fiscal year 1972 as the terminal year since we are lacking certain data beyond that date.

	Changes: Fiscal years—	
	1953–56	1968–72
Defense manpower	—2,204	—2,633
Other public employment	+777	+1,599
All other changes	+4,354	+7,444
Total labor force (thousands)	+2,927	+6,410
Defense purchases	—$14.5	—$16.2
Other Government purchases (FSL)	+3.4	+15.0
Other GNP increases	+48.6	+68.1
Total GNP (calendar year 1958 dollars, billions)	+37.5	+66.9
National defense outlays	—$10.1	—$2.5
Federal social and economic outlays	+3.3	+55.2
Other Federal outlays	—.1	+8.3
State and local spending	+8.2	+61.5
Offsets	—.4	—24.2
Net public spending (current dollars, billions)	+.9	+98.3
Federal debt (current dollars, billions):		
Gross	+$6.8	+$86.0
Held by public	+3.8	+53.2
Interest cost	—.1	+6.3
Wholesale price index (percent increase)	+0.3	+15.0
Consumer price index (percent increase)	+.8	+20.9

There are obviously immense differences between these two periods, Mr. Chairman, and they do not derive from differences in Defense budget trends. In real terms (manpower or constant price purchases), the Defense cutbacks are somewhat greater from 1968 to 1972 than from 1953 to 1956. But the 1953–56 Defense cuts were enough to match increases in other sectors of public spending, so that net public spending grew hardly at all for 1953 to 1956. The somewhat greater 1968–72 Defense cutback, on the other hand, was overwhelmed by a $100 billion increase in other areas of public spending. (The much greater pay increases and purchase inflation of the 1968–72 period kept Defense spending from falling as much as it did in 1953–56, in current prices, but even this tends to be overshadowed by the other developments noted.)

It is especially important to note that the trend of general tax and economic policies was reversed during these periods. Controls were removed, and taxes eased, in the 1953–56 period. A surcharge was in effect for a time in the 1968–72 period, as were tighter monetary policies, and controls were imposed last summer—all these developments coming well after Defense spending had peaked. Defense accounted for a much smaller share of the labor force, and of GNP, in 1968–72 than in 1953–56.

Taken together, the facts make it clear that the recent deficits and inflationary pressures cannot be ascribed to Defense spending.

Additional perspective is provided if we consider the two war cycles as a whole.

	Changes: Fiscal years—	
	1950–56	1964–72
Defense manpower	+3,277	—626
Other public employment	+968	—3,734
All other changes	+1,421	+10,109
Total, labor force (thousands)	+5,666	+13,217
Defense purchases	+$25.2	—$1.0
Other government purchases (FSL)	+7.1	+33.4
Other GNP increases	+77.7	+158.0
Total, GNP (Calendar year 1958 dollars, billions)	+110.0	+190.4
National defense outlays	+$27.2	+$24.4
Federal social and economic outlays	+5.9	+84.0
Other Federal outlays	—6.0	+14.5
State and local spending	+14.1	+94.6
Offsets	—1.2	—33.9
Net public spending (current dollars, billions)	+40.0	+183.6
Federal debt (current dollars billions):		
Gross	+$15.9	+$139.0
Held by public	+3.2	+86.2
Interest cost	+.7	+10.3
Wholesale price index (percent increase)	+14.1	+22.8
Consumer price index (percent increase)	+13.6	+33.2

If one can ascribe inflation in the 1950's to Defense, he can just as clearly ascribe the 1964–72 trends to non-Defense spending. Defense added 3.3 million men in the former period; and non-Defense public employment grew by 3.7 million in the latter. Other public employment grew by a million from 1950–56; Defense actually dropped from 1964–72.

Defense purchases (in Calendar year 1958 prices) grew by $25.2 billion from fiscal year 1950–56; other government purchases grew by $33.4 billion from fiscal year 1964–72. In the 1950–56 period, other government purchases grew by $7.1 billion. From 1964–72, Defense purchases have dropped to $1 billion.

Defense spending grew by $27.2 billion in 1950–56—other public spending grew by $160 billion, 1964–72.

Finally, it should be noted that the Federal debt grows by $139 billion (the public-held portion by $86 billion) from 1964 to 1972, when the budget clearly dominated by non-Defense spending—roughly 9 times (or 28 times) as much as in the 1950's, when Defense dominated the spending picture. Debt interest cost rose nearly 15 times as much in the latter period as in 1950–56.

The military-industrial complex

Magnitudes and relationships have been fundamentally transformed, Mr Chairman, over the periods we are discussing. While changes are so massive and so readily apparent that it seems to be belaboring the obvious to point them out, the fact remains that—for reasons I have already mentioned—these developments are still not well understood.

For example, in his last address as President, Dwright Eisenhower uttered his famous warning about the dangers of the military-industrial complex. Critics of defense programs have quoted this passage at length, and continue to do so, secure, apparently, in the belief that nothing has changed. In fact, there has been a very great deal of change and there is no better way to illustrate this than to consider President Eisenhower's statement in the context of what has happened, before and since.

President Eisenhower had played a major role in the events to the 1940's and 1950's, and he felt an acute sense of responsibility to assess the meaning of those tumultous years in his final address as President. It was in this context that he uttered his warning, together with a number of other statements which Defense critics find much less congenial. President Eisenhower returned to the subject in his book "Waging Peace," emphasizing that his concern regarding the military-industrial complex had been a major factor in establishing each budget. The policies of Presidents—their concerns, their sense of priorities—find concrete expression in their budgets. When President Eisenhower spoke, he had just transmitted his fiscal year 1961 (revised) and fiscal year 1962 budget estimates

to the Congress. The fiscal year 1962 estimates were to be amended by the incoming administration, but the fiscal year 1961 results are President Eisenhower's. We may take fiscal year 1961, then, as a starting point for assessing the conditions that concerned President Eisenhower. In his last budget message and in other writings he spoke of the long-term trend. He was acutely aware of the major changes that had occurred in the preceding decade—since 1948–50, the last peacetime preceding his presidency.

Let us consider what happened over this period, which gave rise to President Eisenhower's concern, and contrast it with what has happened since.

	Changes: Fiscal years—	
	1950–61	1961–73
Defense manpower	+3,018	−481
Other public employment	+2,371	+5,153
All other changes	+4,113	+12,446
Total, labor force (thousands)	+9,502	+17,118
Defense purchases	+$27.3	+$.8
Other government purchases (FSL)	+16.6	+50.3
Other GNP increases	+108.3	+267.3
Total, GNP (calendar year 1958 dollars, billions)	+152.2	+318.4
National defense outlays	+34.3	+30.9
Federal social and economic outlays	+22.6	+101.7
Other Federal outlays	−1.5	+22.0
State and local spending	+32.9	+128.5
Offsets	−5.6	−42.5
Net public spending (current dollars, billions)	+82.7	+240.6

	1950	1961	1973
Percentage relationships—National defense as percent of:			
GNP	5.0	9.4	6.5
Federal budget	29.2	47.3	30.7
Net public spending	20.6	32.2	19.9
DOD/MAP as percent of:			
Public employment	29.3	31.6	20.9
Labor force	4.2	7.8	5.8

Since President Eisenhower spoke, Mr. Chairman, the U.S. labor force will have grown by over 17 million. None of this growth goes for Defense. In fact, Defense manpower falls nearly half a million, so that 17.6 million workers—the entire labor force growth, and a bit more, is available for civilian pursuits. This is in stark contrast to the 1950–61 period, when Defense took nearly one-third of the labor force growth.

A similar pattern prevails for real economic growth. Defense took nearly a fifth of real GNP growth from 1950–61. Since then, real GNP has grown by $318 billion and Defense has grown by less than a billion.

It is a striking fact, Mr. Chairman, that since President Eisenhower spoke none of our real economic growth has gone for Defense, whether measured in manpower or dollars. The real increase available for civilian pursuits is three times as great as it was in the 1950–61 period.

We see a similar relationship in public spending. Defense took over 60 percent of the Federal spending increase from fiscal year 1950 to fiscal year 1961 versus about 20 percent in the next 12 years. As to the increase in total public spending, the Defense share drops from 40 percent to 12 percent.

As to percentage relationships, the Defense shares of GNP, the Federal budget, and net public spending all grew sharply from fiscal year 1950 to fiscal year 1961. The shares of the Federal budget and of net public spending have fallen back to about the 1950 level, and the GNP share has moved most of the way back. So has the Defense share of the labor force. The Defense share of public employment is not only far below the 1961 level, but well under the 1950 level as well.

There are other indicators, Mr. Chairman. For example, Defense purchased about 16.6 percent of U.S. durable goods production in fiscal year 1961; the fiscal year 1973 share will be well under 10 percent. Defense accounted for 49.2 percent of U.S. R. & D. spending in 1961; the 1973 figure will be about half of that. Of the Federal R. & D. money spent in universities, Defense accounted for 47.2 percent in 1956 and 32.7 percent in 1961, versus an estimated 8.8 percent in 1973.

The percentage of young men (19–22 years of age) in the Armed Forces had risen from 12.1 percent in 1950 to 16.5 percent in 1961. It will be less than 12 percent in 1973—the lowest percentage since before Pearl Harbor.

President's Eisenhower's words must be considered in terms of two important sets of relationships: our Defense effort relative to the threat we faced, and relative to our overall capacity. The problem was one of balancing between the forces needed to meet the threat, as he assessed it, and the danger to American institutions that would be posed by too-large a military establishment. He made his choice, and he expressed it in his budget. Since then, the relationships have shifted drastically. The threats we face—the overall capactiy of the Soviets and the Chinese People's Republic, and the many adverse developments elsewhere—have certainly increased immensely. So has our capacity. But we are allocating no more to Defense today than we were when President Eisenhower spoke. Under these circumstances, those who try to use President Eisenhower as a witness against our present Defense efforts perform no service, either to his memory or to the truth.

DEFENSE IN THE PUBLIC SPENDING PICTURE

Mr. Chairman, based upon the information I have presented to this point, I believe the facts are quite clear: the charge that the military-industrial complex is large and constantly growing, prevading all aspects of the economy and society to an increasing degree, is utterly false. The facts show the opposite to be true. By any measure, our Defense programs—in both absolute and relative terms—are sharply down. The burden of Defense programs upon the American economy and upon American society is at its lowest point by far for roughly a quarter of a century and, by some measures, since before Pearl Harbor.

This leads to the question: are we leaving something out? Are we understating Defense costs, or overstating the costs of other programs? Critics would respond with a vehement affirmative, generally along the following lines:

There are mis-statements within the National Defense function itself, in such areas as war costs and military assistance.

State and local spending trends are, so far as I know, never mentioned by the critics.

It is stated by some critics that trust funds should be excluded from the spending totals, and that Defense spending should be compared only with the Federal Fund total (the administrative budget).

Finally, it is alleged that a true reckoning of Defense costs would include all (or most) of the costs of interest on the Federal debt, veterans programs and space programs, plus some smaller items.

Before discussing each of these points in detail, I believe it is important to note that even massive rearrangements of the data along the lines just noted would not alter the basic fact—that the Defense share of the budget, however measured, is radically down over the past 20 years. For example, if we use an administrative budget approach consistently (ignoring trust funds) the Defense share drops from 68 percent in 1953 to 42 percent in 1973. To cite another example, a pamphlet is being circulated which alleges that Defense accounts for 60 percent of the tax dallar in Fiscal Year 1973. The pamphlet does not mention that, by the same means of calculation, Defense accounted for 86 percent of the tax dollar in Fiscal Year 1953. Nor does it mention the obvious corollary—that "non-Defense" spending has tripled as a share of the tax dollar, from 14 percent to 40 percent. The point is this: there is no way that the data can be rearranged to show anything other than a massive falloff in the Defense share of the public spending total, and a corresponding massive increase in the non-Defense share. We will be discussing absolute amounts and relative orders of magnitude. The long-term trends are not at issue.

Within the Defense totals as defined in the President's budget, some critics have alleged, there have been mis-statements and—by implication—understatements. This involves two matters, primarily: military assistance and war costs.

The criticisms in the military assistance area relate to the fact that support of allied forces in Southeast Asia has been financed in the military functions accounts rather than under the military assistance heading and, secondly, to transfers of long-supply articles under the military assistance program. For our purposes here, Mr. Chairman, I wish only to emphasize the fact that all of the costs involved have been charged to National Defense in the budget. No understatement of National Defense costs is involved. I note, for example, that in the alternate "National Security Budget" published with the 1972 Joint Economic Report (Senate Report 92–708, p. 55) no adjustment whatever was made in this area. This treatment is correct.

Estimates of war costs were included in four budgets (those for fiscal years 1967–70), the last of which was submitted in January 1969. Since that time, estimates of war costs have not appeared in the budget. President Nixon has not presented these estimates in advance, because he has wanted to preserve his flexibility and avoid telegraphing his intentions. In fact, he has announced major troop withdrawals in April or May of each of the past three years—developments which he did not wish to make public in January.

War cost estimates have been made available, publicly, covering each year since the war began, and extending through fiscal year 1972—the current fiscal year. These figures have been made available in total and in detail, and are printed in the published hearings of congressional committees involved. While it is true, then, that war cost estimates have not been presented for the budget year, it is inaccurate to state that these costs have been buried or hidden since 1969.

Whatever may be said of the timeliness or the accuracy of war cost estimates, there can no longer be any serious concern that any part of the war buildup has been directed to the baseline force. As I have said before, Mr. Chairman, the Defense budget can be used for only two things: to hire people or to purchase goods and services from industry. As to people, we will have 326,000 less (military and civil service combined) in fiscal year 1973 than we had in fiscal year 1964. Purchases from industry, allowing for inflation, have dropped by 12 percent. It is clear that there has been no diversion. In fact, the fiscal year 1973 Defense program, war costs and all, is below the prewar level.

State and local spending and manpower levels are almost never mentioned by critics of Defense programs. This oversight hardly fosters intelligent consideration of resource allocation. State and local spending is very much interwined with Federal civilian programs. The programs themselves are similar (education, health, welfare, highways, and so on). The beneficiaries are the same, and the programs are financed by the same American taxpayers. And there are direct financial tie-ins, such as grants-in-aid, which rise from $10 billion in fiscal year 1964 to $44 billion in fiscal year 1973, and which may in the future be further accelerated by revenue sharing. There are many proposals, as you know, for other tie-ins, such as Federal assumption of responsibility in certain areas.

While speaking of the "starved" public sector, critics of Defense programs rarely find it worthwhile to mention that state and local spending is about 2.3 times that allocated to Defense, while state and local employment is 3.3 times the Defense total, including military—or that nearly one-fourth of state and local spending is financed by the same Federal budget that finances Defense. In describing the improvements that could be realized in the public sector through Defense cutbacks, Defense critics usually cite items that would be financed, in whole or in large part, at the state and local level: one military aircraft versus so many classrooms, day-care centers, drug rehabilitation centers or skating rinks, for example. By failing to mention the magnitudes involved, the critics spare the public the mental effort of attempting to calculate how many such items could be procured for $113 billion—the approximate increase in state and local spending, fiscal year 1964–73.

Ultimately, all taxes have to be paid out of the same paycheck, and it would facilitate public understanding to emphasize this fact in discussing public finance—especially discussions centering upon economic considerations and resource allocation. It is significant that about one-half of the total tax dollar went for Defense in 1953, compared to about one-fifth in 1973.

Trust funds, according to some observers, should be entirely segregated from other amounts in the budget totals. Critics of Defense programs have gone further, alleging that the unified budget concept adopted five years ago is a device for distorting the true picture—in fact, it is alleged, if the trust funds were eliminated from the picture, then it would be plain that Defense consumes a large and growing share of public spending.

This last point is simply false. Let us compare trends, from fiscal year 1964 to fiscal year 1973, on the two bases.

	Unified budget basis (including trust funds)	Administrative budget basis (excluding trust funds)
Defense spending increases	$24.7 billion, or 46.1 percent	$24,700,000,000, or 45.9 percent.
Decline in defense share of the budget total	44.1 to 30.7 percent, 13.4 percentage points or 30.4 percent.	56.2 to 42 percent, 14.2 percentage points or 25.3 percent.
Social and economic spending increases	$92,500,000,000, or 209.8 percent.	$50,500,000,000, or 279 percent.
Increase in social and economic spending share of the budget total.	36.3 to 53.6 percent, 17.3 percentage points or 47.7 percent.	18.9 to 36.7 percent, 17.8 percentage points or 94.2 percent.

The magnitudes differ considerably between the two approaches, but the trends do not. No matter how the Federal budget is presented, it is clear that Defense is receiving a much smaller share of the total, while social and economic spending claims a sharply rising share.

As you know, Mr. Chairman, the Department of Defense was not significantly involved in the evolution of the unified budget concept, and the changes in Defense budget magnitudes were very minor. Our budget will normally be within a fraction of 1 percent of the same total under either the administrative or unified concepts. However, as you are also aware, the administrative budget has for many years been an inadequate vehicle for consideration of the Federal financial picture. Twenty years ago, the administrative budget covered about 96 percent of Federal spending and, indeed, nearly three-fourths of all public spending. Today those proportions have dropped to less than three-fourths and less than one-half, respectively. Trust fund taxing and spending today is as great as the entire budget was then.

Economists had recognized for many years that the administrative budget was inadequate, and that a more comprehensive measure was needed. The consolidated cash (payments to and receipts from the public) approach evolved, among others. This approach was given increasing prominence in the President's budget and, starting with the budget for fiscal year 1964 (presented in January 1963) the functional category totals were presented in these terms—although the administrative budget totals were also shown separately. By 1966 and 1967, there were at least three measures of the Federal budget in varying degrees of use (administrative, consolidated cash, and NIA), and there were in addition some major issues regarding the treatment of certain types of transactions. None of this significantly involved the Defense Department. The President's Commission on Budget Concepts was established to evolve a single, unified budget concept, to end the confusion and disagreement. The Commission included representatives of the Congress and the Executive Branch, as well as non-government members drawn from the economics and financial community. The unified budget concept now in use represents, essentially, the work of this Commission.

There continue to be some fundamental misunderstandings in this area, particularly as regards trust funds. Some of the misunderstanding undoubtedly derives from the term "trust fund" itself. The larger trust funds, as you know, are not operated on the basis of holding balances in the name of each individual, with those balances then returned by and large to the individual who paid them in. The larger funds are operated, in fact, more nearly on a "pay-as-you-go" basis, with current outlays being financed from current taxes.

These trust fund taxes are among our largest. Employment taxes, in fact, are, second only to the individual income tax in the Federal revenue picture. Indeed for a large number of families, the employment tax is the largest Federal tax they pay. The maximum amounts payable by an individual worker have increased some nine-fold in the past 20 years. Nor is it true that today's trust fund operations are the automatic result of irrevocable decisions reached in the thirties or at some other point in the distant past. These programs, and the taxes required to finance them, have been repeatedly revised. Extensive further revisions are in fact under consideration at this moment.

There appears to be a concern that, under the unified budget, trust fund taxes can somehow be used for unintended purposes—military hardware, perhaps. This, too, represents a misunderstanding. Current tax receipts into the major funds will be necessary to cover outlays from those funds under any conceivable set of arrangements.

The problem comes into better focus, Mr. Chairman, if we consider the problems we face for the years ahead. Large numbers of people—retired, disabled, or indigent—will be dependent upon income from the Federal Government. Federal taxes will be required to provide this income—levied upon the taxpayers who are working and earning each year. This is true whether the recipients involved are drawing social security, military retirement, veterans pensions, or some form of outright welfare. The taxes necessary to finance these payments must be levied upon the same taxpayers who pay for Defense, space vehicles, schools and fire trucks. There is no basis for pretending that a part of these taxes don't count. They do count, in every sense. They will have to be withheld from the same paycheck as income taxes, and paid into the same Treasury. It is certainly not possible to establish intelligent income tax policy while pretending that employment taxes do not exist.

The unified budget basis is used in long-range budgetary projections within the Executive Branch. From our viewpoint, this involves considering the Defense totals in the context of the overall Federal total, on a unified basis. We are acutely aware that we are in competition with all other programs, however they are financed. Having faced such competition for the past three years, in the processes leading to the formulation of the President's budget recommendations, it is somewhat jarring to be advised that turst funds are not really money and should not be counted at all.

Mr. Chairman, it is my belief that this Committee, of all the Committees of the Congress, should best understand, and most strongly support, the unified budget concept. It is surely apparent that the road to more enlightened resource allocation does not lead back to the administrative budget.

THE NATIONAL SECURITY BUDGET

Next, Mr. Chairman, I would like to take up the "National Security Budget" appearing on page 55 of the 1972 Joint Economic Report. This would involve adding about $32.6 billion to fiscal year 1973 Defense costs as presented in the budget, as follows:

Outlays, fiscal year 1973	*Millions*
Debt interest (75 percent)	$15, 871
Veterans benefits and services	11, 745
Space research and technology	3, 191
Economic supporting assistance	796
Food for Peace (in part)	253
Ocean shipping	351
Impacted area school aid	359
Arms Control and Disarmament Agency	10
Renegotiation Board	5
National Security Council	3
Total	32, 584

No deductions from National Defense costs as reported in the budget are proposed.

Debt interest

The idea that the national debt, and debt interest, result largely from past defense programs, wartime and peacetime, is simply no longer tenable.

The interest in the Joint Economic Report ($21.2 billion, of which 75 percent or $15.9 billion would be charged to "National Security") applies to the total gross public debt. The total gross public debt grew up roughly as follows:

Starting with the debt in fiscal year 1930 (largely residual World War I debt) add $224.6 billion for fiscal year 1939-fiscal year 1956 debt growth plus $26.5 billion, half of the fiscal year 1964–68 growth—a total of $267.3 billion allocable in very rough terms, to Defense.

Begin with the fiscal year 1930–39 growth in debt, $32 billion; add the $44 billion 1956–64 growth, $29.5 billion (half of the fiscal year 1964–68 growth), and $123.4 million, the fiscal year 1968–73 growth—a total of $225.9 billion allocable, in very rough terms, to non-Defense programs.

This approach suggests that just over half of the total gross debt accrued in periods when Defense spending clearly predominated, while just under half accrued in periods when other spending (largely social and economic) predominated. In one period (fiscal year 1964–68) growth rates were about equal. We have already contrasted the spending trends over most of the periods involved, and the patterns of predominance which we have just used are clearly evident. I believe the "National Security Budget" approach is especially deficient for the past five years. Setting aside debt interest, the "National Security Budget" would show a $1.8 billion increase in outlays over this period. Social and economic outlays, meanwhile, grew by $63.7 billion, and the gross debt by $123.4 billion. Yet the "National Security Budget" allocates three-fourths of the debt interest growth over this period to "National Security". It is difficult to discern a rationale for this that would not make it equally feasible to charge a large part of the 1939–45 debt increase to civilian programs. If I understand the logic involved here, it runs about like this:

From 1939 to 1945, Defense spending grew enormously, and domestic spending did not. The huge increase in debt that resulted is therefore attributable to Defense. The same logic, it seems, would produce a result considerably different than the "National Security Budget" shows for fiscal year 1973.

The view that debt and debt interest can be wholly attributed to Defense activities simply fails to square with the facts. Over all the years from fiscal year 1930 to fiscal year 1973, there was just one period when total gross debt grew only moderately—from fiscal year 1945 to fiscal year 1961, a 16-year span in which gross debt grew $32.8 billion, or 12.6 percent. This period encompasses the entire Korean War financing cycle, and the Defense impact for the period as a whole was much greater than today. There has been only one period when Defense programs were really minimal—1930–39. Debt tripled during this period. Some $212 billion was added to the gross debt during World War II, and about $200 billion will be added from fiscal year 1961–73; the former is clearly related to Defense, the latter clearly is not. How does one conclude from this that debt always increases in war or periods of large Defense programs, and would never increase in peacetime or periods of low Defense activity?

Interest on the total gross debt grew from $.7 billion in fiscal year 1930 to $21.2 billion in fiscal year 1973. Allocating the interest on the same basis as the principal, period by period, we find that $8 billion of the debt interest arose in periods when Defense spending predominated, while $13.2 billion (including $7.5 billion fiscal year 1968–73) arose in periods dominated by social and economic spending. This is one way that interest could be allocated—it would involve the assumption that whatever caused the debt to rise should also be charged with the interest increase for that period. This would at least inter the false concept that rising debt interest costs are inevitably associated with Defense. For example, from fiscal year 1939 to fiscal year 1956, total gross interest rose by $5.4 billion. That covers all of World War II and Korea, with a few years at each end for good measure. From fiscal year 1968 to fiscal year 1973, with Defense spending dropping, debt interest rises by $7.5 billion.

Another approach would be to note that just over half of the total gross debt at June 30, 1973 is allocable to Defense, and just under half to other programs, and to allocate the interest on these terms: about $11.5 billion to Defense and $9.7 billion to other programs.

Yet another approach would involve consideration of revenue, outlay, and revenue trends over a long period. For example, interest on the gross debt grows from $6.3 billion in fiscal year 1956 to $21.2 billion in fiscal year 1973. Over the span:

Defense outlays grow by 94 percent.
Social and economic outlays grow by 650 percent.
Revenues grow by 250 percent.

Such an approach would suggest that today's debt, and the interest on it, is almost entirely a function of social and economic spending and has little to do with Defense.

There are many other approaches that have at least some plausibility. However, we can find no basis for allocating 75 percent of the interest on the gross debt to Defense.

If charging 75 percent of debt interest costs to Defense is objectionable, and insupportable in our view, charging 133 percent is much worse. This is in effect what the "National Security Budget" would do, while charging us interest on some of our own money to boot. To illustrate:

Fiscal year 1973 outlays

	Billions
Gross interest cost	$21, 161
75 percent of that, charged to "National Security"	15, 871
Gross interest cost, as above	21, 161
Less interest paid to trust funds (does not leave Treasury; DOD pays large amounts into these funds)	−5, 697
Less deposit of earnings by Federal Reserve System	−3, 500
Net cost of interest on debt held by general public	11, 964

I am sure you would agree, Mr. Chairman, that if we are to allocate interest costs in some fashion, we should begin with the real net costs to the Treasury.

Another set of problems, Mr. Chairman, involves the interweaving of debt and the interest thereon with economic policy and budget concepts. For example consider the present period. Under the full employment revenue concept, we are deliberately and knowingly incurring large deficits, and adding to the debt. I believe you are in agreement with this policy, and that you would not advocate a balanced budget under present economic conditions. Whether you agree with the policy or not, to which program would you charge the increase in debt interest that results? The "National Security Budget" would charge 75 percent of it to Defense. This does not seem entirely logical. The question is far too important to be answered in so offhand a manner. For the period fiscal year 1948–73, the gap between full employment revenues and actual revenues is $157 billion—equivalent to two-thirds of the debt held by the general public. This is the only debt which results in net interest outgo from the Treasury.

Monetary policy may require certain actions which have the effect of raising or lowering debt interest rates, perhaps as one consequence of a policy with a much broader objective. Do we then increase the charges to some programs, even though those programs may be in sharp decline at the time? Even if those programs had nothing to do with the conditions to which the monetary policy was directed?

The present budget concepts have an impact which should be clearly understood if we are to consider allocating debt interest among various programs. This can best be explained by postulating a full employment situation where it would be desirable to have no net budget impact upon the economy—that is, a neutral result. With a budget that was thus neutral overall, gross debt (and interest thereon) would increase to the extent that the trust funds ran a surplus. If we are below full employment, gross debt will increase by even greater amounts. If a restrictive fiscal policy is desired, and/or if trust funds run a deficit, gross debt may decline. The gross debt, in short, can vary widely under present definitions for reasons that have nothing whatever to do with Defense programs or, for that matter, with net Treasury interest costs. It would be hazardous indeed to attempt to allocate such charges to Defense on the basis of the developments of 30 years ago.

To this point, Mr. Chairman, we have been discussing the difficulties of dividing debt interest between Defense and all other programs collectively. The problem is of course much more complicated than that. If the objective is to show the true cost of Defense, then surely we should also know the true cost of education, health, housing, income security, agriculture and other programs—each of them. In attempting to make such allocations among individual programs, one would encounter all the complexities mentioned for Defense, plus a great many more. For example, in the housing area, it would be pertinent to consider not only outlays but the impact of the tax deductions allowed for housing. How much lower would the debt be if we did not permit deduction of certain housing costs in computing Federal income taxes? By the same token, one would have to assess the impact of Government-sponsored credit institutions no longer reflected in the budget totals. Some part of the debt could certainly be traced to education, health, and other areas, through the avenue of exempting interest upon state and local securities from the Federal income tax. Factors such as those just noted would have to be considered in allocating debt interest among Defense and each domestic program.

If it is important to allocate some part of debt interest to Defense, it would seem to be even more important to relate it to other individual programs, because it is evident that most of the debt interest has arisen in periods when Defense spending trends had a minor impact. The prognosis is for much more of the same—changes in debt and debt interest in the period ahead will almost certainly be dominated by concepts and policies that have nothing to do with Defense programs.

Mr. Chairman, I do not believe that any reasonable basis can be found for allocating debt interest among various programs, nor do I believe anything worthwhile would be accomplished by attempting to do so. Twenty years ago, the matter was more clear-cut; the vast bulk of the debt and the interest obviously arose from the war. Today it is obvious that this is no longer true—the situation has become much more complicated. Any attempt to allocate debt interest to the various programs would produce a great deal of contention and misunderstanding, confusing a budgetary and financial picture that is sufficiently confused already. I fail to see that there would be any offsetting benefits. Suppose, for example, that such an analysis would show that several billion in allocated debt interest should be added to the outlays stated in the budget for education, or health, or housing—considering not only the large increases in outlays, but debt impact of tax aids and Government-sponsored credit as well. Would such an approach really add to public understanding of the budget? I tend to doubt it. Beneath it all would remain the fact that the debt exists, and that actions upon current programs would not be likely to alter it very much. This intermingling of arbitrarily-allocated fixed costs with current program costs would, I believe, confuse much more than it would enlighten.

Veterans programs would also be included in the "National Security Budget." At this point, it is important to be clear on the criterion for including items under that heading. The 1971 Joint Economic Report (p. 64) states that this should include ". . . programs which also make a direct contribution, in whole or in part, to national security or which would probably not be undertaken but for the requirements of national security." Under this criterion, it is said, veterans programs should be lumped with National Defense ". . . to explain to the American taxpayer the full costs of national security." (1972 Report, p. 55)

Suppose that we wished to determine, instead, the full costs of education. The criterion would then provide that we should include ". . . programs which also make a contribution, in whole or in part, to education or which would probably not be undertaken but for the requirements of education." Similarly, we could insert the words "health and medical care," "housing," or "income security." All costs of veterans programs would clearly fall under one or another of these headings and, if we wished to advise the taxpayers of the full costs of education (or health, housing or income security) one could argue that they should be shown in the budget accordingly.

It would seem more logical to charge the costs of veterans programs to education, health and so forth rather than to national security, under the criterion as stated. Consider, for example, the care of a 75-year old man in a Veterans hospital, or the pension paid to a widow the same age. Are these ". . . programs which also make a direct contribution, in whole or in part, to national security or which would probably not be undertaken but for the requirements of national security?" What is the nature of the direct contribution? What national security requirements are met by payments of this type? What do we gain, in national security terms, by taking care of a 75-year old veteran that we would not gain by taking care of a 75-year old non-veteran? Both obviously involve health and medical activities. It is difficult to discern a difference in terms of national security, under the criterion as stated. The same would be true of all other veterans programs, such as education and housing.

The 1971 Economic Report suggests a second criterion, observing ". . . that the Veterans program is entirely a legacy of past wars . . ." (p. 64) If this criterion was applied, then some VA costs would indeed fall under the "National Security" heading. This would involve costs associated with service-connected disabilities (pensions or hospital care), roughly 40 percent of total veterans program costs. The remainder of veterans program costs do not meet this criterion, however. Returning to our previous examples, and setting aside service-connected disabilities, why would hospital care of a 75-year old man be a "legacy of past wars?" Why is the care of a 75-year old veteran a "legacy of past wars," while the care of a 75-year old non-veteran is not? Why would payments for non-service-connected disabilities to veterans be a "legacy of past wars," while disability payments to non-veterans would not be? The same questions apply to educational, training or housing benefits to veterans. Why would medical benefits which a veteran received from the VA be a "legacy of past wars" while similar benefits for the same veteran from HEW would not be? Payments of these types are by no means confined to veterans or to the VA.

	Fiscal year 1973 outlays, (billions)	
	VA	Total
Education	$2.2	$15.7
Manpower	.3	5.1
Health	2.7	25.5
Income security	6.6	95.3

Source: Special Analyses, fiscal year 1973 budget, pp. 118, 137, 178, and 200.

To sum up, Mr. Chairman, the 1972 *Joint Economic Report* sets forth two criterion for allocating costs. Under the first of these, there would be no basis for charging any part of veterans' program costs to "National Security." If an aggregation of costs were to be presented under the second criterion, then VA costs related to service-connected disabilities would clearly be allocable. It would not be reasonable to allocate *all* VA costs to "National Security" under either criterion. If the second approach were to be followed, then the remaining VA costs should be distributed to education, health, income security, and housing.

The space program would also be included in the "National Security Budget," because it is among those ". . . programs which also make a direct contribution, in whole or in part, to national security or which would probably not be undertaken but for the requirements of national security." (1971 Joint Economic Report, p. 64). At about this point, the elasticity and the comprehensiveness of the criterion begins to have a telling effect. All that is necessary to charge an item to "National Security" is to show that it either (1) makes a direct contribution in whole or in part, to national security or (2) would probably not be undertaken but for the requirements of national security.

Does NASA make a contributiln to "national security," in whole or in part? Of course it does. But it also makes contributions in many other areas, covered under such budget functions as education and manpower, commerce and transportation, natural resources and environment, health, and agriculture and rural development. I do not believe that the Defense contributions of NASA are so predominant as to justify charging its costs 100% to "National Security."

Would the space program have been undertaken if there had been no national security requirements? This question is of course unanswerable. We had national security requirements, and many others, and the space program was begun. It was created by law, however, as a civilian agency, and has in fact operated that way. Including NASA under "National Security" could be taken to mean that the agency is, or should be, primarily oriented to military considerations.

Seven other programs proposed for inclusion under the "National Security" heading involve outlays of $1,777 million in fiscal year 1973.

The two largest of these ($1,049 million) are economic supporting assistance and a part of the Food for Peace Program, both of which are now carried under "International Affairs and Finance." The 1971 Report does not indicate why these activities are proposed for inclusion in the "National Security Budget," and I would prefer to withhold comment until it is clear what is intended.

As to impacted area school aid, I believe that this is clearly an education expense and is properly so classified. The expenses for this education would be incurred whether or not there was a Defense program. The U.S. interest in ocean shipping is not entirely a matter of National Defense. There is an involvement with Defense, of course, but I believe it is a distortion to maintain that this is entirely a Defense matter.

The National Security Council is classified under "Executive Direction" because its primary function is to advise the President. I think ACDA is properly classified in International Affairs, and the Renegotiation Board under Central Fiscal Operations.

Deductions from National Defense costs, as currently presented in the budget were entirely overlooked in preparing the "National Security Budget."

For example, 100 percent of AEC costs are charged to National Defense in the budget, but about half of AEC costs involve such activities as commercial power reactors, basic and applied research in the physical and biomedical sciences, and other non-Defense applications. Clearly, if the budget definitions are to be revised, over $1 billion in AEC costs should be deducted from the National Defense total.

Our fiscal year 1973 budget includes about $188 million for overseas dependent education. The costs of educating these children would have to be borne, whether

or not there was a Defense establishment. We also incur costs for such activities as Project 100,000 and Project Transition, which have objectives similar to those of manpower development and training programs conducted by civilian agencies.

The observation has sometimes been made that a part of the Food for Peace program should be allocated to Defense, because the local currencies generated under the program have in part been used for purposes which—had they been financed directly by the United States—would have been classified as military assistance. This of course involves getting into the matter of second-order effects. If such an approach is to be used to allocate costs, it would be necessary to consider the second-order effects of outlays now classified under "National Defense." This would involve cases where Defense programs resulted, indirectly (or in the second order) in improvements in health, education, and other activities which—had they been undertaken directly—would have been classified under economic assistance or some other heading.

Government-wide application of the criteria suggested in the "National Security Budget" would of course be necessary, Mr. Chairman. That is, it would be necessary to restructure the entire budget inserting the totals of other functions in place of "National Security." For example, we would certainly wish to include under the "education" heading all programs which ". . . make a direct contribution, in whole or in part, to education or which would probably not be undertaken but for the requirements of education." There appears to be no reason to show the "true" or "full" costs of "national security," while showing only partial or incomplete costs for other functions.

The closest we could come to such a presentation is shown in Table 12. Except for the allocation of debt interest, "National Security" and the other functions at the top of the table are presented in accordance with the "National Security Budget." Costs for the other functions, under the same concepts, have been drawn from the Special Analyses to the fiscal year 1973 budget. We have made no attempt to allocate debt interest because, as indicated earlier (a) we believe it would be improper to allocate the full $21.2 billion in any event and (b) we are not sure how the net Treasury cost should be allocated. For purposes of illustration, we have not changed any of the other figures included under the "National Security" heading. It should not be inferred from this that we agree with this method of stating "National Security" costs; we do not.

As the table shows, these broad allocation definitions would add about $46 billion to the fiscal year 1973 budget totals, because some costs would appear in more than one place.

This is of course a hazard of any classification scheme. There are, generally speaking, three choices:

1. Define all functions broadly and comprehensively, so that the "full costs" of each function are shown. This inevitably leaves a large unallocated offset ($46 billion in this instance) at the bottom.

2. Define some functions broadly, and others on a narrow or residual basis. This avoids the offset problem, but distorts comparisons between functions.

3. Narrow the definitions, introducing words such as "primarily," but using a consistent concept of coverage among functions.

None of the approaches is perfect. There is no perfect approach. The third approach is, in general, the one followed in the budget.

As the table shows, the application of the "National Security Budget" concepts would alter the percentage distributions of the budget to some degree. The "National Security" share would rise to 31.6 percent, versus 39.7 percent for National Defense under present definitions. The share for "National Security" plus International Affairs would drop, however, from 38.1 percent to 32.5 percent. The social and economic share would rise significantly under these definitions.

However, the unallocated cost problem ($46 billion) is a massive one, and would be so productive of confusion and misunderstanding as to offset, many times over, any advantages that might accrue. And this is only the tip of the iceberg. We have not even begun to consider such things as adding to the "education" category all medical payments on behalf of present or former teachers, all housing benefits for them, etc. We would have to get into these areas if we were to plumb all the second-order effects, as some have done in allocating a part of Food for Peace costs to Defense.

To summarize regarding the "National Security Budget" concept, Mr. Chairman, I would like to offer certain comments and suggestions.

First of all, I believe that National Security and other costs are reasonably stated in the budget as now presented. If one uses reasonable criteria, it is not possible to identify any significant times that are improperly omitted from the

stated Defense totals. By "reasonable criteria" I mean criteria which could be applied on a Government-wide basis without producing huge unallocated amounts or other discrepancies. The "National Security Budget" fails to meet this test. The charge that "National Security" costs are understated in the budget can be made only by the application of a set of criteria which would show that social and economic spending is much more seriously understated, and only if one is willing to accept "corrections" which result in a budget that is $46 billion beyond the actual level. I suggest, Mr. Chairman, that efforts to recast the budget must address the total—not simply one function. I believe that if one began to restructure the total, in terms of reasonable criteria consistently applied, he would not emerge with the conclusion that National Defense costs are significantly misstated at present.

Second, if some changes were to be made in the budget breakdowns, I have certain observations to offer. As a minimum, I believe that the non-military costs of AEC should be moved from the Defense function, as well as the costs of overseas dependent education and other programs that I mentioned earlier. This would shift some $1.5 to $2 billion per year from "National Defense" to other functions.

I do not advocate changing the present functional structure to a "cost-of-war" basis, as suggested in the Joint Economic Report. If this was to be done, however, I believe that the only costs which should be added to "National Defense" as presently defined would be those VA costs related to service-connected disabilities. I believe these costs are in the range of $4 billion to $5 billion per year.

I could not endorse the proposal to charge debt interest to Defense, or to other programs, for reasons I have set forth at some length. As to the balance of VA costs, NASA, and the other items covered in the "National Security Budget," the rationale for associating these items with Defense is tenuous at best, and the criteria would collapse completely if applied on a Government-wide basis.

If major changes are to be considered in the manner of budgetary presentation, these should of course cover all programs. In this connection, I believe that attention should be given to incorporating tax aids, Government-sponsored credit, and state and local spending data at some point—perhaps in the budget itself, perhaps in special analyses. Considering present magnitudes, these omissions are very significant.

NATIONAL PRIORITIES—THE NEXT 5 YEARS

Mr. Chairman, you have stated that the theme for these hearings is "National Priorities—The Next 5 Years," and I would like to complete my statement along those lines.

Controllability and priorities

In this connection, Mr. Chairman, it is essential that we continue to give attention to our systems for establishing priorities, and for allocating resources in accordance therewith. It is important to note that National Defense is by far the most visible, the most comprehensive, and the most controllable of all major public spending areas. Defense is financed almost exclusively through the annual appropriation process. Such devices as trust funds play an insignificant role in Defense. The same is true of tax aids, Government-sponsored credit outside the budget, and state and local spending. The amounts that the Congress appropriates specifically for National Defense, which are shown clearly at one place in the Federal Budget, are very nearly 100 percent of what the American taxpayer pays for National Defense. This is not true for major domestic programs.

Defense spending can be traced from estimates as submitted through specific Congressional action to the final amounts, normally well within a 1 percent margin. Even during the war buildup, when expenditures greatly exceeded earlier estimates, specific actions of the Congress were involved. For example, expenditures for fiscal year 1967 were $10 billion higher than the January 1966 estimates. But the Congress was requested to, and did, appropriate $13 billion more than had been requested in January 1966. Even considering such extreme cases as the war buildup period, the record is very clear: Defense spending changes are very closely related to specific Congressional appropriation action.

Defense is not only controllable, Mr. Chairman—it has been controlled. Military and civil service manpower has fallen by 30 percent and purchases from industry by 40 percent, in the past five years. Start with the 1968 budget, apply these program cuts, add the pay raises the Congress has specifically approved for our people plus general inflation for what we buy, and the result is the fiscal

year 1973 budget. The fact that fiscal year 1973 National Defense spending is at its lowest point in 20 years is ample evidence, among other things, of controllability.

While the overall cost of the Defense program is thus visible and controllable, the costs of other major programs are not. The problem arises from the fact that the appropriation process is so far the only systematic means evolved by the Congress for assigning priorities and allocating resources. The appropriation process, however, covers an increasingly small share of the public financial picture. Excluded from it are:

Trust fund spending, estimated at $72.5 billion for fiscal year 1973.

State and local spending, about $182 billion in fiscal year 1973, and one-fourth of it financed by Federal grants.

Federal tax aids, about $56 billion.

Federal-sponsored credit not included in the budget, about $33 billion.

Netting out grants-in-aid to avoid duplication, these items amount to about $300 billion. This amount will have an impact upon the same economy, and the same taxpayers, as will money spent from appropriations.

The spending outlook

It is imperative that we find some better means for resource allocation because of the size of the problems we face. Table 13 provides some perspective on this point, showing growth rates over the past 20 years. It is clear that social and economic spending has dominated the picture, growing much faster than the other sectors of public spending and much faster than GNP or revenues.

This surge in social and economic spending was accommodated by a number of developments which will not offer nearly as much help for the future. National Defense fell from 14 percent of GNP in fiscal year 1953 to 6.5 percent in fiscal year 1973—a drop of 7.5 points, cutting the share by more than half. This made it possible for other sectors of public spending to grow much more rapidly than GNP. National Defense will account for 6.5 percent of fiscal year 1973 GNP, so it would be impossible for National Defense to yield 7½ points in the years ahead. Another factor underwriting the spending surge over this period was employment taxes. The maximum payable to Social Security, for example, was $108 per worker (combined employer/employee payment, 3.0 percent of $3,600); this has grown to $1,017 per worker (11.3 percent of $9,000) in 1973—a ninefold increase. It seems unlikely that increases like this can continue. A third factor involves magnitudes. Social and economic spending was $39 billion in fiscal year 1953, but is $276 billion for fiscal year 1973. It is one thing to double every 7 years, starting from a $39 billion base; it is quite a different thing if one starts from a $276 billion base.

Looking at social and economic spending in 5-year increments, we find the following:

SOCIAL AND ECONOMIC SPENDING, FSL

	Fiscal year—				
	1953	1958	1963	1968	1973
Social and economic spending (billions)	$39.4	$62.5	$95.7	$157.1	$275.6
Growth:					
5 years (billions)		$23.1	$33.2	$61.4	$118.5
5 years (percent)		58.6	53.1	64.2	75.4
Annual growth rate, compounded (percent)		9.7	8.9	10.4	11.9

The average annual rate of growth over the 20-year period is 10.2 percent, which involves doubling every 7 years. The growth rate in the most recent periods has been higher. An 11.9 percent growth rate involves doubling in about 6 years.

If social and economic spending in the next 5 years grows at the lowest of any of the rates shown above (fiscal year 1958–63), it would increase by $146 billion. At the highest rate of growth (fiscal year 1968–73), the fiscal year 1973–78 increase would be $208 billion. Mr. Chairman, there is no serious prospect for changes in the Defense budget, or issues involving the Defense budget, that will be a major factor in the context of figures such as I have just cited. Measuring from any point for the past 20 years, there has been no real growth in National Defense programs. Unless there is a fundamental change in the international situation, it is unlikely that Defense budget trends, up or down, will be a significant element in the changing public spending picture.

CONCLUSION

In concluding my remarks, Mr. Chairman, I want to stress, as I did at the beginning, that we face some critical problems in the area of public finance in the period ahead. A clear understanding of the problems is essential to an intelligent resolution of them.

If programs are to be considered over a large span of years, it will be necessary to have wider acceptance and understanding of presentations in terms of constant prices. In this connection, we nede to improve our measures of cost escalation and of productivity, and the Department of Defense will e working closely with the General Accounting Office, the Department of Commerce and others on these matters.

Mr. Chairman, there are those who would deal with the problem by defining away part of it. The problem with this, of course, is that it is not possible to define it away where it counts most: The taxpayer's pocket book. At that end of the spectrum of public finance, everything indeed comes together. Things will not improve much until we can do a better job of putting things together at the other end. It is in this area, I believe, that this Committee—above all others—can make a major contribution.

TABLE 1.—MONTHLY RATES OF MILITARY BASIC PAY

Pay grade and title	Years of Service [1]	July 1963	July 1967	January 1972	January 1973 [2]	Percentage increase: July 1967 to January 1973	Percentage increase: July 1963 to January 1973
E-1—Recruit (under 4 months)	0-2	78.00	90.60	288.00	332.10	266.6	325.8
E-2—Private	0-2	85.00	100.50	320.70	350.10	248.4	311.9
E-3—Private 1st class	0-2	99.37	121.80	333.60	365.10	199.8	267.4
E-4—Corporal	2-3	150.00	211.50	366.00	400.80	89.5	167.2
E-5—Sergeant	4-6	205.00	270.00	429.30	467.40	73.1	128.0
E-6—Staff sergeant	14-16	275.00	369.60	587.70	625.50	69.2	127.4
E-7—Sergeant 1st class	18-20	340.00	434.40	690.60	735.00	69.2	116.2
E-8—Master sergeant	20-22	370.00	499.20	793.50	844.50	69.2	128.2
E-9—Sergeant major	22-26	440.00	599.10	952.80	1,024.00	69.2	130.5
W-1—Warrant officer	10-12	334.00	420.30	667.80	710.70	69.1	112.8
W-2—Chief warrant	16-18	393.00	510.30	811.20	863.40	69.2	119.7
W-3—Chief warrant	20-22	470.00	605.70	962.70	1,024.50	69.1	118.0
W-4—Chief warrant	26-30	575.00	767.70	1,219.80	1,298.10	69.1	125.8
O-1—2d lieutenant	0-2	222.30	303.90	530.70	676.80	122.7	204.5
O-2—1st lieutenant	2-3	291.00	420.30	667.80	806.40	91.9	177.1
O-3—Captain	6-8	440.00	611.10	971.40	1,033.80	69.2	135.0
O-4—Major	14-16	570.00	773.70	1,230.00	1,308.90	69.2	129.6
O-5—Lieutenant Colonel	20-22	745.00	958.50	1,523.70	1,621.50	69.2	117.7
O-6—Colonel	26-30	985.00	1,216.50	1,933.20	2,057.40	69.1	108.9
O-7—Brigadier general	26-30	1,175.00	1,384.80	2,200.50	2,341.80	69.1	99.3
O-8—Major general	26-30	1,350.00	1,592.40	2,531.10	2,693.80	69.2	99.5
O-9—Lieutenant general	26-30	1,500.00	1,766.10	2,807.10	2,987.40	69.2	99.2
O-10—General	26-30	1,700.00	2,001.60	[3] 3,000.00	[3] 3,000.00	49.9	76.5
Calculated rate not payable because of statutory limitation					3,192.60	59.5	87.8

[1] Longevity pay step of typical military member.
[2] Assumes 6.42 percent increase; assumes Allott proposal rates, where applicable, to take effect on July 1, 1972, and a 6.42 percent general increase on Jan. 1, 1973.
[3] Statutory limitation.

TABLE 1A.—CLASSIFIED EMPLOYEE PAY SCALE, GENERAL SCHEDULE, 4TH PAY STEP

Grade	July 1963		July 1967		January 1972		January 1973[1]		Percentage increase	
	Annual	Per month	Annual	Per month	Annual	Per month	Annual	Per month	July 1967 to January 1973	July 1963 to January 1973
GS-1	3,560	296.66	3,975	331.25	5,020	418.33	5,266	438.83	32.5	47.9
GS-2	3,875	322.91	4,324	360.33	5,682	473.50	5,960	496.66	37.8	53.8
GS-3	4,135	344.58	4,701	391.75	6,410	534.16	6,724	560.33	43.0	62.6
GS-4	4,530	377.50	5,256	438.00	7,198	599.83	7,551	629.25	43.7	66.7
GS-5	5,045	420.41	5,859	488.25	8,051	670.91	8,445	703.75	44.1	67.4
GS-6	5,545	462.08	6,461	538.41	8,969	747.41	9,408	784.00	45.6	69.7
GS-7	6,095	507.91	7,090	590.83	9,959	829.91	10,447	870.58	47.3	71.4
GS-8	6,705	558.75	7,773	647.75	11,015	917.91	11,555	962.91	48.7	72.3
GS-9	7,350	612.50	8,479	706.58	12,150	1,012.50	12,745	1,062.08	50.3	73.4
GS-10	8,025	668.57	9,285	773.75	13,366	1,113.83	14,021	1,168.41	51.0	74.7
GS-11	8,840	736.66	10,166	847.16	14,641	1,220.08	15,358	1,279.83	51.1	73.7
GS-12	10,420	868.33	12,064	1,005.33	17,453	1,454.41	18,308	1,525.66	51.8	75.7
GS-13	12,245	1,020.41	14,217	1,184.75	20,612	1,717.66	21,622	1,801.33	52.1	76.6
GS-14	14,120	1,176.66	16,675	1,389.58	24,156	2,013.00	25,340	2,111.66	52.0	79.5
GS-15	16,005	1,333.75	19,371	1,614.25	28,142	2,345.16	29,521	2,460.08	52.4	84.4
GS-16	17,500	1,458.33	22,085	1,840.41	32,645	2,720.41	34,245	2,853.75	55.1	95.7
GS-17	19,500	1,625.00	25,040	2,086.66	36,000	[2] 3,000.00	36,000	[2] 3,000.00	43.8	84.6
							(37,764)	[3] 3,147.00	[3] (50.8)	[3] (93.7)
GS-18	20,000	1,666.66	25,890	2,157.50	36,000	[2] 3,000.00	36,000	[2] 3,000.00	39.0	80.0
							(37,764)	[3] 3,147.00	[3] (45.9)	[3] (57.4)

[1] Assumes 4.9 percent increase Jan. 1, 1973.
[2] Statutory limitation.
[3] Calculated rate, not payable because of statutory limitation.

TABLE 2.—DEPARTMENT OF DEFENSE, PAY INCREASES AND PAY AND PRICE INDEXES SINCE 1945

Military and civilian pay increases (percent)			Pay and purchase price indexes (fiscal year 1964=100)			
Effective date	Military basic pay	Classified civilian salaries	Fiscal year	Military basic pay	Classified civilian salaries	Purchase price[1]
Jul. 1, 1945		15.9	1946	48.0	50.2	
Jul. 1, 1946	23.7	14.2	1947	59.4	57.4	
Jul. 1, 1948		11.0	1948	59.4	57.4	
Oct. 1, 1949	22.9		1949	59.4	63.7	78.2
Oct. 28, 1949		4.1	1950	69.6	65.4	76.2
Jul. 1, 1951		10.0	1951	73.0	66.3	83.3
May 1, 1952	4.0		1952	73.5	72.9	83.1
Mar. 1, 1955		7.5	1953	75.9	72.9	82.3
Apr. 1, 1955	10.0		1954	75.9	72.9	80.6
Jan. 1, 1958		10.0	1955	77.8	74.7	84.6
Jun. 1, 1958	8.3		1956	83.5	78.4	88.8
Jul. 1, 1960		7.7	1957	83.5	78.4	94.9
Oct. 14, 1962		5.5	1958	84.1	82.3	96.2
Oct. 1, 1963	14.2		1959	90.4	86.3	98.1
Jan. 5, 1964		4.1	1960	90.4	86.3	97.6
Jul. 1, 1964		4.2	1961	90.4	92.9	99.3
Sept. 1, 1964	2.3		1962	90.4	92.9	98.9
Sept. 1, 1965	10.4		1963	90.4	96.5	99.4
Oct. 1, 1965		3.6	1964	100.0	100.0	100.0
Jul. 1, 1966	3.2	2.9	1965	105.6	106.3	102.3
Oct. 1, 1967	5.6	4.5	1966	116.6	109.2	104.2
Jul. 1, 1968	6.9	4.9	1967	120.3	113.3	106.8
Jul. 1, 1969	12.6	9.1	1968	125.3	117.1	109.6
Jan. 1, 1970	8.1	6.0	1969	135.8	124.2	113.7
Jan. 1, 1971	7.9	6.0	1970	159.1	139.6	118.7
Nov. 14, 1971	[2] 11.6		1971	171.9	147.9	125.3
Jan. 1, 1972	7.2	5.5	[3] 1972	198.5	156.4	129.9
			[3] 1973	224.8	164.5	133.5

[1] Noncompensation component of the deflator for Federal purchases of goods and services. Source: 1949–71, Department of Commerce. Fiscal years 1972 and 1973, estimated (3.7 percent increase for fiscal year 1972 and 2.8 percent increase for fiscal year 1973).
[2] 5.5 percent for personnel with less than 2 years of service, and 2 percent for those with over 2 years.
[3] Reflects Jan. 1, 1972 pay raise and assumes slightly smaller pay raise Jan. 1, 1973, plus enactment of proposed volunteer-related pay legislation effective Jul. 1, 1972.

Note: Military basic pay and civilian salaries are not comparable. A 4 percent increase in basic pay is approximately equivalent to a 3 percent salary increase.

TABLE 3.—THE FISCAL YEAR 1964 DEFENSE PROGRAM AT FISCAL YEAR 1973 PRICES

[Outlay dollars in millions]

	Fiscal year 1964 program			Fiscal year 1973 cost at fiscal year 1973 prices
	At fiscal year 1964 prices	Pay raises/ price increases (percent)	At fiscal year 1973 prices	
Military personnel appropriations:				
Basic pay	$7,855	[1] 134.5	$18,420	$16,681
Items denominated in basic pay	656	230.8	2,710	1,851
Total, basic pay and related	8,511	141.9	20,590	18,532
Allowances unchanged since fiscal year 1964	788	0	788	818
Allowances added since June 30, 1963	36	405.3	182	170
Basic allowance for quarters	1,439	47.7	2,125	1,818
Hostile-fire pay				64
Permanent change of station travel/transportation	822	43.7	1,181	1,215
Clothing, subsistence and station allowances (cost-related)	1,213	35.3	1,641	1,334
Military assistance, service funded (MASF)				147
Other active force costs	8	33.5	11	5
Reserve component allowances	169	37.7	233	398
Total, allowances	4,475	37.7	6,616	5,968
Total, military personnel appropriation	12,986	106.0	26,751	24,500
Civil Service payroll	7,305	69.6	12,389	12,834
Military retired pay	1,209		4,853	4,853
Family housing, excluding pay	504	33.5	673	638
Total, pay and related	22,004	103.0	44,666	42,825
Operating costs, excluding pay	6,183	33.5	8,254	10,743
Procurement, R.D.T. & E. and construction	22,599	33.5	30,170	22,933
Total, nonpay	28,782	33.5	38,424	33,676
Total, outlays	50,786	63.6	83,090	76,500

[1] Military basic pay increased by 134.5 percent from fiscal year 1964 to fiscal year 1973, or an index of 234.5, for the fiscal year 1964 strength. This differs from the index of 224 shown in table 2 because of changes in grade mix over the years. The annual percentage increases shown in table 2 apply to the grade mix as each particular pay raise took effect. The November 1971 pay increase was very large for personnel in the lowest grades. At that time, there were relatively less people in these grades than there were in fiscal year 1964. Therefore, the pay increases from fiscal year 1964 to fiscal year 1973 for the fiscal year 1964 manpower mix would be considerably greater than for the current mix.

TABLE 4.—DEFENSE PURCHASES AND PRICE INCREASES BY INDUSTRY

Industry	Defense purchases as a percent of gross product, calendar year			Defense related employment as a percent of total employment, calendar year			Percent change in GNP price deflator from calendar year 1964 to 1970
	1964	1968	1970	1964	1968	1970	
Agriculture, forestry and fisheries	0.8	0.8	0.8	4.3	6.8	4.2	29.7
Mining	.1	.1	.1	5.4	5.9	4.5	6.8
Construction	7.7	6.3	4.8	2.3	1.7	1.2	61.9
Manufacturing	11.6	13.6	10.5	8.6	10.5	8.1	12.3
Nondurable	(3.4)	(5.0)	(3.5)	(2.5)	(3.6)	(2.5)	(12.7)
Durable	(17.4)	(19.3)	(15.5)	(13.1)	(15.3)	(12.1)	(12.1)
Transportation	4.6	9.0	7.0	5.5	9.8	7.2	9.9
Communication	2.3	1.6	1.8	4.0	4.5	3.4	−1.2
Electric, gas and sanitary service	1.3	1.0	.9	2.6	3.3	2.6	2.2
Wholesale and retail trade	.6	.8	.6	1.2	1.5	1.1	24.0
Finance, insurance, and real estate	.1	.1	.1	1.5	1.7	1.3	24.5
Services	4.0	3.2	2.8	2.6	2.7	2.1	37.5
Total private sector	5.1	6.0	4.6	4.6	5.6	4.1	21.9

TABLE 5.—COMPARISON OF PAY INCREASES

	Regular military compensation[1]	Classified civil service salaries	Total DOD civil service salaries, including wage boards	Index of compensation, private	Index of compensation, manufacturing	Average hourly earnings, manufacturing	Average hourly earnings, transportation	Average annual earnings index (CY)	PAT survey (June)	State and local government
Fiscal year—										
1961		92.9	92.9	87.6	89.2					89.9
1962		92.9	92.9	91.9	92.7			92.0	94.2	93.9
1963		96.5	96.5	95.7	95.9	97.2	97.1	95.3	97.1	97.2
1964	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1965	103.6	106.3	106.3	104.5	103.5	103.2	103.2	103.8	103.0	103.1
1966	110.1	109.2	109.2	110.2	106.8	107.1	106.5	108.4	107.8	107.1
1967	114.5	113.3	113.3	117.5	112.1	111.5	110.4	113.2	112.6	113.1
1968	119.2	117.1	117.1	124.8	118.8	118.6	118.4	121.0	118.8	121.7
1969	126.4	124.2	124.2	134.8	127.1	125.7	124.9	128.9	125.5	129.9
1970	141.9	139.6	140.9	144.6	135.1	132.8	132.7	137.5	133.3	141.1
1971	151.0	147.9	151.7	155.1	144.6	141.1	143.4		142.1	
1972	175.5	156.4	161.1							
1973	200.6	164.5	169.6							

[1] Basic pay, basic allowance for quarters and subsistence, and the tax advantage that accrues because quarters and subsistence allowances are not subject to the Federal income tax. By law, RMC is used to relate military pay raises to classified civilian pay raises. Fiscal year 1973 figures assume July 1972 and January 1973 pay raises reflected in fiscal year 1973 budget estimates.

Source: U.S. Department of Labor (BLS); series entitled "Compensation Per Man-Hour, Private Sector." Includes wages and salaries of employees plus employers contributions for social insurance and private benefit plans. Also includes an estimate of wages, and salaries, and supplementary payments for the self-employed. Series entitled "Compensation Per Man-Hour, Manufacturing." Average hourly earnings of production workers, all manufacturing. Average hourly earnings of production workers, transportation equipment. U.S. Department of Commerce (OBE); average annual earnings per full-time employee by industry. U.S. Department of Labor (BLS); professional administrative and technical (PAT) surveys.

TABLE 6.—DEFLATORS AND INDICES, SELECTED FISCAL YEARS

[Fiscal year 1964=100]

	BEA Federal purchases, noncompensation component	Wholesale Price Index	Consumer Price Index	GNP deflator	BEA deflators		DOD deflators	
					State and local purchases	Federal purchases	Excluding retired pay	Including retired pay
Fiscal year:								
1950	76.2	82.5	76.7	73.0	59.0	65.5	70.3	66.6
1953	82.3	93.8	86.4	81.5	69.6	74.7	79.6	78.6
1956	88.8	94.1	87.1	85.4	76.1	80.8	85.6	84.5
1961	99.3	100.1	96.5	96.4	91.5	95.8	96.8	96.0
1964	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	109.6	106.8	110.2	111.0	119.2	112.5	113.4	114.4
1971	125.3	118.4	128.7	128.6	145.3	140.4	137.5	140.7

TABLE 7.—DOD MILITARY AND MILITARY ASSISTANCE OUTLAYS AND MANPOWER

[Outlay in millions of dollars]

	Fiscal years				
	1964	1968	1971	1972	1973
Current prices:					
Military basic pay	8,511	12,779	16,179	17,199	18,532
Other military pay and allowances	4,475	7,080	6,454	6,010	5,968
Military retired pay	1,209	2,095	3,386	3,928	4,853
Family housing, excluding pay	504	396	480	591	638
Civil service payroll	7,305	10,281	12,153	12,680	12,834
Total, pay and related	22,004	32,631	38,652	40,408	42,825
Operating costs, other than pay	6,183	12,326	11,188	10,497	10,743
Procurement, R.D.T. & E, and construction	22,599	33,071	25,706	24,895	22,933
Total, nonpay	28,782	45,397	36,894	35,392	33,676
Total, outlays, current prices	50,786	78,027	75,545	75,800	76,500
Constant (fiscal year 1973 budget) prices:					
Military basic pay	20,590	24,575	21,788	19,510	18,532
Other military pay and allowances	6,161	9,113	7,656	6,616	5,968
Military retired pay	4,853	4,853	4,853	4,853	4,853
Family housing, excluding pay	673	482	511	607	638
Civil service payroll	12,389	14,890	13,587	13,349	12,834
Total, pay and related	44,666	53,914	48,395	44,935	42,825
O & M, excluding pay	8,254	15,014	11,920	10,788	10,743
Procurement, R.D.T. & E, and construction	30,170	40,283	27,388	25,585	22,933
Total nonpay	38,424	55,297	39,308	36,373	33,676
Total outlays, constant fiscal year 1973 prices	83,090	109,210	87,704	81,308	76,500
Manpower (thousands):					
Military end strength (June 30)	2,685	3,547	2,714	2,392	2,358
Military average strength	2,691	3,436	2,891	2,536	2,396
Civil service end strength (June 30)	1,035	1,287	1,094	1,041	1,036
Civil service average strength	1,045	1,276	1,125	1,098	1,045
Military and civil service end strength	3,720	4,834	3,808	3,433	3,394
Military and civil service average strength	3,736	4,712	4,016	3,634	3,441
Defense-related industry employment, June 30	2,380	3,173	2,031	1,941	1,857
Defense-related industry employment, average	2,360	3,217	2,128	1,979	1,874
Total Defense-related manpower, June 30	6,000	8,007	5,839	5,374	5,251
Total Defense-related manpower, average	6,096	7,929	6,146	5,613	5,315

TABLE 8.—DEFENSE PROGRAM AND BUDGET LEVELS, FISCAL YEAR 1962–65 (DOD MILITARY AND MILITARY ASSISTANCE)

[Dollar amounts in billions; manpower in thousands]

	Fiscal years—					4-year baseline average
	1962	1963	1964	1965 total	1965 baseline	
DOD/MAP, current prices:						
Budget authority	$50.3	$51.4	$50.6	$50.5	$49.8	$50.5
Total obligational authority	50.2	50.9	50.7	50.7	50.0	50.5
Outlays	48.3	49.5	50.8	47.1	47.0	48.9
DOD/MAP, constant (Fiscal year 1973) prices:						
Budget authority	85.3	86.0	82.8	80.1	79.2	83.3
Total obligational authority	85.2	85.2	83.0	80.4	79.5	83.2
Outlays	82.5	83.5	83.1	75.7	75.6	81.2
DOD/MAP manpower:						
End-strength (June 30):						
Military	2,808	2,698	2,685	2,653	2,653	2,711
Civil service	1,069	1,054	1,035	1,026	1,026	1,046
Total	3,877	3,752	3,720	3,679	3,679	3,757
Average strength:						
Military	2,725	2,701	2,691	2,666	2,666	2,696
Civil service	1,054	1,062	1,045	1,030	1,030	1,048
Total	3,779	3,763	3,736	3,696	3,696	3,744
Prime contract awards, United States:						
Current prices	$27.8	$28.1	$27.5	$26.6	$26.3	$27.4
Constant (Fiscal year 1973) prices	37.5	37.8	36.7	34.8	34.3	36.6
Prime contract awards worldwide:						
Current prices	29.3	29.4	28.8	28.0	27.7	28.8
Constant (Fiscal year 1973) prices	39.5	39.4	38.4	36.5	36.0	38.4

TABLE 9.—DEPARTMENT OF DEFENSE BUDGET, SELECTED GENERAL PURPOSE FORCE COMPARISONS

	June 30, 1964	June 30, 1971	June 30, 1972	June 30, 1973
Army divisions	16⅓	13⅔	13	13
Attack/ASW carriers	24	18	17	16
Carrier air wings	24	12	12	13
Marine divisions	3	3	3	3
Wings	3	3	3	3
Air Force tactical squadrons	119	112	105	103
Commissioned ships in fleet	932	702	657	594
Active aircraft:				
Fixed wing	25,160	20,724	19,780	18,640
Helicopters	5,148	11,542	11,340	11,689

TABLE 10.—IMPACT OF PAY AND PRICE INCREASES AND FINANCING ADJUSTMENTS ON FISCAL YEAR 1972–73 ESTIMATES, DOD MILITARY FUNCTIONS AND MILITARY ASSISTANCE

[In millions of dollars]

	Total obligational authority (TOA)	Budget authority (BA)	Outlays
Estimate fiscal year 1973	83,176	83,378	76,500
Estimate fiscal year 1972	78,089	77,144	75,800
Increase, fiscal year 1972–73	+5,087	+6,234	+700
Increase due to pay and price increases and financing:			
Decrease in financing adjustments		1,147	
Volunteer force legislation (annualization and new proposals)	1,328	1,328	1,349
Annualization of January 1, 1972 pay increase; January 1, 1973 pay increase; and wage increases	1,985	1,985	1,995
Increase in retired pay	932	932	925
Increase on purchases at 2.8 percent	1,349	1,310	1,239
Total increases due to pay and price increase and financing	5,594	6,702	5,508
Program changes:			
Personnel (civilian and military)	−2,073	−1,884	−2,110
Other	+1,566	+1,416	−2,698
Net program changes	−507	−468	−4,808

TABLE 11.—DEFENSE PROGRAMS AND RELATIVE IMPACT, FISCAL YEARS 1939–73

[Dollars in billions, manpower in thousands]

	1939	1945	1950	1953	1956	1961	1964	1968	1971	1972	1973
Outlays, DOD military functions and MAP:											
Current dollars:											
Pay and related					$18.1	$18.5	$22.0	$32.6	$38.7	$40.4	$42.8
Operating costs, ex pay					3.3	5.5	6.2	12.3	11.2	10.5	10.7
Procurement, R.D.T. & E. and construction					16.4	20.6	22.6	33.1	25.7	24.9	22.9
Total, current dollars	$1.1	$79.9	$11.9	$47.7	37.7	44.6	50.8	78.0	75.5	75.8	76.5
Constant (fiscal year 1973) dollars:											
Pay and related					46.4	41.4	44.7	53.9	48.4	44.9	42.8
Operating costs, ex pay					4.9	7.4	8.3	15.0	11.9	10.8	10.7
Procurement, R.D.T. & E. and construction					24.6	27.7	30.2	40.3	27.4	25.6	22.9
Total, constant dollars	[1] 5.0	278.0	34.6	99.8	75.9	76.5	83.1	109.2	87.7	81.3	76.5
DOD/MAP manpower, June 30:											
Military	334	12,123	1,460	3,555	2,806	2,484	2,685	3,547	2,714	2,392	2,358
Civil service	196	2,628	729	1,340	1,185	1,048	1,035	1,287	1,094	1,041	1,036
Total direct	530	14,751	2,189	4,895	3,991	3,532	3,720	4,834	3,808	3,433	3,394
Industry			525	3,300	2,000	2,200	2,280	3,173	2,031	1,941	1,857
Total			2,714	8,195	5,991	5,732	6,000	8,007	5,839	5,374	5,251
Prime contract awards, United States:											
Current dollars				[2] $41.5	$18.2	$24.3	$27.5	[3] $41.8	$32.4	$34.0	$34.5
Constant fiscal year 1973 dollars				66.6	27.3	32.7	36.7	52.3	34.6	34.9	34.5
Prime contract awards, worldwide:											
Current dollars				[2] 43.6	19.6	25.6	28.8	[3] 44.6	34.5	36.0	36.3
Constant fiscal year 1973 dollars				70.1	29.3	34.4	38.4	55.8	36.8	37.0	36.3
GNP, current dollars:											
Defense purchases	$1.1	$88.3	$13.0	48.6	39.0	46.3	50.6	75.6	72.8	73.3	76.7
All other	86.5	128.5	250.3	310.3	370.4	460.2	561.6	750.5	935.4	1,016.2	1,125.3
Total	87.6	216.8	263.3	358.9	409.4	506.5	612.2	826.1	1,008.2	1,089.5	1,202.0
GNP, calendar year 1958 in dollars:											
Defense purchases	2.7	165.2	17.2	56.9	42.4	44.5	47.1	62.3	49.4	46.1	45.3
All other	215.6	168.7	317.2	350.0	402.0	442.1	519.5	627.8	676.8	710.9	759.7
Total	218.3	333.9	334.4	406.9	444.4	486.6	566.6	690.1	726.2	757.0	805.0

Labor force (June):											
Military	334	12,123	1,460	3,555	2,806	2,484	2,685	3,547	2,714	2,392	2,358
DOD/MAP civil service	196	2,628	729	1,340	1,185	1,048	1,035	1,287	1,094	1,041	1,036
Total DOD/MAP direct	530	14,751	2,189	4,895	3,991	3,532	3,720	4,834	3,808	3,433	3,394
Other Federal	777	1,159	1,205	1,192	1,187	1,359	1,434	1,664	1,729	1,744	1,757
State and local	3,090	3,104	4,078	4,282	5,064	6,295	7,236	9,141	10,259	10,660	11,050
Total public employment	4,397	19,014	7,472	10,369	10,242	11,186	12,390	15,639	15,796	15,837	16,201
All other	51,203	46,286	56,408	56,250	59,304	62,196	63,393	66,951	70,421	73,163	74,299
Total labor force	55,600	65,300	63,880	66,619	69,546	73,382	75,783	82,590	86,217	89,000	90,500
DOD/MAP (including industry)			2,714	8,195	5,991	5,732	6,000	8,007	5,839	5,374	5,251
All other			61,166	58,424	63,555	67,650	69,783	74,583	80,378	83,626	85,249
Total labor force	55,600	65,300	63,880	66,619	69,546	73,382	75,783	82,590	86,217	89,000	90,500
Federal budget (unified):											
National Defense	$1.1	$81.6	$13.1	$50.4	$40.3	$47.4	$53.6	$80.5	$77.7	$78.0	$78.3
Veterans, space, interest, international	1.5	7.9	19.4	13.5	13.4	17.9	23.8	30.0	35.9	38.3	39.9
Social and economic	6.3	8.4	12.3	14.9	18.2	34.9	44.1	72.9	105.3	128.1	136.6
Agency total	8.9	97.9	44.8	78.8	71.9	100.2	121.5	183.3	218.8	244.5	254.8
Offsets	−.1	−2.7	−1.7	−2.0	−1.4	−2.4	−2.9	−4.5	−7.4	−7.9	−8.6
Total	8.8	95.2	43.1	76.8	70.5	97.8	118.6	178.8	211.4	236.6	246.3
Federal budget (administrative):											
DOD/MAP	(1.2)	(73.9)	(11.9)	(47.7)	(38.4)	(44.7)	(51.2)	(78.0)	(75.5)	(75.9)	(76.6)
National defense	1.2	81.3	13.0	50.4	40.7	47.5	53.8	80.4	77.7	78.2	78.5
Veterans, space, interest, international	1.5	9.1	17.2	13.2	13.4	17.9	23.8	29.9	35.9	38.3	39.8
Social and economic	6.1	7.9	9.3	10.5	12.0	16.1	18.1	32.8	50.1	66.0	68.6
Total	8.8	98.3	39.5	74.1	66.2	81.5	95.8	143.1	163.7	182.5	186.8
State and local spending:											
Current dollars	9.4	8.8	21.1	27.0	35.2	54.0	69.3	102.4	148.9	163.9	182.5
Constant (fiscal year 1973) dollars	49.1	35.4	57.9	62.8	74.8	95.5	112.1	139.0	165.8	173.4	182.5
U.S. public spending, current dollars:											
National defense	1.1	81.6	13.1	50.4	40.3	47.4	53.6	80.5	77.7	78.0	78.3
Social and economic	14.8	16.3	31.2	39.4	49.7	81.8	103.3	157.1	224.4	252.9	275.6
U.S. public spending, constant, fiscal year 1973, dollars:											
National defense	5.0	283.0	37.6	105.2	80.9	81.1	87.6	112.7	93.2	83.6	78.3
Social and economic	77.2	65.6	103.1	91.6	105.7	143.9	167.1	213.2	250.0	267.6	275.6
Net public spending	17.3	103.1	62.0	101.1	102.0	144.7	177.8	263.1	330.5	361.4	385.3
National defense as percent of:											
GNP (purchase basis)	1.3	40.7	4.9	13.5	9.5	9.1	8.3	9.2	7.2	6.7	6.4
GNP (outlay basis)	1.3	37.6	5.0	41.0	9.8	9.4	8.8	9.7	7.7	7.2	6.5
Federal budget (unified)	12.5	83.4	29.2	64.0	56.1	47.3	44.1	43.9	35.5	31.9	30.7
Federal budget (administrative)	13.6	82.7	32.9	68.0	61.5	58.3	56.2	56.2	47.5	42.8	42.0
Net public spending	6.3	77.1	20.6	48.9	39.0	32.2	29.7	30.1	23.0	21.1	19.9

See footnotes at end of table, p. 206.

TABLE 11.—DEFENSE PROGRAMS AND RELATIVE IMPACT, FISCAL YEARS 1939–73—Continued

[Dollars in billions, manpower in thousands]

	1939	1945	1950	1953	1956	1961	1964	1968	1971	1972	1973
DOD/MAP as percent of:											
GNP (outlay basis)	$1.3	$36.9	$4.5	$13.3	$9.2	$8.8	$8.3	$9.4	$7.5	$7.0	$6.4
Federal budget (unified)	12.5	81.6	26.6	60.5	52.4	44.5	41.8	42.5	34.5	31.0	30.0
Federal budget (administrative)	13.6	81.3	30.1	64.4	58.0	54.8	53.4	56.2	47.5	42.8	42.0
Net public spending	6.3	75.5	18.7	46.3	36.5	30.3	28.1	29.1	22.3	20.5	19.4
Public employment	12.1	77.6	29.3	47.2	39.0	31.6	30.0	30.9	24.1	21.7	20.9
Labor force			4.2	12.3	8.6	7.8	7.9	9.7	6.8	6.0	5.8
Durable goods production				38.9	12.0	16.6	16 9	17.6	11.8	10.3	
Conduct of Federal R. & D. in colleges and universities: Defense as percent of Federal Government total (obligations)					47.2	32.7	27.1	14.7	11.1	9.7	8.8
Defense-related R. & D. outlays as a percent of total U.S. R. & D.				47.5	48.6	49.2	36.1	33.9	28.7		
Percent of men aged 19–22 in Armed Forces	4.0		12.1	42.3	26.3	16.5	17.2	24.7	15.7	12.5	11.8
Draft inductions:											
Number inducted			0	564	137	60	151	340	156	25	
Inductees serving, end of year				883	307	127	205	555	278		

[1] Assumes retired military population would continue at fiscal year 1939 level.

[2] These are fiscal year 1952 figures, which represent the peak for the Korean War period. Fiscal year 1953 figures in current prices were $27,800,000,000 United States and $31,800,000,000 worldwide; in constant (fiscal year 1973) prices, $45,100,000,000 United States and $51,800,000,000 worldwide.

[3] These are fiscal year 1967 figures, which represent the peak for the war in Southeast Asia. Fiscal year 1968 figures in current prices were $41,200,000,000 United States and $43,800,000,000 worldwide; in constant fiscal year 1973) prices, $50,200,000,000 United States and $53,300,000,000 worldwide.

Note: Blank spaces denote data not available. Zero is shown where it applies.

TABLE 12.—FEDERAL BUDGET OUTLAYS FOR FISCAL YEAR 1973, WITH FUNCTIONS DEFINED UNDER "NATIONAL SECURITY BUDGET" CRITERIA[1]

	Outlays (millions)		Percent distribution	
	President's budget	National security budget	President's budget	National security budget
National defense	$78,310		30.7	
National security		$95,023		31.6
International affairs and finance	3,844	2,785	1.5	.9
Space research and technology	3,191		1.3	
Veterans benefits and services	11,745		4.6	
Subtotal	97,090	97,808	38.1	32.5
Agriculture and rural development	6,891	6,891	2.7	2.3
Natural resources and environment	2,450	3,666	1.0	1.2
Commerce and transportation	11,550	11,550	4.5	3.8
Community development and housing	4,844	5,639	1.9	1.9
Education and manpower	11,281	20,836	4.4	6.9
Health	18,117	25,527	7.1	8.5
Income security	69,558	95,281	27.3	31.7
General government	5,531	6,301	2.2	2.1
General reserve sharing	5,000	5,000	2.0	1.7
Pay raises (excluding DOD)	775	775	.3	.3
Contingencies	500	500	.2	.2
Subtotal	136,597	181,966	53.6	60.5
Interest	21,161	21,161	8.3	7.0
Total of functions above	254,847	300,935	100.0	100.0
Deduct:				
Employer share, employee retirement	−2,893	−2,893		
Interest received by trust funds	−5,697	−5,697		
Duplications		−46,088		
Total outlays	246,257	246,257		

[1] Except that debt interest is not allocated to various programs.

NOTES

National security total is "National Security Budget" except for allocation of debt interest.

International affairs and finance reflects the President's budget figure less the following allocated to "National Security": Supporting Assistance, $796,000,000; part of food for peace, $253,000,000; and ACDA, $10,000,000.

Space and veterans programs are included in the "National Security Budget."

Natural resources and environment under the "National Security Budget" concept would include those environmental programs identified in special analysis S to the fiscal year 1973 budget which are not carried under the "Natural Resources and Environment" function in the President's budget. Compare tables S–2 and S–7 (pp. 298, 307, Special Analyses), with table 15, p. 529, fiscal year 1973 budget.

Community development and housing includes $795,000,000 for DOD military, per Special Analyses, p. 116.

Education, health, and income security outlays under the "National Security Budget" concept are from the Special Analyses, p. 116.

General government outlays under the "National Security Budget" concept would include the total spent for reduction of crime, $2,321,000,000 per special analyses, p. 116, in lieu of the $1,543,000,000 for "law enforcement and justice" reflected in the President's budget (p. 538), an increase of $778,000,000. Deducting $8,000,000 for NSC and the Renegotiation Board, carried under "National Security" under this concept, the net addition is $770,000,000.

TABLE 13.—*Average annual growth rates, compounded, fiscal year 1953–73*

Federal budget	*Percent*
Social and economic programs	11.6
Other Federal functions: Debt interest, NASA, VA, international	5.6
Total, excluding National Defense	9.6
National Defense	2.2
Total Federal outlays	6.0
Federal full employment revenues	6.6
State and local	
Outlays	10.0
Revenues (excluding Federal grants)	8.2
Net public spending and revenue	
Social and economic spending (FSL, net of grants)	10.2
Other Federal functions: Debt interest, NASA, VA, international	5.6
National Defense	2.2
Net public spending	6.9
Net public revenue (includes Federal FE revenues)	7.1
GNP	
Full employment	6.5
Actual	6.2

SUMMARY OF PREPARED STATEMENT OF HON. ROBERT C. MOOT

Mr. Chairman and members of the Committee, I welcome the opportunity to discuss the Defense budget in the context of national priorities. I have a prepared statement, which I offer for the record. With your permission, I would like to take about twenty minutes to summarize the major points.

First, Mr. Chairman, we need a clear perspective on Defense budget trends. We spent $50.8 billion in prewar 1964, $78 billion in 1968, and are forecasting $76.5 billion in 1973. In other words, spending rose about $27 billion from 1964 to 1968, then drops just $1.5 billion from 1968 to 1973. 1973 spending is only slightly below the wartime peak, and some $26 billion above the prewar level.

We have in fact made massive program and manpower cuts since 1968. Manpower, military and civil service combined, has been reduced by 1,440,000. Purchases from industry have been cut by 40%, in real terms. These cuts should have produced a massive cut in Defense spending: in fact, a $24 billion cut. Defense spending should have fallen from $78 billion in 1968 to $54 billion in 1973. Instead, it is forecast at $76.5 billion in 1973—$22.5 billion more than that. Why don't we have a $54 billion budget for 1973? Where did the extra $22.5 billion come from? Here's where it came from, Mr. Chairman:

Pay increases for military and civil service personnel, $16.3 billion.

General purchase inflation on the goods and services we buy from industry, 22% or $6.2 billion.

We will have about 3.4 million personnel on the rolls in 1973, military and civil service. At 1968 pay rates, our payroll for these people would be about $16.3 billion less than it will have to be at 1973 rates.

1973 spending for purchase of goods and services—that is, the entire remainder of our budget after setting aside pay and allowances—is estimated at $33.7 billion. At 1968 prices, we could have purchased these goods and services for $6.2 billion less.

Thus, Mr. Chairman, at 1968 pay and price levels, we would be considering 1973 spending of $54 billion—not $76.5 billion. And at 1964 price levels, our 1973 budget would be $47 billion—or $29.5 billion less than it is. This difference of $29.5 billion includes $21 billion for pay raises and $8.5 billion in purchase price increases (at 33.5%).

In comparing the 1973 budget with prewar levels or with the wartime peak, pay raises are the single most important factor by far. None of these pay increases could take effect, of course, without legislative authority. The Congress has been fully apprised of these costs over the years; in fact, we have gone to considerable length to highlight them.

Contrast the $21 billion increase for pay raises since 1964 with what has happened on the investment side of our budget—the total amounts we spend for procurement of weapons and other major items from industry, for RDT&E and for construction. In 1964, we spent $22.6 billion in this area; in 1973, $22.9 billion. That is in actual dollars, not adjusted for inflation; a $300 million increase in 9 years, compared to $21 billion for pay raises. Clearly, our budget has not been dominated by the development and procurement of complex, ever-more-costly weaponry. Paradoxically, this area of our budget—which is virtually unchanged from prewar—has received the vast preponderance of public attention. Mr. Chairman, all of the cost over-runs that have received so much attention have had to be accommodated within this part of the spending total. Not only cost over-runs but general inflation, higher costs due to advanced technology, and the higher costs of the war. And with all these factors at work, our investment spending rose from $22.6 billion in 1964 to $22.9 billion in 1973—a rise of about 1 percent in 9 years.

There should no longer be any confusion as to why Defense spending failed to fall as war costs declined. It is clear that war costs have not been covered into the baseline force. The money has gone into pay increases, of which the Congress was fully apprised.

I want to be sure that we get these pay increases in complete perspective, Mr. Chairman. That $21 billion in pay-raise costs since 1964 is about equal to incremental war spending at the peak. It is almost equal to the *total* amount we will spend for investment in 1973—for RDT&E, for construction, and for procurement of ships, aircraft, missiles, and all other weapons and major items. And largely because of these pay raises, our 1973 spending is estimated at $76.5 billion instead of $47 billion. It is therefore important to understand the pay situation fully, Mr. Chairman, and my statement goes into a great deal of detail on this point, presenting data on pay by grade, military and civilian, at each key date; data for each type of military allowance; and, for each pay raise since 1945, the effective date and the percentage increase.

My second major point, Mr. Chairman, is this: 1973 spending for National Defense, measured in dollars of constant buying power, represents the lowest level for more than 20 years. This means that one can compare 1973 with any year since 1951; set aside pay increases and set aside general purchase inflation; and the result would be that National Defense spending is down, measured against any of those years. When I mention purchase inflation, Mr. Chairman, I emphasize that I am not talking about cost overruns; I am talking about general price increases to which any buyer dealing with the same wholesale segments would be subject.

This downward trend can be measured in other ways. Manpower costs consume the greatest portion of our budget, by far. And we have less manpower, military and civil service combined, than for any year since 1950. The volume of our purchases from industry, measured in constant prices, is clearly down. In program terms, our budget is dominated by general purpose forces. And these forces—Army and Marine divisions, Navy ships, aircraft squadrons and the like—are also at their lowest levels since about 1950. In considering the budgetary outlook, then, it is of the utmost importance to remember that our starting point—1973 spending for National Defense—represents the lowest level, in real terms, for more than 20 years.

As my third point, Mr. Chairman, I urge a reasonable sense of perspective as to where we are and where we have been in duscussing the outlook for the Defense budget. For example, Mr. Chairman, there is a great deal of discussion about what will happen when and if the Defense budget is cut. "When" and "if"—future tense. It seems to have escaped notice in some quarters that Defense programs have already been cut, and cut very sharply. Since 1968:

Military and civil service manpower has been reduced by 1,440,000, or 30 percent—to the lowest level in 23 years.

Purchases of goods and services from industry in real terms have been reduced by 40 percent, to the lowest levels in 22 years.

Defense-related employment in industry is falling about 1.3 million, or 40%—to the lowest levels since 1951, and producing extraordinary economic hardships in many areas.

These cutbacks are much greater than those following the Korean War. Indeed, these cutbacks mark the first time in our history that Defense manpower and real-term spending has returned to prewar levels.

Yet we hear a great deal about cutbacks in the future tense, Mr. Chairman, as if nothing had changed and as if the job had to begin from scratch. More than that, we are promised a fiscal bonanza from these cutbacks yet to come. We are told, for example, that Defense spending can be cut by from $22 billion to $33 billion by 1975—the fiscal year which begins just over two years from now.

Mr. Chairman, our money goes just two places: for pay and allowances of our military and civil service manpower, and for purchase of goods and services from industry. There's no place else it can go. We have had some experience in cutting back in these areas—very recent experience, and it should be pertinent to our immediate future. From 1968 to 1973, we cut Defense manpower, military and civil service, by 30%; we cut purchases from industry by 40%, in real terms. And the result? Spending fell just $1.5 billion from 1968 to 1973.

Future cutback efforts, then, would have to begin from the $76.5 billion FY 1973 level—a base that already reflects the massive manpower and program cuts I have already described. We have to ask: how much of a further cut is proposed from that FY 1973 base? Let us consider Senator McGovern's proposals in this connection. Manpower costs, as I have said, comprise well over half of our budget, and the McGovern proposals are explicit regarding manpower; a total of 2,496,000 military and civil service personnel would be provided in 1975. This, in terms of average strength, is about 28.5% below the manpower level in the 1973 budget. The 1973-75 manpower cut that Senator McGovern proposes is nearly equal, in percentage terms, to the 1968–73 cuts already made.

The McGovern study is less explicit regarding the volume of purchases from industry but I believe that, in real terms, a cut of about one-third from 1973 spending levels is intended. This is smaller than the 40% cut effected from 1968 to 1973.

So the 1973-75 manpower and program cuts advocated by Senator McGovern are not quite as great as the 1968–73 cutbacks already made. But the fiscal results are startingly different. It is a fact—a disappointing fact, but a fact nonetheless—that the 1968–73 program cuts produced a spending drop of just $1.5 billion. The McGovern study, on the other hand, would have slightly smaller program reductions materializing into spending cuts of from $22 billion to $33 billion. There are, of course, some differences which should be taken into account. It is entirely reasonable to expect that pay and price increases in the next 2 years will play a much smaller role than in the last 5, when they virtually offset program reductions. There are a number of other factors at work, in both directions. Nevertheless, the difference between $1.5 billion on the one hand and $22 billion or $33 billion on the other is so massive as to suggest a great amount of caution in considering the prospects for such large cuts in Defense spending, even if sharp manpower and program cutbacks were to be made.

Mr. Chairman, I believe that proposals for Defense cutbacks often evidence an obsession with the fifties—in this case, with a Defense budget in the $50-billion range. Since Defense spending was in that range before the war, there seems to be a feeling that ther must be some way to return to it. Indeed, Mr. Chairman, I have already said that Defense spending in 1973 could be in the $47 to $54 billion range under certain conditions—the principal one being a return to past statutory levels of pay. But without such conditions, Mr. Chairman, a return to the 50's is simply impossible. We simply cannot add $21 billion for pay raises and expect Defense spending to continue at the same level.

Fourth, Mr. Chairman, I would like to place Defense budget reductions such as those now being discussed in a clear perspective. I have already said that the program cutbacks being suggested would not produce anything remotely resembling $22 billion or $33 billion. Let us turn the matter around, and pose the question this way: what would have to be done to Defense programs to reduce spending by $22 billion by 1975? At first glance, this is a 30% cut from the $76.5 billion spending level forecast for 1973. If we allow for pay raises and some inflation, and recognize the fact that military retired pay is fixed by statute, and is growing rapidly, we would face a cut of more than 40%, in real terms. If we add to this such things as pipelines and stickiness in the grade structure and the base structure—and these things are inevitable when massive cutbacks are underway—we would probably be facing a real-term cutback of 50%, as a minimum.

In short, a $22 billion cut in Defense spending from 1973 to 1975 would probably entail program cuts of about 50%, measured from 1973 spending levels. This should not come as too great a surprise, if it is recalled that manpower cuts of 30% and purchase cuts of 40% produced a spending drop of just $1.5 billion.

Such a cut, Mr. Chairman, would involve reducing military manpower to about 1.2 million men—the lowest levels, by far, since before Pearl Harbor. Indeed in June 1941, six months before Pearl Harbor, we had 1.8 million men in the armed

forces. We could afford about two-thirds of that number. If this is a little hard to grasp, remember that the pay of a private now is about 17 times as great as it was then.

Another benchmark—in the peacetime decade 1956–65, we bought, on the average, 1,818 fixed-wing aircraft per year. That is, excluding helicopters. Our 1973 buy is 383—about one-fifth of the prewar average, and the lowest level, in quantitative terms, since the 1930's. This is the kind of program to which a further 50% cut would have to be applied.

Mr. Chairman, there are those who believe that the Defenese budget could be drastically reduced by a few common-sense management improvements and the injection of a little healthy realism into national security planning. For example, a person would be entitled to believe—on the basis of press accounts—that the cost of weapons procurement must have soared by tens of billions over the past several years. The fact that the cost of all RDT&E, construction and all major procurement from industry together has grown just $300 million in the past 9 years is largely unknown. By the same token, few seem to realize that pay raises have had such a massive impact—$21 billion since 1964. These pay raises have served to mask the massive manpower and program cutbacks that have occurred, making it difficult to understand that the 1973 National Defense outlays, in real terms, represent the lowest levels in more than 20 years. Without such points of perspective, one could easily conclude that a Defense budget in the $50-billion range ought to provide a level of security not far out of line with those of the recent past.

On the other hand, I am sure there are those who would recognize that a $22 billion cut would mean a real reduction in national security, but who would review this as a risk we must take. This would involve the view that we must, at long last, cut back on our long-standing Defense burden so that we can channel these badly-needed resources into the starved domestic sector of public spending. I would suggest these points. First, National Defense programs in 1973 will impose a smaller burden upon the economy and upon the population that at any time since 1950 and, in some instances, since before Pearl Harbor. Second, the consequences, in terms of national security, of a $22 billion cutback from present spending levels would be grave indeed. And, third, this prospect should be gauged in terms of relationships such as these:

Federal social and economic spending—this excludes entirely spending for national Defense, International programs, Veterans, space and international. Thus defined, social and economic spending has grown by $94 billion since 1964—an *increase* that is considerably greater than the *total* Defense budget.

State and local spending, supported by the same taxpayers and financed to an increasing degree through the Federal budget, grows by $113 billion since 1964—another *increase* greater than the *total* Defense budget.

Non-Defense public employment, Federal, state and local, grows by 4.1 million from 1964 to 973—this *increase* alone is more than *total* Defense manpower, military and civil service.

From 1964 to 1973, the US labor force grows by nearly 15 million. Defense in fact is cut back over that period, so that the entire labor force growth and a bit more—a total of nearly 16 million additional workers—are available for civilian pursuits.

Comparing 1973 National Defense spending with any point in the last 22 years, Defense has taken none of the real growth in the economy—neither in terms of the labor force nor of real GNP.

Suppose, for example, that a $22 billion cutback in Defense was to be allocated evenly between Federal social and economic programs and state and local spending—$11 billion to each. Before postulating miracles from these increases, we might ask what we would gain from the $11 billion increase in Federal domestic spending that could not have been accomplished with the $94 billion gain that has already occurred. What could we accomplish with an additional $11 billion at the state and local level that could not have been accomplished with the $113 billion growth since 1964?

Perspective, Mr. Chairman, is badly needed through this entire area. Before we expect $22 billion or $33 billion cuts to materialize, we should remember that the massive program and manpower cuts already made netted a spending drop of just $1.5 billion. We should be aware that $22 billion or $33 billion cuts in Defense spending would indeed involve massive cutbacks in our national security, providing military manpower that would be well below pre-Pearl Harbor levels. And, considering the increases in social and economic spending in the recent past, it would be unrealistic to expect such Defense cutbacks to produce miraculous improvements in the quality of American life.

As to my fifth point, Mr. Chairman, I mentioned a while ago one obsession with the fifties—the fixation with a $50 billion range for the Defense budget, apparently because that's where it was in the last peacetime period. There is another obsession with the fifties, in this case the 1950's. There is apparently a belief in some quarters that nothing has changed, that things are much the same as they were 20 years and more ago. In 1953, when Korean War spending reached its peak, Defense accounted for nearly two-thirds of the entire Federal budget, and for almost half of all public spending—Federal, state and local. Defense manpower, military and civil service, amounted to nearly half of all public payrolls in the United States. Defense manpower and Defense spending, then, were equal to the manpower and spending of all other units of government combined—Federal, state and local.

These conditions pertained, Mr. Chairman, 20 years and more ago. Things are a great deal different today. Yet many of the critics of Defense programs seem to have a fixation with the economics and the budgetary allocations of the early Cold War period. Their arguments seem to be rooted in the budget for 1953. The facts, Mr. Chairman, are as follows:

In dollars of constant buying power, 1973 spending for National Defense is not only below the 1953 level—it is lower than for any year since then.

In 1953, Defense spending was nearly double that of all other Federal agencies combined. Today, that relationship is more than reversed—other Federal agencies spend more than twice as much as Defense.

In 1953, Defense spending was nearly double that of all state and local governments combined. This relationship, too, is more than reversed—in 1973, state and local spending will be more than double that for Defense.

In 1953, Defense manpower—military and civil service—was nearly equal to all other public employment, Federal, state and local, combined. In 1973, other public employment will exceed Defense manpower by a factor of nearly 4 to 1.

The Defense shares of public spending, GNP, the labor force, and other financial and manpower aggregates are in all cases the lowest for more than 20 years, and in some cases since before Pearl Harbor.

In 1953, about 49 cents of every tax dollar—Federal, state and local—went for Defense. The 1973 figure is about 20 cents—much closer to the 1939 level (6 cents) than to the 1953 level.

These facts, and others which I presented earlier, have some important implications. Among the implications are these:

We can no longer regard the Defense budget as the central element in our resource allocation problems.

One is not well-advised to seek the answers to our economic problems in Defense budget trends—whether those problems involve inflation, productivity and civilian technology, balance-of-payments concern, or the public spending crunch.

Defense has an impact in these areas, to be sure. But the size of that impact is only a small fraction of what it once was, and it is now possible for the economic aggregates to move in ways which simply cannot be explained in terms of Defense trends.

There is a strong tendency in many quarters to ignore these developments which amounts to an obsession with Defense spending. There are many reasons for this—first among them the extreme unpopularity of the war in Southeast Asia. This in turn has provided fertile ground for the highly-publicized allegations of multi-billion management errors and waste in Defense spending. Budgetary mechanics undoubtedly play a role. Defense continues to be financed largely through a single, widely-publicized appropriations bill each year; domestic spending, now much greater than Defense spending, has followed a different route. The procedures are such that few are aware of the magnitude of domestic spending, and there seems to be a view in some quarters that it is not real money anyway. At the same time, we face a crunch of the first magnitude in public finance. Domestic spending needs have grown far more rapidly than revenues. The appropriations process continues to be the only systematic mechanism available to the Congress for resource allocation, but it covers a progressively diminishing share of the public resource picture. Another problem, similar to that of budgetary mechanics, arises from the fact that many who follow economic developments get their information from publications oriented to the national income accounts. These series cover, for the period involved here, some 95% to 98% of Defense spending, but less than 20% (and the percentage is declining) of non-Defense Federal spending. These data are not intended to represent the

totality of spending and resultant taxing but, presented as they are, they can easily foster the misimpression that non-Defense spending continues to be an insignificant part of the total. The total taxing and spending picture—Federal, state and local—is almost never pulled together in one place and it is even more rare for projections to be reflected on this basis. Pay and price increases have contributed immensely to the misunderstanding. It is a fact that, in dollars of constant (FY 1968) buying power, the Defense budget has been cut by some $25.5 billion since FY 1968; it is also a fact that spending in current dollars has dropped only $1.5 billion, with pay and price increases (largely pay increases) consuming the difference. It is easy to grasp the fact that Defense spending, in current dollars, is near the 1945 and 1968 wartime peaks, and 50% above the 1953 or 1964 levels; the fact, equally valid, that the current program represents a 20-year low is not nearly so obvious.

It is understandable, then, that there are some profound misconceptions about the role of Defense in the American scene. But whatever the reasons for them, the fact remains that these misconceptions are indeed profound. Critics of Defense programs are able to ignore facts such as these:

Non-Defense Federal spending rises by $109 billion from FY 1964 to FY 1973, including $94 billion for social and economic spending—the *increase* alone is far more than the *entire* Defense budget.

State and local spending over the same period rises by $113 billion—another *increase* equal to more than the *entire* Defense budget.

Non-Defense public employment *increases* by 4.1 million from FY 1964 to FY 1973. This *increase* is greater by a substantial amount than the *total* military and civil service manpower of the Department of Defense.

From prewar FY 1964 to FY 1973, GNP in constant (CY 1958) prices will grow by some $238 billion; Defense drops about $2 billion so that the entire real growth in the economy plus $2 billion—$240 billion—is available for civilian pursuits.

Over the same period, the labor force will grow by some 14.7 million people. Defense needs will drop by about 750,000. The entire growth in the labor force, plus the Defense drop—15.5 million workers—will be available for civilian pursuits.

These observations could be made, different in degree but not in direction, regarding comparisons of FY 1973 with any year in the past 20. These facts scarcely square with the picture of a domestic spending sector that is being starved for resources, money and manpower, to make room for a burgeoning Defense budget. In spite of the facts, cold-war economic conceptions have proven to be persistent indeed. Consider, for example, the efforts to relate the inflationary pressures of recent years to the Defense budget. This approach is possible only by ignoring facts such as these:

From FY 1964 to FY 1968, the war buildup period:

Defense spending grew by $27 billion, other Federal spending by $35 billion, and state and local spending by $33 billion.

Military and Defense civil service manpower rose by 1.1 million; other public employment by 2.1 million.

As to the accuracy of budget estimates and resultant inflation-producing deficits during this period, there were underestimates of both Defense spending and other spending. Underestimates of Defense spending are far from being the sole cause of our budgetary troubles during this 1964–68 period.

The rate of inflation was much greater after 1968, when massive manpower and purchase cutbacks began in Defense, than it was before.

Even at the wartime peak, the Defense share of the GNP or of the labor force was only slightly above the shares of the late 1950's and early 1960's—periods of general price stability. Indeed, when the inflationary pressures became most acute, the Defense impact was far below those earlier levels.

Mr. Chairman, it is not my contention that the Defense budget had no impact at all upon the developments we have been experiencing—inflationary trends and the rest. Of course Defense has had an impact. My point is, rather, that other factors, with much larger impact, are very clearly at work. One can only ascribe recent economic developments to the Defense budget if he assumes that other public spending is not really spending, and that other public manpower is not really manpower. We learned in the 1940's and 1950's, Mr. Chairman, that Defense spending could, and did, cause inflation. Some people apparently learned this lesson so well that they have concluded that inflation, or any other undesirable economic development at any time, must somehow be relatable to the Defense budget.

In formulating our national security programs, we have long-since known that the simplistic concepts of the early cold war 1950's are not of much relevance to the real world of the 1970's. We recognize, as the saying goes, that the world is indeed a good deal more complicated than it appeared to be in the early 1950's. And so is the budget. Economic thinking that is rooted in 1953 is no more helpful than strategic concepts of that vintage. Before we can do much effective planning, we must have a clear picture of where we really are today—and this involves a full acceptance of the fact that 1973 is not 1953.

To complete my summary, Mr. Chairman, I would like to address the manner in which National Defense costs are now presented in the budget. The facts show that National Defense and other costs are reasonably stated in the budget as now presented. One can conclude that Defense costs are understated only by (a) ignoring trends since 1953 in the debt and debt interest, and significantly overstating real net costs of the debt, (b) using allocation criteria that are so broad and vague that, if they were applied Government-wide, would result in showing that several other functions are understated much more than Defense and (c) ignoring some clear-cut cases where Defense costs are now overstated in the budget.

As a matter of fact, those who maintain that Defense costs are understated in the budget have entirely missed a point that ought to be fairly obvious. The point is this: National Defense is by far the most visible, the most comprehensive, and the most controllable of all major public spending areas. Defense is financed almost exclusively through the annual appropriation process. Such devices as trust funds play an insignificant role in Defense. The same is true of tax aids, Government-sponsored credit outside the budget, and state and local spending. The amounts that the Congress appropriates specifically for National Defense, which are shown clearly at one place in the Federal Budget, are very nearly 100% of what the American taxpayer pays for National Defense. This is not true for major domestic programs.

This completes my summary, Mr. Chairman, and I am ready for your questions.

DEFENSE AS PERCENT OF GNP

Chairman PROXMIRE. Again, let me go back to my opening statement, in saying that I do think that you score some very significant points, properly score with respect to the ratio of the gross national product that is going into defense now, less than it was, the performance of the Defense Department as compared with other departments of our Federal Government, State and local government, and so on.

The fact there is less manpower, I think, all this has been stressed too little; but, at the same time, I would like to get your view right away on the estimates that we have had before us from the Brookings Institution people who appeared yesterday. They gave our options: A high option, the present program, low option, and low, low option.

The present program is the program of the administration; obviously you can go higher than that or you can go lower. What they do is they give a figure which was the average between 1973 and 1979. They don't tie it to any one figure and, of course, all these are very rough estimates. The high option would go to $94.8 billion average and they say that it would be much higher than that, of course, later on in the hearing.

The present program, $88.6 billion; the low option, $76.1 billion; and the low, low option, $67.1 billion—in other words, the low option would be $12 billion below the administration's program; the low, low option would be $21 billion below the administraion's proposal.

ANALYSIS OF BROOKINGS' OPTIONS

Could you give me your analysis of this? In the first place, if the present program estimate is correct and, in the second place, what happens if we—in your view—if we decide to make these substantial cuts?

Mr. MOOT. Mr. Chairman, I have gone over the Brookings report, not in as great a depth as we will, simply because we haven't had enough time, and I am familiar generally with the table you are referring to. It does show our present program as $88.6 billion and we would quarrel with one or two points in that particular assumption.

TOTAL OBLIGATIONAL AUTHORITY

Our current program is in the $83 billion range, in budget authority range or total obligational authority, but the Brookings Institution, deviating from their past practice, has here assumed that there would be an additive requirement to that present program for the type of growth that we have. They think we have realized budget additives for weapons systems acquisition as well as real growth in the pay for personnel.

TRENDS IN PAY AREA

I would submit that our real trend in the pay area is reflected in our reduction in personnel. As I indicated before, we are about 10 percent lower in personnel than we were before the war. This is an obvious indication of some increase in productivity.

I would likewise indicate, as I did, that our investment program, for which the Brookings Institution still using constant dollars, adds $2 billion for allowance in growth in real cost, I would again submit that we are within 1 percent of the 1964 level which is very close over a period of 9 years and which means that we are holding our investment costs.

Now, in terms of the forecast——

Chairman PROXMIRE. Aren't you going to have to have increases in pay in the future in an all-volunteer army? Isn't this a certainty and isn't it one of the prices you have to pay?

Mr. MOOT. Yes; I do believe there will be increases in pay. I see nothing in the future to change that which happened in the past.

Chairman PROXMIRE. Why do you not expect this kind of an increase?

Mr. MOOT. Well, we are talking in the Brookings table about constant dollars which eliminates inflation. I am saying that that real growth in pay up to this point we have been absorbing in part by reductions in personnel, which means improvement in our operation.

Chairman PROXMIRE. Then, you are implying there will be further reductions?

FORCE PLANNING

Mr. MOOT. Well, that moves me to my next point. The forecast of a level of defense spending in the future is unlike any other program in the Government—simply because it is fraught, as you know, with so many uncertainties in terms of the international situation.

The Secretary of Defense has addressed this, and has gone on the record with the Congress with its legislative and appropriations committees. He has said that the total force planning that he has submitted for the 1973 budget, which consists, as you know, of an Active Force structure, reliance on allies, and Guard and Reserve forces—this combination of the total force planning as he has sub-

mitted it for 1973, while he will improve the mix of those three pieces—will stay at the same general level over the next 5 years.

In addition, he has submitted——

Chairman PROXMIRE. He believes that this is in terms of numbers?

Mr. MOOT. In terms of the general force structure, sir.

Now, what that means is that we may improve some weapons and we may decrease manpower; but we may improve as our allies—

Chairman PROXMIRE. I want to be sure I understand this. You are saying that we may or may not increase manpower; the implication is that you will—you will be unlikely to decrease manpower; is that right or not?

TRADEOFFS WITHIN TOTAL

Mr. MOOT. No; the point I would like to make is there may be some changes in the mix of the three pieces—assistance to allies, U.S. Active Force structure or Guard and Reserve—but they will be tradeoffs within the total. In other words, there will be equal tradeoffs.

Chairman PROXMIRE. What you are saying is that we may decrease manpower. If we do that, we are going to have to increase our aid to allies or increase our weapons procurement?

Mr. MOOT. Yes, sir.

Chairman PROXMIRE. To modernize so we can have the same firepower with fewer men?

Mr. MOOT. That's right, and you appreciate, Mr. Chairman, I am talking prior to the SALT agreement, SALT treaty arrangements, and the recent talks.

Chairman PROXMIRE. Yes; I want to get into the SALT thing later on.

Mr. MOOT. Yes, sir.

GENERAL DYNAMICS AND THE F–111

Chairman PROXMIRE. Let me get into something that is of great interest this morning because there is a front-page story in the paper about it. I would like to note that just yesterday General Dynamics and four present or former employees were indicted and charged with conspiracy to defraud the Air Force by passing on hundreds of thousands of dollars worth of costs for defective parts on the F–111.

I do not want to prejudge this case now that it is in the courts and it could very well be that the particular individuals involved are not guilty. But this case, if nothing else, illustrates why there is so much hostility toward the Defense Department and why there is so much suspicion about the huge cost overruns associated with weapons programs such as the F–111.

This program has suffered an enormous cost overrun and yet its performance is poor, in my judgment. Its performance is so poor that the Navy canceled its version of the F–111.

In addition, the Brookings Institution in its latest study concludes that the bomber version of this aircraft, the FB–111, is so inadequate that it ought to be taken out of the force; and it was only put into the force last year, to replace the B–58.

I hope that the F–111 is a unique case, but I am concerned that an even more sordid situation exists with respect to other weapons programs and eventually these skeletons will come out of the closet.

Would you like to comment on that because it is a story that is before the public now and it would be very helpful if you could give us your version?

Mr. MOOT. Well, I did see this morning's headline and read the story just as you did, Mr. Chairman. I can't shed any specific light, other than to note that the General Dynamics statement indicated that there was no merit in the charge.

This, as you know, is a particular situation that occurs now and then in any Government procurement or, as a matter of fact, in any procurement. The Defense Department is not without this type of an nstance.

I would like to make the point, Mr. Chairman, however, with reference to defense procurement and all of the criticisms that are lodged against our weapons acquisition process, there are extenuating circumstances that should require the situation to be put in perspective.

The Defense Department is procuring the most complex and difficult hardware in the world. The Defense Department is actually now acquiring, in the list of the weapons acquisitions, weapons that were developed as long as 10 years ago, frequently 9, 6, or 7. Over this period of time we have been discussing this morning there has been an inflation impact on the part of Government purchases from industry, just price change for the same goods, of approximately one-third, so it is obvious that when we buy equipment over a period of time that takes on an average 7 years to put in the inventory and deploy with our troops, that we are going to see price changes; we are going to see many management changes.

Obviously, the changes in industry management, the changes in defense management occur during a period of time so there is some administrative turbulence and this is a different type of procurement than going out and buying shelf material; and I think that defense procurement, while it needs improvement and is being worked on—as you know there are many programs for improvement—that the defense acquisition process is a very difficult one and should be viewed in that contract.

Chairman PROXMIRE. I appreciate that, but this is not reassuring in view of the fact these men have been indicted and charged with defrauding the Air Force.

Let me get into this other area that I said I wanted to get into. I wish we did have more time, but we have to move on.

IMPACT OF SALT AGREEMENT ON DEFENSE SPENDING

A difference of opinion seems to be developing among the experts as to the future impact of the SALT agreement on defense spending. Commonsense would tell us that an arms reduction agreement between the two major world powers would reduce international tensions, slow down the arms race, and lift part of the burden from the taxpayers of the defense budget. Yesterday, we had a specific statement by the Brookings Institution people. Mr. Fried, I think, was the man who made the estimate that there would be a $1.5 billion—$1.4 billion saving because of the ABM agreement.

Can you give us—in the first place—can you confirm or deny that? In the second place, could you give us any additional savings or is it possible that this is an illusion that we have to increase defense

spending in spite of the SALT agreement because of the implication, at least, that we should work hard in developing the quality of our weapons while the numbers are held back?

Mr. MOOT. I can't be precise, Mr. Chairman, simply because the Defense Department is currently evaluating the specific terms of the agreements; and Secretary Laird will be up to testify to the Armed Services Committees and the Appropriations Committees as soon as we finish our evaluation and make a determination.

As you know, Secretary Laird has already stopped work on ABM sites. He has directed the Army to suspend construction of the Safeguard site at Malmstrom Air Force Base, Mont., and he has directed suspension of work at other Safeguard planned sites; and Secretary Laird has also directed the suspension of all ABM research and development programs which are prohibited by the ABM treaty which, of course, requires ratification. So at the present time Secretary Laird has taken all prudent steps to assure reduction that can be made will be made and that expenditures that may not be necessary will not be incurred at the present time.

However, Secretary Laird has also called attention to the fact that the segments do place the United States in a stronger strategic position, because they do put the brakes on that momentum of Soviet military growth which has been of great concern to the administration. Secretary Laird believes that the reaching of the treaty and the agreements was only possible because the United States was in a strong military posture. And he believes that the United States needs to continue to be in a strong military posture because, Mr. Chairman, you will recall that the negotiations are going to continue and there is no question in Secretary Laird's mind that we do need to keep up our guard and that from his point of view, as long as he is Secretary of Defense, he will recommend such a course of action.

Chairman PROXMIRE. Now my time is up, but let me just make sure I understand.

You affirm the $1.4 billion reduction?

Mr. MOOT. No.

Chairman PROXMIRE. The administration will ask the Congress not to provide those funds in view of the action by the Secretary, or not?

DOLLAR CALCULATION NOT YET MADE

Mr. MOOT. I cannot at this time confirm any figure simply because we have not finished our calculations. I would point out, Mr. Chairman, that the $1.4 billion Brookings figure did relate to the long term; it did not refer to this budget.

Chairman PROXMIRE. Then they misinformed us. I asked for this year; fiscal 1973.

Mr. Fried said, of course, this would be more in the future. He said fiscal 1973. You deny that?

Mr. MOOT. In the 1973 budget there is only $1.6 billion for Safeguard, for the entire ABM costs, Mr. Chairman, so it is obvious that what we were talking about—changing from a multiple site to a restricted two-site program, one weapons' site and the National Command Authority—would apply to only a part of that.

Chairman PROXMIRE. Again, I apologize to my colleagues. I do want to clarify this point. However, would it be possible—maybe I

misunderstood Mr. Fried—that it would be $1.4 billion average reduction in future years——

Mr. MOOT. Well——

Chairman PROXMIRE (continuing). For the next few years?

Mr. MOOT. Without attempting to interpret Mr. Fried, I am sure what he was talking about would be the annual saving by contracting from a 12-site program to a two-site program, and that would be over a period of time.

Chairman PROXMIRE. And that would be what; about $1.4 billion?

Mr. MOOT. I have not calculated it because I have not had a chance to calculate it, but if you would like, I would be glad to do so and put it in the record at this point.

Chairman PROXIMIRE. Put that in the record.

(The information referred to follows:)

FISCAL YEAR 1973 ABM FUNDING REDUCTION

The ABM Treaty will permit a reduction of about $650 million in FY 1973 ABM funding requests. We propose to apply about $100 million of that to modification and initiation of other action in the strategic area to insure maintenance of a realistic strategic deterrent. As a result, the aggregate changes we are proposing as a result of SALT permit an approximate reduction of $550 million in the strategic portion of our FY 1973 Defense Budget. Initial estimates of these program changes resulting from SALT indicate that additional savings over the next five years could amount to as much as $5 billion. The net savings reflect a net decrease in our currently planned strategic funding, and as such represent resources available for other pressing defense needs, such as required modernization of our active National Guard and Reserve general purpose forces under the Total Force Concept.

Chairman PROXMIRE. Congressman Conable.

Representative CONABLE. Thank you. I think it is reassuring in a priority sense you have been able to set out in such detail what has happened to the military budget relative to other Federal spending and State and local spending; but, of course, that somewhat begs one of the questions we must ask, which is, Are we spending the right amount on defense or are we spending more than we should? If we are spending more than we should, whether or not we made a priority realinement, quite obviously it has to be a concern of this committee and, of course, we understand what you say about waste and cost overruns; this is implicit in bigness to a certain extent, but, of course, as we reduce the percentage of our gross national product that goes for defense, waste becomes all the more indefensible and we have to crack down on it a little harder.

Now, in considering what we should be doing, of course, is something like insurance—you don't know how much you should have unless you view the contribution relative to what others are doing in the same field.

MANPOWER COSTS

I am interested in your statements about the cost of manpower. Yesterday the Brookings people told us that 56 percent of the defense budget was going to manpower cost; is that correct?

Mr. MOOT. It is in outlay terms, Mr. Conable. We are decreasing it in terms of budget authority terms and that is simply another way of saying that the mix between investment and manpower cannot be

judged on one year, simply because we don't have level spending for investment programs from one year to the next.

COMPARABILITY OF RUSSIAN DEFENSE BUDGET

Representative CONABLE. Is the total budget of the Russians for defense comparable to ours? Do we have any real grounds for comparison here?

Mr. MOOT. There isn't what I would call concrete evidence or even very substantial evidence. It seems to be the consensus of expert opinion, however, Mr. Conable, that the Russians have been spending an increasing amount for defense and that the total of the Russian budget is comparable in terms of buying power to the U.S. defense budget.

RUSSIAN MILITARY AID PROGRAM

Representative CONABLE. What proportion of the Russian defense budget is spent for manpower?

Mr. MOOT. It has varied from as high as—I am sorry; I was going to give you the gross national product range which has varied in the experts' opinion from about 15 percent of the Russian gross national product down to about 9 percent. Their approach to manpower is completely different from ours, Mr. Conable. They have what we do not currently have, and that is a regressive discriminatory tax approach to manpower such as we used to have. The United States used to——

Representative CONABLE. You mean they pay less for military services than they do for other types of services?

Mr. MOOT. Yes. For 13 years we had unchanged salaries for our first grade enlisted personnel. For 13 years no change. We were, in effect, getting resources from two sources in the Defense Department. We were getting it from the Internal Revenue Service through taxation and we were getting it from Selective Service through discriminatory, regressive taxation on the youth of America who were drafted at subnormal wages; so there isn't a direct comparison on the cost of manpower.

Representative CONABLE. But, in terms of the defense budget of Russia, what proportion of that particular budget goes for manpower? Would it be a comparable 55 percent, 60 percent?

Mr. MOOT. It is my understanding, Mr. Conable, that it is 30 to 35 percent.

Representative CONABLE. In other words, of their total defense budget, a very substantially larger part is available for weapons development and weapons procurement than is available in our defense budget because of the higher manpower costs in our budget; is that correct?

Mr. MOOT. That is correct, sir.

I might just put one cautionary note in the record here. I am not an expert in comparative defense budgets between Russia and the United States, nor do I think we really have too many experts, and there are many ways of calculating the comparability in terms of U.S. prices and in terms of Russian prices; so while it is true that in rubles the proportion of the U.S.S.R. budget going to manpower is significantly lower, less than half of ours, it is not necessarily true that the comparison of the two efforts, defense U.S.S.R. and United

States, is that much different. I would have to refer to the experts in terms of their computation, but in direct answer to your question, the Soviets allocate less than half as great a share to manpower as we do and, therefore, they would have a greater part of their budget to put into investment and I think——

Representative CONABLE. Is this more in absolute terms?

Mr. MOOT. It is more in—well——

Representative CONABLE. Again it is hard for you to compare it. You can't compare it?

COMPARABILITY OF FORCE STRUCTURE

Mr. MOOT. I can say this: That those experts who do look at the inventory as it is constructed and deployed with forces, and who are relatively accurate because, as you know, the accuracy of the force structure being discussed in the general agreements is very close—both countries know very well within very close limits the force structure of the other.

The growth of the Russian force structure during this period of time that we have been discussing—from pre-Vietnam to now—has been significant in both strategic forces in terms of quantity and in general purpose forces in terms of quality. There is no doubt that the capability of the Russian forces has been enhanced greatly over the last 9 years.

And I would make this one further point, Mr. Conable, that from Secretary Laird's point of view, as you probably heard him say, it is his responsibility to look at capability and not intent. The looking at the intent of our potential adversaries is someone else's responsibility. Mr. Laird must be able to respond to the challenge of the capability of our adversaries.

Representative CONABLE. In talking in comparative terms, are the conclusions you are giving us now inclusive of military aid to allies?

RUSSIAN MILITARY AID PROGRAM

Mr. MOOT. Again, it is very difficult to sort out military aid to allies. One very significant factor on the relative military posture of the two countries, Russia and the United States, is the fact that the United States has had to spend well over $100 billion in Southeast Asia in the last 7 or 8 years, while the Russians have spent probably no more than 10 percent of that, which has allowed a much greater diversion into current force structure and modernization by the Russians than by the United States.

Representative CONABLE. But it is obvious that the Russians have a substantial military aid program, not just in Southeast Asia but also in the Middle East?

Mr. MOOT. They have a very substantial——

Representative CONABLE. And in Eastern Europe?

Mr. MOOT. They have a very substantial—both military and economic aid program. Again, it is hard to judge because of the lack of foreign exchange values in terms of the Russian economy.

Representative CONABLE. Well, I think this is a necessary investigation. We have a tendency in this committee to look at everything in economic terms and that is our responsibility; but, quite obviously,

on an economic basis we wouldn't spend anything for defense, just as if you knew you would not die, you would not spend anything for life insurance or if you knew you were not going to have a fire you would not spend anything for fire insurance. It is easy for us to forget that these comparative investigations are necessary to determine whether what we are doing is reasonable or not, irrespective of the issue of economic priorities which, of course, imposes some upper limits on whatever we do regardless of the realities of the world in which we live.

Mr. MOOT. Mr. Conable, if you would like, I would be happy to have placed in the record here an opinion more expert than mine from the Department of Defense. I am the Comptroller and if you would like I would be glad to put the statement, and the statement by the Assistant Secretary for International Security Affairs in the report at this point concerning the question——

Representative CONABLE. To provide some comparative figures?

Mr. MOOT. Yes.

Representative CONABLE. That would help us in our assessment of priorities.

Mr. MOOT. Right.

Representative CONABLE. Because, as I say, quite obviously it is not——

Mr. MOOT. Sure.

Representative CONABLE (continuing). In our interest to spend more than we have to even though we may have adjusted priorities in a relative sense compared to other national expenditures.

(The following information was subsequently supplied for the record:)

MILITARY ASSISTANCE PROVIDED BY THE U.S.S.R.

This category of information is highly classified. That portion which can be discussed in unclassified terms would be misleading and would result in distorted comparisons.

Mr. MOOT. And Mr. Miller has invited my attention to a quote from the Brookings Institution report which you heard yesterday, which I will read if you don't mind. It is a very short quote:

Without placing too much reliance on these data, it seems reasonable to conclude that (1) Soviet military spending has increased markedly in recent years; (2) at the current level it results in a military establishment that, in a loose sense, at least, is nearly comparable to its U.S. counterpart; and (3) maintaining this rough comparability places an appreciably heavier burden on the Soviet than on the U.S. economy.

That addresses at least the rough relative position of the two countries from the military budget point of view.

Representative CONABLE. That last statement would be expressive of the fact that the Soviet has roughly half our GNP and, therefore, they have to make twice the effort to achieve a comparable military establishment, assuming the cost is comparable?

Mr. MOOT. That is exactly the point being made, Mr. Conable.

Representative CONABLE. Thank you, Mr. Chairman.

Chairman PROXMIRE. Senator Percy.

PERMISSIVENESS OF SALT AGREEMENT

Senator PERCY. Mr. Secretary, this morning on the "Today" program I appeared with Senator Jackson who attacked rather

strongly the arms agreement reached with the Soviet Union, both the treaty and the 5-year agreement. He said during the course of the discussion an amazing thing. I mentioned that we did have the right to build an ABM around Washington; he said the ABM was worthless. I countered with that is what we have been trying to tell him for 3 or 4 years but to have him admit it was an unusual thing. This, as I understand the agreement, is optional. We have the right to build an ABM around Washington or a control center and the right to build one and keep one at Grand Forks. It is not an obligation on our part, I don't presume.

Mr. MOOT. Let me say this, Senator: At this point in the record, again, you are talking to a comptroller and I would like to have the right to either insert an authoritative answer to your question because I am not——

Chairman PROXMIRE. Without objection.

(The following information was subsequently supplied for the record:)

The terms of the SALT agreement are permissive up to the maximum of two ABM sites.

Mr. MOOT. I am not sure you are right. Perhaps the wording as I quickly scanned it, and we just received the wording, the wording might indicate an optional availability, but the real intent on both sides was that there be an NCA protection and at least a retaliatory protection in the interest of a balance of power, so I am not quite sure that the answer is clear and I would rather seek a more authoritative source.

Senator PERCY. All right.

Is there enough of an indication that we are going to have in the budget a request for an ABM, then, with 100 missiles around Washington?

Mr. MOOT. Let me say this, Senator, that prior to the agreement we have, of course, one missile site pretty well in development at Grand Forks, and we had plans, site plans, for a National Command Authority. Secretary Laird has not canceled those particular plans at the present time.

Now, while he will be up to explain the impact of the SALT agreement in the Defense Department in the very near future, within the next few days, and, therefore, he can speak certainly as to our intent, I would expect that you would see continued planning for an NCA and, of course, it is subject to congressional ratification.

Senator PERCY. Well, if I recall my own position, I took the position a couple of years ago that made more sense to me. I thought this is what the Russians were going to insist upon; that they had a psychosis about Moscow even though they knew there was really not an effective system but that such a system around Moscow would probably be included at their request. It is going to be very interesting to see what Senator Jackson—now, if he thinks it is worthless—is going to do. But there are no firm plans yet in the budget as to what you are going to do and that will have to develop——

Mr. MOOT. Secretary——

Senator PERCY (continuing). As the party gets back and we decide what they have really firmly decided in their own minds to do.

GENERAL DYNAMICS CORP. INDICTMENT

I wonder if I can ask about the story on General Dynamics this morning; about a Federal grand jury indicting General Dynamics Corp. and four present or former company officials on charges of conspiring to defraud the Government by charging the Air Force for defective parts for the F–111 fighter-bomber?

Was this discovered internally or was it discovered outside of the Department of Defense itself?

Mr. MOOT. I cannot answer that, Senator. There was some earlier discussion with the chairman, and we did generally discuss it, but I would like to insert in the record, after checking with the Secretary of the Air Force, just what the Department's role was in this. There was an earlier supplier problem with GD, as you know, and I also noted in our earlier discussion with the chairman that General Dynamics has indicated that in their strong opinion there is no merit to this allegation.

Senator PERCY. Yes. I know that they are——

Mr. MOOT. I am not attempting to prejudge it but I would be glad to put in the record the Department's role.

SELB MANUFACTURING CO. INVOLVEMENT

Senator PERCY. It did involve a Selb Manufacturing, and General Dynamics has denied there was any accuracy to the charges and would be able to say that the case will actually show that, but from the standpoint of procedure, do you have a feeling that internal auditing procedures in the Department of Defense are as good as you would expect them for a business that size?

Mr. MOOT. Well, I think in this case, as I understand it just from reading the paper, Senator, that we have more of a quality inspection problem rather than an internal audit problem. The costs might have been all right for an imperfect article and therefore that should have been caught and probably would have been caught with the Department's inspectors; and that is what I would like to check and put in the record.

Senator PERCY. Fine.

(The following information was subsequently supplied for the record:)

Since 1969, when the improprieties of the Selb Manufacturing Company in the performance of work on F-111 parts became known as a result of disclosures by a General Dynamics employee, the FBI has been investigating the matter. The Air Force has worked closely and cooperatively with the Department of Justice in this investigation and has instituted special quality control measures and surveillance with respect to the parts processed by Selb. The Air Force has withheld a substantial sum from General Dynamics to cover the deficient work. The current indictment stems form this investigation.

PRODUCTIVITY MEASUREMENT

Senator PERCY. In your testimony, you mention the problem of productivity and problems in measuring productivity.

Secretary Connally has testified before this committee that increasing productivity is one of the four major domestic goals of this administration. He primarily made reference, as did Secretary of

Commerce Peterson, as to what the private sector must do to stay competitive; to stem the flow of imports and to expand our exports and to combat inflation. But, of course, in a multibillion-dollar procurement operation like the Defense Department, increasing productivity would be extremely important and even more important because you don't have the discipline of the pricing market quite as effectively working in the Department of Defense with the number of negotiated contracts you have.

Could you outline for us what the Department of Defense is doing to help the President achieve one of his four major domestic goals to increase productivity?

Mr. MOOT. Yes, I would like to, Senator, and there are two aspects of what we are doing with our internal operations and what we are doing externally.

I might point out that externally, of course, productivity is reflected in the prices we pay for purchases from industry; and I did point out earlier, and I would like to reiterate at this point, that despite the fact that we do not have fully advertised and, therefore, 100-percent competitive procurement, the prices that the Defense Department pays now in contrast to 7 or 8 years ago, actually to a 1964 prewar base, upon examination and as reflected in one of the tables in my prepared statement, are less than the average price increase by industry segments throughout the economy.

Stated in very simple terms, the Defense Department, despite its procurement practice not being fully advertised, has not seen the price increase that others have, either the average of the economy or by industry segment. Where we buy the greatest amount of defense goods, the price increase has been less than the average.

So I would say that in terms of our external procurement from industry, the Defense Department has been sharing whatever industry productivity growth there has been probably a little better than average, simply because the price growth has not been as great as the average.

Internally, the Defense Department has for years been working on many aspects of increased productivity, from very simple work measurement programs—input-output measurements—to methods-time-measurement programs, to management engineering programs, and under the stimulus of the chairman of this committee, as you know, the Federal Government itself has been engaged in stimulating productivity measures.

The General Accounting Office working with the Office of Management and Budget, working with other Federal agencies, and significantly working with the Defense Department in on-going programs of the Defense Department, has responded to the emphasis placed on increased productivity by the chairman of this committee; and I think that we are making continued progress and I believe that as—I am talking from one point of view, from the Defense Department, and I am not speaking for the overall effort—but I think as this committee listens to the reports of the Comptroller General and the Director of the Office of Management and Budget, that they too will be encouraged with the internal governmental productivity increases.

ESTABLISHMENT OF LABOR-MANAGEMENT COUNCILS

Senator PERCY. Specifically, can labor-management councils be established such as is provided for now under law, under the wage-price extension bill, where we built into that law an intention and desire for that? They did establish labor-management productivity councils during World War II to cut down scrapping, to cut down absences and labor turnover, to make people conscious of the way they can control costs—and there has been no proven method to do that other than to just put them around the same table and start talking about the problem.

Mr. MOOT. I think it is a very good point, Senator. I am not sure I am the right man to answer that for the administration. There is, as you know, a Presidential Productivity Council and I am sure they are currently considering it. Also, I am sure that you appreciate from your background that during a period of rising economic growth that productivity is easier to obtain. Our problem in recent years has been that there has been a decline in the rate of growth of the economy and, therefore, it is more difficult to obtain productivity gains. I would expect that through the natural workings of the economy on a rise, that we would see an increase in productivity.

Senator PERCY. Could you make inquiry on our behalf with the DOD and the proper official to give us information as to what they are doing to implement what I understand to be now national policy by both executive and congressional action? Thank you.

Mr. MOOT. Yes.

(The information requested was later supplied as follows:)

As a result of Senator Proxmire's request to the Comptroller General in September 1970, 17 agencies have been working with the Office of Management and Budget, the Civil Service Commission and the General Accounting Office in a study of productivity and related measurement systems in the Federal Government. One objective of the project was to determine the feasibility of developing a quantifiable measure of the productivity of the Federal work force.

Productivity indices are now being developed, based upon data submitted by the participating agencies. The Department of Defense has always had an interest in productivity improvement and appreciates the opportunity to participate in this joint effort. The potential benefits of such measures will increase rather than diminish in the future. The ability to measure productivity in quantifiable terms, as opposed to the past practice of assuming a zero rate, will be welcomed by all concerned.

It is our understanding that this portion of the project is targeted for completion by June 30, 1972.

PRODUCTIVITY MEASUREMENT OF GOVERNMENT WORKERS

Chairman PROXMIRE. I want to thank you very much for mentioning my effort in getting a measurement of productivity among Government workers; we have been at it for a long, long time. I am delighted you mentioned it. We have been in close touch with the GAO and other departments on this and they recognize the interest of this committee and I am delighted they do.

Senator Percy has taken a great deal of very helpful leadership in this, not only with respect to the Federal Government but with respect to the private sector, as you know.

INCREASED VIETNAM COSTS

I would like to get into the costs of the present flareup in Vietnam and how that is reflected in the budget.

Estimates reported in the press for the increased costs of the war as a consequence of the current northern offensive and the enormous U.S. response in airpower and seapower have ranged as high as $1 billion for the current fiscal year and at least as much for the next fiscal year.

What is your estimate of the increased costs and will they be paid out of funds that have already been authorized and appropriated or will a supplemental request be submitted to Congress?

Mr. MOOT. I can't be too definitive, Mr. Chairman, simply because the activity changes from day to day.

The costs are increasing, No. 1. Second, the increased costs are primarily operational—the operation of our aircraft, our Navy ships, some increase in offshore combat pay simply because of the greater number of ships, a significant increased cost in the munitions, of course, and these costs currently are being met through the transfer authority provided by the Congress for fiscal year 1972 which total $750 million, which simply means that we have had authority to move from one part of our budget to another across appropriations.

Chairman PROXMIRE. And that $750 million is sufficient to cover the increased cost to date, as far as you know?

Mr. MOOT. No; and, of course, prior to this recent acceleration and the recent invasions by the North Vietnamese and the need to respond, we had used a part of our transfer authority, so it all was not available and it isn't all being used for that purpose.

In addition to that, we have advised the Congress that we are invoking the provisions of the Revised Statutes 3732, which allows the Defense Department to incur deficiencies for those costs necessary to provide the transportation, subsistence, fuel, clothing, and quarters of our personnel.

PER SORTIE COSTS

Chairman PROXMIRE. Can you help us calculate what these costs would be? I am informed that each major B–52 raid costs millions of dollars, as much as $15 to $20 million a raid. First, I would like to know if that is correct. We have had, and I know you don't like to be pinned down and it is very hard to estimate these things, but the figures have been carried in the press, and I think it would be much more helpful if we could get some kind of opinion from the Defense Department instead of having these rumors about.

Mr. MOOT. Mr. Chairman—and I appreciate the question—I do not have with me either per sortie costs or any of the raid costs, but I would be glad to put in the record the basic factors on which costs could be computed.

Chairman PROXMIRE. All right, we would like to have that as soon as we can.

(The following information was subsequently supplied for the record:)

It is virtually impossible to apply a meaningful cost figure since ordnance loads and mission durations vary widely. In addition, what portion of crew training or aircraft costs can realistically be applied to the cost of an individual sortie. We

can provide the following general information on operating costs per hour for the two types most frequently mentioned in bombing operations:

Hourly operating cost for a B–52 is approximately $1,300.00.

Hourly operating cost for an F–4 is approximately $800.00.

Mission for a B–52 from Guam—approximately 13 hours, round trip.

Mission for a B–52 from Thailand—approximately 4 hr. average.

Typical F–4 mission from Da Nang—approximately an hour. For missions north, this will run somewhat longer.

Typical B–52 mission will carry approximately 24 tons of ordnance.

Typical F–4 "iron bomb" load will run about 4 tons.

Bomb costs—500 lb, approximately $173.00 (includes fins, fuse, and basic bomb).

Bomb costs—750 lb, approximately $243.00 (includes fins, fuse, and basic bomb).

DELETION OF VIETNAM COSTS FROM THE BUDGET

Chairman PROXMIRE. As you know, this committee has objected to the way the costs of the war in Vietnam have been deleted from the budget.

How do you explain the failure of this administration to give a complete accounting of the costs of the war to the American taxpayer?

Mr. MOOT. I would respectfully submit we have been printing the costs in the budget. We just have not been printing the forward costs in the budget. The actual costs, as we have incurred costs and reported to the Congress, are a part of the Presidential submission and have been and are a part of the Secretary's submission to the Congress and are currently printed in unclassified hearings of the Appropriations Committee.

What we have not done is to print the future budget costs for the next year, and this is simply a Presidential direction because with the declining level of resources for the war he does not want to make available to the world, and particularly to our enemies, his planned level of activity in terms of resources.

As you know, the entire defense budget is available for the Southeast Asian effort. To the extent that we need to use those funds, it is available.

Chairman PROXMIRE. Could I ask you where in this budget?

Mr. MOOT. I was going on——

Chairman PROXMIRE. The staff has gone over it very carefully; can you give me the page reference in the budget where the Vietnam costs are?

Mr. MOOT. I need to refer you to the hearings because in that particular budget it is not there, but in an unclassified version it is there. What has been——

Chairman PROXMIRE. Why isn't it in the budget?

Mr. MOOT. Well, it has been in prior years. It isn't in this year because we did not project the future costs of the war.

Chairman PROXMIRE. It hasn't been in since 1969, I understand.

Mr. MOOT. No; there has been later printing.

Chairman PROXMIRE. It was in the last Johnson budget—was the last one they put it in. Why hasn't the administration put it in the budget?

Mr. MOOT. I think 1970 was the latest, Mr. Chairman. In my prepared statement, as a matter of fact, there is the cost of the Vietnam war unclassified. The one thing that is not in there is the forward cost of the war, simply because the President does not want to telegraph

any budgeted level of activity; he is trying to disengage and to protect at the same time our U.S. forces.

Chairman PROXMIRE. Let me ask you about that. You are saying that you have kept the war costs out of the budget in order to avoid telegraphing the President's intentions?

Mr. MOOT. Yes, sir.

Chairman PROXMIRE. But that does not seem to me to be an adequate explanation because the costs could have been shown without telegraphing his intentions or divulging the extent of future troop withdrawals. For example, why couldn't costs be shown for previous fiscal years, as they used to be shown, with estimated costs for the current and the forthcoming years based on the number of troops and other forces in Vietnam at the time the budget document is released? This wouldn't necessarily indicate any plans or programs but based on what you have there.

Mr. MOOT. Sure, it could have been, Mr. Chairman. The point is, it is just a question of the selection of the vehicle. Those costs are shown and are printed. It is just a question of where they are. They are in my prepared statement.

Chairman PROXMIRE. I don't mean to quarrel with you. As I have said, I have great respect for you and have had for many years, but it would seem to me this is the place where the costs ought to be rather than in various other documents that may be unclassified and available, but we can't pull them together. The press can't and the Congress can't.

Let me ask you about the law which we have, which doesn't seem to be complied with either by the Defense Department.

CLASSIFICATION OF 5-YEAR DEFENSE PLAN

As you know, a 5-year defense plan is prepared in the Pentagon—prepared perhaps in your office—but it is kept secret from Congress and the public. I have asked for this 5-year forecast and have been refused on the grounds of national security.

Why should a forecast of defense spending over the next 5 years be considered a classified document? It seems to me this is a classic case of overclassification.

LEGISLATIVE REORGANIZATION ACT

Mr. MOOT. Well, first of all, Mr. Chairman, to the best of my knowledge we are complying with the Legislative Reorganization Act. We are submitting to our legislative committees on their request the spentout impact of our legislative proposals. We are indicating to them the 5-year broad forecast of our authorization program, and we do not have in the sense of forward budget programs a spending program in the sense that you are talking about, a budget forecast.

Chairman PROXMIRE. You see, here is the trouble we have.

Mr. MOOT. Yes.

Chairman PROXMIRE. It is true that you will prepare this at the request of a committee chairman. There is nothing in the law that says a committee chairman has to request this. The law is very, very clear, it seems to me, this has to be provided. Let me read it:

The Budget shall set forth * * * with respect to each proposal in the Budget for new or additional legislation which would create or expand any function, activity or authority, in addition to those functions, activities and authorities then existing or as then being administered and operated, a tabulation showing (a) the amount proposed in the Budget for appropriation and for expenditure in the ensuing fiscal year on account of such proposal; and (b) the estimated appropriation required on account of such proposal in each of the four fiscal years immediately following that ensuing fiscal year, during which such proposal is to be in effect.

Now, the law seems to be clear requiring that the 5-year estimates be provided to us, and, as I say, there is no statement that the committee has to ask for it or that the chairman has to ask for it.

Mr. MOOT. No; and I am sorry we had a misunderstanding on that, Mr. Chairman. If you will look in the 1973 budget on page 540, you will find the administration's compliance with that provision.

Chairman PROXMIRE. 540 of the——

Mr. MOOT. Of the budget book, the little budget book you had.

Chairman PROXMIRE. And this is 540; I have revenue sharing.

Mr. MOOT. Table 16; are you looking at the 1973 budget?

Chairman PROXMIRE. I am looking at 540; I am looking at the 1973 budget.

Mr. MOOT. Table 16 on page 540?

Chairman PROXMIRE. Department of Defense; that is 541; yes.

Mr. MOOT. Well, I am talking about the overall table, which is "Legislative proposals for major new and expanded programs in the 1973 budget," and the projections of costs.

Chairman PROXMIRE. All this represents are the additional costs of all volunteer Army forces and military pay system of the Department of Defense. The budget is tens of billions of dollars; this is only a few hundred million, is $634 million, for instance, in 1977. If you can come in with a budget that low, you would even satisfy Seymour Melman.

Mr. MOOT. I think the problem here, Mr. Chairman, is that this is a question of interpretation of the law. The administration believes that this is in compliance with the law.

Chairman PROXMIRE. How can they believe that is in compliance with the law that requires that the budget—let me read again this language:

Set forth with respect to each proposal in the budget for new or additional legislation which would create or expand any function, activity, or authority, in addition to those functions, activities, and authorities then existing or as then being administered and operated, a tabulation showing the amount proposed in the budget for appropriation and for expenditure.

Apparently the argument would be here this is the only thing you can expand?

Mr. MOOT. The key words you used in reading there were "to create and expand" and that is the heading here, "New and Expanded."

Remember, Mr. Chairman, I am from the Defense Department; I am not answering for the administration but the administration does believe it is complying and it isn't a question of not wanting to meet the intent of the Congress. Both the Director of the Office of Management and Budget, Mr. Chairman, as well as myself, testified before the Joint Committee on Congressional Operations considering the Legislative Reorganization Act——

Chairman PROXMIRE. What the administration overlooked—they did read the first part with respect to each proposal for new or additional legislation. What they overlooked is this language: "In addition to those functions, activities, and authorities then existing or as then being administered and operated," so this would certainly require more than just the volunteer Army legislation.

Mr. MOOT. Well, again, this is a question of interpretation, and a question of the legislation, I am sure.

Would I be out of line just to make this point again, Mr. Chairman? We are working very closely with our committees, I think, along the lines that you have been espousing and we think that it is a very forward and progressive move. We have been providing them with data sheets which indicate the out-year impact of all of our specific weapons systems. We have been giving them authorization programs. As I mentioned earlier, the Secretary has given them the force structure out over the 5 years. We are working very closely to reach their understanding.

Chairman PROXMIRE. Pardon me; let me just interrupt to say that I appreciate that and I have great admiration and respect for Congressman Hébert and Senator Stennis and the others—they do very fine work—but I do think the law requires not working closely with the committees and not reaching an understanding with the chairmen and so forth, but the law requires that with respect to existing activities, as well as new activities, that you have a 5-year forecast, a 5-year budget, and that is not being complied with.

Well, my time is up.

Congressman Conable.

Representative CONABLE. I have no further questions.

Chairman PROXMIRE. Let me ask you about this: The Brookings Institution specifically recommends in its latest study of national priorities that this 5-year defense plan be given to Congress and that after considering it Congress should authorize the 5-year program and appropriate the necessary funds for the first year.

Do you disagree with this recommendation?

Mr. MOOT. Well, again, as I say, we have been working toward that end. We believe, and I think I can say that the Director of the Office of Management and Budget likewise testified, that we think authorization could be on a 2-3-4-, and 5-year basis. We don't—I don't personally believe, Mr. Chairman, that we could come up here with a 5-year program and have it understood tomorrow. I think we need to work progressively toward it. I certainly believe and would strongly recommend we ought to start with a 2-year program because there is nothing that bothers our management so much or impedes good management than a delay of 6 or 7 months into the fiscal year before we know how much funds we have or what resources we have. We are moving in every direction we can to encourage the Congress to authorize on a multiple-year basis and appropriate on a single-year basis. The answer, therefore, from the Defense Department is, therefore, Yes, to that question.

Chairman PROXMIRE. I certainly hope so.

VIETNAM COSTS

You were about to give us—and I interrupted you and I apologize—but you were about to give us, as I understand, a supplemental or deficiency cost of the Vietnam buildup.

Mr. MOOT. I cannot, as I said earlier, I cannot give you a precise estimate. The Secretary of Defense will be discussing the current situation over the next few days with the Congress but even he will not be able to put an exact cost because the situation, as you know, is very fluid and changing every day. It is not one of those programs——

Chairman PROXMIRE. We don't expect the exact costs, of course; it is fluid and you couldn't give it except within a very rough estimate, but it would be most helpful if you could have some kind of hard figure, some hard variants, top and bottom.

Mr. MOOT. If I might, Mr. Chairman, I would be happy to put in the record as I get it the latest available figure I have in terms of an estimate when I am correcting the transcript.

(The following information was subsequently supplied for the record:)

In Southeast Asia, we have been compelled to augment our air and naval activities in response to North Vietnam's blatant aggression across the DMZ in violation of the Geneva Accords of 1954 and the Understandings of 1968.

The operations now underway in Southeast Asia involve U.S. naval and air elements as well as all elements of South Vietnamese Armed Forces operating on an integrated basis. Such large-scale combat to oppose the Communist invasion necessarily involves elements of unpredictability. We are currently preparing a revised budget estimate to cover the additional cost of our efforts to help defeat the North Vietnamese aggression. Until this estimate is completed, any figures we provide will be necessarily "rough estimates" as the Chairman suggests. It is on this basis that the following information is furnished: The massive communist invasion which began on March 30, 1972, is expected to entail U.S. costs of about $3 billion if the aggression continues through September 1972. If it continues through December, the total will grow to about $5 billion.

ESTIMATES FOR PAY AND ALLOWANCES

Chairman PROXMIRE. Now, my staff and I worked very hard on your estimates on pay allowances and we just can't understand how you come out with the figures you do.

In your prepared statement you say—you talk about the defense spending in fiscal year 1973 as $25.7 billion above the prewar level. Of this increase, you say, $20.8 billion is for pay and related costs. A $20.8 billion rise in pay costs in spite of the fact we have 326,000 less people.

Then later on in a table that you have, you show that comparing with 1968 you show that pay and related costs are up about $10 billion. Now, that just seems to contradict what we find in the budget. Maybe the budget isn't complete but in the budget each year there is a figure for military personnel which includes pay for the four services plus the Reserves and National Guard.

In fiscal year 1968 the total was $22.118 billion. In fiscal year 1969, the total was $21.4 billion. In 1970 it was $22.99 billion; 1971 it was $22.6 billion; in 1972 it was $22.5 billion, and in fiscal 1973 it is $22.4 billion. So there the pay has not increased at all. What happened was, of course, that pay rates went up enormously, but the

number of people in the military went down very sharply to 3.5 million in 1968, to about 2.5 million now, and there seems to be a washout on the basis of what you have in the budget—no increase—and you are saying there was a $10 billion increase.

Where is the trouble?

Mr. MOOT. Yes. I think, and I will let Mr. Miller answer this technically, I think what is required here, Mr. Chairman, is a reconciliation between the appropriations and the pieces of the appropriations. Table 7, in my prepared statement, gives all of the detail from which we computed the figures that you referred to, and all we need to do is to cross-index that to the appropriations—military personnel appropriations, of the specific years. All of the data came from the appropriations.

Now, Mr. Miller, would you like to add to that?

Mr. MILLER. I think the best way, Mr. Chairman, if you could look at our table 7——

Chairman PROXMIRE. Table 7?

Mr. MILLER. Table 7 of the prepared statement we gave you.

Chairman PROXMIRE. That is in the back?

Mr. MILLER. Yes, sir.

Chairman PROXMIRE. All right.

Mr. MILLER. And also look at page 546 of your budget book which is the source of the figures you were just quoting.

Chairman PROXMIRE. All right, sir.

Mr. MILLER. For example, if you look on page 546, the 1968 column you will find that military personnel is $19.859 billion.

Chairman PROXMIRE. 1969 military, yes, $19.859 billion.

Mr. MILLER. Correct; if you look at 1968 in table 7, you will see the first two lines, $12,779 million and $7,080 million.

Mr. MOOT. This is just cross-referencing to the basic military authorizations.

Mr. MILLER. We wanted to show basic pay and allowances separately because they do have a much different rate of increase. Thus, the figures we are using are exactly the same as in the budget.

Now, looking at page 546, and left out of the figures which were earlier mentioned, you will find down toward the bottom a figure called allowances, $3.4 billion.

Chairman PROXMIRE. All right.

Mr. MILLER. That is largely pay increases, in fact, it is all pay increases. It is the amount for the assumed January 1973 pay increase and for the January 1972 pay increase and for an assumed July 1972 pay increase.

Chairman PROXMIRE. That seems to be a pay increase of $3.5 billion.

Mr. MILLER. $3.4 billion in addition to $22.3 billion; yes, sir. Recognizing then that the two tables are consistent, with those two adjustments, in addition to the other factors you mentioned, we have to look at the civil service payroll which is not broken out separately on page 546 but is shown separately on table 7 of the prepared statement. The other——

Chairman PROXMIRE. So what you are talking about is not only for military personnel but also civil service personnel?

Mr. MILLER. That is correct, civil service, active military and reserve and retired; and looking at table 7, you will find that these

figures which agree with the figures on page 546, total pay and related costs in 1964 were $22 billion.

In 1973, with less people, $42.8 billion. That is the source of the $20.8 billion; it can be reconciled exactly with page 546.

Chairman PROXMIRE. All right, sir. Thank you very much.

My time is up. Congressman Conable wanted to ask a question.

REDUCTIONS IN DEFENSE SHARE OF PUBLIC SPENDING AND PUBLIC MANPOWER

Representative CONABLE. Mr. Moot, you stated that in some instances defense spending was at its lowest point since before Pearl Harbor?

Chairman PROXMIRE. Could I interrupt you now? I have to go to a meeting of the Appropriations Committee and you two fellows carry on and I will come back as soon as I can.

Representative CONABLE. What does that refer to, besides the maintenance of horse-drawn cavalry?

Mr. MOOT. There are one or two very important points.

Because of the discussion about the draft, and the youth of the United States, it is important to know that in the 19- to 22-age group the percentage of that age group in military service is lowest currently since 1939, so that the impact upon the youth of the United States again is at the lowest point.

In addition to that, there is—it is in terms of the total labor force—we are again back to a pre-Pearl Harbor level in terms of total public spending and total public employment.

The defense share of public spending, the defense share of public employment, is the lowest since Pearl Harbor, pre-Pearl Harbor.

Representative CONABLE. I see.

Well, can you tell us what has happened in the last year to manpower ceilings in the military? Is it correct that we have cut our manpower ceilings during the past fiscal year from roughly 3.5 million to 2.5 million, that we have about 2,360,000 men under arms now?

Mr. MOOT. It has not happened in the last year, although reductions have been made in the last year. In 1968 during the peak of the Vietnam period our military manpower total was 3,547,000. It will be in the 1973 budget, current time frame, 2,358,000, so that is a reduction of 1,189,000 military personnel since 1968. In the time frame since fiscal 1971, which ended last June 30, to 1973, the figures are 2,714,000 to 2,358,000, so there again we are talking about a reduction of 356,000.

Representative CONABLE. What has happened to civilian employment during the same period?

Mr. MOOT. Civilian employment grew from a prewar level of 1,035,000 to a total of 1,287,000. It has gone back to that prewar level in the 1973 budget. So the entire increase has been eliminated.

Representative CONABLE. One of the problems we have in looking at a budget is that you look only at the dollars that are being spent.

Mr. MOOT. That's right, sir.

Representative CONABLE. And it does not tell us much about the personnel on hand which, of course, has some significance in terms of the efficiency of the service.

Mr. MOOT. There is, Mr. Conable, a gap in terms of the information. We provide great detail to our legislative committees—the Armed Services Committees and Appropriations Committees—and it isn't until those hearings are printed that the general membership of the Congress actually sees all of that backup data; that is true.

DOD–OMB RELATIONSHIP

Representative CONABLE. Has there been any change during this past year in the relationship between the Department of Defense and the Office of Management and Budget during budget review? Are OMB officials sufficiently knowledgeable about defense spending to make accurate judgments about the formulation of the defense budget? There has been a rather special relationship here in the past. Has that been changed in any way?

Mr. MOOT. No, Mr. Conable; we are continuing, successfully, I think, the joint review which involves the participation of the Office of Management and Budget with my office in the detailed budget reviews day after day from the period of October 1 until late in December. So over that period of time we are working jointly to reach recommendations for the Secretary of Defense, Director of the Office of Management and Budget, and the President.

Representative CONABLE. Do you know what the personnel of Office of Management and Budget are allocated to defense budget analysis.

Mr. MOOT. I would hate to hazard a current guess, but Mr. Miller, who is a graduate of the Office of Management and Budget, might have some current information. What would you say?

Mr. MILLER. I think it is somewhere in the range of one-fifth or one-fourth, but I would check that with OMB and would like to insert that.

Representative CONABLE. Between one-third and one-fourth?

Mr. MILLER. Between roughly 20 or 25 percent, I would say.

Representative CONABLE. I see.

Mr. MILLER. Yes, sir.

Mr. MOOT. That might compare, Mr. Conable, roughly with our share of the Federal budget, which at the present time is about 30 percent and it might be a comparison for the record if you would like us to check it.

(The following information was subsequently supplied for the record:)

The Office of Management and Budget advises that 25.1% of the examining staff is assigned to National Defense.

PROGRESS TOWARD ALL-VOLUNTEER ARMY

Representative CONABLE. One last question: Can you tell us what is happening in terms of enlistments at this point? We have noted the Secretary of Defense's statements that it might be necessary to draft men into the Reserve components or the National Guard because of a severe falloff in enlistments in that area as a result of the reduction in the draft.

When will we have some sort of report on progress toward an all-volunteer Army, some sort of analysis of what has happened to

enlistments and what the projections are as we go through this rather difficult political year?

Mr. MOOT. I am sure you appreciate, Mr. Conable, that it was only through the November 14, 1971, significant military pay raise, plus the January 1, 1972, military pay raise, plus those items that are in the 1973 budget which are personnel oriented to attract and retain military personnel that the Defense Department feels that it really is on a comparable basis so that it can really attain a higher enlistment rate and, as you know, we have stepped up significantly our recruiting efforts.

The Secretary of Defense watches the rates very carefully and I feel sure that as soon as he feels that enough time has gone by for him to evaluate the trends in contrast to the comparability that he can offer and those inducements for personnel benefits which are sorely needed in the Defense Department, that he will report to the Congress. I know he has this in mind.

Representative CONABLE. I hope that it will be currently done. I share the feeling of most of the Members of Congress that we are under a mandate to achieve an all-volunteer force. At the same time, I had some concerns about our having to pay too high a price for it if we moved too rapidly toward an all-volunteer force in the present climate of public opinion about military service. I am anxious to get current data on that and I hope it will be made available to us simply because the figures on comparability you have given us indicate that if we go much farther in trying to provide economic incentives we may very well be paying a higher price than the American people are willing to pay to achieve this laudable goal of a volunteer force.

Mr. MOOT. I know the Secretary of Defense shares your concern and your interest, and that he is watching this situation very closely.

Representative CONABLE. I would like to yield to my colleague.

Senator PERCY. Thank you.

I know this is out of your field, Mr. Secretary, but because it does constitute an element of cost, I will put the question anyway.

CHANGING ATTITUDE OF YOUNG WORKERS

We have heard a great deal of testimony of the changing attitude of young workers, less concerned with monetary rewards, fed up with the monotony of work, higher educated than the previous generations, harder to put them on dull, monotonous jobs, turnover exceptionally high among young people. How does this affect the cost structure of the Defense Department today? Is it a factor that is being taken into account? Private industry has all kinds of devices now set up to cope with this problem: Directors of job enrichment and people to make jobs more meaningful and significant and finding incentives other than monetary incentives for younger workers. Is this a problem that the Defense Department is dealing with?

Mr. MOOT. It is a problem that the Defense Department has recognized, Senator, and it is a problem that defense leadership discussed with industry leadership. The problem, of course, has been compounded in the defense industry because of the very sharp cutbacks in the defense industry creating turbulence in the labor force and, therefore, creating problems in terms of proper attitude, proper productivity and, really, job security, as a matter of fact. So the problems have been compounded.

But I hope that, with congressional approval of our current budget request, that we will be stabilizing the defense level, internally by reducing turbulence and externally by at least slowing the momentum of people entering into the labor force from military service or defense-related industrial employment. With the greater stability of industrial employment I know that industry leadership as well as defense leadership look to increased productivity and therefore more favorable costs for defense products.

PERCENTAGE OF GOVERNMENT EMPLOYEES IN PRODUCTIVITY MEASUREMENT

Senator PERCY. On productivity, again, I am so obsessed with this subject because I have no faith in controls really working over a long period of time. There are 205 million people outwitting them. The Agriculture Department has tried to control agriculture—six crops for 30 years and there isn't a dirt farmer that can't outwit them and their computers. You have many problems with hundreds of thousands of items sold in the free market and hundreds of items that are in the agricultural free market. I feel a more fundamental answer is needed and increasing productivity is, to my mind, the only basic thing we can go on, and that really gets down to people being willing to work and work hard enough and not demand more in the way of wage increases than they are able to give in the way of productivity increases.

The Labor Department has recently announced that it will be publishing, starting in July, productivity figures for Government activity which would cover approximately 60 percent of Government employees. Is the Defense Department included in the effort?

Mr. MOOT. Very significantly, and I might almost say dominantly in terms of numbers, Senator.

Senator PERCY. So the 60 percent with the Defense Department in there, this means there are many departments not being covered but the whole Defense Department is going to be in this structure; is that right?

Mr. MOOT. Not the entire Defense Department but wherever there are measurable areas of employment the Defense Department will be there; and what I meant was that the 60 percent of the total Government employment will have a much greater share of defense employment proportionately. I might, Senator, as an aside, state that you probably would be interested in another effort the Defense Department is engaged in which we hope will result in increased production or better production at lower cost.

RETURN-ON-INVESTMENT APPROACH

We have been convinced for quite some time that we have had some negative incentives in our industrial dealings in the sense that we have been dealing on a cost basis and on a fixed fee on top of a cost basis, which means that greater productivity or lower costs due to capital investment increases have really served to penalize industry because the follow-on procurement that they would have with us would be at a lower price.

So we have felt the need to introduce into our profit negotiations with industry on our cost contracts a return on investment concept. To the extent that we could get more modern equipment and facilities

in what we feel may be an undercapitalized industry, we felt that we could well overcome any increased profit rate by a sharply reduced cost. So we have been testing with industry how to compute on a contract basis, which is very difficult to begin with in terms of a concept, the allocation of capital, whether it be operating capital or whether it be facilities and equipment, in order that we could get a realistic, feasible way of rewarding industry as a profit a return on investment, and decreasing the impact of a fixed fee on cost.

And I think we, at the moment, are quite enthusiastic about the potential but we are probably quite a way away from fully covering. In our opinion, it should result in more modern equipment, a better investment and with better capital investment we should get a better factor of productivity which should reduce defense costs and while this is an aside, I thought you might be interested in that effort that is going on.

It is an effort that is strongly encouraged by the General Accounting Office, the Comptroller General, and by the Office of Management and Budget and, incidentally, by this committee in previous reports, to move to a return-on-investment approach, and we are doing it on a gradual basis.

Senator PERCY. I am delighted to hear that.

Mr. MOOT. Yes.

SHIFTING BURDEN OF SUPPORT OF U.S. TROOPS IN EUROPE

Senator PERCY. One other area of great interest to me has been to keep our defense strong in Europe but lower our own costs, and do that by having the European nations, as their own economic prosperity increases, assume a larger share of the load over there. It has always seemed wrong to me to be paying out in dollars as much as we are, creating such a balance-of-payments deficit and pressure on our own dollar. The cost runs better than $1.5 billion now in balance-of-payments deficit, and there seems to me to be no sense in having expenditures for the common defense cost any one nation that much in balance-of-payments pressure.

What progress is being made now to take part of this burden off of our shoulders. I am not talking about net troop reductions; I am talking about shifting the burden, the support of those forces. This can be done in any number of ways:

Have the foreign nationals that we pay, some 62,000 of them, paid for in local currencies. Why should we pay for them in dollars; have all purchases made in Europe paid for in the currencies of those countries, the equipment to be used over there for their defense as well as for ours. Is there progress being made in this area of lowering our cost without lowering our guard there?

Mr. MOOT. I can say this, Senator, that Secretary Laird has this as one of his highest priorities, and I know he had been following your discussions on this in great detail. He has just come back from a NATO defense ministers meeting, and he is quite optimistic about progress being made in several efforts.

The European community on a 5-year program is making significant increases to the total defense effort which is obviously necessary to relate, as you say, to the threat. This effort does not in itself mean there will be reduced U.S. forces, but it does mean that the total

military posture and the total strength of the NATO community will be greater due to the greater resource investment.

There is also a continued move toward burden sharing which means that some of the costs that the United States has been incurring will now be on a burden-sharing basis distributed among the community in a greater than previous sharing, such things as barracks improvement and recreational facilities and so forth. The full extent and the budget impact of this is hard to judge at the present time, but Secretary Laird has been placing great emphasis on this and each time he goes over and in all of the actions of the rest of the leadership of the Defense Department in dealing with the NATO community, he stresses the need to move in this direction.

So I think he shares your conviction.

Senator PERCY. Yes. If you could indicate to the Secretary my interest is a continuing one and I would very much appreciate a report now on where we do stand, what progress has been made. Really to me the litmus test is not just seeing the indefinite sort of increase in strength but really the biting of the bullet to get our costs down and get their efforts up, because we simply must reduce. I think otherwise the pressure to just absolutely pull troops out is going to be very high indeed.

Thank you very much.

Representative CONABLE. I didn't mean to run into the Senator's time; I wanted to ask a question on that.

DEPENDENTS COSTS

Isn't it true there is very substantial burden sharing as to the direct costs of our troops there, and that a large part of the balance-of-payments strain is the result of ancillary expenses—dependents?

Mr. MOOT. Dependents and so forth.

Representative CONABLE. Dependents costs which we really cannot expect to have burden-sharing pickup entirely because it is partly a matter of convenience and comfort of our troops there?

Mr. MOOT. I might say that one of the few adverse financial or economic results from our presence in Europe is that of the balance of payments. Generally, given the fact we have commitments and obligations to the NATO community, and that we would meet those commitments and obligations, the cost is not significantly greater to have troops in Europe. In fact, it is argued in many quarters that the budget costs would be more if we withdrew those troops and maintained them in a ready position in the United States so, therefore, it is, as Mr. Conable says, the presence of the dependents and the ancillary costs in Europe that create the balance-of-payments problem, and it is the balance of payments problem rather than a total cost problem.

Senator PERCY. That is why I keep emphasizing the balance of payments. You can maintain them in Illinois or Kansas without any dollar balance-of-payments costs.

Mr. MOOT. That is why the Secretary——

Senator PERCY. But the costs are very much, well over $1.5 billion now.

Mr. MOOT. I didn't mean to say——

Senator PERCY. We can't kiss it off, to say it is our convenience to have the families there. The Germans just go up in smoke anytime we even mention withdrawing our forces. They know it is in our national interest and their national interest to have those forces there. It is a very emotional subject with them. I have talked it over many times. When you talk about withdrawing dependents you create domestic problems and the Germans want those families there and they would like to have the expenditures of all those dollars there. But they can't have it both ways. They can't have the stability—they can't have the Defense Establishment; they can't have our hostages over there and that is what they really are; it is an absolute commitment that we would retaliate if any effort was made against them, and that is the strongest assurance they can get. They can't have it all that way and not recognize that we simply can't afford that $1.5 billion of costs.

We used to be able to do it with a trade surplus but we have got a trade deficit now and we have got a balance-of-payments problem now with our expenditures in Southeast Asia and with our expenditures with foreign aid. You just can't keep having all of these accounts of deficit for a long period of time without having an international monetary crisis.

PROPOSED BILL TO UPGRADE DEPUTY ASSISTANT SECRETARY OF STATE FOR FOREIGN AFFAIRS TO FULL UNDER SECRETARY

So I just think it is really up to us to bargain and bargain hard; and I am going over on the floor now to put a bill in now to upgrade the Deputy Assistant Secretary of State for Economic Affairs to an Under Secretary, a full Under Secretary, and I think it will carry. The administration supports it—to just emphasize that no longer can we go around just being good fellows. We have got to be hard, hard, tough bargainers and in our interests and in the interests of the free world.

U.S. GOAL SHOULD BE NO BALANCE-OF-PAYMENTS DEFICIT

The Defense Department, really—I just cannot emphasize how strongly I feel about it, and how we will back up everything that the Defense Department can do, to see that there is no balance-of-payments deficit. That ought to be our objective and goal—no balance-of-payments deficit.

The North Atlantic Assembly has accepted this principle in a unanimous resolution approved by 15 countries. There should be no deficit and no surplus. It ought to be all adjusted in a clearing house and it can be done if we just set about doing it.

I know Secretary Laird has done more than anyone else in the Defense Department ever, and Treasury has been very, very good about it; and it is just my hope that we can get a better result. If I could get an indication as to how we are doing on it, maybe I will sleep better nights.

Mr. MOOT. Senator, he has just returned, as I mentioned earlier, from a European meeting and I know this is on his mind and I will get you a current report.

PURCHASE OF U.S. BONDS BY GERMANS

Representative CONABLE. I do think this is a little more complicated than just having some determination about it, though. One of the major devices the Germans have used for equalization has been the purchase of our bonds.

Mr. MOOT. That's right.

Representative CONABLE. And they now hold so many of our bonds that the interest we are paying them is constituting a drain on balance of payments, so obviously this as a balancing device has some long-term consequences that we are going to have to face up to. There are all kinds of issues here beyond the defense issue.

Mr. MOOT. Yes.

Representative CONABLE. I would like to ask you an additional question, sir.

DISCLOSURE OF COST OVERRUNS

If Senator Proxmire doesn't get back here shortly, I think we will have to recess the hearing until he gets back. But one of the things that has been most damaging to the credibility of government, to the credibility of our defense establishment, has been the manner of disclosure of cost overruns. I wonder what kind of an early warning system you fellows have been able to develop as a result of some of the comparatively disastrous disclosures that we have had in the past about cost overruns. We need a manner of dealing with the cost overruns that are, as you say, to a degree, implicit in the combination of complicated, farout technology and inflation and long delivery periods, so that we won't get into the area of sensational disclosures, easily manipulated for political purposes and particularly damaging to the credibility of government generally.

Has there been some progress made in this respect? Are there some areas where we can anticipate corrective actions be taken publicly to avoid the appearance of sweeping the whole problem under the rug again until it can be sensationally disclosed by some columnist or politician?

Mr. MOOT. Mr. Conable, this is a very important area. Let me explain briefly the progress we have made within the last year.

On our major cost contracts now, the contractor is required to have an adequate management control system. An adequate management control system is described at great length in a joint procedural implementation manual of the Defense Department which describes the requisites and the characteristics of an accounting system, a performance measurement system and a budgeting system so we have the elements of cost control, schedule control, performace control: The required characteristics of a contractor's accounting system.

Now, before the contractor is allowed to engage in a contract for us he must demonstrate that he has this system; he must then budget the work over a period of time and over that time track of budgeted work down through his detailed work package structure. The Defense Department and the contractor agree to performance milestones, so that when a given amount of cost is incurred certain things should have been accomplished.

Recognizing that we can go well over a year before we have any end product in some of our contracts, it is necessary through test and development and early stage of production to be able to measure where you think you should have been in contrast to the costs incurred to that date, and to measure both progress and cost incurred against the budget that you allowed for that particular point in time.

So we have a means now of much closer monitorship of our large contracts by measuring what is expected to happen under the contract in a specific timeframe against what is happening in terms of performance, cost and delivery schedule.

This being the case, we will now be in a position to judge much earlier when there is any deviation of actual performance against budgeted performance or actual cost against budgeted cost.

I would be the last to say that this will eliminate our problems in terms of overruns but we will have much earlier indication, and as we learn the Congress will learn much earlier, because we report on each of these major systems to the legislative committees of the Congress which oversee Defense on the status of each of these major weapons. So as we learn more the Congress will learn more about our problems, as they are initiated. I think we are making progress.

Representative CONABLE. Mr. Moot, I wish you could stay here for a moment, sir. I think we are going to have to recess subject to the call of the Chair. The Senator does have some further questions he would like to ask you. He will be back within the next 2 or 3 minutes.

If you would wait, I would appreciate it and I will now recess the hearing subject to the call of the Chair.

(Recess.)

Chairman PROXMIRE. Mr. Moot, I apologize. It is unfortunate. I just had to go to take up an amendment I had to offer in the Appropriations Committee.

The F–14 program has given the Department of Defense as many problems in the past 2 years as any program. I don't mean to minimize the difficulty of these problems but I do feel that the department has an obligation to discuss them candidly with the Congress, and I do not think this duty has been performed in recent months.

As you know, the Navy in recent months has told the Congress that there is a realistic hope of completing the F–14 program at a total cost of almost $5.3 billion, or $16.8 million per copy, for 313 planes, notwithstanding Grumman's insistence on a new, restructured contract. The Navy has urged that this be done, pointing to the large costs already involved and claiming that the 227 remaining planes would cost only $10.2 million each.

THE FOSTER F–14 REPORT

On Monday night I issued a statement charging the Pentagon with covering up a comprehensive status report on the F–14 prepared by Mr. Foster and submitted to Secretary Laird in February of this year, shortly after Grumman submitted its demand for a new contract. That report, I charged, put the projected costs contained in Navy testimony to the Congress both before and since. It projected total costs of over $6.5 billion, or $20.8 million per plane, for a 313 aircraft program, and it estimated the costs of the last 227 planes at $16.5 million each, fully 50 percent higher than the Navy estimate.

Have you seen the Foster report?

Mr. MOOT. No, sir; I have not seen the report. I am aware of the report. It is my understanding that the report was a report to Secretary Laird, Mr. Chairman, designed to provide Secretary Laird with alternatives if the cost of the program was going to increase. Secretary Laird, Mr. Chairman, as well as the Navy leadership, have testified repeatedly that from the Defense Department's point of view they have not accepted the fact that the contract will go up in cost, that they have a contract, and that, despite the Grumman statement, they are not at all satisfied that there is any reason why there should be an increase in this contract. So that obviously the Secretary of Defense is not talking about a $20 million aircraft, he is talking about a $16 million-plus aircraft at this time.

Chairman PROXMIRE. Well, now, the Foster report projects a $1.25 billion cost increase over previous Navy estimates for the program. Do you believe in all good conscience that it has been proper for the Navy to adhere to its old estimate in recent congressional testimony, especially in light of the fact that the Foster report was itself based on Navy-submitted figures?

Mr. MOOT. Well, I don't think that Mr. Foster himself nor do I think his staff had done any cost computation for auditing of this contract. So I think whatever figures they are using in this report, which I have not seen, can't be considered the official Department of Defense figures, Mr. Chairman.

Chairman PROXMIRE. Well, it may not be official but we have all great respect for Mr. Foster; some of us have found him difficult in other areas but in his part of the defense apparatus, he is a brilliant man, as you know; he is our leading expert on research operations.

Mr. MOOT. No question, Mr. Chairman, but I think there might be some misunderstanding of the thrust of Mr. Foster's report. I think his report was intended to be helpful to offer the Secretary alternatives to the effect that the contract was broken because, obviously, if you do break a contract, as you know, prices do go up. I mean just to start a new source would cost additional funds, and if there is a no-profit situation with Grumman, obviously any new contract would cost more money. But I would like to repeat that I have been with Secretary Laird in numerous instances while he has been testifying before this Congress and his position is simply that he has a contract with Grumman and he has no evidence that that contract will not be picked up come option time.

Chairman PROXMIRE. Let me try once again here.

The Navy has told Congress that it intends to order 48 F–14A aircraft on October 1 and to require delivery of these aircraft during calendar year 1974. The Foster report, I understand, said that this year's budget request would not allow that, and it recommended a slip in the October 1 option date, a smaller fiscal year 1973 buy, and a stretchout in the program over the next few years,

Now, from what you have told me this morning, you would deny that?

Mr. MOOT. It is not a question of denying it. I would say that to the best of my knowledge from having been with Secretary Laird when he has been testifying to this program that it is not his current intention to accept anything except the 48 aircraft at the price in the contract, which relates to the price for the budgeted request.

F–14A VERSUS F–14B

Chairman PROXMIRE. The Navy has told the Congress that it now intends to buy 313 F–14A aircraft, Mr. Foster said that the Navy really intends to buy F–14B's, which have much more expensive engines, from here on. How about that—do you know anything about that?

Mr. MOOT. Well, I do know this, Mr. Chairman, that the joint effort on the higher technology engine is no longer joint effort; it is a unilateral effort on the part of the Air Force which would indicate that the Navy has no immediate plans to use the higher technology engine, the B engine, and that they are talking about the A aircraft.

Chairman PROXMIRE. So your position is that to the best of your knowledge the Navy does not intend to buy 14B's?

Mr. MOOT. Not at this time.

Chairman PROXMIRE. I have asked Secretary Laird to submit an unclassified copy of the Foster report to the Congress prior to a vote on this year's F–14 funding. Do you see any reason why this cannot or should not be done?

Mr. MOOT. I am not familiar with the report so, therefore, I could not answer that question intelligently, Mr. Chairman. I think the report would have to be judged on its security classification,

Chairman PROXMIRE. It is your position that Grumman can be held to their contract; is that right?

Mr. MOOT. This is Secretary Laird's position, sir. Not being a lawyer, I am not qualified to speak to that but Secretary Laird has had ample legal advice on this particular question.

Chairman PROXMIRE. Well, now, if Congress does approve F–14 funding this year for the F–14, what does the Defense Department propose to do if Grumman is unwilling or unable to—as they indicated they are—to continue production without a revised contract?

Mr. MOOT. Well, I don't think that, while he may be thinking considerably about what he might do, Secretary Laird has indicated what course of action that he would take. He has not gone beyond the fact that he does have this contract and expects Grumman to live up to the contract terms.

Chairman PROXMIRE. Has the Defense Department ruled out a fixed loss contract like Lockheed's on the C–5A?

Mr. MOOT. Not knowing the course of action that the Secretary might take afterward, I can't say what he has ruled, either out or in. All I can repeat, Mr. Chairman, is that at the present time it is his intention to have both the Government and Grumman live with the contract.

Chairman PROXMIRE. How about another loan guarantee to meet Grumman's cash flow problem?

Mr. MOOT. I would not expect that this would occur.

Chairman PROXMIRE. You would not expect what?

Mr. MOOT. I would not expect this would be a part of any current consideration by the Secretary.

Chairman PROXMIRE. Has it ruled out a termination of the program after the first 86 aircraft?

Mr. MOOT. Again, the same answer. The current expectation of the Secretary of Defense is that Grumman will comply with the contract so that termination will not be necessary.

Chairman PROXMIRE. Do you believe Grumman was guilty of a buy-in on the F–14 program?

Mr. MOOT. The question of buy-in is almost impossible to demonstrate by evidence one way or the other, Mr. Chairman, so it is an impossible question to answer. There appears to be little doubt from Grumman's statement that Grumman's estimate was probably lower than they are now considering the true cost of the program to be. Whether you can convert that or interpret that to be a buy-in is a matter of judgment.

Chairman PROXMIRE. Is it true Grumman in its latest proposal to the Navy has dropped its insistence on a profit from future F–14 production and that it has agreed to continue production if it is given a cost-type contract like Lockheed's for the C–5A?

Mr. MOOT. I cannot answer that question. I would be happy to ask the Navy because I do not know what Grumman's latest proposal is.

Chairman PROXMIRE. I would appreciate your getting that information for the record.

(The information requested was later supplied as follows:)

GRUMMAN REQUEST FOR RESTRUCTURED CONTRACT

The Navy has received no formal proposal from Grumman changing their position as outlined in their January 20, 1972, letter, a copy of which is attached. This letter has also been placed in the record of the House Armed Services Committee hearing of March 1, 1972, page 1091.

JANUARY 20, 1972.

Re Contract No. N00010–69–C–0422.

Rear Adm. T. R. MCCLELLAN,
Commander, Naval Air Systems Command,
Department of the Navy,
Washington, D.C.

DEAR ADMIRAL MCCLELLAN: The Contractor has previously advised the Navy of contractual problems in connection with the F–14 program. It is believed appropriate that these problems now be addressed by the Government in connection with its planning for Fiscal Year 1973 and subsequent years.

First, however, we would like to state that we are most pleased at the Government's confidence in the F–14A program as expressed by its order for 48 additional F–14A aircraft using fiscal year 1972 funds. As we have previously indicated in my letter of July 27, 1971 to the Deputy Secretary of Defense, Grumman Aerospace Corporation would build the F–14A aircraft if the Department of Defense Fiscal Year 1972 program for the F–14A is authorized and funds are appropriated. Now that Navy pilots have flown the aircraft, we expect that they will concur with our strong view that this aircraft will be a significant asset to the Navy and to the defense of the country through the 1970's and into the 1980's.

In the interest of sustaining program progress, Grumman agreed to accept an order of additional aircraft in Fiscal Year 1972 and not assert our legal grounds. Briefly, however, it is our position that the Government's options are invalid. We and our industrial associates cannot accept further option exercises and, in view of the responsibilities we have to our shareholders, our industrial associates, and, indeed, to the United States Government, we are compelled to pursue this issue at this time. The grounds are predicated upon the occurrence of events unexpected by either party wherein undue risks have been and would continue to be shifted to the Contractor.

The Contractor will be pleased to manufacture and deliver further aircraft beyond Fiscal Year 1972 at negotiated fair prices. However, the present contract will require restructuring. This approach is consistent with the current Department of Defense Directive on Acquisition of Major Defense Systems, DoD Directive 5000.1 of July 13, 1971 which clearly indicates that development of new complex defense systems should not be predicated on total package procurement or production options contractually priced in the development contract.

We recommend that, prior to the Government's notification of its anticipated requirements for Fiscal Year 1973, discussions be conducted to restructure the contract to delete all options subsequent to Fiscal Year 1972 as well as to reflect the current status of the development program.

Would you please acknowledge receipt of this letter by signing the enclosed carbon copy in the space provided.

Respectfully,

GRUMMAN AEROSPACE CORP.
L. J. EVANS,
Chairman of the Board and Chief Executive Officer.

F–14 DESIGN PROBLEMS

Chairman PROXMIRE. As you know, the F–14 is still very much an untested airplane. I understand that a problem developed when the Navy attempted recently, for the first time, to fire the plane's gun in flight. The smoke from the gun was ingested into the plane's engines, a factor which under dogfight conditions could have caused the engines to stall and the plane to crash. I understand that design changes will be needed to set things right.

Can you confirm for me the existence of that problem?

Mr. MOOT. I would be glad to for the record. I do not know personally.

Chairman PROXMIRE. Will you also find out what it would cost to fix that?

Mr. MOOT. I would ask the Navy to provide that information.

(The information requested was later supplied as follows:)

We no longer can refer to the F–14 as still very much an untested airplane. The ground and flight test program on the F–14 is progressing extremely well and all indications to date are that the F–14 will be a great multi-mission fighter, and will fulfill the Navy's specifications and unique requirements. The Navy now has 11 F–14's in a flight test status which have flown 815.7 hours during 398 flights during the past year.

One of the extremely important phases of the evaluation of the F–14 is the ground testing of aircraft components and full scale test articles which precede in-flight demonstration of a particular capability. The key to F–14 testing is to "test early" to insure the attainment of a key milestone.

A key element of the F–14 test program is the use of 3 full scale F–14 ground test articles (a first in Naval Aviation): Static No. 1 used for structural load verification; Static No. 2 used for carrier suitability and structural load testing; and a fatigue article used for the verification of aircraft structural life under real operational loads. An example of ground testing to pace key flight demonstrations is the use of a full scale F–14 ground test article, Static No. 2 which has been dropped from heights as high as 12 feet, in various attitudes, more than 260 times. This was done to clear the carrier suitability aircraft, No. 10, which is now at the Naval Air Test Center at Patuxent River, Maryland for initial catapult and arrested landing.

All major structural tests and drop tests have been successfully completed on the F–14. Five F–14's now have the full AWG–9 system integrated and are undergoing flight test at Pt. Mugu, Calif.

With regard to gun gas ingestion encountered by the F–14 during recent flight testing, the M–61 gun testing and its ground integration testing into the F–14 airframe has been underway since early 1970. In anticipation of a gun gas ingestion problem if it was encountered in flight, Grumman designed and tested on its Gun Test Stand a gun gas deflector to direct the ball of gun gas below the F–14 away from the engine inlets. The M–61 gun was fired and at certain altitudes and speeds gun gas ingestion did impact engine performance to a limited extent. This phenomenon of firing a gun and affecting engine performance is not new and has been encountered on past fighter aircraft (e.g., the F–4E Phantom). The fix that Grumman has developed and tested is very simple and of similar design to that now being used on the Air Force F–4E Phantom. The gun gas deflector fits into the existing F–14 structure and does not affect F–14 primary structure. This is an excellent example of the F–14 "test early" concept which gives much insight into

all design considerations and allowed the timely development fix to be in pace when the anticipated in-flight problem arose. A cost estimate is being developed by Grumman for the Navy. I will forw ard it to you when available.

COMPARISON OF F–14 AND MIG 16–21 COSTS

Chairman PROXMIRE. You acknowledged in your prepared statement that recent aircraft buys have been only 20 to 25 percent as large as pre-Vietnam levels. Isn't one of the reasons for this problem the fact that the F–14 costs more than 10 times as much as a Mig-21, even if the Pentagon's own estimate of $1.6 million for a Mig-21 is used for purposes of comparison?

Mr. MOOT. Well, I would need to check the relative costs, Mr. Chairman, to assure the accuracy of that statement, but there is no doubt that the F–14 costs a great deal more and there is no doubt that the F–14 provides much greater performance capability. It is true that we are buying less aircraft than previously because of greater capability of the fewer aircraft. It is also true that we are aging our aircraft inventory which means that we are not keeping abreast in terms of modernization of our aircraft.

Chairman PROXMIRE. But in terms of force levels, it seems to me we are making a terrific sacrifice. Wouldn't it be wise to drop the F–14 and to insure ourselves of adequate force levels by buying three times as many improved F–4's or new, lightweight fighters?

Mr. MOOT. I can assure you there has been much discussion in the Defense Department concerning quantity versus quality or performance, high-performance aircraft; and, again, I would prefer to insert more expert opinion in the record at this point than mine.

(The following information was subsequently supplied for the record:)

A relative cost comparison of the F–14A and MIG–21 would not be indicative of the real issue—capability. Certainly the F–14A would be more expensive on a pure aircraft-to-aircraft basis. Though the MIG–21 is a relatively simple, inexpensive aircraft, to successfully accomplish its mission the MIG–21 requires extensive external sensor and fire support.

The F–4 in any version is not capable of effectively countering the threat and therefore is not an acceptable alternative. A lightweight fighter is not a viable alternative for the same reason. In addition, a light-weight fighter is a dedicated single mission aircraft and must be considered as complementing present developments and not as an alternative to them.

When ensuring adequate force levels, raw numbers cannot be the sole determinant. Individual aircraft capability must be considered. Force level requirements could be filled with large numbers of simple jet fighters for far less dollars yet still not build an effective force to successfully counter the threat. However, attack carrier deck space is of course limited, only a certain number of aircraft can be embarked.

Navy Attack Carrier Air Wings are balanced striking forces operating autonomously at sea. Each aircraft must be the most efficient and capable vehicle possible in its assigned mission. The luxury of many single-purpose aircraft in unlimited numbers is not feasible. The decks of a carrier cannot be filled with simple fighter aircraft alone and still retain an acceptable strike capability. In addition, the mobility of the carrier prevents isolation in a single geographical location that embraces a particular threat against which a rigid defense of specialized aircraft can be structured. Navy fighters must be capable of defeating the total threat a potential enemy might mass at any time and in any geographical area. The F–14 is a Navy fighter that meets Navy requirements and is capable of effectively countering the sophisticated aircraft and missile threat postulated through the 1980's.

Mr. MOOT. The program for less costly, more flexible aircraft for specific uses is, as you know, being developed under our prototype program, where fighter aircraft are being developed which will be considerably less expensive and this is another aspect of where we are headed in the future.

ADEQUACY OF F–4'S

Chairman PROXMIRE. One other question in connection with the F–14: The head of the West German Air Force, in a recent interview with Aviation Week, stated that in his view the improved F–4's the Germans are buying will be more than a match for the Soviet threat, including the Mig–23.

If improved F–4's are good enough for our allies, why aren't they good enough for us, since we are buying fighters to defend our allies, not to defend against attacks on the continental United States?

Mr. MOOT. Again, I would, with your permission, get a more qualified answer than I could give you at this stage. I am not a military expert nor a relative aircraft performance qualified witness, Mr. Chairman.

(The following information was subsequently supplied for the record:)

The F–4 in any version is not capable of countering the threat in the 1975–1985 time frame. The F–4 versus the latest MIG–21 is at best an even fight when flown by pilots of equal ability. Our recent air-to-air success against the MIGS in North Vietnam is due primarily to superior pilot ability and better air-to-air weapons. Against the MIG–23 and future threats the F–4 will prove inferior. Every objective analysis to date, including the recently completed Navy Fighter Study III, conclude that the F–14 will meet the advanced missile and aircraft threats.

The Navy needs the F–14 to maintain control of the seas and to project air superiority over land areas when required. Air supremacy is attained by achieving superiority in all tactical fighter roles. The offensive environment can vary from extremely hostile to relatively permissive. The measure of success achieved in this ever-changing environment varies with the degree of dominance sought. The initial phase of air superiority requires a favorable destruction or exchange ratio on the enemy's terms. Early detection for achieving first-shot and reliable systems for achieving the kill are the dominating requirements. Gaining this initial advantage permits operation of other elements of the tactical force, and these elements must be protected. The measure of success in this role is more demanding of the system as the air superiority fighter must defend itself and its supported elements in a well-coordinated attack against a well-coordinated ground and air defense.

Chairman PROXMIRE. Mr. Moot, I realize that you are Comptroller of the Department and that you have a heavy and serious responsibility for financing the Department and that these are technical questions that might be directed to others. I think that your responses have been very helpful and most responsive within the limits of your responsibility.

I want to thank you in general for a very helpful appearance here this morning and for a fine, detailed statement.

ACCURACY OF $100 BILLION DEFENSE BUDGET PROJECTION

As I say, I am very troubled still about the lack of analysis of the future. Could you just finally give me your notion of whether or not the $100 billion projection which Brookings makes for 1977, and my staff tells me in 1975—we are moving toward $100 billion budget in 1975—whether that is wrong and, if so, how far off it is?

Mr. MOOT. Let me make this statement, then.

To the best of my knowledge and assuming a stable international situation, there is no programing or planning going on in the Defense Department that I am aware of, and I should be aware of it if it is going on, that would make this statement invalid.

I do believe that the 1973 resource level projected in terms of requirements matching the Secretary's force structure should allow the Defense Department to maintain that force structure without any additional real growth in its allocation of resources, which means that in constant dollars we should be able to maintain about the 1973 level without any significant change.

Chairman PROXMIRE. What you are saying—your dollars are not constant, they are not likely to be constant because there are going to be in the future big pay increases? We know that that is inevitable. Certainly no realistic person would expect that pay in the civilian sector of our society or economy is going to stay fixed or even at a 5-percent level over the next 3 or 4 years. Therefore, you are going to have to have comparable increases to maintain your volunteer Army. Everybody projects some degree of inflation; we have had it for the past 5 or 6 years, so that would be higher. But you are saying these increases would be strictly inflationary increases, that the real level would be about the same; it would not decline?

Mr. MOOT. That's right.

ANTICIPATED SAVINGS AS A RESULT OF VIETNAM CESSATION

Chairman PROXMIRE. Well, now, how about the fact that we are now expending at least what—$5 or $6 billion in Vietnam, on the assumption the war will be over at least, we hope, by 1975?

Mr. MOOT. Yes.

Chairman PROXMIRE. Would that change the picture? Would we have a real saving there?

Mr. MOOT. Let me recap and answer that specifically.

I have said, and I think we have demonstrated there has been no real growth in the resources available to the Defense Department over the past——

Chairman PROXMIRE. And you say that again with respect to the fact there is a $6 billion increase in new obligational authority next year?

Mr. MOOT. Yes; I am saying that including the new obligational authority which is again a hard tradeoff decision within the Defense Department.

Chairman PROXMIRE. That is about a what—about an 8-percent, 9-percent increase?

Mr. MOOT. Well, it is 6.3 over a $77 billion base.

Chairman PROXMIRE. Nine percent?

Mr. MOOT. So it is about an 8, 8.5 percent increase; but there has been no real growth over the past 20 years. What I am saying is that with this being the fact, the funds that we are currently allocating for South Vietnam purposes are funds that should be, granted that we have had no lessening of the threat, should be allocated to modernization and deferred maintenance of our current military structure because they have been diverted from and eroded from our baseline force structure.

Assuming that I am also saying that to the best of my knowledge from all the programing I can see, the really constant buying power level of defense resources should not be significantly—when I say significantly I mean even in a minor amount—be increasing from the level of 1973 in constant dollars.

What I am saying is I would hesitate to hazard a guess as to the inflationary impact over the next 5 years because I just don't know what that would be.

Chairman PROXMIRE. Brookings projects a $10 billion real increase. Now you are saying that will not happen. You are just denying that is the case?

Mr. MOOT. Brookings indicated——

Chairman PROXMIRE. This is based upon their analysis of the weapons systems' expansion primarily—ULMS, many, many other things, that the bomber fleet——

Mr. MOOT. Yes.

Chairman PROXMIRE. The others?

Mr. MOOT. Yes.

Brookings indicated a $10 billion growth from 1972 to 1979, 5 of which we have already discussed this morning in terms of what Brookings calls real growth in weapons systems and real growth in pay increase which I don't believe because, as I indicated earlier, there will be tradeoffs within the Defense Department—overall availability of resources. The other 5 was the basepoint which was 1972 versus 1973 in terms of the Brookings benchmark.

Chairman PROXMIRE. You are assuming that any pay increase is strictly inflationary, that there is no productivity response here? If you get an all-volunteer Army and if you pay people more, presumably they ought to be more efficient, ought to be able to do a better job, a considerably better job. In fact, I would expect now that we have the 13-year catchup but from now on as you have any increases above the cost of living you should have productivity increases; I don't see why you shouldn't have them.

Mr. MOOT. I would certainly agree that we should be looking to increased productivity in several areas. As we get to an all-volunteer force we should have a more stable force. Our training costs should go down.

Chairman PROXMIRE. Right.

Mr. MOOT. We should be able to do more with less; but remember, we are at the present time significantly deficient in what we haven't done in our investment program. So what I have said in my projection for you is within the real growth or within that real constant buying power level the Defense Department will be making some hard trade-off decisions as to how to improve the overall structure within the same dollar level.

Chairman PROXMIRE. I do have a couple of very quick questions and I apologize; I thought I was through about 10 minutes ago, but they keep coming back.

U.S. SUPPORT TO SOUTH VIETNAM COMPARED TO RUSSIAN SUPPORT TO NORTH VIETNAM

No. 1: You said the Soviet Union to date has given 10 percent to North Vietnam of what we have to South Vietnam?

Mr. MOOT. I would like to define that for the record. What I was saying, over the period of time we have devoted about $100 billion to our activities in Southeast Asia, I doubted that the Soviet Union has done much more than $10 billion.

Chairman PROXMIRE. But you see, that throws into question the testimony that I got as chairman of the Foreign Aid Subcommittee of the Appropriations Committee from Secretary Rogers. He testified Vietnamization was working, the Vietnamese were doing the job themselves to a considerable extent.

If we are providing 10 times as much assistance to them in addition, of course, to our own fighting—the Russians have not been fighting—it seems to me that our assistance is so overwhelming that this is relatively negligible.

Mr. MOOT. I think then I have created a misunderstanding, Mr. Chairman.

The over $100 billion costs have been predominantly for U.S. forces; as you know, we had over—almost 550,000 U.S. troops in the country. They are now down to 49,000 as of June 30.

Chairman PROXMIRE. Nevertheless, that has been used in the war effort on our side as opposed to theirs.

Mr. MOOT. Yes; but in terms of equipment aid which I am sure Secretary Rogers was talking about, and where the money is now or what the money has bought versus what it was spent for, I don't think there is any question, but there has been relatively comparable Soviet Russian military equipment versus ours.

THE M'GOVERN DEFENSE BUDGET

Chairman PROXMIRE. I would like you to comment, finally, on this because this has been a matter of great national interest.

We had a debate last night involving Senator Humphrey and Senator McGovern in which it seems to me McGovern took a position that is expressed in Brookings' report—he didn't seem to know it because when Humphrey kept quoting Brookings, McGovern could have given it right back to him and didn't do it.

The lower option which McGovern is opting for is this—and Brookings doesn't take a postion on any of these; they just say, "This is the option; make your own mind up;" they don't support the Humphrey position, Nixon position, or McGovern position; they just say this is it—the low budget option might be reduced by $5 billion as a result of the following: To eliminate ground forces oriented toward use in local conflict in Asia, which doesn't seem to be too unreasonable perhaps at least we know what we are doing here; to limit the role of carriers in contingencies involving the Soviet Union, and that certainly is an option in view of the great advantage that land-based nuclear powers would have over a carrier; to cut back heavily on tactical air force requirements for deep penetration missions and if, at the same time, the United States moved toward relying solely on its sea-based strategic deterrents, the defense budget would be reduced by $4 billion more a year.

Now, the last is a very, very serious move. That is only a $4 billion saving; in other words, you knock out your bomber option; you knock out your Minuteman option; and you rely soley on your submarine option. That is one that very few of us would opt for but that seems

to be the direction you would have to move if you are going to go for a $20-billion reduction; is that right?

Mr. MOOT. Well, there is no question in our minds from having looked at the proposal of Senator McGovern that it would have a drastic effect upon our military force structure and therefore our capability.

The calculations and computations of the McGovern budget were reasonably professional with one fairly large exception which was equivalent to about a $10 billion miss in terms of not pricing at current costs, but aside from that——

Chairman PROXMIRE. What was that? You say there was a large mistake of $10 billion in costs?

DOD ANALYSIS OF M'GOVERN BUDGET

Mr. MOOT. Well, we would have priced the McGovern budget which came out to about $54 billion, you know, in 1975 prices. We would have priced that at about $10 billion higher simply because in computing the elements and pricing them forward, Senator McGovern missed one large segment and that is our current operating costs, supplies, and we have about a $10 billion current operating cost for fuel and current supplies and consumble goods and so forth which did not appear or got squeezed out of the forward projection of Senator McGovern. But with that exception, it was a reasonably professional job, but very, very drastic in terms of its military implications.

Chairman PROXMIRE. This is so significant, and I think it is a matter of great public concern and interest now: Could you provide that study to this committee?

Mr. MOOT. I could provide, I think, two studies: One, the military implications [1] and, second, the financial analysis of the McGovern budget. I would be happy to.

Chairman PROXMIRE. I would be very happy to have it. Incidentally, Senator McGovern is going to testify before the committee. I will get out a release on that later on. Both Governor Wallace and Senator Humphrey, but I am going to disclose the details of that a little later on.

Mr. MOOT. I might send these studies up prior.

Chairman PROXMIRE. I should say McGovern is going to—the other men have not accepted it.

Mr. MOOT. All right. Then this study would probably be helpful to the committee staff if we sent it up early, and I will get it up right away.

(The information referred to was subsequently supplied for the record:)

APPRAISAL OF "TOWARD A MORE SECURE AMERICA: AN ALTERNATIVE NATIONAL DEFENSE POSTURE," SPONSORED BY SENATOR GEORGE MCGOVERN

Using the President's FY 1972 program as a takeoff point, the McGovern study advocates an FY 1975 Defense budget of $54.8 billion. The figures may be summarized as follows:

[1] The military analysis is classified.

Total obligational authority.

[In billions of dollars]

TOA reflected in the fiscal year 1972 column of the fiscal year 1973 budget is	78.1
Incremental war costs are estimated at	−6.5
Baseline force costs for fiscal year 1972 are	71.6
From fiscal year 1972 to fiscal year 1975, pay and price increases will add	+12.6
The costs in fiscal year 1975 of the fiscal year 1972 baseline force would be	84.2
The McGovern study advocates manpower, investment, and other programs cost that would reduce this by	−19.3
The fiscal year 1975 costs of the forces recommended in the McGovern study would be	64.9
However, a part of these costs are made to disappear through faulty pricing	−10.1
And the McGovern study therefore recommends a fiscal year 1975 budget of	54.8

From the third line downward, incremental war costs are excluded. No volunteer force costs are shown beyond legislation already enacted.

Mispricing ($10.1 billion)

The mispricing in the McGovern study can be illustrated in two ways, beginning with the figures presented on pages 54–56 of the study. First, the McGovern study summarizes the $54.8 billion recommendation on page 54. These figures, contrasted with appropriately-priced figures, are as follows:

	McGovern Fiscal year 1975 program in fiscal year 1975 prices (billions)	
	McGovern pricing	Appropriate pricing
Military personnel	$18.6	$19.9
Military retired pay	5.1	6.1
Civilian payroll	10.2	10.4
Subtotal, pay	33.9	36.4
Operating costs, other than pay	.2	7.8
Procurement, R.D.T. & E., and construction	20.7	20.7
Subtotal, equipment, supplies, and services	20.9	28.5
Total	54.8	64.9

The active and reserve manpower proposed in the McGovern study would cost $19.9 billion in FY 1975, under these assumptions:

Annualization of the pay and allowance increase which took effect in November 1971 (PL92–129) and of the general pay increase which took effect on January 1, 1972.

Future *basic pay* increases of 6.4% on January 1, 1973; 5.4% on October 1, 1973; and 7.2% on October 1, 1974. These would correspond to increases of 4.9%, 4.1% and 5.5% in *salaries* of Civil Service personnel.

Increases of 2.7% per year in costs of enlisted subsistence, clothing, and certain other cost-related allowances.

The $1.3 billion pricing error may have resulted from applying the civilian salary percentages to military basic pay. This possibility is suggested by the discussion on page 52 of the study.

As to military retired pay, the McGovern study recognizes (on page 54) that FY 1975 costs will be about $6 billion, but for some reason that is not explained only $5.1 billion is allowed. The facts regarding retired pay are as follows:

Costs will be $4.6 billion in FY 1973, under existing legislation, and $4.9 billion if legislation now under consideration is enacted.

From FY 1973 to FY 1975, retired pay will be increased by population increases (about 11%); cost-of-living increases; and military pay increases.

The persons who will be drawing retired pay in FY 1975 are mostly on the retired rolls today. The remainder are on active duty, with 17 or more years of service.

The McGovern study is silent as to how it would achieve a $1 billion cut in FY 1975 costs, or how the FY 1973–75 growth in retired pay would be held to $200 million (from $4.9 billion in FY 1973 to $5.1 billion in FY 1975). This would *not* result from the manpower cutbacks advocated in the McGovern study. It is possible that this cutback is predicated upon radical legislative changes. If so, these should be specified.

The mispricing in the civilian payroll area is relatively slight.

The McGovern study (page 54) shows a total of $20.9 billion available for equipment, supplies and services. Pages 55 and 56 show that $20.7 billion of this is intended for investment, leaving $200 million for operating costs other than pay. This involves ship and aircraft fuel; transportation and travel; cummunications, power, and other utilities; spare parts and operating supplies; contractual overhaul of ships, aircraft, and other weapons and components; medical supplies and services; and other operating costs. These costs may be summarized as follows:

Total obligational authority	*Dollars in billions*
Total costs in fiscal year 1972 are	$11.4
Incremental war costs in fiscal year 1972 are	−1.9
Leaving fiscal year 1972 baseline costs of	9.5
Purchase inflation at 3 percent per year would increases these costs by	+.9
The fiscal year 1972 baseline program would cost, at fiscal year 1975 prices	10.4

The McGovern study would leave just $200 million to cover these costs—a 98% cut. It is difficult to avoid the conclusion that this was inadvertent. For example:

The McGovern study advocates a 25.6% cut in military and Civil Service manpower from the FY 1972 baseline level.

Baseline force investment, in dollars of constant buying power, would be cut by 23%.

It is assumed that the McGovern study intended a 25% cut in non-pay operating costs, or an FY 1975 level of about $7.8 billion.

Fiscal year 1975 investment outlays of $20.7 billion are separately identified in the McGovern study. While details are not given, this would appear to be a reasonable pricing of the investment program they are advocating.

There is a second way to illustrate the mispricing in the McGovern study, using the table at the bottom of page 54. This may be summarized:

ADMINISTRATION'S FISCAL YEAR 1972 PROGRAM COSTS

[In billions of fiscal year 1975 dollars]

	McGovern pricing	Appropriate pricing
Military personnel	$28.1	$29.1
Military retired pay	6.0	6.1
Civilian payroll	13.2	14.9
Subtotal, pay	47.3	50.2
Equipment, supplies, and services	40.1	41.5
Total	87.3	91.7
Less estimated Vietnam increment (fiscal year 1972 in fiscal year 1975 dollars)	−12.8	−7.5
Total baseline	75.5	84.2

The problem here primarily involves a gross overstatement of FY 1972 war costs. At FY 1972 prices, these are $6.5 billion. Inflation from FY 1972 to FY 1975 would add $1 billion, for a cost in FY 1975 prices of $7.5 billion—far below the $12.8 billion used in the McGovern pricing was $9.7 billion too low. This was compounded by an unexplained writeoff of $900 million in retired pay and other changes, leading to the overall pricing errror of $10.1 billion.

Program reductions ($19.3 billion)

Setting aside mispricing, the McGovern proposals would involve a $19.3 billion cut (in FY 1975 prices) measuring from the FY 1972 baseline program. This cut would involve:

Total obligational authority

	Billions
Military and civil service manpower	$10.4
Non-pay operating costs	2.7
Investment (procurement, R.D.T. & E. and construction)	6.2
Total	19.3

As to manpower, it might add some perspective to compare the FY 1975 McGovern proposals with earlier manpower levels.

	Manpower (in thousands)		
	Active duty military	Civil service	Total
McGovern proposals, fiscal year 1975	1,735	761	2,496
June 1973 (President's budget)	2,358	1,036	3,394
June 1968 (war peak)	3,547	1,287	4,834
June 1962 (peacetime high)	2,808	1,069	3,877
May 1960 (1951–71 low)	2,465	1,052	3,517
April 1952 (Korea peak)	3,685	1,445	5,130
June 1950 (post-Pearl Harbor low)	1,460	729	2,189
June 1941 (6 months before Pearl Harbor)	1,801	556	2,357

Setting aside wartime peaks, the manpower levels proposed by Senator McGovern would be:

1,021,000 below the May 1960 level, which was the lowest level of manpower reached throughout the 1950's and 1960's.

1,381,000 below the June 1962 (peacetime high) level.

In general, about 1,200,000 below the manpower levels maintained from 1955–65.

307,000 above the June 1950 level, which was the lowest level for more than 30 years.

139,000 above the June 1941 level—6 months before Pearl Harbor.

The McGovern manpower levels are thus within about 12% of the manpower levels we maintained prior to Korea, prior to NATO, and prior to Soviet possession of atomic weapons. (The Soviets detonated an atomic weapon in August 1949; the invasion of South Korea began on June 25, 1950; and the NATO buildup began shortly thereafter.)

Time also adds some perspective to the $20.7 billion level of investment (procurement, RDT&E and construction) proposed by Senator McGovern, as follows:

TOA IN BILLIONS

	Current prices	Constant fiscal year 1975 prices
Fiscal years:		
1956	$16.4	$26.1
1957	17.9	26.7
1958	18.6	27.4
1959	20.1	29.0
1960	19.8	28.7
1961	20.6	29.3
1962	22.2	31.7
1963	22.8	32.4
1964	22.8	32.2
1965 (baseline)	21.2	29.3
1972 (baseline)	24.7	26.9
1975 (McGovern proposal)	20.7	20.7

As the table shows, the McGovern investment program (in constant prices) would be well below any year in the peacetime decade 1956–65, and nearly one-third lower than the average for that period. Once again, the McGovern program would be sharply below any level—wartime or peacetime—since 1950.

In summary, Senator McGovern is not only proposing cutbacks from current Defense budget levels. He is proposing levels of manpower and of investment that are a third below the peacetime levels maintained throughout the 1950's and 1960's. We would move, under the McGovern proposals, to manpower and investment levels much lower than any since the Korean War, the NATO commitment, and Soviet possession of nuclear weapons.

Chairman PROXMIRE. Very good.

Once again, thanks a lot. You have been most helpful.

Mr. MOOT. I appreciate your courtesy.

Chairman PROXMIRE. Right.

The subcommittee will stand in recess until tomorrow morning at 10 a.m., when we will hear from Admiral La Rocque—we are very happy to see he is here today—who has very interesting testimony; Robert Pranger, Robert C. Richardson—General Richardson, I should say; and Professor Schelling.

(Whereupon, at 12:15 p.m., the subcommittee was recessed to reconvene at 10 a.m., Thursday, June 1, 1972.)

NATIONAL PRIORITIES—THE NEXT FIVE YEARS

THURSDAY, JUNE 1, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Percy; and Representatives Reuss and Conable.

Also present: John R. Stark, executive director; Richard F. Kaufman and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

The hearings thus far have highlighted the unique fiscal situation that faces the Nation. We have entered a time, according to the forecasts of most experts in and out of government, when Federal revenues, even at full employment, will not support essential Federal programs.

The brutal fact is that we either cut or streamline existing programs, increase taxes or simply forget about new Government initiatives to solve the most critical problems of our time.

Today, as we did yesterday, we will emphasize the national security aspects of the priorities question. The issue here, in terms of the fiscal squeeze I have referred to, is whether we allocate more resources to national security over the next 5 years, less resources, or the same amount of resources currently earmarked for this program.

Part of the problem facing Congress is that it has not been equipped to deal with the long-term implications of defense spending. The idea of constructing the long-term plans was adopted some time ago by the Department of Defense. Unfortunately, however, these plans are not divulged to Congress. I would hope that our witnesses this morning would comment on the desirability of Congress having access to the 5-year defense program.

We have made a particular effort to obtain balance in the viewpoints expressed in these hearings, and I believe we have been quite successful so far.

The experts today represent a variety of perspectives and ideologies.

We will resume these hearings on June 16 when Senator George McGovern will testify on the proposals he has made for reordering

national priorities and we also hope to hear fro m other political spokesmen whom we have invited to testify at that time.

Our witnesses today are Rear Adm. Gene La Rocque, director of the Center for Defense Information; Robert Pranger, resident scholar at the American Enterprise Institute for Public Policy Research; Brig. Gen. Robert C. Richardson III, president of Encabulator Corp.—is that correct? Encabulator Corp.; and Prof. Thomas C. Schelling of Harvard.

Gentlemen, we will proceed alphabetically, proceeding with Admiral La Rocque. Go ahead, sir.

Admiral LA ROCQUE. Mr. Chairman, Mr. Conable——

Chairman PROXMIRE. I might say, incidentally, if you gentlemen are not familiar, we have a timer here. We have done it with all our witnesses, including administration witnesses and others. The timing will be 10 minutes for the initial presentation and then——

Representative CONABLE. We don't have a 94-page statement.

Chairman PROXMIRE. Yesterday we had to require a witness who had a 94-page statement to deliver his statement in 10 minutes, so you don't have the problem.

STATEMENT OF GENE LA ROCQUE, REAR ADMIRAL, USN (RETIRED); NOW EXECUTIVE DIRECTOR, CENTER FOR DEFENSE INFORMATION

Admiral LA ROCQUE. In an effort to be brief, I shall focus on only two major military systems in the next 10 minutes and make a few specific budgetary recommendations.

Since leaving the Navy, after 31 years, and taking over as director of the Center for Defense Information, I have gained more insight into the problems the Congress has in dealing with military appropriations. The military has the benefit of operating on a long-term basis with interservice plans and defense programs which extend at least 5 years into the future. This process, carried out at the Joint Chiefs of Staff level, provides a sound means for dealing with issues of such complexity and difficulty as planning for the defense of the Nation.

IMPORTANCE OF 5-YEAR PROJECTIONS

It appears to me to be essential for the Congress to have available projected programs of the DOD while exercising your authority to "raise and support the Armed Forces." I cannot visualize dealing with major military systems and deployments without having available the programs for the present and the future on a 5-year basis at a minimum.

I recommend that this committee and the Congress consider requesting such overviews of the entire military effort each year at budget time. I realize you have done that in the past but I think persistence is called for.

Knowledge of the 5-year program might help to explain the dramatic increase of $6.3 billion in new obligational authority requested this year by the Department of Defense. Solely on the basis of the posture statements presented by the Secretary of Defense, the Chairman of the Joint Chiefs of Staff and the service chiefs, the $83.4 billion budget request does not appear warranted.

"BUDGET IN BRIEF"

Some pertinent facts gleaned from the Executive Office of the President's little booklet, "Budget in Brief," are of interest. This booklet reports the U.S. Government collected $775 billion in individual income taxes during the last 10 years. For the same period, military expenditures are shown as $758.3 billion, or, in other words, almost all of the income tax that each of us paid in the past 10 years is equal to the amount spent on the military.

During the same 10-year period, income from corporate taxes—corporate income taxes, that should be—was $325.3 billion, while veterans' costs were $86 billion and the interest paid out on the national debt was $162 billion. In other words, $248 billion was spent to pay the costs of prior wars. The other expenditures of the Government in the past 10 years are reflected in the huge national debt of $555 billion.

UNIQUENESS OF CENTER FOR DEFENSE INFORMATION

My colleagues and I at the Center for Defense Information are dedicated to the maintenance of a military posture which will provide for the defense of the United States. Our purpose is to make available to the public information on defense matters in a form that the man in the street can understand. The Center for Defense Information is unique in this country, independent of government or military-industry, and funded by contributions from patriotic Americans.

COSTS OF AND NEED FOR NEW NUCLEAR AIRCRAFT CARRIER

I would like to touch first on the proposed new nuclear aircraft carrier. The Defense Department has asked for $299 million as a down payment for the fourth U.S. nuclear aircraft carrier. The $299 million will only pay for the nuclear powerplant.

Mr. Laird, in his posture statement, promised to come back next year and request the authority to build the ship and to request $668 million more to pay for it. This two-phased request avoids having to ask for $1 billion for one ship.

If the new carrier is built, the Navy will need $1 billion more for aircraft and another $1 billion for escort ships; total cost will be $3 billion. Operating costs, repairs, and replacement aircraft will all come later.

The attack carrier is a magnificent ship and the men who man her and the pilots who fly from her decks are among the most intrepid in the world. But the days of the carrier, like the days of the old battleships, may be coming to an end, not only because carriers are becoming incredibly expensive to build and maintain, not only because they are increasingly vulnerable to attack and damage, but also, primarily because the carrier role in warfare is diminishing.

The attack carrier has no role in a strategic nuclear war with the U.S.S.R. The carrier has been supplanted by missiles fired from submarines and from the United States.

The carrier has no role in the defense of the United States; land-based missiles and aircraft fill that role.

The only role for the attack carrier in the years ahead is to "project U.S. power overseas." Nine aircraft carriers and land-based aircraft could easily handle any small war the United States might wish to fight in Africa, the Middle East, South America, Southeast Asia, or Korea.

In the carrier operations off Vietnam the virtual absence of opposition may lead to incorrect conclusions as to carrier vulnerability. With the marked improvement in the launching of missiles from small boats and the improved acoustic homing torpedos, carriers have become increasingly vulnerable. In a war with the Soviet Union the carriers of the 6th Fleet would be particularly vulnerable to attack and crippling damage from land-based airplanes, submarines, and missiles fired from small boats.

Currently there are two nuclear attack carriers under construction which will be added to the already powerful carrier force. After the *Eisenhower* and the *Nimitz* join the fleet, there will remain adequate time to evaluate the need for the construction of a fourth nuclear carrier.

Prior to the conssruction of a new aircraft carrier, the Department of Defense should provide the Congress with an extensive cost/benefit analysis of the air war in Southeast Asia.

MILITARY JUSTIFICATION OF THE TRIDENT SYSTEM

Just a moment on the Trident, which was formerly called the ULMS. This is the third change in name for this weapon system.

Prior to boarding a plane for Europe last week, Mr. Laird was quoted as saying the Trident system would provide 10 new missile submarines. DOD estimates this program as presently constituted would run about $11.2 billion.

Many details of the proposed Trident system are not known but sufficient data are available to permit the Center for Defense Information to make a fairly comprehensive analysis.

Some of the facts which we have used are: The submarine would cost about $1 billion each; the submarine would be twice the size of a Polaris sub; the Trident sub would be about 16,000 tons or larger than the largest Soviet warship afloat; each would carry 24 large missiles, each missile containing about 17 independent weapons; the missile ranges would be about 6,000 miles or twice the range of Poseidon; the submarine could operate farther from the Soviet Union and it might be quieter than the Polaris subs.

Taking into account the strategic systems currently available to the United States, and the remote possibility of a Soviet ASW breakthrough, the Center for Defense Information has concluded that there is no military justification evident for accelerating the introduction of the Trident program. The introduction of a new strategic offensive system following the U.S. and U.S.S.R. summit conference on strategic arms limitations would have predictable consequences. From a military point of view, the Soviets would likely follow our lead in introducing their Trident system as they have always done in the past.

CENTER FOR DEFENSE INFORMATION BUDGET RECOMMENDATIONS

Some specific recommendations are, No. 1, the Congress should require the Department of Defense to provide as an addendum to the

annual budget request a 5-year procurement program for all major weapon systems. The 5-year procurement program should include the number of units in each category by year and the total expected in the program when completed. Manpower should also be listed in a 5-year plan.

Two, Congress should require the DOD to submit an addendum to the annual budget request listing major weapon systems or major components thereof which have been scrapped, transferred to a foreign government, or otherwise deleted from the active inventory.

Three, Congress should require DOD to submit an addendum to the annual budget request containing written justification for each new weapon system or a major alternation to an existing system, or major changes in manpower.

Four, Congress should require the DOD to furnish annually in writing specific justification for the military assistance to be provided to each country. This military assistance justification should include a description of the manner and extent of the contribution the recipient country is expected to make toward mutual defense.

Fifth, and last, the authority to commit military forces to combat should reside in the Congress. There could be some exceptions, obviously, some specific advance authorizations. The first one could be an advanced authorization to give the Commander in Chief the opportunity to repel an attack against the United States.

You could have specific advance authorization to protect U.S. citizens and the Commander in Chief should have specific advance authorization to commit U.S. forces for combat in specific areas for a limited period of time—for example, in the Middle East.

COMPARISON OF U.S. AND U.S.S.R. NAVIES

I have, Mr. Chairman, a list of some significant data on the U.S. Navy, the Soviet Navy, and I would request, sir, that you consider putting that into the record.

Chairman PROXMIRE. Yes; without objection, that addendum will be printed in full in the record. I am delighted to get it; very, very, helpful.

(The addendum to Rear Admiral La Rocque's oral statement follows:)

ADDENDUM TO ORAL STATEMENT OF GENE LA ROCQUE

1. U.S. Navy has 602,000 officers and men; Soviets have 475,000.
2. U.S. has 212,000 marines; Soviets have 15,000.
3. U.S. has 6,000 operational naval aircraft; Soviets have 500.
4. U.S. has a SOSUS detection system; Soviets have none.
5. U.S. has 246 major surface combatants; the Soviets have 222.
6. U.S. has 4 nuclear powered surface ships, is building 7 more; Soviets have none.
7. U.S. has 14 attack carriers with 90–95 aircraft on each and nuclear weapons; the Soviets have none.
8. U.S. has 2 ASW carriers; the Soviets have none.
9. U.S. has 7 amphibious assault carriers and is building 5 more up to 35,000 Tons; the Soviets have 2 helicopter carriers of 15,000 Tons. (Moskva & Leningrad)
10. U.S. has 9 cruisers; Soviets have 25. 8 U.S. cruisers are missile ships and one is nuclear powered. 4 Soviet crusiers are pre World War 11 and 14 Soviet cruisers have no missiles. New Soviet crusiers are smaller, about 6,000 Tons, than many new U.S. destroyers. The Soviets are building 3 new cruisers and refitting 3 others.

DESTROYERS

U.S. has 65 missile equipped Destroyers; Soviets 40.
U.S. has 2 nuclear powered Destroyers and is building 5 more; Soviets have 10.
U.S. has 105 non-missile Destroyers; the Soviets 155.
U.S. is building 16 large (7,000 Ton) Spruance Class Destroyers; Soviets are building a new class of Destroyers and 2 are operational.

SUBMARINES

U.S. has 138 submarines; Soviets have 343.
Soviets have 90 less subs today than 10 years ago and the number is declining yearly. Of the 343 Soviet subs 190 are old diesel attack subs. 65 are nuclear attack subs of which 40 have cruise missiles. Soviets also have 28 older diesel attack subs with cruise missiles.
U.S. has 56 nuclear attack subs, and 41 diesel attack subs. U.S. is currently building 21 nuclear attack subs. U.S. subs are faster, quieter, and better operated.

STRATEGIC SUBMARINES

U.S. has 41 Polaris/Poseidon subs with missile ranges up to 2,800 miles. The 31 Poseidon subs will carry 16 missiles each with independently targeted nuclear weapons. The 10 Polaris have 3 separate nuclear weapons in each of the 16 missiles aboard each sub. Total nuclear weapon in U.S. sub force alone by 1976 will be almost 5,000. U.S. has 3 advanced operating bases in Scotland, Spain, and Guam.
Soviets have 25 Yankee class subs and 17 under construction for a total of 42 subs. Maximum range of Soviet missile is 1,200 miles and they do not have multiple weapons. Older Soviet subs carry only 3 missiles and have much shorter missile ranges. Soviets operate from their own bases and hence have less subs deployed.

Chairman PROXMIRE. Your timing is superb, Admiral. I see that you military men know precisely how to time your actions.
Mr. Pranger, you are up next.

STATEMENT OF ROBERT J. PRANGER, RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, WASHINGTON, D.C.

Mr. PRANGER. Mr. Chairman and Mr. Conable, I am pleased to be here this morning to discuss with you the question of the national priorities in the field of defense. Because of the limited time of 10 minutes, I will simply excerpt and summarize from my prepared statement and——

Chairman PROXMIRE. The entire prepared statement will be printed in full in the record.

Mr. PRANGER. Thank you, sir. My name is Robert J. Pranger, a resident scholar of the American Enterprise Institute for Public Policy Research in Washington, D.C. The views expressed here are my own and do not necessarily reflect those of any organization with which I am associated.

Before being appointed to my present position in September 1971, I served for over 2 years in the Department of Defense as Deputy Assistant Secretary of Defense in the Office of International Security Affairs—ISA. From June 1969 until late September 1970, I was in charge of Near East and South Asian affairs for ISA, after which time my duties as Deputy Assistant Secretary involved policy planning and National Security Council affairs.

TWO MODELS OF INTERNATIONAL AFFAIRS

What I propose to do here this morning is simply review two models of international affairs, one which the United States has historically used since the early postwar era, and the second which, I believe, is more prevalent today and will be with us for at least the near future.

The first of these models I label creative containment. Its background comes out of World War II and out of three rather remarkable years from 1947 to 1950 in which a series of diplomatic and military moves were made by the U.S. Government in the Truman doctrine for Greece and Turkey, the Marshall Plan and NATO for Europe, point 4 plans for underdeveloped nations, the rupture of relations with Communist China, the Berlin crisis, and the Korean war.

This sequence of decisions and events after World War II charted the main direction for all American foreign policy and defense planning for the next 20 years. Today, senior diplomatic and military officers raised on this strategy have great difficulty adjusting to the new, sometimes because of a faith in this strategy.

The principles of creative containment were briefly those of cold war policy in which the United States aims to establish international peace through policies of global balance of power, stability of world order, and free national development.

Under this system, national interests and international affairs were tied together through a collection of multilateral, bilateral, and unilateral commitments to collective security aimed at establishing free nationhood while at the same time containing the direct and indirect aggression by Communist powers led by the U.S.S.R.

The creative containment model proved a dynamic one, however, which shaped the world as it saw the world. Being creative as well as responsive to events, the model continued to create its own reality in the 1960's as it had earlier but without the same impact on events.

The model could not operate effectively in the 1960's against a complex host of new threats to its principles and maneuvers, specifically against Soviet flexibility coupled with an expanded Russian nuclear force, national "wars of liberation," and violent nationalistic insurgencies.

This brings me to the second model which, I believe, we will more and more have to reckon with, both in terms of defense planning and more deeply in terms of world view.

This is the model I label international indeterminacy. In this model of international affairs, there is a growing sense of contradiction, fluidity, and indeterminacy of events and policies where old models have been broken by startling changes in the realms of power, order, and development.

These complications have been encouraged by an increased proficiency in national development that we have done much to support, including improved competency in national defense matters among new major powers such as China, as well as among lesser ones like Israel.

The new realization of indeterminacy may not lead to a well-structured model as in the past, with its intricate commitments and systems of command, because a new and comparable structure to the old reactive containment model might do violence to reality, so that America's sizable influence in world affairs might be drastically reduced.

The first intimations of the new model were in the formulation of the Nixon doctrine during 1969 and early 1970, followed by efforts of the Department of Defense in its strategy of realistic deterrence in the last two budget reports it has presented to Congress.

President Nixon has said of his new doctrine on world affairs that it seeks to reflect certain realities: A major American role remains indispensable, other nations can and should assume greater responsibilities, a changing strategic relationship requires new doctrines, and emerging polycentrism in the Communist world presents different challenges and new opportunities.

At this point in time, I believe that this new world view is more in the realm of questioning as to where the United States is to go in the future than it is in the realm of accomplished policy.

This questioning may reveal the following realities: A world that frustrates a global balance of power but offers wider opportunity for meaningful participation in determining events by many states and by private citizens as well, a world that seems confusing rather than orderly but opens new avenues for experimentation with political order itself, and a world that refuses development toward any particular superpower's view of perfection but sees development in the same protean way that it views power and order.

Needless to say, this kind of questioning will have grave implications for defense planning. The major problem for defense planning in the future will be to establish some determinations for long-range planning in terms of a world order which is changing from the assumptions on which defense planning used to be based. This will require, in my estimation, that military planning move away from a horizontal spectrum of conflict model which embraces a wide variety of military contingencies ranging from smaller wars and insurgencies to full-scale nuclear conflict, and move toward a vertical list of priorities as far as the defense planning is concerned.

ORDER OF PRIORITIES

The priorities would be in this order: First, continental defense with its overseas as well as its more local requirements, including the intricate subject of negotiations on strategic arms; second, the lines of communication to overseas allies and interests; third, major allies; fourth, overseas interests in ranked order of importance; and, fifth, local conflicts.

In my estimation, a new defense force structure embracing strategic defense forces, lines of communications forces, supplementary alliance forces, and military assistance forces might be designed.

BUDGET IS ONLY A PART OF THE NATIONAL SECURITY PICTURE

While it is tempting for one to agree with the statement on page 52 of the Joint Economic Committee's 1972 joint economic report that "A tighter, leaner, and smaller defense budget will strengthen our real national security," it is obvious, at least to me, that the budget is only part of the national security picture.

The statement on page 52 may or may not be sufficient; much depends on how the United States will view foreign affairs in the coming years and where it will place military force in the overall perspective.

While the Department of Defense budget, in particular, attracts considerable attention due to its gargantuan size, the question of how nations will think and act in the future are also impressive issues.

Streamlining is surely one aspect of a stronger national defense, but streamlining might be broadened to include leaner and cleaner ideas about the contemporary world and the military's place in it, as well as leaner budgets. In fact, national security theories and defense budgets interact with each other in vicious circles so that both must be addressed simultaneously. Dialog as called for in the Joint Committee's 1972 report might be carried on both issues, strategy and budget, between the legislative and executive branches with perhaps the final outcome being indeed a stronger and safer national defense.

In this connection, if the Department of Defense feels for one reason or another that the particulars of its 5-year plan should not be made available to the Congress, it might at least be illuminating from the standpoint of Congress to discuss assumptions about the world, about the relationships which the Defense Department sees between foreign affairs and defense planning over the next 5 years. Thank you.

(The prepared statement of Mr. Pranger follows:)

PREPARED STATEMENT OF ROBERT J. PRANGER

Mr. Chairman and distinguished members of the Joint Economic Committee, I am pleased to be here this morning to discuss with you the question of national priorities in the field of defense. My remarks will be derived, in part, from a monograph I have just published in May 1972 for American Enterprise Institute entitled *The Defense Implications of International Indeterminacy.*

My name is Robert John Pranger, a Resident Scholar of the American Enterprise Institute for Public Policy Research in Washington, D.C.[1] Before being appointed to my present position in September 1971, I served for over two years in the Department of Defense as Deputy Assistant Secretary of Defense in the Office of International Security Affairs (ISA). From June 1969 until late September 1970, I was in charge of Near East and South Asian affairs for ISA, after which time my duties as Deputy Assistant Secretary involved policy planning and National Security Council affairs.

Beyond the circles of those who engage directly in the planning of national security policies is an American citizenry that must eventually legitimize these policies. Does a citizenry, told repeatedly that defense plans can, at best assure only a "balance of terror", really believe that it is secure? Has national security policy over at least the past decade fostered a growing sense of insecurity in the United States? Is the crisis over Vietnam one of too much or too little defense?

There is no question that over the next generation elected officials will increasingly demand that defense planners demonstrate conclusively their ability to provide real security for the American people. These officials must answer to constituencies where there is growing unease about the credibility of national defense.

Under the surface of the idea that national defense must improve a people's feeling of security lies the important truth that ultimately "defense" must be measured by the sense of domestic well-being it provides. For an adequate structure of national defense policy, this welfare criterion makes good constitutional and international sense.

Before examining what will probably be close to the heart of American foreign affairs for the next decade or longer, that is, the idea of international indeterminacy (established principles of power, order and development eroding under the impact of growing contradiction and fluidity) first expressed somewhat sketchily in the Nixon Doctrine and strategy of realistic deterrence, it may prove useful to review briefly the model of foreign affairs and defense planning that developed in the United States immediately following the Second World War and then continued well into the 1960s when anomalies in this paradigm grew too acute to ignore.

[1] The views expressed here are my own and do not necessarily reflect those of any organization with which I am associated.

I. CREATIVE CONTAINMENT

In the early postwar period, Presidents Truman and Eisenhower presented complementary visions that stamped their generation with the imagery and paradigm of what will be called here "creative containment".

American leadership in this period developed during a remarkable series of diplomatic and military *chefs d'oeuvre* in the Truman Doctrine for Greece and Turkey, the Marshall Plan and NATO for Europe, Point Four plans for underdeveloped nations, the rupture of relations with Communist China, the Berlin Crisis and the Korean War. This sequence of decisions and events charted the main direction for all American foreign policy and defense planning for the next 20 years Memories growing out of this period provided the azimuth by which subsequent decisions were directed—memories that nurtured an almost blind faith that the compass was accurate. Today, senior military and diplomatic officers raised on this strategy have great difficulty adjusting to the new, sometimes because of this faith.

The paradigm of creative containment that dominated a generation of American cold war policy from 1947 to 1969 envisaged an edifice of international peace supported by the three pillars of global balance of power, stability of world order and free national development. In an uneasy mixture of idealism and realism, the United States national interest was perceived as one of creating conditions favorable to freely developing nationalism while at the same time containing direct and indirect aggression by communist powers led by the U.S.S.R.

Under this system, national interests and international affairs were tied together through a collection of multilateral, bilateral and unilateral commitments to collective security, commitments that equated global problems with issues of national security. Military power, embracing a wide variety of means that became increasingly flexible over time, furnished a main thread running through all aspects of this national security policy and, with the passage of time into the 1960s, assumed the dominant position in American global strategy.

Creative containment proved a dynamic model, however, that shaped the world as it saw the world. Being creative as well as responsive, the containment model continued to create its own reality in the 1960s, as it had earlier, but without the same impact on events. In reality, the creative containment model had worked reasonably well in the 1950s, but it could not operate effectively in the 1960s against a complex host of new threats to its principles and maneuvers; specifically against Soviet flexibility coupled with an expanded Russian nuclear force, national "wars of liberation", and violent nationalistic insurgencies.

II. INTERNATIONAL INDETERMINACY

A sense of contradiction, fluidity and indeterminacy indicates today that old models have been broken by startling changes in the realms of power, order and development. Such indeterminacy grows out of deepening complications in the relations among states—complications encouraged by an increased proficiency in development, including improved competency in national defense matters among new "major" powers, such as China, as well as among "lesser" ones like Israel.

The new realization of indeterminacy may not lead to a well-structured paradigm, as in the past, with its skeleton of commitments and its tissues of commands, because a new and comparable structure may do such violence to reality that America's sizeable influence in world affairs might be drastically reduced. Much as some might deplore the idea of flexibility for its manipulative overtones, a principle task for future American defense policy will be to combine more effectively high principles with a wide range of maneuverability.

The first intimation of a new paradigm was the formulation of the Nixon Doctrine during 1969 and early 1970, followed by the Department of Defense's "strategy of realistic deterrence" presented in its 1971 and 1972 reports prepared for the FY 1972 and FY 1973 defense budgets. President Nixon has said of his new doctrine on world affairs that it seeks to reflect certain realities: a major American role remains indispensable; other nations can and should assume greater responsibilities; a changing strategic relationship requires new doctrines; and emerging polycentrism in the communist world presents different challenges and new opportunities.

With annoucement of the "three pillars" of the Nixon Doctrine, negotiation, partnership and strength, the earlier supports of the Truman and Eisenhower doctrines, together with their later corollaries, were modified to place more emphasis on American national interest and less on the Wilsonian ideal of a world community of nations.

The questioning that has ensued in the wake of the Nixon Doctrine may prove so significant, however, that adequate answers will be slow in coming; if the questions raised by the doctrine are intimations of problems to come, then their answers, at least in the early part of the 1970s, may also be intimations.

This questioning may reveal the following realities: a world that frustrates a global balance of power, but offers wider opportunities for meaningful participation in determining events by many states (including new center of major power such as China, India and Japan), and private citizens as well; a world that seems confusing rather than orderly, but opens new avenues for experimentation with political order itself, avenues that move away from discredited ideologies and institutions; and a world that refuses development toward any particular superpower's view of perfection, but sees development in the same protean way that it views power and order.

Indeterminacy, reflected in the Nixon Doctrine and auxiliary strategy of realistic deterrence, raises at least five fundamental questions concerning the previous paradigm of creative containment.

First, it questions the soundness of global balance, world stability and international development as the best supports for international peace, by pointing away from a "generation of cold war confrontation" toward a model for world affairs based on persuasion not force—the concept implied in the term "generation of peace."

Second, indeterminacy challenges the notion that American national interest should continue along the lines of creative containment, because, among other problems, constraints operate on the power of the United States in world affairs that make "creating conditions", in some architectural or engineering sense, impractical.

Third, the idea that totalitarian aggression is the chief threat to American national security raises problems, because of growing polycentrism and realism in communist circles.

Fourth, the vision of a world community or world organism has been cast into doubt by gathering ambiguities that undermine the idea of "world order" itself.

And fifth, the role of military power in pursuit of American foreign policy objectives has now been questioned for its relative utility.

Needless to say, all such questioning has direct bearing on national defense planning, a matter to be discussed shortly.

III. MILITARY IMPLICATIONS OF INTERNATIONAL INDETERMINACY

The great problem for defense planning in the future will be the issue of what should constitute the basic determinants and structure of a national defense policy during a time of indeterminacy. Seemingly, the paradigm of indeterminacy runs counter to the need for determinations regarding essential military plans. The previous model of creative containment, resting on its three pillars of power, order and development, gave defense planning a *systematic* basis by visualizing a *world system.*

Increasingly, the paradigm of creative containment had to labor for explanation when justifying its activities in the real world; "credibility" became more of a problem as "relevancy" grew more tenuous.

The questioning of the basic pillars of creative containment, at the very least, brings the terminology of ends into question. If global balance will be frustrated by a new indeterminacy, whatever the hopes of the United States, then military planning should (a) stop approaching the world as if such a balance were attainable, and (b) readdress the question of priorities in national defense.

Under creative containment the prevailing paradigm for defense planning became, especially with the corollaries added in the 1960s (assured destruction, flexible response, limited war and counterinsurgency), a horizontal "spectrum of conflict" model in which planning would prepare for a wide variety of military contingencies ranging from smaller wars and insurgencies to full-scale nuclear conflict. The new foreign affairs model of international indeterminacy, on the contrary, will demand a new military planning model, a vertical "list of priorities".

These priorities would be in an order of descending importance, with each to be satisfactorily or sufficiently met before the rest would receive serious consideration. In order of their importance, these are (1) continental defense with its overseas as well as its more local requirements, (2) lines of communication to overseas allies and interests, (3) major allies, (4) overseas interests in a ranked order of importance, and (5) local conflicts. Alternate styles of action, as well as principles, would be found for dealing with these priorities.

Far from being an "isolationist" approach, the idea of evaluating basic goals and priorities is precisely *to give determination* to various areas of defense planning during a time of indeterminacy. Speaking in terms of legal requirements on the Department of Defense, the first priority for defense planning is to protect the United States from attack by foreign powers. On the other end of the list of priorites, the role of the United States in local conflicts would be the last area for defense planning, *after all other priorities have been fully satisfied within budgetary and legal constraints.*

The model of international indeterminacy would dictate building a defense force that could effectively deter, by sheer military power, potential adversaries in at least the areas of strategic defense and protection of lines of communication. In these two sets of contingencies, every effort would be made to spare one's forces from overexposure to actual operations so that an adversary could still face enough incalculables in its own planning to make deterrence as effective as possible. Deterrence is not simply a function of "knowing the truth" but of "imagining the worst"; as such, deterrence involves a careful union of the calculable and the incalculable.

Similarly, for defending commitments to major allies, the essential ingredients of a defense force should remain largely unexhibited. This means, in effect, that use of major weapons systems—including all components of the nuclear arsenal from strategic weapons to the smallest tactical nuclear devices—*should be restricted to situations of national emergency only, where continual defense, lines of communication or major allies are involved.*

The building and deployment of military forces under the paradigm of international indeterminacy should strive for conservative, rather than complicated, structures that emphasize functional divisions of labor among service elements. Paradoxically, however, this conservative approach might require a fairly radical redesign of the total force structure into the following components: strategic defense forces, lines of communication (LOC) forces, supplementary alliance forces, and military assistance forces (for local and regional conflicts not involving major alliance partners.)

Each of these components can be further refined, and overlapping jurisdictions, such as in anti-submarine warfare, can be identified. What would be important would be to rivet defense plans to a changed imagery of indeterminacy and priorities where valuable resources were not promiscuously expended in lower priority conflicts that raised a complex of indeterminable problems beyond any model's capacity to solve.

IV. STRENGTHENING NATIONAL SECURITY

While it is tempting for one to agree with the statement on page 52 of the Joint Economic Committee's *1972 Joint Economic Report* that, "A tighter, leaner, and smaller defense budget will strengthen our real national security," it is obvious, at least to me, that the budget is only part of the national security picture. The statement of page 52 may or may not be sufficient. Much depends on how the United States will view foreign affairs in the coming years, and where it will place military force in that overall perspective. While the Department of Defense budget in particular attracts considerable attention due to its gargantuan size, the question of how nations will think and act in the future are also impressive issues. There are many world complications ahead.

On this last point, one is led beyond the usual arguments over Russian intentions, important as these may be, to the subject of our own national purposes. This has prompted me, somewhat imperfectly, to discuss the question of American world view first and our military posture second. The size and scope of current Defense budgets are as much driven by these overall strategic conceptions as they are by the "large cost over-runs and gold-plating of weapons systems, excessive support costs, and mishandling of military assistance" described in the Joint Committee's 1972 Report. My approach does not mean to ignore such problems, but rather to point out that there are other issues in national defense as well.

Similarly, Table 9, "National Security Budget", on page 55 of the Joint Committee's 1972 Report begs the question of what kind of "dialogue", called for in the Report, is to take place with the Executive Branch and about what. Seemingly, the great magnitude of the total costs for national security would suggest something about the ambitions and aims of the United States as a great power. Perhaps the sweep of our national goals is too broad and perhaps too superficial in critical areas. What are the critical areas of national defense? Within the national security apparatus of this government is there a clear sense of defense priorities? Again, I have tried to deal with these questions, often neglected in the controversies surrounding budgetary and organizational details in defense operations.

Streamlining is surely one aspect of a stronger national defense. But streamlining might be broadened to include leaner and clearer ideas about the contemporary world and the military's place in it, as well as leaner budgets. In fact, national security theories and defense budgets interact with each other in vicious circles so that both must be addressed simultaneously. Dialogue on both issues might be carried on between the legislative and executive branches, with perhaps the final outcome being, indeed, a stronger and safer national defense.

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

General Richardson, please proceed.

STATEMENT OF ROBERT C. RICHARDSON, BRIGADIER GENERAL, U.S. AIR FORCE (RETIRED); NOW PRESIDENT, ENCABULATOR CORP.

EXPLANATION OF BASIC RECOMMENDATION

General RICHARDSON. Mr. Chairman and Mr. Conable, what I would like to do in the next few minutes is to explain as clearly as possible the basic recommendation in the prepared statement which I submitted to you.

Chairman PROXMIRE. Very good.

General RICHARDSON. My limited expertise—such as it is—is in the field of long-range planning; in the art and methodology of planning. I don't propose to advocate increases or decreases in defense spending.

It seems to me from listening to the testimony last Tuesday, and to your statements, that it is certainly correct that one has to come to grips with the long-term planning problem if one is going to come to grips with the question of whether defense spending can be maintained at present levels; should be increased; or should be decreased, because the basic issues involved are fundamental to the process of long-term planning.

Weapon systems today take from 5 to 10 years to develop. A change in concept, or in the method of doing the business takes from 4 to 5 years. Witness, for instance, the fact that the U.S. administration tried from 1961 to 1966 to get the NATO nations to change their strategy. It took all of those years to get an agreed adjustment from the original 1956 strategy; so, as you see, if the hardware takes a long time to change; if the concepts take a long time to change; and if we then vary the money on a yearly basis, and also allow the budget to react to the constant changes in the political situations, and in the environment, on a yearly basis, then it becomes almost impossible to do more than a Band Aid process and you are not controlling the overall direction of defense spending.

What I would like to suggest is that the fundamental factor that we are faced with in defense spending is the steady rise in cost of individual items of hardware and in that of manpower. This stems from the pressures of technology. Technology generates more complexity, greater improvement, greater performance, and greater unit cost; therefore, it you wish to have an impact on the defense budget you have to offset this increase in cost by either an adjustment in the job itself—your commitments, that is what you do; or in the method of doing the business,—how you do it. The threat that we are dealing with is fundamentally a given. We do not control it. We can estimate it, up and down, but it is basically a fixed factor.

THREE FACTORS OVER WHICH WE HAVE CONTROL—WHAT, HOW, AND RESOURCES

What we do control are the three factors whose product must equal the threat at any given time, both in each functional area and in the overall.

The first one is the job—what we do: Defend the Rhine, hold the Mediterranean, fight a war in Vietnam, et cetera.

The second one is the method—how we do it: By massive retaliation, airpower, seapower, nuclear weapons, land forces, et cetera.

And the third one is the means—our resources: The manpower and the military hardware.

Now, if the means are going to increase constantly in price under the impetus of technology, and if we cannot and should not do anything about this because: First of all, if it is invented, the enemy can have it; and second, it is good for the economy and world trade then to simply throttle our R. & D. is no solution to the problem. To balance the defense equation, as costs rise on the means, you have to adjust the job or the method so the product comes out essentially the same against a constant threat.

This is the long-term defense equation, as I see it. It is an equation which is extremely difficult to rebalance when costs rise because, unfortunately, our commitments tend to be fixed by political and international considerations. We say we will honor all our commitments. On the other hand, our methods tend also to be fixed by three considerations: (1) Political "druthers"; (2) arms control factors such as flexible response in preference to nuclear warfare or massive retaliation; and/or (3) military tradition—this was the way it was done in the last war and therefore we must do it this way in the next one.

If you maintain your commitments—the job—the same; if you maintain the method the same; and, if the means are constantly rising in cost, then you have to either provide increasing amounts of money for defense or, alternately, accept a degradation in the capability to do the fixed job.

TYPICAL EXAMPLES OF EQUATION BALANCING

Some examples that are typical of this, and of what has happened over the years as a result, can be readily quoted. One example has been the United Kingdom solution to this cost-squeeze situation. This has been to decrease the size of the job: Pull out of the Indian Ocean; pull out of the Middle East; and withdraw from various other areas, progressively, as costs rose. This is how they balanced their equation.

NATO had to balance their equation in the early 1950's by going to a new methodology—tactical nuclear warfare. However, NATO later worked back to the old strategy because the new one was in conflict with political, arms control aspiration, and with tradition. We drifted back into an older conventional strategy which dictated more "quantity" and more "mass" and, therefore more cost as the individual systems costs rose. There are many other similar examples, the most recent of which, and I think a very clear one, is Vietnam operations today.

Today, both sides admit that never before have we applied so much force to the North Vietnamese. Yet the cost of the effort today is

about $5 billion less than what it was a few years ago when we weren't exacting as much damage. Again, we changed the method. We changed the method of applying our force to the enemy while maintaining the same constant problem.

I am not arguing that this is good or bad or what the outcome will be. I am merely pointing out that there are different ways of doing the business, and that when you come to grips with the problem in terms of the method, or in terms of the job itself, then you have a fundamental impact on quantity of manpower and hardware, and when you have an impact on quantity, you can begin to have a long-term impact on cost.

Now, as I pointed out, these are very difficult things to do because they force people to "bite the bullet" on hard decisions such as adapting the strategy to exploit the products of technology. In other words to exploit military productivity in order to reduce quantity in favor of reducing costs.

IMPACT OF SALT AGREEMENT ON DEFENSE COSTS

Finally, I would offer an answer to a question which I believe you raised Tuesday—and that is raised continuously—to wit: "What will be the impact, in light of this kind of a formula, of the SALT agreement on defense costs?" My answer to that would be that in theory they should go up, not down. Now, why is that? Simply because the SALT agreement, per se, does not change U.S. commitments. It only freezes our level of response, in certain functional areas. To the extent that an arms control agreement limits our flexibility to introduce new advanced systems, and thereby achieve greater productivity in the defense equation, it will tend to maintain quantity constant and inevitably increase costs.

The only time you get a benefit, in terms of savings, from an agreement of the SALT type would logically be when the result is to reduce the threat and thereby reduce U.S. commitments.

RECOMMENDATION

So, gentlemen, my recommendation, and the basic thrust of my prepared statement, is that if we wish to cause defense spending to increase, decrease, or hold level, on the long term we should not merely deal with the cost of the individual weapon systems; but should rather tackle the questions of how big, or how little, the job is to be, and what methods can, or cannot, be used in doing the job, in light of available technology.

Thank you.

(The prepared statement of Brigadier General Richardson follows:)

PREPARED STATEMENT OF ROBERT C. RICHARDSON

Mr. Chairman, members of the committee, ladies and gentlemen, I am sure that you have had many excellent presentations on all facets of National Priorities. It is hard to add any new thoughts to those of the imposing array of witnesses that have appeared before this Committee. My own field of expertise, such as it is, is in long range planning—defense planning primarily and to a lesser degree technology and urban policy, planning. It is within this context that I offer a few comments on defense problems as they relate to establishing National Priorities.

If the purpose of these hearings is to determine, in the broadest context, where the money should go—who most needs available resources and for what—National security requirements obviously loom high. As Dr. Weidenbaum no doubt pointed out in his testimony and in his excellent study of the 1973 Budget[1] 95% of the Defense budget is subject to annual congressional control through the appropriation process. This compares, I am told, with 12% of that of HEW. Defense is thus by far the biggest reservoir of readily available funds for other national purposes *if* a case can be made that this sector can be safely reduced. This controlability factor would seem to explain why the Defense departments requirements have always been the main target for all those seeking funds for other purposes, as well as for those interested in the impact of military spending on arms control and disarmament.

My statement today will deal primarily with the interrelationship among Defense costs, Defense policy, and U.S. commitments.

I do not propose to comment on specific systems—the trees in the security forest—or even on the adequacy of defense funding as a whole. The competition here is too keen. What I will do is to suggest that decisions as to spending for National Security cannot and should not be made in a vacuum. I will also suggest what seems to me to be the only sound approach to maintaining an adequate security posture at reasonable cost in the years to come.

In National Security there are both controllable and uncontrollable elements. We can, as a nation, control *what* we do—our commitments (the job). We can control *how* we go about meeting our commitments—our Defense policy and strategy (the method). And, we can control the number and nature of the resources provided to meet our commitments—our military hardware and manpower (the means). What we cannot control is the threat. This is a given at all times within certain limits of intelligence and judgment.

The cost of National Defense is basically determined by the above three factors—the *job*, the *method*, and the *means*—whose product at any time must equal the threat. If we vary any one of these we must concurrently vary one or both the others to maintain a constant capability against a constant threat. If we fail to do this—assuming that we started with a valid defense capability—then our National Defense posture will move either towards over kill or inadequacy. The later movement is what happens if we cut the means, the defense dollars, without changing the strategy or U.S. commitments.

In order to understand the possibilities and also the difficulties, of the interrelationship between the three major variables that define our ability to meet a given threat at any time an awareness of the following given principles is essential:

First, the quantity of men and weapons required is a function of *what* we decide to do—hold on the Rhine, fight in Vietnam, control the Atlantic, etc., combined with *how* we decide to do these things—by airpower, on the ground, with atomic or conventional weapons, with naval forces, etc.

Second, the unit cost of military hardware rises, on the average, with improvements in performance and increases in complexity, These in turn are made possible by technological progress whose rate is partially, though not exclusively, a function of R & D funding.

Finally, the cost of military manpower rises with both inflation and increases in the standards of living. The costs and rates of rise in this case differ widely among nations. While U.S. manpower costs today are almost *56%* of the Defense Budget the USSR's are said to be less than 35% of their budget.

The planning process that determines the quantity and type of forces required to meet America's national security commitments tends to accept both the commitments themselves, and the method of undertaking these as being fixed or given. Commitments are dictated by political considerations. Our strategy—in recent years—has been dictated both by political decisions and the historical proclivity to fight each new war with those methods found successful in the last one. None of these considerations take into account the rise in cost and performance of military hardware or of manpower. This leaves quantity and quality as the only variables with the latter largely dictated by the need and desire to have the most advanced products of technology if for no other reason than because once they have been invented the enemy can also have them hence we must.

In theory we control and can vary at will all three factors. The only uncontrollable or fixed element is the threat. In practice since both our commitments and strategy tend to be treated as if they were fixed and inviolate due to their political or "traditional' origins, we generally run the "means" factors up and down each year like a yo-yo with a long term whiplash effect on the total posture.

[1] **American Enterprise Institute publication "Analysis of the 1973 Budget" by Weidenbaum and Larkins.**

A graph showing the quantity of almost any U.S. Weapon System—such as as fighters—planned for procurement each year over the life span of the system can be made to illustrate this tendency.

It is interesting to note that the Soviets do not do this. If all I have heard and read about their plans, programs, and policies is correct, Russian defense activities and research has been decoupled from the yearly political ups and downs of detentes, tensions, arms agreements, or major budget reviews. These seem to take place in Russia as in America but without perturbing the steady pursuit and maintenance of their ever improving defense posture. I suggest there is a lesson for us to learn here particularly nowadays when the "lead time" in weapon and force changes and developments exceeds by years the frequency of political and budget changes.

Another consideration that makes it difficult to adjust the defense equation so as to maintain an acceptable defense posture—while allowing for a leveling off, if not a reduction in cost, is that an optimum balance between commitments, methods, and resources if and when established cannot be counted upon to remain valid over the long term. The defense equation is not static but dynamic even when the threat remains static and constant. This dynamic condition results from the upward trend in unit cost of both weapons and manpower generated by technological progress.

The inability to maintain a constant posture at a stable cost before a fixed threat is due to the flow of new and more advanced military hardware generated by continuing research and development, and to the steady increase in personnel costs generated by both inflation and improved national standards of living. The former is in turn also somewhat a function of the nation's R & D efforts. As unit costs for both people and hardware go up we are faced with either increasing the budget, reducing the size of the job—our commitments—or cutting the quantity of men and machines required to do the same job by changing the strategy and policy to substitute quality and automation for quantity or mass.

Some when faced with this inevitable trend advocate controlling its effects by reducing research and development, which they argue is both militarily and economically provocative. This I suggest is no solution or a very poor one at best. It constitutes little more than a fruitless and frustrating effort to legislate against invention and innovation. It cannot succeed in its purpose because we do not control technological progress in other countries either allied or enemy.

Attempts to limit defense research constitute a subtle form of unilateral disarmament which is all the more risky because its impact occurs in the future when we don't really know what the threat will be, and because it cannot be done without also detracting from America's overall technological progress and hence world trade position. Today's strategic posture vis-a-vis the Soviet Union can in part be attributed to fallacious technological plateau concepts and cutbacks in defense R & D programs in the early 1960's. I would hope that we had learned from these experiences the consequences of meddling with the ecology of technological progress even though done with the best of intentions.

We should not only live with but encourage technological progress. All nations fund R & D. In varying degrees they get more effective, but also more complex and more costly weapons as a result. Having invented these they must, on the average, procure them. Why, because once they exist their enemies may also have them; their improved performances offers productivity hence savings in quantity and manpower (where they are adopted); and they interlock to make the operating environment such that the older systems can no longer be economically built or used (e.g.) even if a cheap old type H.F. Command Radio was good enough for an aircraft today there are few if any ground stations that still have the receivers so all are forced to go to the more costly VHF or UHF Systems, etc.

If throttling defense research is clearly not a solution, and we must live with spiraling manpower and hardware costs, then how can we keep our defense equation in optimum balance except by allocating more and more money as we have been inclined to do in recent years?

We could recognize the need to face up to adjustments in one or both the other two variables—our commitments, or our methods—How we go about doing the business. This is what we could do! In fact, I suggest it is what every country is eventually forced to do when they find themselves caught up in what I have called the "cost squeeze" in which: unit costs of men and weapons rise; we keep our commitments constant or add to them, and our strategy is dictated not by optimum exploitation of each new "tool" as it becomes available but by tradition, the last military experience, or arms control aspirations. All of these mitigate against reducing the rising costs by exploiting improved performance and capabilities to reduce mass or quantity. In brief, by a military version of greater productivity.

This cycle is not new. There are ample historical precedents for what happens and must be done to break out of it when it threatens the nation's ability to both provide an adequate defense and fund essential domestic or other needs.

An early example of the impact of the cost squeeze cycle on changes in strategy can be sound in the adoption of a solely nuclear capability for total war waging and deterrence and in the related development of ICBM's.

By the late 1940's it was obvious that no nation could afford to build the thousands of bombers that would have been required to conduct a conventional strategic bombing campaign of the World War II variety against the USSR, using modern jet B47's and B52's at the unit prices of these planes. So what did we do? We changed our strategy from conventional to atomic and cut the quantity of vehicles required in the process. That's what we did, and no one even now proposes we abandon nuclear forces in the strategic role and substitute the thousands of bombers required to do the same job without these, yet this is exactly what was done on the tactical plane in Vietnam and NATO in the 1960's where the costs had not as yet become ridiculously prohibitive.

If we don't want to change our strategy, and must establish a valid defense posture at less cost for economic reasons, we can always cut down the size of the job—our commitments. This is the course of action that the United Kingdom took over the years when caught up in the "cost squeeze." They pulled out of Greece, the Far East, the Indian Ocean area, etc. This kept their defense equation in balance as costs rose. Of course there are limits to this type of adjustment. At some point in the process of shedding defense commitments political consideration balance economic ones and you have a traumatic debate. I suggest the Manfield proposals to reduce our NATO commitment are an example of this. The proponents of force reductions seem to desire the savings while not willing to compensate by accepting a change in the NATO defense strategy of flexible conventional response dictated by U.S. political decisions in the early 1960's.

The proper and historical approach to accommodating rising costs in National defense or to making major reductions dictated by economic or political considerations is to change the size of the Job—the U.S. commitments, *or* How we do the job—our strategy. Only in this way can a valid National security posture be maintained at less cost since the product of the three basic factors—the job, the method, and the means—must remain constant in the face of an essentially constant threat.

Cuts in defense spending imposed without first addressing the question of compensating changes in commitments or strategy can only unbalance the defense posture and dangerously weaken our National security. We have, in my opinion, gone much too far already in this direction. Our NATO forces are at the very threshold of credibility for the present strategy of flexible response. Our recent loss of strategic supremacy needs no comment. These are to a large extent the result of throttling resources without adequately considering the long term impact on the ability to meet all our commitments in an acceptable manner.

Long range planning requires that we deal with change not only in materiel elements like weapons and dollars, but also in ideas like strategy and foreign policies. These change, too, as time goes by, but we hesitate to admit this. We like to assume that while we can count on new weapons, or more or less funds, today's allies, concepts, strategies and policies will remain forever valid. In the real world these are not fixed. The question is only whether the changes will take place in a controlled manner or by osmosis. I added a principle some years ago, which I jokingly call Richardson's Law, to the many others dealing with defense:

> "Defense policy, strategy, and tactics must and will inevitably evolute towards the fullest exploitation of the products of technology."

The solution to controlling the growth of defense spending I advocate today is not an easy one. It places many sectors of the decision process before several hard choices. First, many of those people who argue most forcefully for reductions in defense costs are those who also argue most forcefully against the fullest exploitation of new weapons—space, atomic, etc.—in the defense equation. Second, the system inherently resists change in strategy quite independently of arms control considerations. Inherently organizations object to reductions of quantity in favor of quality. There is something about quantity or mass, that goes with power, authority and responsibility. It is also destabilizing to delicate compromises in such areas and roles and missions because when you change the method of doing the business, then everything is "up for grabs" in these areas, so you will not find joyful agreement with all my views even among the military,

who hesitate to abandon the classic, tested concepts and strategies successful in past wars or that justify maximum means.

Current developments in Vietnam are an excellent example of how commitments can be implemented at less cost by a different strategy. By the admission of both critics and advocates of today bombing and mining the war against the North is as, or more, intense than ever before, yet the yearly cost to the U.S. has been reduced by billions! And here we have only made a partial adjustment by refraining from introducing nuclear capabilities.

In summary, I suggest that defense spending can only be limited without serious jeopardy to national security by cutting U.S. commitments or changing strategy or both. We cannot honor all past commitments in the same old way, but at much less cost, priorities notwithstanding. Furthermore, any change in this direction cannot be implemented overnight. The savings won't be instantaneous. It takes years to build new weapons and it also takes years to define and implement new strategies—but we must start sometime. Meanwhile, I commend to you a quote attributed to Air Chief Marshall Slessor of the RAF which I deem particularly appropriate to decisions on National Priorities.

> "It is customary in democratic countries to deplore expenditure on armament as conflicting with the requirements of the social services. There is a tendency to forget that the most important social service that a government can do for its people is to keep them alive and free."

BIOGRAPHICAL SUMMARY OF ROBERT CHARLWOOD RICHARDSON III

Born at Rockford, Illinois January 5, 1918. *Father:* Robert C. Richardson Jr., General USA, WWII Commander US Army Forces Central Pacific Area (deceased). *Mother;* Lois Farman of Warsaw NY and Bath N.H. (deceased).

West Point Class 1939. US Army Air Corps and USAF, Lieut. thru Brig. General 1939–1967. WWII Sqd. Commander, Ascension I. Fighter Group Commander, 9th AF ETO; USAF Plans, Joint Staff (JCS), NATO Standing Group, JCS Repr. European Army Conference, Air Deputy Staff (plans) Hqs SHAPE—1947–1955. Graduate NWC 1956. CO Fighter Wing Seymour Johnson AFB NC 1956–58. Hqs USAF, Long Range Plans 1958–61; Deputy Ops, LIVE OAK (Berlin Crises Staff) 1961. Dept. Standing Group Repr. North Atlantic Council 1962–64. DCS/Plans and DCS Science and Technology, Air Force Systems Command 1964–66. Dept Commander Defense Atomic Support Agency Field Command 1966–67. Retired July 30, 1967.

Senior Associate, Consulting firm of Schriever & McKee 1967–1970. Concerned with program to introduce aerospace systems planning to the cities; organized consortium to build integrated new towns or communities; undertook Corporate management surveys; reviewed Corporate long range and technology plans; served on NICB Hard Core Job Committee (1968); member Boston College Council for Urban Affairs 1968–1970.

January 1971 to date: President Encabulator Corp. (research on special sensors and publisher of manual to teach reading to migrant and disadvantaged children); partner Andrews-Richardson Assoc. (Export-Import activities); consultant to industry and government; lecturer (On defense policy, technology, NATO, and planning process).

Married: Anne Waln Taylor, Chestnut Hill, Penn. Three children, Anne Newbold (19); Robert C. IV (16); Lydia Farman (12). Home: 212 South St Asaph Street, Alexandria, Virginia 22314; Upper Village, Bath, New Hampshire.

Chairman PROXMIRE. Thank you, General, very much.

Professor Schelling, please proceed.

STATEMENT OF THOMAS C. SCHELLING, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. SCHELLING. Mr. Chairman, Mr. Conable, with your permission I will put my prepared statement in the record and now——

Chairman PROXMIRE. Yes; without objection, all of the prepared statement will be printed in full in the record.

5-YEAR HORIZON IS MODEST

Mr. SCHELLING. What I would like to do with my 10 minutes is to emphasize that you are, if anything, unduly modest in proposing that a 5-year horizon is necessary for planning the Nation's security.

In 1941, one of the best American strategists, Bernard Brodie, wrote a book in which he commented that Admiral Nelson at the Battle of Trafalgar stood on a flagship whose keel had been laid 40 years earlier. The implication was that nobody could dream now of a vessel or a vehicle on active duty of anything like that age; yet I calculate that a lieutenant junior grade who served on one of the first Polaris submarines could look forward to his grandson; serving on an ULMS, the very next generation of weapons.

We are inclined to think that the pace of technology is breathtaking and the world changing rapidly, but I am struck with how slowly things change in this world.

The basic strategy that underlies the strategic portion of our defense budget today is almost word for word what it sounded like 20 years ago. The basic missions expected to be accomplished by the strategic systems are very much the same, and the weapon systems we have are very much the same.

The B–52, as far as I can tell, about a quarter of a century old, will go on flying and be part of the strategic force.

As I mentioned in my prepared statement, if Trident is built, it will be the backbone of our deterrent force in the year 2000; and I will be too old to testify before you when it is time to phase that one out and initiate a new one.

General Richardson is absolutely right, that even the conceptualization and the research and development take at least 5 years; but after you have developed and built and commissioned a bomber, a land-based missile, or a submarine, the thing is likely to last a couple of decades. This is for two reasons: It will be built to such high standards that it is inherently durable; and it can't easily become obsolescent because successor systems themselves are so terribly expensive that in order to consider amortizing a new bomber, a new submarine, one whose cost may be four or five times as large as the first one, one has to wait to make another heroic effort on what is often called a new generation.

I can't say whether the Trident constitutes a new generation. The Trident is like the Polaris boat in a layman's description of what it is supposed to do. It is bigger; it carries more missiles; the missiles have more range; the submarine is quieter; I suppose it may be faster; it will surely be more comfortable but, basically, as described in the Sunday supplement, the Trident will be like the Polaris—namely, a submarine system that will have been around for 40 or 50 years by the time the Trident is phased out.

PREDICTING FUTURE THREATS—CHINA AND THE SOVIET UNION

Now, I mention this because while General Richardson pointed out that the threat is "given"—we don't necessarily control it—we also have little idea of what the threat is if we are trying now to design weapon systems to meet the threats of the 1990's or even the 1980's. There are, for example, people who think that the most likely kind of

war that may occur in the next 10 or 15 years is some kind of armed conflict between China and the Soviet Union; at least there are people who say so and predict it, people who conjecture that the changing relations between the United States and China and the United States and the Soviet Union reflect an important change in relations between Communist China and the Soviet Union. And yet the implications of a change that drastic—what once thought to be close allies, even a monolithic single system, splitting apart and becoming potential enemies—the implications of that for what could happen in the rest of the world in terms of changing alinements, changing perceptions of the threat, changing perceptions of commitments, don't seem to be taken into account. Perhaps they can't be, because we are designing systems that are supposed to outlast even the treaties to which we are party.

UNIFICATION OF GERMANY

It used to be thought that within a generation Germany might be unified. I think it no less likely for the medium term future than it ever was; yet German unification could drastically change our commitments, both with respect to general purpose forces in Europe and with respect to the kind of nuclear threats that we might want to make.

German unification could occur within two decades and we would be right in the middle, in the prime of life, of the new strategic offensive systems that are contemplated at present.

USE OF NUCLEAR WEAPONS

All one has to suppose is that nuclear weapons were used by some country somewhere, for some purpose, in the next 10 or 15 years, and all of our conceptions of strategy and a good many of our conceptions of alinement and commitment might be drastically changed.

NONPROLIFERATION TREATY

If the Nonproliferation Treaty works, as it is hoped to work, it may have more to do with the nature of the threats and commitments over the next 25 years than even the SALT agreement. It has to be recognized that in the old days we said that only the United States and possibly the Soviet Union could afford weapons systems like Polaris. But by the time Trident is commissioned, there will be many countries of the world whose GNP is larger than the U.S. gross national product was in the late 1950's.

20- TO 25-YEAR HORIZON

All of this leads me to believe that we may be very, very poor at guessing what our commitments may be in 15 or 20 years, or what the threat may be; and we may be locked into a strategy that, in turn, is determined by the technology that tends to get rigidly fixed because of the tendency to build weapons systems as "systems," as huge efforts, such that 20 or 25 years is the planning horizon on account of the high cost.

REDUNDANCY OF THE TRIAD

I am struck not with the excessive redundancy of what is called the Triad, the three-weapon system deterrent based on land-based missiles, bombers, and submarines. I am much more impressed with the lack of flexibility in it, the idea that the entire naval deterrent force would look very much like Polaris but be larger, otherwise unchanged for the next 30 years. In fact, to say the only defense against Soviet antisubmarine warfare is to build bigger, longer range submarines with bigger, longer range missiles seems to me to be oriented toward the strategic problems of the 1950's, possibly of the 1960's; but we shall need some imagination to see whether weapons systems that would have delighted the Gaither Commission in 1957 are the systems suitable to meeting commitments and facing threats during the period, from about 1985 on, that is the focus of the strategic weapon decisions being requested by the Pentagon now.

Thank you, sir.

(The prepared statement of Mr. Schelling follows:)

PREPARED STATEMENT OF THOMAS C. SCHELLING

I should like to introduce two topics for discussion this morning, one suggested by recent events, the other by last Thursday's announcement of these hearings. The first is the economic implications of the SALT Agreements that the President signed in Moscow last week. The second is "the need for longer-term planning" and the 5-year estimates that the Committee has asked for.

The SALT Agreements, of course, are of potential significance far beyond any money they may save; and it may appear to put them in wrong perspective to discuss, so soon after their signature, what they may mean to the economy. These days, compared with a decade ago, we are much more concerned with our economic limitations; and these days, compared with a decade ago, we hear little about the dangers of thermonuclear war. It may be a sign of the immense progress we have made in ten years that nuclear weapons are no longer on the agenda of "peace" movements and hardly anyone felt, as far as I can tell, that this Memorial Day weekend was unprecedentedly safe from holocaust. The SALT Agreements undoubtedly reflect an existing situation as much as they create a new situation. But they are indeed a landmark.

It is important, I believe, to discuss their economic significance, if only to forestall exaggerated expectations. Indirectly, continued progress toward easier and safer relations with the Soviet Union can be of enormous economic significance; as an example, limited to certain strategic weapons, of what can be accomplished through negotiation, the SALT Agreements are impressive. But directly, as a limitation on defensive and offensive strategic weaponry, they will probably yield a small dividend, if any. To forestall possible disappointment in what has been accomplished it may be important to emphasize this.

In the first place, as you gentlemen well know, the strategic nuclear component of the Defense Budget is not a large fraction of the total—perhaps afifth when research and development and various overhead costs are allocated appropriately. In the second place the agreements apparently relate to numbers of weapons, and some substitution of quality for quantity will be a natural motivation. (Indeed, the speed with which the need for new missile submarines was mentioned upon announcement of the SALT Agreements suggests where the emphasis is to be expected.) And in the third place, there is likely to be a tendency to take for granted that what is allowed under the Agreements is prerequisite to security and that agreement to a ceiling is tantamount to a decision to reach that ceiling. (The likelihood of an ABM defense of Washington has probably gone up.) It would furthermore not be unusual for an Administration, or for this Congress, to bend over backwards in emphasizing and assuring that no stone would be left unturned in securing our national defense while complying with an arms agreement, and the mood may be to overcompensate.

One does not need to be cynical in order to expect an arms agreement to raise, not lower, strategic arms costs. One of the purposes of an arms agreement is to divert the arms programs of the two countries into safer, more stable, weaponry.

If it turns out that the kinds of weapons that are morere assuring and less menacing—less likely to demand hasty decisions in crisis, less conducive to the advantage in "going first," less susceptible to false alarm and less vulnerable to some technological "breakthrough"—are more expensive, then an arms agreement may wisely ban "cheap" dangerous weaponry in favor of more expensive systems. If the Agreements make it harder to preserve the Minuteman missile system as an invulnerable deterrent force, and shift the weight of argument toward longer-range (and more expensive) sea based missiles than those we now possess, the result can be greater security at somewhat higher cost, but at a price worth paying.

I say this neither to forecast nor to support higher strategic-weapon expenditures, merely to point out that the measure of these historic Agreements is not the money they will directly save us.

Let me turn now to the matter of long-range estimates. This subject is suggested by SALT itself. The alacrity with which the Secretary of Defense announced suspension of ABM construction at Malmstrom was welcome and dramatic, and can presumably be translated into cost reductions for 1972–73; but there have also been references to a new generation of missile submarines made desirable by the new Agreements, and these have budgetary implications for 1982–83, even 1992–93.

Senator Proxmire's announcement of these hearings mentioned the Pentagon's 5-year estimates (which, he said, the Pentagon refuses to make available to the Congress and the public). His implication was that the "longer-term" planning was being withheld. In friendly fashion, let me suggest that the Pentagon is not withholding its longer-term estimates: 5-year estimates are *short-term* estimates! Five-year estimates will barely get a submarine launched, even if development is well under way.

It is a notable feature of modern weaponry that, whatever the breathtaking pace of technological advance, weapon systems are durable and long-lasting. That is partly because they are so expensive: big investments justify themselves by their durability. The B–52 is still flying; the Polaris submarine is physically and mechanically in fine shape; Minuteman, in its air-conditioned silo, is not rusting away. And investments that are so expensive do not quickly become obsolescent, because it takes enormously expensive systems to replace them. Major strategic weapon systems seem to have a career that spans a quarter of a century. They are years in conceptualization and research and development, and more years in production and shakedown; and they are durable once in commission. The successor to Polaris, if there is a successor, may well be still the backbone of the deterrent force as late as the year 2000, or pretty nearly so. The potentially useful lifetime of a Polaris boat is measured in decades, not years.

These reflections lead me to the conclusion that five years is not a "long-term" planning period but the barest "short-term." In thinking about ULMS, or any other advanced-technology major weapon system, we are necessarily thinking about a capital investment whose lifetime is a "generation"—not just a "weapon generation" but an actual human generation. It is my children's generation that will testify on the successor to ULMS, two decades or more from now.

I say this not because I have procedural suggestions that will ease the planning problem, but because I perceive a problem. Five years do not begin to represent the "long-term" perspective in matters of strategic weaponry. Today's major weapon systems tend to have a lifetime—from conception to retirement—so long that the GNP may nearly double, even in real terms, so long that the technologically fantastic becomes commonplace, so long that strategic alignments can be displaced nearly 180 degrees, so long that the endless war in Vietnam may seem terminable after all, so long that I shall be too old to testify the next time around.

I want to support, as dramatically as I know how, the demand for "longer-term" planning and budgeting. I do not disparage the demand for 5-year estimates. But five years has to be recognized as a short time, not a long time, in the planning-budgeting process. If the Pentagon withholds its longer-term estimates, or fails to make them, it is not just the five-year projections that are lacking.

I hope my remarks will extend the planning horizon of our discussion. The horizon is way out there.

Chairman PROXMIRE. Thank all of you gentlemen very much for very interesting presentations. As I say, this is a well-balanced panel and an expert panel.

I would like to ask you first a question which each of you could answer, I think, with a yes or no. It will be very helpful to me as a Senator.

SHOULD SALT BE RATIFIED?

This summit conference in Moscow has presented the Senate with an immediate question: Should the SALT agreement be ratified? This panel is composed of a most representative and qualified group of experts with practical experience in the field of national security.

How would you vote on SALT if you were a Member of the Senate?

Admiral La Rocque.

Admiral LA ROCQUE. Yes.

Chairman PROXMIRE. Mr. Pranger.

Mr. PRANGER. Yes.

Chairman PROXMIRE. General Richardson.

General RICHARDSON. Yes; with some conditions.

Chairman PROXMIRE. All right, specify your conditions.

General RICHARDSON. Principally my concern is that it may be implemented in an asymmetrical way; that is, we will tend to lean toward overimplementing, whereas the opposition will tend to go no further than the letter of the agreement.

Chairman PROXMIRE. How do you ascertain this? Your vote is yes or no. What action, if any, do you think the Senate could take?

General RICHARDSON. One would have to look to taking some similar position to that which was taken in the case of the nuclear test ban where in return for the appropriate congressional support, the administration agreed to vigorously pursue research and development in new systems.

My main concern, Senator, is we have a tendency—and I was in the nuclear business—to get an agreement and then throttle all development in that area—not to do any military space research in delivery vehicles, for instance—then if we are caught off base, we are 5 years behind.

What we should do is get all the technology in hand, then live up to the agreement in terms of not going into production and deployment, but at least you have 5 years of know-how under your belt when you are caught, if you are, by somebody breaking a treaty. This is my basic concern with these types of agreements.

Chairman PROXMIRE. Professor Schelling.

Mr. SCHELLING. Yes.

Chairman PROXMIRE. Thank you, sir.

SPENDING INCREASE AS A RESULT OF SALT

Professor Schelling, you give a number of reasons—incidentally, General Richardson said he thought the SALT agreement might cost more rather than less—but you give a number of reasons making it appear not only likely but logical that there will be a small, if any, economic dividend from SALT, that defense spending will probably increase as a result of the treaty, and that such a price will be worth paying. Because the long-term trend for military spending has been upward, you may be correct in your prediction. But I'm not so sure about your reasons.

For example, you say that the agreement relates to numbers of weapons and there will be a natural motivation to substitute quality for quantity. In other words, we will want to upgrade what we are allowed to keep under the treaty and the items that are not covered by the treaty. There may be some tendency in this direction, especially by those within the Military Establishment, but you are not saying, I take it, that we should upgrade everything, that it is necessary to substitute new generations of weapons in every instance, that there is a military requirement to do this; is that right?

Mr. SCHELLING. I am not proposing more ought to be spent. I am forecasting that the urge to spend more will be there, and I think we already see it.

EMPHASIS ON R. & D.

Chairman PROXMIRE. What do you—you heard General Richardson's reaction, that he feels that we approve SALT; we should do so and all of you say we should, but he says if we do so we should do so with the condition that the administration pursue vigorously our research and development program. Would you espouse that? Would you support that? Do you think it is desirable?

Mr. SCHELLING. I would support the emphasis on research and development but be reluctant to rush into new systems to replace old systems simply on grounds that since we couldn't buy more numbers we ought to buy more quality. I doubt whether in the absence of a SALT agreement we were going to increase numbers.

Chairman PROXMIRE. In the absence of a SALT agreement, we were what, sir?

Mr. SCHELLING. I doubt whether we were going to increase numbers.

Chairman PROXMIRE. I see.

ABM AS BARGAINING CHIPS

Mr. SCHELLING. Therefore, I don't think SALT has put a severe lid on our plans. Indeed, we were told a couple of years ago that the reason we needed at least to pretend to be building an ABM system was to be able to give it away in the SALT agreement. If it looks therefore as though we have saved ABM money, we should keep in mind that was not money we were intending to spend in the first place; that was money we were setting aside as bargaining chips.

Chairman PROXMIRE. We were not about to spend it; at least the estimate by Brookings was that we would be saving an average of $1.4 billion a year over the next few years by abandoning the—proceeding with the ABM—the 12 ABM sites—and this would be one saving; and yet you conclude over all, as does General Richardson, that there may be an increase in cost as a result of the SALT agreement?

Mr. SCHELLING. I am not sure that we count that $1 billion a saving. What I am suggesting is that inasmuch as the administration argued 2 years ago that it was imperative to go ahead with ABM, partly in order to negotiate the dismantlement of our ABM plans—this isn't a billion dollars necessarily that SALT saved; this was a billion dollars of spending that was induced by the SALT negotiations which now, being successful, we can lay aside, although it will show up on paper as a saving.

Chairman PROXMIRE. It was in the budget.

You also conclude one of the purposes of an arms agreement is to divert weapons programs into safer, more stable weaponry, to trade off vulnerable weapons for less vulnerable ones even though the latter may be more expensive. I wonder if this is necessarily implicit in an arms agreement. Why is the purpose of such a treaty simply to divert arms programs of the two countries from the less stable, more vulnerable weapons?

Don't we already have stable and virtually invulnerable systems, such as Polaris/Poseidon? Aren't the two countries really just trying to get rid of their vulnerable and more provocative systems without necessarily moving toward more expensive additions to our overkill capacity?

Mr. SCHELLING. Because we already have some high quality weapons, it may be possible to simply dismantle or limit the more vulnerable ones. I think SALT may have made a mistake, probably due to the Russians. I should guess we would have been better off if we protected more Minutemen and kept fewer Minutemen in total, but I think the Russians didn't like the idea of using ABM to protect weapons systems.

Given the fact that the Minuteman will be substantially unprotected in the future, I believe that the argument in favor of enhancing the security of the Polaris submarine is a stronger argument. I am not sure that the thing to do is to replace it 10 years hence with Trident. That may be a comparatively inflexible way to take care of possible troubles Polaris will come into. But I already detect that out of the SALT agreement comes a certain enthusiasm for proceeding even faster toward ULMS. I would consider it a mistake because I am afraid that the Trident submarine will, as I mentioned, lock us into an expensive system and reduce our flexibility for looking around as the years go by to see what our commitments are going to be.

ARMS REDUCTION PROGRAMS

Chairman PROXMIRE. In his debate with Senator McGovern, Senator Humphrey stated a position which many, many seem to share, that the best way to reduce defense costs is through mutual arms reduction programs, through negotiations. Is this, according to your analysis, an illusion? Was Senator Humphrey right or wrong?

Mr. SCHELLING. Whether it is the best way, it is a very good way; but I don't think one can do the arithmetic on the contents of the SALT agreement to find whether defense costs are reduced. I would suggest that the greatest reduction brought about by SALT may be in ground forces, for instance, in Europe or at home.

Chairman PROXMIRE. On the basis of your historical analysis, have arms agreements in the past—have they resulted in reduced or increased costs for defense?

Mr. SCHELLING. The only significant arms agreement we have had was the nuclear test ban, and I don't imagine that that made a significant difference in either direction.

Chairman PROXMIRE. So we are trodding new ground here?

Mr. SCHELLING. But could I just emphasize one point?

Chairman PROXMIRE. Yes, sir.

Mr. SCHELLING. What I tried to say was that I would conjecture that the low level of Army troop strength projected in the budget is a

reflection of the diplomatic process that includes SALT—that it isn't the dismantlement of ABM that may save money. I think it is rather the President's hope to ease relations with the Soviet Union, eventually to reduce the cost of being prepared on the ground as well as in strategic weapons, and maybe one should look in the budget and see why it is that the entire troop strength of the Armed Forces is falling below anything that was being considered in 1961; namely, down to about 2¼ million. This is a reflection of what SALT is about.

Chairman PROXMIRE. I would like to ask each of you on the panel, beginning with Admiral La Rocque, this question:

COMMENTS ON THE BROOKINGS OPTIONS

Yesterday and the day before, we discussed some of the Brookings alternative defense budgets and these options were also mentioned in the McGovern-Humphrey debates.

The Brookings study contains three basic options and shows how a number of components in the force structure can be modified to further increase or reduce the present level of defense spending. The study assumes an average annual cost of $88.6 billion from 1973 to 1979 under the present program—the administration's program—and then presents a higher option of $94.8 billion based on an increase of Army divisions from 13 to 16, an expansion of ASW forces, enlargement of the F–14 program and an increase in military manpower to 2.5 million men. It will go down, of course, if we follow the present administration program.

The low option is based on elimination of older model B–52's, Titan and Minuteman II Missiles, a restricted air defense system, maintenance of the present number of ground force divisions, an immediate move to a 12-carrier Navy projected for the 1980's, a reduction in tactical air force modernization, a reduction in the ratio of support to combat forces to the 1968 level, and a reduction of manpower to 2 million.

They also have a low, low option—this is the one, incidentally, that Senator McGovern seems to espouse or would at least coincide with the figure he gives—whereby they reduce spending by an additional $9 billion, making a total reduction of $21.5 billion from the present program. They do this by reducing ground forces oriented toward use in local conflicts in Asia, limit the role of carriers in contingencies involving the Soviet Union, cut back on tactical air force requirements for deep penetration missions, and move from the Triad to a sea-based strategic deterrent only.

I wonder if each of you would comment on these options, none of which according to Brookings, would depend on fundamental shifts in the way the United States defines its interests in the world or in the way it chooses to protect them.

Admiral La Rocque.

LOW, LOW OPTION MAKES SENSE

Admiral LA ROCQUE. Senator, generally speaking, I think that the low, low level advanced by Brookings makes the most sense. I don't accept all of the rationale which they have in their proposal for the low, low but there could be some tradeoffs perhaps somewhere between the low, low and the one above it.

For example, I think as long as we have the Triad in existence today, I think it would be a useful thing to keep all three of those forces. As far as cutting down the CVA's and their role vis-a-vis the Soviet Union, the attack carrier today has no role insofar as the nuclear exchange with the Soviet Union is concerned. It simply is not included in that mission. We have plenty of land-based missiles, land-based aircraft, and sea-based missiles, and it simply is not part of the plan so that could easily be reduced or eliminated as Brookings suggests.

I think it makes a lot of sense to eliminate a considerable number of our ground forces, particularly those oriented to Asia if they are specifically oriented there. Actually, I think, they are much more flexible than that but I think we have, when you consider a 200,000-man Marine Corps, a 1-million man Army, that that is considerably in excess of what we are going to need in the next few years.

My opinion would be that we could make considerable cuts, perhaps not as great as $21 billion, but many of these forces we have simply carried on because the services have pushed their own programs and we have not looked at the overall picture.

I think one service that the McGovern budget has done is it tended to shock people to taking a look at the broad picture rather than looking microscopically at the individual weapons systems. He has sort of asked the question concerning not only how much is enough in strategic weapons but also in our entire defense force. I would tend to favor the low, low Brookings.

Chairman PROXMIRE. Thank you, sir.

Mr. Pranger.

BROOKINGS FIGURES FAIL TO PROVE UNITED STATES CAN FULFILL ALL COMMITMENTS

Mr. PRANGER. I am not so sure that the Brookings figures do reflect the same spectrum of conflict model at all levels of those figures; that is to say, if removing certain jobs of the services means that we can still fulfill all of the commitments and all of the interests, multilateral, bilateral, unilateral, which I believe the Senate has been interested in now for the last few years, if this low, low budget does still provide protection for all of those commitments, I don't believe that the Brookings report demonstrates this at all.

I think that the real question still remains one of national purpose as far as foreign affairs and the military's role in foreign policy is concerned over the next 10 or 20 years, and the issue goes beyond the budget to the question of what good is any of this force, what purposes are we seeking to establish in the world, and so it appears to me that all of these budget levels are quite arbitrarily selected simply to get rid of certain missions of certain force components without addressing long-range strategic questions.

Chairman PROXMIRE. I want to see if I understand you fully, Mr. Pranger.

Are you saying that if you eliminate ground forces oriented toward use in local conflicts in Asia, if you limit the role of carriers in contingencies involving the Soviet Union, if you cut back on tactical air force requirements for deep penetration missions, and if you move from the Triad to a sea-based strategic deterrent only, it will not save the additional $9 billion below the low option that the Brookings claims it will?

Mr. PRANGER. It will save money but I am not so sure that the argument that goes along with it——

Chairman PROXMIRE. You don't dispute the $9 billion but you dispute whether or not it will achieve our missions?

Mr. PRANGER. Whether or not it will achieve the same missions. I think it will do something to the established spectrum of conflict model in which we move from insurgencies and small wars up over the nuclear threshold to full world nuclear war with which everyone is acquainted; it will play havoc with that model. I am not arguing that it shouldn't play havoc with that model.

Chairman PROXMIRE. Could you give us specific examples where our U.S. interests would be harmed by going down to this low, low budget? Can you give us one or two instances?

EFFECT ON NATO

Mr. PRANGER. Well, I think, first of all, there might be questions regarding NATO in this regard, that is to say, that NATO strategy is based on a certain mix of force in NATO which we have in conjunction with our allies. This does involve ground forces. This does involve roles for aircraft and so forth.

Now, it has been the general position of ourselves and our NATO partners that any diminution in that force of any kind can only be done in terms of mutual negotiations with the Soviet Union and its allies. Under the circumstances, if these figures represent any subtraction from the NATO force, they cause difficulties at least in terms of NATO planning circles.

Now, whether it is in the U.S. interest or not to maintain the present NATO strategy might well be a question. In terms of——

Chairman PROXMIRE. One thing Brookings doesn't seem to do is to touch NATO. Maybe they do it but they certainly don't stipulate it.

Mr. PRANGER. Well, I am not so sure that in fact there wouldn't have to be a touching of NATO, unless we made a decision in Asia simply not to move into small wars and local wars, and this is, on the other hand, a fundamental national decision——

Chairman PROXMIRE. That's right—that is what they say.

Mr. PRANGER. Right—of great importance. If we don't make that decision then we are going to face the Vietnam kind of situation vis-a-vis NATO forces; that is to say that the NATO forces are going to be kept only at less than completely ready levels in many instances. In other words, there is in the defense planning picture a tradeoff between forces worldwide in the military spectrum. The national security decision that really has to be made is an Asian strategy decision and that in turn will impact on NATO.

EFFECT ON OTHER AREAS

Now, if that decision is made, it will be a very significant decision indeed because it will relate not only to Indochina but also it will relate to Korea; it will relate to Japan; it will relate to the general notion of forward based strategies in Asia and it would be a rather, I think, important departure from our past strategic conceptions. It seems to me, therefore, that this low, low budget—and the same goes, I think, for contingencies outside of Asia and outside of Europe—

which belong in the so-called one-half war category that people play with—the Middle East. It could require indeed, that we make a national decision to resist temptations to manage crises militarily in local war situations. Again, it only seems to reinforce, I think, the idea that this requires some very fundamental decisionmaking as well as the question of how many carriers we allow in the budget and so forth.

It is just a different world view which we have to adjust to.

Chairman PROXMIRE. My time is up. With the permission of the panel, General Richardson and Mr. Schelling, if you would respond.

RELATIONSHIP OF REDUCTION OF "MEANS" AND REDUCTION OF "THREAT"

General RICHARDSON. My view, sir, is essentially the same as Mr. Pranger's. As I pointed out, when you find in a proposal a reduction in the costs of the "means," then I immediately look to see where it is shown that the "threat" has decreased, or where it is proposed that we reduce our commitments. If neither of these factors have demonstrated change, then it is clear that the only justification for being able to advance such reductions is the presumption that for the last 10 years everybody was wrong in the amount required to do the same job against the same threat. While we can accept that people are in error in these areas, give or take 10 percent maybe, to presume that everybody was suddenly wrong by the orders of magnitude that the low, low figure would call for here, is a little difficult for me to accept.

RISE IN HARDWARE COSTS AFFECTS CAPABILITY

The other point I would make is with respect to this level budget. It seems to me that this totally ignores the fact that you have a constant rise in hardware costs to deal with which again requires that you either increase your budget progressively to maintain the level capability or, alternately, reduce the capability.

NATO is now down to the absolute threshold of credibility for a conventional, flexible response strategy.

INFLATIONARY ELEMENT RECOGNIZED

Chairman PROXMIRE. If I can interrupt, general, they do—Brookings does assume a substantial increase in costs. We are spending now about $76 billion. They assume we go to $88.6 billion and the average over 1973 to 1979 so they recognize the inflationary element involved—higher pay scales and so forth.

General RICHARDSON. That's right. I have not studied in detail their statement, but I would point out to you, for instance—as evidence of the point that I make—that back as early as 1952 to 1954 we made a U.S. commitment to supply 1,100 fighter aircraft—give or take a couple of hundred—to the defense of NATO. That number has remained essentially constant for 20 years, but the equipment with which it was provided went from a $100,000 F–80, to a $360,000 F–84, to a $700,000 F–100, to a $1.9 million F–105, to a $2.4 million F–4, and we soon will go to a $8 to $10 million F–111. Meanwhile the quantity remains, give or take a couple of hundred, at 1,100 aircraft.

You can show the same rise from the *Essex* class carriers to the *Enterprise* class and the quantity is still four carriers per task force, one task force per ocean. If you are going to keep these figures constant, to meet a constant commitment with a constant, flexible response then you are going to have to pay an escalating price, not only due to inflation in manpower costs but also of the higher costs of the products of technology. This is my whole point. The historical correction is to adjust the "method" so as to exploit the products of technology, and the improved performance, to cut costs.

But, admittedly, when you do this you run head on into the arms controller's antipathy to fully exploiting new weapons and new systems in order to reduce quantity in favor of quality.

To break through the threshold that NATO is now at, with a force reduction, should this result from any of these proposed cuts, would merely open up European security to one of three random outcomes: The nations concerned would recognize that NATO no longer provided the necessary security, in the mode that it proclaims, and will seek (1) accommodation, (2) a national nuclear outcome, or (3) a European solution. If we wish any of these, we should steer NATO into them rather than have them come about by a random process of U.S. force reduction, it seems to me.

Chairman PROXMIRE. Professor Schelling.

Mr. SCHELLING. I disagree a little with General Richardson. I suspect if we adopted something like the Brookings low budget it would not lead to a calculable shortfall in our ability to meet our commitments. I worry about two other aspects though of what the Brookings proposal contains:

DANGERS OF PANIC MOBILIZATION

First, there is the danger that an event like the Soviet invasion of Czechoslovakia or, to take a more dramatic case, the Korean war, will propel us into new mobilization in panic fashion if we feel that we have stripped down too far. I can imagine war in the Middle East would bring a number of people enthusiastically to want mobilization and rearmament. A little of this occurred in 1961, and my feeling is if you strip down to where the mood of the moment suggests the world is safe, and one of these awful events occurs, you are much less able to respond in a patient, stable fashion.

COMMITMENTS AND FORCE STRUCTURE CHANGES

The second thing I worry about in the Brookings proposal is that they do not seem to be doing what General Richardson demanded; namely, to think of our commitments before making major changes in force structure.

The Brookings "low budget" keeps our commitments and skimps a little as we go; I think this can lead them to feel that a single sea-based nuclear deterrent force is fine because they are not thinking of doing anything but threatening nuclear weapons on Russian cities.

On the other hand, I would suppose that over the time horizon that the Brookings uses, namely, 10 years' operating costs after the

B–1 or the Trident is in commission, during that time we may perfectly well have a treaty with China, to help defend China against any one of two or more large adversaries, and I don't find this any more preposterous than a Soviet attack on West Germany within the next 15 or 20 years. I don't quite see that this force has anything like the flexibility it ought to have to meet the state of the world as it is likely to be 10, 15, 20 years from now, which is the time when the stripped-down Triad to the single undersea deterrent force, would be in commission.

As I said earlier, this may look good from the standpoint of 1957, when I think the strategic forces might have given their left arm for a genuine invulnerable undersea-based force that could bring nuclear weapons on the Soviet Union; but how it meets the rather unforeseeable contingencies of 10, 15, or 20 years from now, I am not sure. The notion that all we have to do is be prepared to retaliate on the Soviet Union, and that one looks at carrier aircraft in terms of whether or not they can fly deep missions to Soviet targets, seems to me to be getting ready—I don't know what the term would be—not to fight the last war but to sit out the last peacetime period.

Chairman PROXMIRE. Thank you. My time is well over.

Congressman Conable.

Representative CONABLE. Professor Schelling, I am inclined to agree with you. I really am not sure we want to live in a world where we can only respond with nuclear force. That is one of our dilemmas as we try to cut the pattern to fit the cloth.

FUND APPEAL FOR CENTER FOR DEFENSE INFORMATION

Admiral La Rocque, I would like to ask you a little more about the Center for Defense Information. I don't understand. Is this the institution that the chairman sent up a fundraising letter for recently?

Admiral LA ROCQUE. No; I don't believe so. I don't believe——

Chairman PROXMIRE. I don't know of sending out any fundraising letter for anybody, including myself, since the 1970 election. If I did, I am surprised.

Admiral LA ROCQUE. I have had no connection with it.

TAX-EXEMPT STATUS OF CENTER FOR DEFENSE INFORMATION

Representative CONABLE. You are not a tax-exempt organization?

Admiral LA ROCQUE. Yes; we are.

Representative CONABLE. You are a tax-exempt organization. Well, it must have been somebody else then I got the letter from rather than you.

Admiral LA ROCQUE. We're a public information, public education organization and we have no—have had no contact at all with the chairman in any connection with fundraising or anything else for that matter.

Representative CONABLE. Do you receive foundation funds for your work?

FUND FOR PEACE

Admiral LA ROCQUE. Yes. We are a new organization, Congressman Conable, and really have been in existence technically since November 1 of last year, and I have been there since April 1, and we are basically

funded at this point by the Fund for Peace, an organization in New York, and we have been soliciting private contributions and have been meeting with some success.

Representative CONABLE. How large a staff do you have?

Admiral LA ROCQUE. We have a total of nine, including myself.

Representative CONABLE. What is your background in the Navy?

Admiral LA ROCQUE. Primarily surface ships. I have commanded——

Representative CONABLE. You are a line officer?

Admiral LA ROCQUE. I am a line officer; yes.

Representative CONABLE. What is the implication——

NATIONAL COALITION OF PRIORITIES AND MILITARY SPENDING

Chairman PROXMIRE. If the Congressman will yield, that was the letter sent out by the National Coalition of Priorities and Military Spending.

Representative CONABLE. It is entirely different.

What is the Fund for Peace, a foundation?

Admiral LA ROCQUE. It is a foundation, a broadly based foundation, in New York, with membership from Brown Bros., Harriman. Mr. Roosa is a member of the board of trustees; vice president of Kidder, Peabody—Mr. Compton. It is pretty much a middle-of-the-road organization trying to figure out ways to promote peace in the world. However, that is just our initial one. We are getting other foundation money now as well.

U.S. NAVY AND SOVIET NAVY

Representative CONABLE. What is the implication of your addendum to the testimony here about the Navy and its relationship to the Soviet Navy? Is it that our Navy is far more adequate than the Soviet Navy? Are you not trying to draw any conclusions from these comparisons?

Admiral LA ROCQUE. Oh, no; definitely trying to draw a conclusion and I think the statistics speak pretty much for themselves.

The U.S. Navy is by far more powerful than the Soviet Union and, as a statistic which one might add to this, which we have recently come across, actually have worked up, since 1960 the U.S. Navy has commissioned 304 new ships of 1,000 or more tons; during that same period on the best information we have available, the Soviet Union has commissioned 205, some 304 to 203 in the last 10-year period.

Representative CONABLE. You don't imply that there are the same strategic considerations between the two countries, do you—the United States being somewhat isolated by oceans in the Western Hemisphere, and the Russians having a contiguous land border with most of their potential opponents?

Admiral LA ROCQUE. Well, they are certainly different and that is one of the reasons that I think that there is a real danger in trying to compare navies ship for ship.

Representative CONABLE. That is why I was asking you what the implications of your statistical analysis here were. I wondered if you were trying to put both countries in exactly the same strategic position and saying, well, here, obviously, on a ship-for-ship basis we are far superior to the Soviets.

Admiral LA ROCQUE. No, sir; we were simply trying to counteract the general feeling which has grown up and is obvious in the press and from the testimony of Mr. Laird, the Chairman of the Joint Chiefs of Staff and Admiral Zumwalt this year before the Senate Armed Services Committee, in which they are implying, in fact stating, that the Soviet Navy is growing tremendously while the U.S. Navy is diminishing in strength. But they simply don't in any of their testimony talk to the facts and we were attempting here to bring out some of the facts which make an entirely different picture.

It shows the U.S. Navy in a very strong position. It shows the Soviet Navy increasing in strength, attempting to improve its position.

Representative CONABLE. I see. Well, I was not sure whether you had any other purpose in mind than just to give these comparative statistics.

Would you from this advocate a reduction in the budgeting from the Navy generally beyond your obvious antipathy to the $1 billion carrier?

U.S. NAVY MORE THAN ADEQUATE

Admiral LA ROCQUE. Yes, sir; I think the U.S. Navy at this point is more than adequate to provide for the defense of the United States and to carry out our national policy directives of the President.

ULMS ACCELERATION

The ULMS submarine—the Trident, in my opinion, and as a result of our analyses in this whole area, is simply—there is simply no need to accelerate that program by the 3 years that the Defense Department is suggesting. It may be that in a year or two or three we might want to go in that direction; but there simply has been no military case made for accelerating the ULMS submarine at this time.

Representative CONABLE. You would not, in your analysis of the Navy, carry your argument to the point where you would urge us to give up the capability for conventional response, would you?

STRONG U.S. NAVY ABSOLUTELY NECESSARY

Admiral LA ROCQUE. Absolutely not. I think we need to have a good, strong Navy adequate to the defense of this Nation. I think we have that now. I think what we are asking—the Navy is asking for this time—is sort of the nose of the camel under the tent and it is going to be far more than is needed.

ABILITY OF RUSSIANS TO CHANGE CONCEPTS

Representative CONABLE. General Richardson, have the Russians shown any ability beyond ours to change their concepts or are they on the same course we are, generally locked into a pattern of rising defense expenditures because of the rigidities in their conceptual approach to world strategy?

General RICHARDSON. My observation on that, sir, would be that all nations find themselves essentially locked in in varying degrees to a similar cost cycle; however, the timing and the impact on yearly budgets vary widely depending on the situation. A typical illustration

can be found in the far lower manpower costs in Russia today. Although these will no doubt rise gradually too, it now gives them far more flexibility to spend a higher percentage of their budget to offset the rising costs of hardware than we can. I think the figures that were given in Mr. Laird's posture statement were that their manpower costs represent something in the vicinity of 35 percent of their budget. versus 56 percent of ours; if so this differential can buy them time. Again, we come back to the need to look at the picture over a period of 10 years. What hurts us today, squeezes us up to hard decisions may not catch them, or any other country, in a similar bind for several years. Or it may have put smaller countries, like in NATO, in an impossible situation to pay for the luxury, let's say, of a conventional response strategy 5 years ago.

We have to scale the timing, but the problem is essentially the same for everyone.

Representative CONABLE. Changes in policy are likely to come about as a result of crisis, and frequently a massive bureaucracy such as the Russians have works against conceptual flexibility. I wondered if they had a particular problem in this respect?

General RICHARDSON. USAF studies some years ago suggested that you have a differential between the rate of change in concepts—the method or strategy—and the rate of change in military hardware. One is resisted and the other is sought. We spend billions in hardware R. & D. while "a fellow and a boy" looks occasionally at new concepts or strategies in a newspaper article. As these two curves spread, the gap between them in essence constitutes the degree of exacerbation of this whole strategic and cost problem.

Representative CONABLE. My time is up, Mr. Chairman.

Chairman PROXMIRE. Congressman Reuss.

QUESTIONS REGARDING ABM

Representative REUSS. Thank you, Mr. Chairman. I would like to ask some questions about the ABM of Mr. Schelling.

If, as a result of the Moscow agreement and ratification of it, we are limited to two ABM's rather than the 12 which were in the total ABM program, and assuming we would have built the 12, we will have saved about $9 billion, would we not, $9 or $10 billion over 5 or 6 years?

Mr. SCHELLING. I believe so.

EACH NATION TO HAVE ABM TO PROTECT A MISSILE SITE AND ONE TO PROTECT ITS CAPITAL

Representative REUSS. How do you account for the nature of the ABM agreement? Each side is to have one protecting a missile site and one protecting its capital. Could that have been because we are pretty far along with one out in the countryside, the Dakotas, protecting a missile site, and the Soviets are pretty far along with one protecting their capital, Moscow? So this sounds to me like an attempt to recognize the realities of what had been done.

Is that a reasonable explanation, or do you have a better one?

Mr. SCHELLING. I can't think of a more reasonable one. I am a little surprised that the negotiators didn't have the flexibility to say if we preferred to defend more Minutemen and paid less attention to

Washington, D.C., that was our business; and if the Russians preferred to defend Moscow and not their SS–9 sites, that was their business.

Actually, I think that the philosophy expressed in President Nixon's original Safeguard statement, which was that of all the things one might do with ABM, protecting Minuteman made more sense and was less menacing than anything else, was a good statement, the kind of statement that the arms control community had been saying for 10 years. And I think President Nixon said it well.

The Russians apparently were not interested. I think even in this country a great many people interested in ABM were not interested in the restrictive orientation of it.

I am disappointed that the Russians couldn't accept the Safeguard philosophy. I am sorry that President Nixon had to depart from it. If we do build the second hundred ABM launchers, I think it is too bad if they are restricted to defending Washington, D.C., when they might have been used to defend more Minutemen.

But until the story comes out of how the bargain was struck, I think your suggestion is probably the best.

Representative REUSS. Proceeding from that, and I think you said a moment ago, in answer to the chairman's question, that you, were you in the Senate, would vote for the ratification of the ABM agreement?

Mr. SCHELLING. Oh, absolutely.

IS BUILDING OF TWO ABM'S MANDATORY?

Representative REUSS. So let's assume that the advice and consent body has what I regard as an equally sensible outlook and the treaty is ratified. The next question: We don't have to use up the option that is given us of erecting two ABM's, do we? There is nothing in the treaty that says we have to do that. This is simply a ceiling?

Mr. SCHELLING. My reading of the treaty is we surely don't have to build the second ABM.

Representative REUSS. Right.

My next question: Wouldn't it be really quite foolish to do anything but stop the ABM program where it is as of the time of ratification because whatever justification the ABM program might have had originally, it certainly seems to be bereft of that justification in view of the limitation, thus to have one missile site capable of reacting, assuming it isn't misled by decoys and all of that, seems to me fairly meaningless when we have got an ocean full of Polarises and so on. The one site wouldn't seem to me to tip the balance. I will come to Washington in a minute.

Will you address yourself to that?

Mr. SCHELLING. Yes; I am not in disagreement with you. I don't think one will tip on the balance; but I think one protected is better than none protected, expecially if a large part of it is a sunk cost. The 100 launchers to protect Washington, D.C., does not even sound to me like what President Nixon had in mind a couple of years ago, and I think we should be careful to avoid any presumption that because the agreement allows it, we have to be sure to do it.

ADVISABILITY OF BUILDING WASHINGTON, D.C., SITE

Representative REUSS. You are getting to the second part of my question before I asked it, but that is all right, and I note that on the first part, should we keep the Dakota missile site ABM when you say—what is surely true—that we spent an awful lot of money on that already, I don't know that I can give you much of an argument that we ought to now dismantle it, but getting to the Washington site, as you now have gotten, let me ask, first, the Nation's Capital was included in the 12 ABM sites, was it?

Mr. SCHELLING. I have no idea how many launchers were expected to be used in defending the Washington area, and I also don't know whether the definition of the Nation's Capital was the same as that in the SALT agreement and whether it is the same as it was originally in mind in talking about protecting the National Command Center. I just don't think we know.

Representative REUSS. You have just said, and I want to confirm it, that in your judgment it might very well be inadvisable for the United States to exercise its option to put up a second ABM site around the Nation's Capital?

Mr. SCHELLING. Yes.

Representative REUSS. Would your reason for that be the fact that the strategic operations of a nuclear war can be conducted in some underground site somewhere else more effectively anyway, and that to pick one American city, Washington, D.C., for civilian defense seems a little quixotic, particularly since the citizens of Washington, D.C., would, I am sure, if it were put to them in a referendum, much rather have the $2 billion spent on housing, mass transit, open space, and other ways to a better life.

But please tell me your reasoning; I don't want to put words in your mouth.

Mr. SCHELLING. We are talking first about a very long period of time; we are talking about whether these strategic command decisions would be made now or 5 years from now, or 10 or 15 years from now, in time of crisis. I don't know what the plans are in the event of a crisis for relocating the President and most of his advisers. I also don't know how many ABM launchers it is thought would be required to prevent what we might call surprise nuclear assassination of the President at the outset of a war. I am doubtful whether a defense of Washington that essentially is based on a Soviet copy of what they had in mind when they started to defend Moscow 10 years ago, is likely to be the right way to protect the Presidential command in an emergency. For all I know, the President would be better off at sea, in the air, or in South Dakota, and I am not sure that defending Washington, D.C., with half of our allowed ABM launchers makes a great deal of sense. It may be that in years to come we shall decide it does make sense and should do it, but what I would be opposed to is the notion that because that is what the Russians wanted to do with their first hundred, that is what we should do with our second hundred.

REQUIREMENT THAT SECOND SITE BE WASHINGTON, D.C.

Representative REUSS. Well, except that we don't have any option with regard to our second ABM site other than to put it in the Nation's Capital.

Mr. SCHELLING. From what we have been told about the agreement, that appears so. Whether one has the option, if he didn't build the first 100 launchers, to renegotiate 2 or 3 years hence, I wouldn't know until I see the agreement.

Representative REUSS. Let me ask any of the other three witnesses whether they would like to take issue with what Mr. Schelling has said.

General Richardson.

General RICHARDSON. I would like to take slight issue with it only in a different vein.

It seems to me that having agreed to a limitation, the next most important thing, and the highest priority, is to maintain the state of the art so that we at least have as a nation the capability to go back, if necessary, into effective antiballistic missile systems in the future. I agree with Mr. Schelling, we don't know what is going to happen 10 or 20 years from now.

Now, having said that, then the effect might well be on your question, sir, that rather than to rush in and fill the second allowed ABM void with the original model, one might want to look at spending that money on a later generation and taking advantage of the right to deploy it at, possibly, some saving. The question is, is the second site worth the expense versus spending the same money on ABM development, or in other R. & D. areas in light of the agreement.

Representative REUSS. Because I have reached the limit of my time, I am going to note, Mr. Pranger, you have something to say, and Admiral La Rocque, too, on this, but I want to recognize Senator Percy, but I would, General Richardson, ask one final question on this: I have listened attentively to what you have said, and I can't really discern any great difference between what you said and what Mr. Schelling said.

General RICHARDSON. I think we are essentially saying the same thing, possibly for different reasons.

Representative REUSS. Fine. I now recognize Senator Percy.

PERSONAL AND CORPORATE TAXES ARE WHAT PERCENT OF FEDERAL REVENUE?

Senator PERCY. I was not here, Admiral La Rocque, when you gave your testimony, and I am absolutely intrigued by the arithmetic in your statement. Do I understand this correctly, that all personal income taxes collected in the last 10 years, 100 percent, was used to finance the military? Then when you take all corporate income taxes of $325 billion, and compare that to veterans' benefits and the interest on debt that totals $248 billion, one finds that outside of $77 billion, the difference, all other domestic programs were financed through public debt. What about the Highway Trust Fund and other sources of revenue that come in? What proportion of the total Federal revenue is constituted in personal income tax and in corporate income tax?

Admiral LA ROCQUE. Of course, the lion's share of it, Senator Percy, is the individual income tax. Corporate income taxes are big, but now that we are incorporating social security into the budget as a tax, that looms pretty large also. But the other taxes collected are relatively small—excise taxes, the trust funds—and I am simply using the executive office budget document here, and it is pretty clear most of it really had to be borrowed in order to fund these programs; yes.

Senator PERCY. It is an intriguing way to put it.

Admiral LA ROCQUE. Well, the executive branch—the Executive Office of the President does not put it that way. They simply list the columns by years and add them up vertically. We have simply added them horizontally and have come to—using their figures—have just portrayed them in a different way, but the facts are right here, sir.

THE NEW HYDROFOIL

Senator PERCY. Admiral, in the budget document for fiscal 1973, the administration proposes a new hydrofoil which is being designed to carry an antiship missile. Do you support that program?

Admiral LA ROCQUE. Yes, sir; I think that is wise.

THE SEA-CONTROL SHIP

Senator PERCY. Likewise, the 1973 budget document includes initial funding for a sea-control ship which would provide a mobile base for helicopter and vertical or short takeoff-type aircraft. Do you support that proposal?

Admiral LA ROCQUE. Yes, sir; I think that makes a lot of sense. You can operate vertical takeoff aircraft from it, helicopters. It's around 15,000 tons. I think it is a good direction in which to move, and I note they are asking for only $10 million, I think, for this year, and that is a reasonable thing to start on.

ORDERLINESS OF RUSSIAN DEFENSE R. & D.

Senator PERCY. General Richardson, in your prepared statement you say that Russian defense activities in research have been decoupled from their yearly political ups and downs of détente, tension, arms agreement, or major budget reviews. How have the Russians accomplished this? Are you excluding the Cuban incident which caused them to go into a massive forward construction program of ICBM's and so forth?

General RICHARDSON. Yes, sir. In my prepared statement, I pointed out that when we look at these problems in the very long term, there is a tendency for the budget, and defense activities in this country at least, to yo-yo with the environment and events of each year, whereas studies that were conducted fairly extensively in the Air Force Systems Command in the mid-1960's showed, very interestingly enough, that there appeared to be a total lack of communication between the political and the R. & D. sides in Russia in the sense that while all of the political negotiations were going up and down—just as they are on our side—every so many months a new system is started, brought to test, run through the R. & D. cycle, rejected or

deployed in a very orderly growth pattern—both missiles, fighters, and other systems. This suggests to me that this decoupling allows for an orderly growth of the long-term research and development effort in Russia, which is a very beneficial thing, I might add. I wish I knew how they did it and we could.

Senator PERCY. Now, they have under construction today around 250 ICBM's and 128 submarine-launched missiles. There is going to have to be some communication between the political forces now and the military because doesn't this arms agreement specifically mean that those levels are frozen or they will have to phase out certain of the older style to replace them with new style? Certainly there is going to now be an abrupt change in that program?

General RICHARDSON. This is probably true, sir, as it applies to procurement. It is not clear to me how the SALT agreement would necessarily deter their continuing an orderly and systematic research and development program. It is extremely interesting to take a program like the U.S. F–105 over the period of its life and look at the yearly changes that were made and the instability in the actual orders that were proposed or approved as targets. You then wonder how it is possible to have a cost-effective procurement effort when one year your procurement target is 600 aircraft, the next year it is down to 400, and then you go to 1, 2, 4, year after year of fluctuations in the buy. This does not appear to be the case in the Soviet system.

Senator PERCY. I know this is what I tried to do when I served on the Space Committee; to get that program down to hard core programs that would not fluctuate up or down, and then guarantee a certain level of funding that they could count on. They could have $3 or $4 billion dollars a year and spend it wisely but not have a program that gyrated up to $6 billion and then crashed down again. Certainly that is a very wasteful way to do things.

DID UNITED STATES GET THE WORST OF THE SALT AGREEMENT?

I would like to ask you about Senator Jackson's statement. I was on the "Today" program with him yesterday and he certainly implied very strongly, and perhaps all of you could comment on this, that we have got by all odds the worst of the bargain in this SALT agreement.

It seems to me that inasmuch as they are in full-scale production of these very big missiles, and in a submarine construction program building eight a year and we have no such program in the works, of that type, that we have not gotten the worst of the bargain. It seems to me that there is a parity here that has been achieved with a sensible limit and ceiling and a freeze has been imposed.

I know you can answer the question of how you would vote, but would any of you care to expand on how you see the agreement, and whether one side or the other clearly got the best of the bargain? I have always believed no agreement is really going to be kept unless there are advantages to both sides, so you can't have one side supremely happy and the other one unhappy. You ought to be uniformly happy or uniformly unhappy so that it is worth your while for both sides to keep the agreement.

Mr. Schelling, would you care to comment?

Mr. SCHELLING. I have no doubt, sir, there are important people in the Soviet Union who are similarly vociferous on the idea that they

got the worst of the bargain. It is always possible that both sides get a bad bargain if each ends up limiting himself to what the other side wanted. On the analogy of 100 launchers around Washington, we may both end up with a bad bargain.

But also both sides can come out ahead, particularly from the point of view of civilian leaders of Government who find that an agreement gives them a much easier way to resist the pressure for building more, bigger and better and more expensive weapons, although it may turn out, as General Richardson reminded us, that you can sometimes turn out just spending more money on smaller numbers of things without all that much cost savings.

But when I answered "yes" to Senator Proxmire's question, how would I vote, I really didn't have in mind the contents of the treaty. I can't imagine that after the President of the United States, following the initiative of an earlier President, a member of another party, goes through years of getting ready to negotiate and then negotiating seriously with our main adversary an agreement that, whatever else one can say for it, is probably as sensible an agreement as anybody in his right mind ever would have hoped for, he should come home and be repudiated for what he has done. To me, that would be unacceptable. I should think that the entire Nation would be—should be—embarrassed, mortified and feel, furthermore, that the prospects of good arms limitations have been put way beyond reach by a demonstration to every country in the world that they need not pay much attention to the President of the United States or even a team that Gerard Smith has been leading for a number of years, if it turns out after the most patient, careful, serious work, the legislative body would turn it down.

For that reason it is absolutely essential to support the President on his SALT agreement, irrespective of how much one could bicker about the particular terms of it, and recognizing that as we discover what is wrong with this agreement we can still go on having strategic arms limitation talks that may lead to new or modified strategic arms limitation agreements.

Senator PERCY. Thank you.

I would add to that, these negotiations have been over two and a half years by one of the toughest minded, competent teams we have ever put together, and certainly unanimously approved by the Joint Chiefs of Staff, as it has been.

Mr. Pranger.

Mr. PRANGER. Well, I believe that Senator Jackson probably is referring to the problems of what one does in the missile silos. Granted that the silos and launchers stay frozen under the SALT agreement, I gather he must be referring to the improvement not just in the warhead capability but also in the missile size in terms of lift weight or lift capacity, and that this probably seems to him to be not acceptable. To him, this looks like a bargain whereby they (the Russians) are in the ascendancy on both ends of the missile or something of this kind, and we are in the ascendancy only on the warhead end. So I would suspect that the controversy will surround the qualitative improvements aspect and not simply the numbers.

I think that is a somewhat overused argument, largely because it isn't simply a matter of missiles but of missions and of the competency

of the missilry, et cetera, and all of this is, of course, taken into account in any SALT agreement that the President would enter into.

IMPORTANCE OF CONTINUED R. & D. INVESTMENT

On the ABM site there is an interesting aspect, though, which I wanted to comment on which concerns the issue of whether one puts the money into a national command authority or missile site around Washington or whether one puts it into R. & D.

Gerard Smith, when he briefed the press after the signing of the agreement, came on, I thought, rather loud and clear, and maybe there is a misunderstanding; maybe he was simply ebullient after the agreement. He said, in effect, that what the ABM treaty would do, in essence, would be to uncover the territorial space rather than cover the territorial space of the two sides. That is to say that both sides would now foreswear the idea of defending their territory, and that this was the purport of the ABM.

Now, this raises the issue of the spirit of the ABM agreement. Does this mean, in effect, that R. & D. in the defensive area is going to continue unrestrained or that R. & D. in this area will live up to the spirit of the agreement which is that, as Smith sees it and maybe he is only referring to the ABM system and not to future systems, that both sides have now declared that they will not cover their territorial space. This issue relates to how one spends money. It may be that within the spirit of the agreement that the Russians will now go ahead and build one ABM to cover missile sites, and we will go ahead and build one covering national command authority and simply say defense of one's territory by any kind of system is really outside the spirit of the treaty. I don't know.

Senator PERCY. Of course, my time is up but I suppose the thought does occur that although it is a perpetual treaty, it can be canceled by either party on 6 months' notice?

Mr. PRANGER. Surely.

Senator PERCY. And that would be a deterrent to scuttling all research and development, I suppose, for the future.

Thank you very much indeed. I appreciate it.

NECESSITY FOR CLASSIFICATION OF 5-YEAR PROJECTIONS

Chairman PROXMIRE. I would like to ask each member of the panel—some of you may have worked with or seen the Defense Department's 5-year defense projection, which I understand is revised annually. Is there anything in this document which would aid a potential enemy of the United States or which requires that it be kept on a classified basis?

I will start off here with Professor Schelling and move the other way.

Mr. SCHELLING. I think a quick answer—my guess is very little if any should be classified.

Chairman PROXMIRE. It could substantially be disclosed with perhaps some reservations with respect to classification?

Mr. SCHELLING. I think so.

Chairman PROXMIRE. General Richardson.

General RICHARDSON. I would have a hard time answering that without looking at the actual figures that were offered and the degree of detail that is in it now. I have not seen the document for 4 years, so I don't know how the thing is presented today.

Chairman PROXMIRE. Of course, at the moment we have none, nothing. In fact, what they do is kind of a joke. They came—Mr. Moot is a very fine man and I don't mean to reflect on him at all—he came before us yesterday and he said, "We complied with the law." The law requires them to do this; there are no ifs, ands and buts. The committee chairman does not have to request but they have to do it by law, and they are violating the law. But what they did was to give us not the projection for the $70 to $80 billion military budget; they gave less than $1 billion of the amount required for the volunteer Army as they said it was the only new initiative. The law requires for all, all on-going matters that they give us the 5-year estimates and they haven't done it.

You say you would like to look at the figures to see what if anything should be withheld that might be of value of value to the enemy?

General RICHARDSON. I don't have so much admiration—having worked with them for years—for any one particular document or planning process that I feel that it is all important per se. I agree, however, that you have to plan on a long-term basis.

Chairman PROXMIRE. I would agree, General, but we don't have anything now. At least if we had some notion of the shape of where they are going.

Now, Professor Schelling gives us a counsel of perfection, it seems to me, when he says get 20 years. Well, we would love to get it; we would like to get 2 or 3 or 4 or 5 years, and he said that would be helpful in his statement. He didn't mean to downgrade the 5 years; he said you would get a much better picture if you knew where we were going in the long run but can you see any reason at all why we shouldn't have this and with the classified material out, especially since the law requires it?

General RICHARDSON. Not offhand. I would, however, want to read the document. I don't even recall what is in it at present—a lot of tables, I think.

Chairman PROXMIRE. Right.

Mr. Pranger.

Mr. PRANGER. Well, I think that the planning assumptions are pretty clearly spelled out in these documents, that is to say they are itemized and then played around with. I am not so sure that they don't reflect the internal thinking of the Pentagon. There is a good deal of specificity in these documents relating to assumptions and how much of that is of use to a potential enemy is really an issue that is, I think, before the House in a number of areas of secrecy in government.

Chairman PROXMIRE. One aspect of it, of course, is that any 5-year proposal, any 2-year proposal, any one-year proposal, for that matter, because you have a supplemental is subject to change. They are not placed in concrete, This is their plan is all; they can modify it, change it, cut it, increase it any way they request. But we want to know where they expect to be going on the basis of their present plans so we can have some criteria for judging where they are going.

Mr. PRANGER. Of course. From my experience with these plans, I would say they get fairly specific in terms of detailed information, force levels, et cetera, and——

Chairman PROXMIRE. You see, we also want to know the five-year cost impact of their present proposal.

Mr. PRANGER. Of course.

Chairman PROXMIRE. What they would cost, because these things build up.

Mr. PRANGER. Of course.

Chairman PROXMIRE. To give us part of the thrust of Professor Schelling's point two—we are moving now, for example, with the B–1 bomber, with ULMS, with other areas and we are going to have a fantastic increase in costs down the pike. We don't see that as clearly as we should. We have the same problem with the domestic programs. We should spell those out far better than we do.

Mr. PRANGER. It surely would be useful to know how differing assumptions about the next 5 years relate to differing numbers and ranges of aircraft, et cetera. But all I am suggesting is that from my knowledge of these plans, they do get into a good many specifics in numbers terms, weapons terms, assumption terms, et cetera. I would suspect that some of this would be quite interesting, if not necessarily of major use, to other than American citizens.

Chairman PROXMIRE. Admiral La Rocque.

Admiral LA ROCQUE. Senator, you said it was sort of a joke and I suppose it is, but it is a rather tragic joke that the Congress, which is charged with raising and supporting the armed forces, simply does not get to do that in an orderly and sensible way; you get fed little pieces of it and are asked to make judgments that are going to affect the fate of this Nation and the fate of the world on one little tiny piece of information.

For example, you have been asked to appropriate a billion dollars this year for the Trident program. It would seem to me we would want to know how many submarines do they want to build, what is the total cost, what is the cost per submarine, what is it going to replace, and what is its purpose. To make a decision to appropriate $1 billion to get a program that is going to cost $11 or $20 billion, I think, is sheer idiocy and it is almost childlike; it is unfortunate that this has progressed so long without information coming here.

Now, I have worked with these 5-year force structures in the programs, and I am absolutely convinced that there would be no harm to the Nation if these were published and made available to the Congress. As a matter of fact, it would have a salutary effect.

Mr. McNamara embarked on this idea when he published to the world and the Soviets and he said, "This is how much megatonnage we have. This is how many Minutemen we are going—we have now and we are going to have. We are going to stop at 1,000."

In the environment we operate in today with the Soviet Union, it makes a lot more sense to tell them what our plans are in terms of numbers of ships we are going to build and bring this all out into the open. It is going to come out sooner or later, and, as a matter of fact, you can probably guess, if you go to a great deal of effort, what sort of extrapolation there is going to be in each one of these missile systems; but it is a guess and so the Soviets are having to guess and the Congress is

having to guess and it doesn't make any sense to me to say, "Well, one committee got it," or "One committee chairman knows everything."

The Constitution says that the Congress will raise and support these armies and not just one committee or one chairman. So, in my unqualified opinion it would have a salutary effect if these 5-year programs were made public, not only for the Congress; the people of this Nation ought to know also what we are planning to do with their tax dollars.

THE FIXED THREAT FACTOR

Chairman PROXMIRE. General Richardson, you said in the very interesting analysis you have, you say we are confronted with a fixed threat factor beyond our control; we have to make our estimates on how we adjust to that fixed factor.

I want to be sure I understand what you are saying. You are not saying, I take it, or maybe you are, that the SALT talks have no effect on the threat we face, that that fixed factor has not been somewhat modified by our own action in this respect with negotiating with the Soviet Union a change in the kind of threat we face?

General RICHARDSON. No, sir. Actually, as I tried to point out, the extent to which the SALT talks went did not appear to do any mo e than freeze growth in the threat. It did not reduce the threat. It leveled it off.

Chairman PROXMIRE. Well, to the extent that the threat does not grow, that is an element?

General RICHARDSON. This is correct, sir. But, it leaves our defense equation constant. This should allow us, in theory, to level off costs against a constant threat, provided we can somehow accommodate the cost risk factor. Until such time as arms control agreements go beyond those in SALT, and result in a specific reduction in the threat—and possibly the MBFR[1] discussions will do this—and until you have a change in commitments that reflect this changing threat, everything cannot be reduced accordingly. I do not see in any of these agreements where we have reached this point. That is why I said that SALT per se should not reduce costs, and if anything would increase them because it has not fundamentally changed the threat we had to face before.

Chairman PROXMIRE. Nevertheless, as a matter at least of good, solid theory, it is possible for us to affect the kind of threat we face by our own action? It is out of our control?

General RICHARDSON. By negotiations.

THE MAINLAND CHINA THREAT

Chairman PROXMIRE. Another element is the judgment about the threat we face. For example, you seem to take a position that we might be, and maybe I misinterpreted your position that we might be walking away from one of our commitments and responsibilities in the world if we are not equipped to confront an aggressive Mainland China. Maybe I read too much into your remarks. But the studies of this committee have indicated that the Chinese economy is woefully weak. We made an economic study a few years ago—we are updating it and we are having hearings in a few days about it—that their gross

[1] Mutual balanced force reductions.

national product is about equivalent to Italy's; they have such an enormous number of people to clothe, house. They have a very rudimentary nuclear threat. They have no navy; they can't even take Quemoy and Matsu 2 miles off their shore; so, under these circumstances, for us to recognize so far as the Pacific is concerned we don't need this fantastic colossal power we are spending billions of dollars to build and maintain and modernize to confront China. Why isn't an analysis of this kind made which would give us a better understanding, perhaps, of what China really amounts to, a factor in determining how much we need, how much we need to spend of our resources?

General RICHARDSON. Well, it certainly is a factor if we go back to the third consideration I mentioned and that I believe you were leading up to; that is, the presumption that faced with the Chinese threat that you described, we have had too much force in the first place.

Chairman PROXMIRE. Right.

General RICHARDSON. Now, if that is the case, then naturally there is room to adjust downward. My presumption, and I pointed out I am looking at this in long-term theory, is that on balance there was a valid case that could be made—give or take 10 or 20 percent—for what was in the past approved.

Chairman PROXMIRE. I wonder if it is true with respect to that particular situation in view of what we learn about China?

General RICHARDSON. Possible not.

POSSIBILITY OF GREATER NATO CONTRIBUTION

Chairman PROXMIRE. Let me give you another illustration with respect to NATO. There was a feeling we might be walking out of NATO, at least one of the options Brookings people proposed. Why shouldn't we now with the vast change, their great affluence, their great production, their great productivity, why shouldn't we persuade them to contribute more to their defense than they do and ease the pressure on us?

Why should we continue our 320,000 troops there forever? Western Europe has more people than the Soviet Union has; they have more productive economies than the Soviet Union has; they have the immediate interest in their nations that are initially endangered and yet they are providing of their gross national product half or less than half of what we are. Under the circumstances, why isn't it responsible and sensible for us to provide the naval support, the air support, the nuclear umbrella, but to expect they would pick up half of the divisional expenditures we have? In other words, bring home about 150,000 troops. What is wrong with that?

General RICHARDSON. Basically, we have been trying to do that, as you know, since 1961, and the reason it is not possible and, in my judgment, it will not be possible is because what we are asking our NATO allies to do is to underwrite not a military necessity but a luxury, the political luxury of having a strategy of conventional, flexible response. If we are prepared——

Chairman PROXMIRE. Why aren't they prepared to do it? It is their chestnuts in the fire.

General RICHARDSON. True; but if they had their options in the best of all worlds, being caught in the same economic cost squeeze we are, they would prefer to adopt a less costly unilateral national or European tactical nuclear posture. That solution is not an option that we would like to see them take.

So we are talking about a luxury and not a military necessity; we are going to have grave difficulty, if not an impossible time persuading them to pay for the privilege of giving the United States the security of having a graduated response in Europe. If we turn it over to them, then they will want to have a cheap defense and won't worry about us. They would like to not go the graduated conventional but the cheaper route which is basically nuclear deterrence from the onset.

Chairman PROXMIRE. They would not realize the conventional advantage if we withdrew. I don't think Vietnamization has been a success, but I think Europeanization of defense of Europe may be.

My time is up. Congressman Reuss.

THE WASHINGTON, D.C., SITE

Representative REUSS. Thank you. Let's return to the unfinished business, I think, of Mr. Pranger and Admiral La Rocque. I had been asking whether the United States would be well advised to exercise the option which it would have under the ABM part of the agreement to erect an ABM around the Nation's Capital in Washington. We were at the stage of asking Mr. Pranger. You have had since then a few words to say around the subject but maybe you would like to summarize your views.

Mr. PRANGER. Yes. Mr. Smith, in briefing the press, after the signing of SALT in Moscow, came down very hard on the idea that there was a theory behind the ABM Agreement and that the theory was that both sides would renounce protection of their territorial space through defensive means: In reality what this did was—what the ABM Treaty will do—is that both sides will renounce the hope of having this protection.

Representative REUSS. Except for the capitals?

Mr. PRANGER. Except for these areas.

CAPITAL ABM MAY BE BUILT NOT BECAUSE IT IS USEFUL, BUT BECAUSE IT IS USELESS!

Now, if, relating to General Richardson's point, the money for the national capital protection would not be used for National Capital protection, how would the Soviet Union read this U.S. response? Would it mean that they thought the United States was going to a new generation of defensive weaponry? Or will the United States have to erect the site in order to show the Soviet Union that it is living up to the spirit of the ABM Agreement, which is that ABM does not matter? It is this very touchy situation which I am suggesting may lead to a desire to build the capital ABM system not because it is useful but precisely because it is useless.

That may sound odd, but it, I think, would accord with at least Mr. Smith's interpretation of the treaty if, in fact, that interpretation holds through the ratification process in the Senate. I am not so sure it will.

I am just arguing that you could say that we have to build it within the spirit of the treaty and that——

Representative REUSS. I have to admit it does sound odd and I think it is odd; and I hope it won't be used as the basis for spending a couple of billion dollars that could better be spent doing something else in either defense or nondefense, or in giving the taxpayers a break.

Where do you get this idea that we have got to spend so much on the ABM? There wasn't a mutual bankruptcy clause in the Moscow Agreement. [Laughter.]

Why not say—why not simply say, "Thank God that the Moscow Agreement doesn't require us to build a useless thing around Washington." Thank God, as hardheaded a defense man as General Richardson says, immediately rushing into a Washington ABM would not be the optimum use of funds and let's just not do it.

As far as thereby giving Moscow a justified fear that we are sneakily spending it on something else, well, heavens, we can sneakily spend amounts on something else to the extent that we are able to get away with it anyway. So I guess I just don't follow you, if I have——

Mr. PRANGER. I am not recommending it. I am simply saying that after having watched the SALT agreements progress, they progressed on two levels: One was in terms of weaponry; the other was in terms of deterrence theories which both sides had vis-a-vis the other in military planning terms and in terms of an arms control agreement. These two things are put together—the deterrence factor which is heavily built into the agreement and the actual hardware which was occasion for great interest.

But I am simply saying, if you were to develop an option for building it and a justification for building a Washington site, this might be a justification. I wouldn't recommend it but I am not so sure what the spirit of the ABM Agreement does involve, and I am simply citing Mr. Smith's statement.

Representative REUSS. Fine. I am glad I drew you out on that last question.

Mr. PRANGER. Thank you.

Representative REUSS. Admiral La Rocque.

THE ABM WON'T WORK

Admiral LA ROCQUE. Congressman Reuss, I support one particular view of Senator Jackson's that Senator Percy mentioned yesterday and, as I understood it, Senator Jackson on the "Today" show yesterday was quoted as saying that he didn't think the ABM would work anyway and it wasn't much use, and I think that is a very accurate thing to have said; and I agree with the Senator on that point.

I don't think it will work either. But even if we were to assume that it did work, I think it would be a needless expenditure for the United States to put one around Washington.

In the first place, present plans are for the President and his senior military advisers to bug out at the first sign of trouble anyhow and they have asked for millions of dollars this year for aircraft to make that possible in the new 747's they want. They want six of them.

They also have a rock out here, not far from here, where they can crawl under and avoid all of this anyhow. But it doesn't make any sense to me to defend one city in this nation and let all the other

cities be wide open to attack. It offends my egalitarian sensibilities somehow.

I think we would be well advised and it would be a demonstration of our good will to spend this money, which we might have spent on the ABM, in getting this city of ours ready for the spirit of 1976 to commemorate our anniversary.

UNITED STATES GENERATES THE THREAT

I think it would have one other salutary effect also if we did not build it. General Richardson talked about the threat as having been given. To some extent it is, but to some extent it is not self-generated by each country and we have been responsible for generating much of the threat to the United States. We were the first ones who put missiles all around the Soviet Union. We were the first ones to put missiles at sea in submarines. We were the first one to put MIRV's in our missiles. We were the ones who have attack carriers that could hit the Soviet Union, so I would question the validity of saying that the threat is given. I think we have always to look at what we do to generate that threat. Perhaps we could diminish to some extent the feeling of—rather to some extent the threat if we were willing to forgo the ABM sites around the United States—around Washington.

Representative REUSS. Very well. Very well, sir. Thank you, Mr. Chairman.

Chairman PROXMIRE. I have a few questions for Mr. Pranger and Admiral La Rocque and then I would like at the end to ask you gentlemen to comment on anything that has been said.

PRANGER'S ANALYSES SIMILAR TO MC GOVERN'S

Mr. Pranger, I am impressed by the similarity of the assumptions in your analysis and those inherent in Senator McGovern's proposed defense budget. Both of you stress the importance of U.S. continental defense; both downgrade future involvement in Vietnam-type conflicts; and both of you place more emphasis on American national interests.

I wonder if you have had a chance to examine Senator McGovern's proposals and whether you can comment on them and compare them with your own?

Mr. PRANGER. I have not had an opportunity to look at them in any detail. I would be very happy to supply you with a comparison but not here. I just haven't done it.

Chairman PROXMIRE. All right. Fine. I appreciate that.

Mr. PRANGER. I will.

(The following information was subsequently supplied for the record:)

COMMENTS OF ROBERT J. PRANGER ON SENATOR MCGOVERN'S "TOWARD A MORE SECURE AMERICA: AN ALTERNATIVE NATIONAL DEFENSE POSTURE"

In Senator McGovern's "Toward a More Secure America: An Alternative National Defense Posture" of January 19, 1972 (*Congressional Record*, January 19, 1972, pp. E147–E161), it is proposed that under current 1½ war-planning assumptions there is room for sizeable reductions in the Department of Defense's proposed budget for FY 1972. With considerable detailed knowledge of defense issues, Senator McGovern itemizes his proposals for accomplishing current military

missions at far less cost. As important as his specific recommendations are, however, it should also be noted that he adds to these recommendations for a leaner budget (which he assumes will also be a more effective defense budget) an additional assumption of utmost importance: "This alternative budget rejects the notion that military might is the only method by which the United States can fulfill international responsibilities and save the cause of freedom." (p. E148)

Because I completely support the idea that military might is only one, vital method for saving the cause of freedom, I would like to return briefly to this idea after discussing Senator McGovern's specific proposals. To anticipate, however, I believe that the placing of military power in its proper context within overall national security planning will be the most difficult and controversial task confronting the United States in the near future. Obviously military power does have a role to play, and an essential one, in any great power's activities at this stage in world history. But perspective on such power is required, a perspective I am not so sure Senator McGovern's proposed budget really supplies in any explicit way.

While Senator McGovern's proposals for defense are designed to operate within current 1½ war-planning assumptions, under his proposals major defense decisions would have to be made that could deviate substantially from assumptions now being made about this planning. Some might argue that the United States is still using the forces of 2 or 2½ wars for design of a 1½ war strategy: this argument seems implicit in Senator McGovern's alternative budget, although it is never said explicitly. Nevertheless, current defense planning thinks that it is geared to 1½ wars, not more. If the alternative budget were actually implemented within Department of Defense planning, therefore, debate would ensue as to how realistic this budget was for planning the 1½ wars it is designed to fight. Some of this debate would hinge on margins of safety or quantitative issues (what Senator McGovern calls the conflict between "conservatives" and "realists"), while other issues would focus on strategic or qualitative matters. At least twelve major decisions relating to current planning assumptions for 1½ wars would have to be addressed at the highest levels of the government. There may be other issues as well, but these twelve seem to be obvious ones that would arise from implementation of Senator McGovern's alternative budget.

1. STRATEGIC FORCES: TRIAD

The McGovern budget would hold at existing levels both ICBM's and manned bombers, but plan to deploy the entire strategic deterrent at sea if necessary. Research and development would concentrate only on naval components in the nuclear force. There would be no additional production in the ICBM and bomber areas, including no further MIRVing of Minuteman.

The proposed cutbacks go well beyond SALT I interim freeze levels, of course, since neither warhead improvements nor bombers are covered by the offensive arms agreement. Since the McGovern proposals are designed for 1975, however, it might be possible to obtain Soviet agreement in these areas, especially the bomber problem. Given the past history of SALT, it is doubtful that such new accords can be achieved so quickly. Meanwhile, this proposal would seem to require a unilateral "no" by the United States to further improvement of two elements of the Triad, thereby restricting production, upgrading, and research and development in ICBM's and manned bombers.

2. STRATEGIC FORCES: BOMBER AND MISSILE DEFENSES

The McGovern budget would cut back these defenses, in the case of bombers because there is no necessity for them, in the missile case due to both SALT restrictions and the provocative nature of these defenses. It is clear from the SALT accords, however, that research and development in missile defenses is not prohibited on other than the present type of ABM systems, even though actual deployment must be mutually discussed before such deployment takes place. Hence, a major decision would have to be made on saying "no" to possible technological advances—in the research area—in missile defense under the McGovern budget.

3. STRATEGIC FORCES: DAMAGE LIMITATION PLANS

The alternative budget argues that, "A substantial proportion of the weapons either sought or built by the military in recent years have been justified at least in part in terms of nuclear war fighting, rather than nuclear war preventing capability." In opposition to this, the McGovern proposals maintain that, "Deterrence

and arms stability must remain the preeminent objectives of U.S. nuclear strategy. * * *" (p. E151).

Between these two points of view exist substantial differences, as well as emotional conflicts. The first perspective is, in part, predicated on the idea that advanced nuclear technology can, in fact, lead to new military strategies where nuclear weapons can efficiently and discreetly be *used* in order to bring a halt to warfare early and with limited damage to opposing forces. Further, this view holds that the United States will have no alternative but to make such relatively safe and clean weapons a standard part of its munitions inventory for two reasons: first, a number of military establishments may eventually have such weapons for use rather than pure deterrence; and second, economies in defense will require new strategic concepts.

The second view, that of Senator McGovern and his chief defense advisors, would fear the possibility that any actual use of nuclear weapons—no matter how limited—would change the complexion of the war being fought, in that opponents would readily interpret this as a sign that the war had escalated beyond the "threshold" or "firebreak" separating nuclear from conventional warfare. This would represent, to the second point of view, a qualitative shift and not simply a "conventional war-by-other-means" problem.

Both sides seem to start from the same premise, that modern war is too dangerous as far as all-out nuclear war is concerned. Both also seem animated by the belief that defense costs should, where militarily feasible within the 1½ war strategy, be reduced or at least held constant. Yet the two views have quite different views of what constitutes military feasibility as far as safety and cost are concerned. I can predict that the debate on this issue would be intense within defense planning circles, just as it has been in the past.

4. GENERAL PURPOSE FORCES: NATO REDUCTIONS

Within the *present* NATO strategy, with its heavy emphasis on conventional forces as a major deterrent element as well as the critical means for keeping the nuclear firebreak only a remote possibility, Senator McGovern's proposals would force two very major, interrelated decisions to be made. First, his proposals would reduce active U.S. forces in Europe from 4⅓ divisions to two divisions, with a reduction in the ratio between combat and support personnel an additional curtailment of personnel. Second, U.S. tactical air strength would be lowered in Europe to 16 wings, including but one in the Mediterranean. Presumably the last decision would cut aircraft carrier strength in the Sixth Fleet from two carriers to one.[1]

The question of whether the force reduction to two active American divisions would continue to support present NATO strategy is not directly answered in Senator McGovern's proposals. Presumably, the proposals judge that this would not constitute a shift in strategy, since it is felt that *any substantial* American presence would deter Warsaw Pact forces from military attack against Western Europe. Of course, deterrence and war-fighting strategy are not necessarily the same thing, even if one accepts the argument that any substantial American presence would constitute an adequate deterrance. Surely present war strategies in NATO are very much connected with 4⅓ American divisions in theater against what is presently the Russian force in Eastern Europe; as the latter decreases its strength, so the former can decrease its presence—under Mutual and Balanced Force Reductions (MBFR) for example. In addition, I doubt that many military commanders in NATO would consider much less than the present American strength in Europe an adequate deterrent force, though this issue may be open for considerable dispute.

As for the reduced Sixth Fleet carrier strength, which is nowhere else specifically advocated except in the recommendation that there be but one tactical carrier-based air wing in the Mediterranean (p. E158), this may or may not play havoc with the idea advanced elsewhere in the proposals that, "[I]n the case of the Middle East, the [carriers] can also be used to illustrate deep U.S. concern and commitment plus the capacity for speedy intervention, in a tense situation, without requiring an actual physical military presence on the territory of one or another disputing party." (p. E155).

With regard to the last idea, that in the Middle East the United States might retain at least the capacity for flying quick-shot carrier-based sorties against unspecified opponents in the Middle East, "without requiring an actual physical

[1] The alternative budget says that two carriers could be on station at all times in Europe—presumably one in the Mediterranean and one elsewhere.

military presence on the territory of one or another disputing party," I can only demur. Any such intervention by the United States should not be entertained unless escalatory military moves on its part are also planned for, because the results of a carrier-based strike in the Middle East by the United States would open a qualitatively different form of warfare in that region than has so far been experienced. Aside from the relatively permanent damage such armed intervention in the Middle East by the United States would do to America's established interests in that region, I think recent history demonstrates that "speedy intervention" is intervention nonetheless, unless one makes a decision to limit artificially any further direct involvement beyond carrier-based activity. That such limitation for the Middle East is probably not intended in this alternative budget, is seen in the budget's statement that the remaining American troops in Europe, after the cut from 4⅓ divisions to two, will "signal the U.S. commitment both to Europe and in the Middle East." (p. E158) There appears to be both a carrier and ground force commitment to the Middle East.

In a word, I am a bit surprised that a proposal which sees "no practical alternative but to steer clear" of involvements in Asia, should talk of carriers and troops as signals of an American commitment in the Middle East. A much preferred strategy for dealing with the Middle East to that of signalling a military commitment there, I believe, is the one also proposed in general terms in Senator McGovern's budget: "This alternative budget rejects the notion that military might is the only method by which the United States can fulfill international responsibilities and serve the cause of freedom." It is precisely for this reason that American policies for peace in the Middle East need public support, since these, and not military force, represent the front-line of defense for our interests in the region. This peace policy addresses the important issue of how we move to a *zero* war strategy from a 1½ war strategy by preventing crises from getting out of hand in the first place.

5. GENERAL PURPOSE FORCES: REDUCTION OF CARRIER STRENGTH

The alternative budget proposes to reduce present carrier strength to six. The Mediterranean issue has already been raised. As long as intervention is contemplated anywhere (and surely this budget would give "signals", at least, for the Middle East), it seems better to have more rather than less capability for demonstrating this capacity. Two carriers in the Mediterranean require more extensive Russian countermeasures than does one. Moreover, the protection afforded modern attack carriers, both internally (including their own airborne ASW and anti-ship capabilities) and externally from other ships, makes it more difficult than some might think to launch effective attacks against them. Surely two such heavily guarded behemoths in the Mediterranean are more formidable, militarily speaking, than one, presuming one wants to use military options in the Eastern Mediterranean at all.

The best way to reduce attack carriers is to reduce the danger that intervention will be perceived as a necessity: here an ounce of non-military prevention is worth a pound of military cure. As noted above, a skillful peace policy in the Middle East provides such protection. But when protection has not been practiced or has failed, then one surely wants at least a pound of cure.

6. GENERAL PURPOSE FORCES: NAVAL FORCES AND PROTECTION OF SHIPPING LANES

Aside from showing-the-flag options, including the ability to demonstrate capacity for speedy intervention (discussed above), naval forces are, under the McGovern budget, to engage exclusively in protection of shipping lanes. A major decision would have to be made to focus naval attention only on this task.

7. GENERAL PURPOSE FORCES: AMPHIBIOUS FORCES

A major decision would be required to cut active amphibious forces in both the Atlantic and Pacific commands as proposed in the McGovern budget. Given past belief that, aside from major alliance uses, the main role of amphibious forces is to constitute part of that "speedy intervention" that may eventually go beyond quick air-strikes, this proposal will generate controversy. The debate will be in addition to that dust raised by cutting the Marine Corps, a cut that seemingly would result from this move. Some would insist, in fact, that an active amphibious force, with ground warfare, capabilities and associated with other fleet elements, illustrates an important military fact: direct naval intervention, even if by a quick carrier strike, carries with it the risk that further involvement will be necessary.

8. GENERAL PURPOSE FORCES: ASIA

Implicit in the alternative budget is the idea that the United States should decide, short of a direct attack by China on a neighboring power (highly unlikely according to the estimate made in these proposals), that it will never intervene by land in Asia again. There should be a withdrawal of all land and air force elements from all of Indochina, contingent only on the return of our prisoners of war. No U.S. land forces would remain *anywhere* in Asia. Eight air wings, including only one carrier, would be left behind. Since nuclear war-fighting capabilities would be sharply curtailed (under decision three, above), America's Asia strategy would largely be that of a central Pacific power with its allies in *their own* forward defense. No special American military "wallop" would remain forward near the perhiphery of east, southeast and northeast Asia.

The proposals on Asia would represent a major shift in America's Asian strategy away from a forward based concept in any form. It would produce intense controversy in the government and possibly among the American people, unless relations with the Chinese improve dramatically in the near future beyond the present, largely symbolic relaxation of tensions. The effects of such proposals on our Asian allies would be difficult to predict, but there would be considerable impact. Some have argued that the United States may be doing this anyway, only calling it someth'ng different—the Nixon Doctrine and the new policy toward Peking. But this is not what the Nixon Doctrine *says* it is doing, nor is the doctrine being explained to our allies as a virtual withdrawal from a forward-based posture to a central Pacific posture. However, the Nixon Doctrine is ambiguous.

9. MODERNIZATION: ABANDON COMPLICATED WEAPONS SYSTEMS FOR SIMPLER ONES

The McGovern alternative budget makes it clear that it favors abandoning some of the more exotic weapons technology and staying with simpler forms. A major decision would be required to say "no" to far-out technology; a "no" to the ASW carrier, new attack carriers, F–14, F–15, B–1, Trident, Phoenix, Cheyenne, further MIRVing, anti-missile tochnology beyond the ABM, and so on. Instead, the United States would stand by what it now has, moving in its primary R&D efforts to build a less costly ASW capability plus certain other systems pertinent to the reduced budget.

Of vastly greater importance than individual systems, however, the decision to say "no" to exotic new generations of weapons is really a decision to put brakes on weapons technology. In a way, this in turn is connected to the larger issue of who does control technology in modern life. A negative decision on exotic weapons would be caught in a critical cross-fire between those who believe in technical progress for its own sake (or for the sake of good business) and those who believe that meeting the threat from our adversaries requires the most advanced levels of technology of which we are capable. I believe it would be a courageous and laudable decision to stop certain kinds of technology that seem useless to essential military missions; the decision to quit producing biological weapons, for example, was one such decision. The issue is really one of national purposes and essential military missions. As a general rule, where paramount purposes and missions exist, there should be no technological limitations; where they do not, then technology should be curbed. Of course there should be exceptions: where moral dilemma occur, then competing national purposes must be weighed. At times, the McGovern proposals have a moral overtone, as in the issue of "overkill" in nuclear weapons. Quite rightly, however, the alternative budget points out that some national purposes may well have to be considered *in the balance* with these other moral considerations, with the result that at least *some* overkill may be found desirable.

"How much is enough?", therefore, can never be simply a question of numbers or of elementary logic, but of what purposes are at stake. "Enough" in quantitative terms may sometimes be much too much in terms of the moral question of whether any significant purpose—national or universal—is served or violated by a given weapon. At other times, however, whay may appear to be "enough" in sheer quantity, may only acquire moral significance when it becomes "too much" in quantity. The last point is surely the moral case *for* over-kill just as it is the moral case *against* nuclear war. As the alternative budget point out, however, even this case may not require the amount of nuclear weapons now deployed. This point as well as governmental, debate.

10. PERSONNEL: BLUE RIBBON PANEL RECOMMENDATIONS

Blue Ribbon Panel recommendations for consolidation and simplification in the Department of Defense have undergone debate and received some implementation in the government already. A determined effort to institute all these recommendations would meet considerable resistance.

11. PERSONNEL: SCALE DOWN THE POOL OF ACTIVE-DUTY OFFICERS

Someone has observed that Senator McGovern's budget would be the lowest defense budget since the immediate years following the Korean War. In that earlier period, the reduction in force (RIF) in the officer corps was accomplished with some controversy. I suspect that the debate would be more intense today.

12. THREAT: ADJUSTMENT OF AMERICAN PERCEPTIONS VIS-A-VIS COMMUNIST POLICIES

The alternative budget indicates that an adjustment downward in American fears of communist aggression and the Chinese potential for military mischief is necessary. In a way, all of the issues mentioned above hinge on our ability, in good conscience and with full information, to do just this. Here we get to the heart of American national security policy since 1945, which is the idea of containing communism through a global system of force. A shift in world view, from fear to a more relaxed attitude, will require the most controversial of all decisions. In a way, this decision has already been made by President Nixon, in an exceedingly cautious and tentative way. At times there has also been a note of contradiction. I doubt that any future President will move less prudently. But a shift in American perceptions of the world is nevertheless taking place.

To point beyond the past, however, is only to invite the issue of what future world view we will have and where military power should fit into that view. I have tried to suggest one such possible view in my prepared statement. From my personal experience in writing about this question—as contrasted with how many missiles, carriers and so on we should have—I can testify to the deep emotions a number of Americans have regarding the past containment model we constructed for guiding our conduct in world affairs. While I find Senator McGovern's alternative budget very interesting from a defense planning prespective—and the issues I have derived from it largely involve planning questions—I wish there were more discussion in it of what overall view of international relations stands behind the alternative budget. Early in the budget a tantalizing hint was dropped that military might is not the only method by which the United States can fulfill international responsibilities and save the cause of freedom. But nowhere is this hint expanded into a set of prescriptions that would place military might in a proper perspective.

NO PRICE TAG ON PRANGER APPROACH

Chairman PROXMIRE. Mr. Pranger, one major difference between Senator McGovern's approach and your own is that he puts a price tag on his and there are no costs attached to yours.

How would defense spending under your proposals differ from the present? Would you increase or reduce the defense budget?

Mr. PRANGER. There is a—I am wrestling with it in a book-length manuscript from which these two models are taken. Much of it depends upon the way in which you, I think, interpret some of the areas of force spending. In my estimation, a good deal of the local conflict spending can be sublimated through various forms of assistance wisely applied. This form is indirect and much less expensive than direct forms. One would have to play around then with the whole military assistance area which is not in particularly good shape at the moment.

Before I could cost out these areas, I would have to sit down, as I am now doing, and write chapters on them to get in my mind more clearly what continental defense means, what indirect support means, and so forth, and how we might revise these programs if at all.

But I would be intrigued to look at Mr. McGovern's proposals in detail and make these comparisons on the basis of what I have already done.

Chairman PROXMIRE. When you correct your remarks for the record, if you will submit whatever figures you can on the effect of your recommendations on the defense budget up or down.

Mr. PRANGER. I will try, sir.[1]

Chairman PROXMIRE. Incidentally, what is the title of your book? Do you have it yet?

Mr. PRANGER. It is called "The Structure of National Defense Policy."

Chairman PROXMIRE. We are looking forward to it. I hope it is not too expensive.

NO SOVIET NAVY EXPANSION SINCE 1958

Admiral La Rocque, the Brookings Institution in its recent study concluded that there has not been an expansion of the Soviet Navy, that since 1958 they have cut navy manpower by one-third, cut naval aviation by two-thirds, reduced the number of attack submarines and maintained their surface force at the same size, that the Soviet Navy has only a small amphibious force, no attack carriers and no sea-based fixed-wing aircraft. Implicit in their analysis is that our navy is far superior to theirs.

Do you agree or disagree with Brookings' analysis and conclusions?

Admiral LA ROCQUE. I agree completely with the Brookings analysis and their conclusions. I think the facts which are evident for anyone to look into would induce anyone to agree if you just laid the facts out—the sizes of our navies, the ships they have built, the capabilities, the modernization programs—it can lead to no other conclusion but that the U.S. Navy is way out ahead.

Chairman PROXMIRE. Incidentally, the addendum that you have at the end of your remarks is an extraordinarily useful addendum. It is precise, specific, compares similar craft of various kinds, goes right down the line.

Brookings concludes——

Admiral LA ROCQUE. Thank you.

IMPROVED QUALITY OF SOVIET NAVY

Chairman PROXMIRE (continuing). Also that while the Soviet Navy has not expanded, it has been improved in quality. Do you agree with this, and assuming you do, would it be fair to say that the improved quality of the Soviet Navy is due to good planning and good policy choices on their part rather than to an increase in Soviet naval spending?

[1] The information requested for the record was not available at the time of printing the hearings.

Admiral LA ROCQUE. I think both, Senator. I think they have obviously spent considerable money but I think they have had some good planning. They have not wasted their money on ships, huge aircraft carriers. They have planned what was needed just to do what they felt was important, and it is basically a defensive navy; whereas, the U.S. Navy by and large is an offensive navy.

SOVIET NAVY LESS VULNERABLE

Chairman PROXMIRE. Senator Symington makes the generalization that—he says the Soviets have had enough brains to put this navy under the ocean, make it relatively invisible and mobile. Of course, ours is mobile but certainly more visible and more vulnerable because the surface ship is obviously easier to hit and a big aircraft carrier is more vulnerable than a submarine.

Would you agree with that generalization by Senator Symington?

Admiral LA ROCQUE. Yes, sir; I think that is true, and I think the reason for it is we have a lot of surface ships and that the Soviets have designed their forces, their submarines, in order to destroy our surface ships, including the big combatant ships we have, the carriers and cruisers. I think we have operated on the opposite premise and that is we are going to use our naval force to project U.S. power overseas. That is essentially an offensive employment of those forces. The Soviets, obviously, from the structure of their naval forces, have no such designs—a small amphibious force, no attack carriers and so on.

REDUCING EXPENDITURES AND IMPROVING QUALITY OF U.S. NAVY

Chairman PROXMIRE. If you were asked to improve the quality of our Navy while reducing naval spending, could you do it and how, specifically, would you accomplish it?

Admiral LA ROCQUE. Yes, sir. It could be done, and the first thing that I would propose is that we stop spending billions of dollars on attack carriers.

Second, I certainly would not proceed with a new Trident program at this time. The sea-control ships look very good at about 15,000 tons, tremendous capability, fixed-wing aircraft on the vertical takeoff with helicopters, has an ASW capability, could be very useful in carrying out our national policies. If lost, it would not be a great loss to the Nation—if sunk by an enemy submarine, whereas an aircraft carrier certainly is.

I would concentrate primarily on providing defense for the United States against the Soviet submarine threat, both in the antisubmarine field and in their missile-launched submarines. That is where the threat is, and it is in that direction that I would build the naval forces, and I think at much less cost.

Chairman PROXMIRE. When you correct your remarks, give us a little more detailed plans for our Navy with cost figures wherever you can.

Admiral LA ROCQUE. I would be very pleased to provide a set of figures on that, Senator, very shortly.

Chairman PROXMIRE. All right.

(The information requested was later supplied as follows:)

The following is a short list of major naval programs in the fiscal 1973 Defense Budget which appear warranted and a list of those which do not appear warranted at this time.

These programs appear to be warranted

	Million
SSBN (Polaris/Poseidon) Conversion. An acceptable modernization program	$731
DD–963 (Spruance) Procurement. A needed replacement for older all-purpose destroyers	612
Sea Control Ship Advance Procurement. A less expensive, small aircraft carrier for the 1980s and beyond	10
Surface Effect Ship Development. Possible high technological return which may open new doors for future naval planning	50
Patrol Hydrofoil Procurement. A useful small NATO patrol boat	60
SSN–688 Attack Submarine Procurement. Effective against Soviet surface ships as well as in an ASW role	1, 050
P–3C ASW Land-based Patrol Aircraft Procurement. Necessary for wide-area ASW surveillance	246
EA–6B and E–2C Support Aircraft Development. Provide air-support functions	380
Harpoon Surface-to-Surface Missile Development. May be effective surface-to-surface missile to counter Soviet forces	45
MK–48 Torpedo Development and Procurement. Only high-performance ASW torpedo available	184
Total cost	3, 368

These programs appear not to be warranted

	Million
Trident/ULMS Submarine Development (Strategic Weapon System). Modernization of current SLBMs provides adequate submarine capability until late 1980s	$980
CVN–70 Nuclear Attack Carrier Advanced Procurement. A nine-ship modern carrier force is adequate. Start of next new carrier can be delayed Until 1982 and still maintain an effective nine-ship carrier force	299
F–14 Naval Fighter Aircraft Procurement Excessive cost with marginal advantage over present naval fighter aircraft	735
Phoenix Air-to-Air Missile Procurement When and if a new naval fighter is developed this missile will be unnecessary	100
Patrol Frigate Procurement. This frigate has no shore bombardment capability and no ASW escort function. More Knox Class (DE 1052) escorts would be cheaper and mroe effective	192
A–6E and A–7E Attack Aircraft Procurement. With a reduction in the number of attack carriers fewer attack aircraft are necessary	214
S–3A Anti-Submarine Sea-based Aircraft Procurement. Provides a minimum anti-submarine capability which can be provided more effectively by land-based P–3s. U.S. has only two anti-submarine aircraft carriers	670
Total savings	3, 190

SUMMATION

Chairman PROXMIRE. Now, let's review, starting with Professor Schelling, and going to the left, any remarks you would like to make. It is not necessary or compulsory, of course, but everyone who offers it would be very welcome.

Mr. SCHELLING. A few remarks.

First, let me disagree with Admiral La Rocque. I don't think we should concentrate on denying the Soviet missile submarines the kind of invulnerability they think they have. They will simply want more of them, but they will want strategic systems. I would leave them alone there.

Second, I wish Mr. Reuss were here because he was raising the question of whether Washington ought to be protected and the people saved. I don't believe there could be any intention of protecting Washington with an ABM system of 100 launchers. I don't know what the number of interceptors would be, but all this would require the Soviets, if they wanted to destroy Washington, to fire more warheads. My guess is it would take about the equivalent of a Poseidon submarine to saturate the small ABM system defending Washington.

Chairman PROXMIRE. You would agree, it is a waste of money to deploy an ABM around Washington?

Mr. SCHELLING. I do believe it is a waste of money. On the other hand, I hope the President has every intention of keeping alive and in command of the forces in the event of war or emergency; and I don't consider it "bugging out" if he plans to stay in command by staying alive.

Chairman PROXMIRE. Of course, he has a Vice President, if that is necessary.

Mr. SCHELLING. I don't—if I may be candid—I don't believe a Vice President is in a position to carry out the most important Presidential command decisions that one can imagine. I think only the President can, and my worry is that we will pretend to be protecting him with 100 launchers and may then disparage the seven airplanes.

Chairman PROXMIRE. So the point is, you favor the command post and hideaway?

Mr. SCHELLING. Absolutely. I don't know whether I favor a particular command post but I would give up 600 Minutemen tomorrow to keep the President in a safe position.

Chairman PROXMIRE. Did you happen to read Art Buchwald's interesting column on this? He said in effect that he would like to have Mr. Big down with the rest of us. He would feel a lot better in the event of a nuclear war if Mr. Big wasn't up there just watching it.

Mr. SCHELLING. I don't expect to be in a position to make sensible decisions if bombs start falling, if they ever do. I hope the President is where he can be the President and not be doing what the rest of us are doing.

Let me add a couple of points, though, about what arms limitations can do.

General Richardson said they can't do much to the threat. I will give an example where I think the character of the threat is very much changed.

The test ban of 1963, I believe, had an enormous catalytic effect on Chinese-Soviet relations. Surely it must have changed what the Soviets perceive to be the Chinese threat and what the Chinese perceive to be the Soviet threat; and it ultimately had an enormous effect on how those two countries relate to us.

Now, that was not the intended effect and it may have had little to do with whether atmospheric tests were occurring; but the negotiations, the diplomacy involved in the test ban, had a major impact on one of the most important bilateral relations in the world.

I would go a step further. Admiral La Rocque mentioned a lot of things in which we were first. One in which we were not first was ABM's. It was taken for granted long ago that the Soviets had embarked on a major ABM program way back before the U.S. had any such intention. One then asks why didn't they go through with

it. I would attach some credence to the idea that they didn't go through with it because Secretary McNamara persuaded President Johnson that we might manage to communicate to the Soviets if they did we would imitate. And something slowed the Soviets down. My guess is that if SALT has saved us a lot of money on ABM's it is not a mere $12 billion; it is $40 or $60 billion, because I think it is the talks far more than the agreement that got the ABM thing down to the size we are talking about, where it was merely Safeguard that was pared down to 200 launchers.

If indeed we have persuaded the Soviets that one of the ways to keep us from spending $40 or $60 billion on ABM's is to reconsider whether they want to build a huge ABM system that will simply give our Air Force and Navy every argument to increase our offensive weaponry—if we can persuade the Soviets that therefore the best way to save themselves money is not to build an ABM, because of our response, then I think maybe the SALT talks have done far more than reach the agreements that were signed last week. They have gotten the Soviets really thinking about their part in this "arms race" because this was an instance in which they claimed a first and in which one of the strongest arguments made up here on the Hill for our going ahead with a major ABM system was that it would be improper not to if they did. And I think that is what the SALT process may have saved us from over the past 5 years.

Chairman PROXMIRE. Thank you.

General Richardson.

General RICHARDSON. Mr. Senator, my principal plea is that whatever we do about priorities for defense spending we don't undully jeopardize, or cut back, on our national research and development effort in defense. This is the tendency, as we all witnessed in the 1960's, when money was tight and priorities were hard. It is much like selling ones life insurance policy to keep today's car on the road.

We have good reconnaissance and good visibility of in-being Soviet weapons systems. We can count missile holes; we can count ships and tanks and guns but we cannot see what is going on behind the laboratory doors of the other fellow—that is unless we are allowed in there to inspect. Until we are we have got to face up to the possibility of technological surprise. We won't even recognize the advent, or the symptoms, of the new surprise or breakthrough unless we in the United States are maintaining a concurrent level of effort in the same field of research.

Chairman PROXMIRE. Let me just say that I think there is a lot of wisdom in this. It has great appeal to us. The trouble is, though, we have wasted so much money in R. & D. in the past and maybe that is part of having research in the new technology, but they have been so wasteful and so badly mismanaged. We have had to cancel billions of dollars that have been spent; it seems to me we might approach R. & D. with greater caution than we have, greater care.

I would agree with you that the name of the game, really, is maintaining technological parity or superiority, but I am not sure that we can expect to do it without greater discrimination than we have had in the past in spending that money.

Would you agree with that?

General RICHARDSON. I would certainly agree with you there are many ways of improving how we go about doing the job of spending our R. & D. money, but what I am saying is, we cannot afford in practice what is known as "responsive" R. & D.; that is, not undertaking our research until we see the other fellow's product, because that ordains a 5-year loss in leadtime and it is far too great. That is my basic plea, that we have to undertake research and development in these new areas for research and development's sake. Until such time as the threat appears we won't be able to justify our response to it for security reasons, and if we wait until it appears then we will have no chance of catching up in many of these advanced technological areas.

Chairman PROXMIRE. Thank you.

Mr. Pranger.

Mr. PRANGER. I think that I would tend to agree with General Richardson, with one possible caveat. I think that whereas responsive R. & D. can be wasteful in its own way because of the crash nature of some of this effort, I also believe that as we move into partnership arrangements with the Soviet Union it is quite clear from the President's address to the world and to the Russian people, that the Soviet Union is not, in his estimation, going to be an enemy but a competitor.

Hence, it is going to be very difficult to simply justify anything and everything in R. & D. programs in every area of defense preparedness. Some decisions will have to be made as to what is important, R. & D., and what is not important, R. & D. Hence, somewhere between responsive and randomized forms of R. & D. we are going to have to establish priorities in the R. & D. field as well as in the field of sizing our forces. So, therefore, with that caveat I would agree with the general. Thank you.

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

Admiral La Rocque.

Admiral LA ROCQUE. Senator, I would like to take advantage of my—if I am to be the last—to say one more word about the President leaving, in response to the professor's comment. Perhaps I have been influenced by my naval experience and I know that I would feel very uncomfortable if I were an officer on a cruiser and I knew that as soon as combat was imminent the captain was going to take off in a helicopter somewhere and direct the fight from that vantage point. The idea is not so much to have the President here when the bombs were falling but to have the President as the Commander in Chief and the man who is going to make the big decisions to be right here on the spot beforehand so that he can take every precaution he can to avoid this happening. I would feel more comfortable if he were in that position.

I think I might say one thing on the SALT talks. I think it was a fair agreement. It is very difficult to equate the weapons systems between our countries. They vary in many ways; but I think there is a big danger in getting into the details of whether we ended up with three more of these or they got seven more of those because it has to be considered in the—against the backdrop of the fact that both nations have the capability to destroy the other one with or without the SALT agreement action, and even after those agreements are there we can still destroy each other.

So I think that perhaps I agree with my colleagues here on this final point and that is that both sides, and particularly the peoples of the Soviet Union and the United States, got a great bargain in that SALT talk because it is moving in the right direction so that we perhaps can both diminish the size of our armed forces and the have more of our national resources available to improve the lives of the peoples in both of the countries.

Chairman PROXMIRE. Gentlemen, thank you very, very much. It has been an excellent panel and a most responsive panel and we very much appreciate it.

The subcommittee will stand in recess until June 16 to hear Senator McGovern.

(Whereupon, at 12:35 p.m., the subcommittee was recessed, to reconvene at 10 a.m., Friday, June 16, 1972.)

NATIONAL PRIORITIES—THE NEXT FIVE YEARS

FRIDAY, JUNE 16, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room G–308, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire, Javits, and Percy; and Representatives Reuss, Moorhead, Widnall, Brown, and Blackburn.

Also present: John R. Stark, executive director; Richard F. Kaufman and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

MC GOVERN DEFENSE BUDGET

In our hearings on national priorities this year, we have so far concentrated on the costs of national security, its impact on the Federal budget and the economy, and the basic assumptions that underlie the defense program. Some of us in Congress have been discussing these matters for several years and they have been the subject of a great deal of testimony before this committee; but Senator George McGovern is the first and, to my knowledge, the only Member of Congress who has taken the time to propose a detailed and comprehensive defense program as an alternative to the administration's program.

As I understand it, Senator McGovern, you will confine your testimony to the impact on our priorities of this alternative defense budget you have proposed, and you are here to testify on that and to submit to cross-examination on that defense budget and its effect on our priorities, including the effect on unemployment for example.

Senator MCGOVERN. That is my understanding, Mr. Chairman. I will confine my remarks entirely to my own proposed alternative budget, plus the impact it may have on employment situations.

JEC A CRITICAL COMMITTEE

Chairman PROXMIRE. Very good. Let me go ahead to say this is a critical committee, as you undoubtedly know, Senator McGovern,

and I may be wrong, but I doubt if any member of this committee buys your defense proposal in toto. I find myself in disagreement because I believe it is not adequate to do the job. I don't think it is enough.

But I salute you for proposing it and, furthermore, I think it is extraordinary that you are willing to come before a critical committee, at this point in your presidential campaign, hostile to your ideas, at least in some respect, and answer whatever questions we have on your proposal.

This year has shown many of us that the judgments we had on what is good or bad politics have been wrong. I had felt on the basis of numerous experiences that it is very bad politics to propose a detailed, specific program. It sets up an inviting target for the opposition and they can put you on the defensive on it; and, in that sense, it is bad politics but it is good for the democratic process. It gives the people some idea of what they are voting on, what they get if they vote for McGovern instead of his opponents.

You alone have done this in the defense field. In doing so, you have contributed to a better, a far better, understanding of why these painful priority choices have to be made and you have certainly raised the level of debate in this campaign.

CRITICISM OF THE MC GOVERN BUDGET

Senator McGovern's proposals for far-reaching reform in this area have become the subject of much controversy in recent weeks. The criticism—some of it intemperate, in my judgment—has ranged from allegations that Senator McGovern would cut the bone and muscle out of the military establishment, to charges that the spending reductions he calls for would amount to running up a white flag and a surrender. Such accusations and other that can be cited are interesting because they fail to come to grips with the substance of the McGovern program.

The essence of the proposals concerns the changes that would be brought about in the forces supported by the defense budget and in the amount of defense spending. No rational discussion of the program can be conducted unless these issues are faced squarely. It just will not do to simply rely on invective and epithets.

NONRECEIPT OF DOD ANALYSIS OF MC GOVERN BUDGET

I was particularly disappointed to find the Secretary of Defense hurling wild and unsupported charges at these proposals. I challenged the Secretary to support and document his charges when they were made. In a hearing before the Appropriations Subcommittee which I Chair, the Secretary told me that the Pentagon had prepared an analysis of the McGovern proposal and that it would be provided to me. That was on June 5, 1972, 11 days ago. I have still not received that analysis although requests for it have been made by my staff daily.

The Comptroller of the Defense Department promised to provide me with a copy of the analysis on June 1, 1972. I was later informed that the analysis of Senator McGovern's proposal is classified [laughter] and they will not be able to make it public.

I brought up this classification issue with the Secretary and he thought he could provide us with an unclassified analysis, the unclassified analysis of Senator McGovern.

Senator McGovern, my remarks were meant to welcome you and to provide you with some of the background of events here in Washington surrounding your defense proposals which you may have missed while you were in other parts of the country conducting your very active and successful primary campaigns.

We invited you to appear today in order to talk about the substance of your defense proposals. They go very much to the root of our assumptions about national security and they touch on the most sensitive of the issues relating to priorities.

I have been somewhat critical of portions of your program and I am anxious to question you about them. But we are delighted to have you here and we look forward to hearing your opening remarks.

Senator Javits called me and said he had a brief statement he wanted to make.

Senator JAVITS. Thank you, Mr. Chairman. I would, but I think Senator Percy may have one, too. He is the ranking member of the subcommittee.

Chairman PROXMIRE. I misunderstood. I am delighted to call on our good friend, Senator Percy.

OPENING STATEMENT OF SENATOR PERCY

Senator PERCY. So there is no confusion about it, we will both give opening statements. Although I am ranking on this subcommittee, I am always happy to yield to my senior colleague who is ranking on the full committee.

JEC WELL REGARDED

I would like to first say that we welcome Senator McGovern to the Joint Economic Committee. This is one of the Nation's primary sources for information and guidance on economic policy, taxation, and other questions that go to the very heart of our economic system.

When the JEC turns its attention to an issue, our colleagues in the Senate and in the House, scholars, businessmen, labor leaders, government officials, and the news media tend to pay attention. The JEC is justly noted, I think, for the serious, comprehensive, and thorough work that it produces. That is why I think it is especially appropriate that we should be meeting to discuss the very far-reaching subjects that are under discussion today.

MISINTERPRETATION AND CONFUSION

Some have said that the tax and welfare proposals of Senator McGovern are not only far reaching and far ranging but that they are also actually radical in nature. These proposals have been variously interpreted—some, including the distinguished Senator himself, have been misinterpreted—in ways that have created confusion and misunderstanding about what the Senator from South Dakota is actually proposing. This particular hearing couldn't be more valuable because it brings the presidential candidate who is making a very serious

proposal that would sharply reorder taxing and economic policy in this Nation together with Members of the Senate and the House who are particularly concerned with these issues.

It will also provide an opportunity for Mr. McGovern to clear up many of the misunderstandings that have cropped up.

PARTISANSHIP OF JEC HEARINGS

While I completely agree, Mr. Chairman, with the substance of this hearing, I am somewhat disheartened by the way it has been permitted to develop. First of all, of the eight witnesses that have been invited, seven of them are Democrats; it is hardly a bipartisan hearing. Of the seven, four are presidential candidates and I think we, therefore, have to be extremely careful that we do not permit this committee to be used in any partisan sense. I know that Senator McGovern would concur with this because we have served together for many years now in the Nutrition Committee in which I am ranking Republican and we have never had a partisan hearing in that committee.

This is why I am concerned, however, that we conduct the inquiry in keeping with the dignity and stature of this well-regarded committee, and conduct them in such a way that there can be no partisan overtones to it, and I shall certainly try to adhere to that when I question our witness.

NONRECEIPT OF ADVANCE COPY OF MC GOVERN STATEMENT

We have a very rigid rule in the committee. There is a rule of this committee, strictly enforced by the chairman, that every witness who appears before this committee have available to the committee 200 copies of the testimony 24 hours in advance so that the members of the committee can give serious consideration to that testimony. I can well recall in April in the productivity hearings when a great deal was made—in fact, front-page stories in many newspapers—that a prominent citizen, Ralph Nader, appeared before this committee and had the audacity to break the law by not submitting his statement in advance.

I deeply regret to say Senator McGovern has broken the law, that as of last night—and we were here until 8 o'clock last night—I couldn't get a copy of the testimony. I had canceled a dinner engagement last night to spend time to study the tax proposal because I read Eileen Shanahan of the New York Times; I have listened to "Meet the Press." I am as confused as anyone else is about these tax proposals.

Chairman PROXMIRE. If the Senator will yield on that, there are a whole series of attacks—I would like to answer this a little later—but let me say on this particular one the minority staff was given copies of Senator McGovern's statement at 7 o'clock last night.

Two days ago we had Hugh Scott, a Republican, I believe, who appeared before this committee and testified. Senator Scott gave us no advance statement; he didn't even have a statement when he appeared. He ad libbed his statement. [Laughter.]

Senator McGovern has done an extraordinary action in making his statement available, although he is running for President, although I don't think Senator Scott is.

Senator PERCY. Mr. Chairman, I would be very happy to yield to you. [Laughter.]

Chairman PROXMIRE. I have finished my statement.

Senator PERCY. All I would like to say is I was advised this morning when at 9:30 I still hadn't received a copy, and finally it did arrive, that the reason it did not get there is that the minority had received as of 7 o'clock last night one copy. Now, 7 o'clock is not normal operating business hours even for the Senate. [Laughter.]

All I want to say to Senator McGovern is, that if we are not as perceptive in our questions to you and if we don't evidence the thorough understanding you would expect of us my only excuse is I didn't get the testimony. And then, as I understand it, although I have not read your prepared statement yet, it does not deal with these tax proposals and I hope that does not mean that you are not going to be willing to subject yourself to questions on them, because I think certainly we might have some very serious questions about the revolutionary tax proposal that you have made.

But we welcome you to the committee and in a nonpartisan sense. [Laughter.]

NUMEROUS REPUBLICAN WITNESSES HAVE APPEARED

Chairman PROXMIRE. Before I call on Senator Javits, let me say we have invited a whole series of Republicans to appear before us. We have had far more Republicans than Democrats appear before us. We had Murray Weidenbaum, a Republican; Dan Larkins, Robert Moot, Gen. Robert Richardson, Robert Pranger. Caspar Weinberger is going to testify on June 27. We did invite the Democratic presidential candidates.

We would have been delighted to have had Richard Nixon appear; I don't think he would have appeared.

Senator PERCY. Or Mr. Kissinger.

Chairman PROXMIRE. I don't think he would appear either, but we are having his spokesman appear, as I say.

In addition, we did ask Senator Hubert Humphrey, as a member of this committee, to appear; and we asked Gov. George Wallace. We made a special appeal because of his physical condition, but we thought this might be an opportunity for him to make a statement, but the only man to come up before our committee, to appear, was George McGovern. I don't know how we can criticize him for doing that.

Senator PERCY. I welcomed him.

Chairman PROXMIRE. Senator Javits.

OPENING STATEMENT OF SENATOR JAVITS

Senator JAVITS. Mr. Chairman, it begins to sound more and more like a presidential campaign and less and less like a congressional hearing.

Senator McGovern is a very valued colleague; he is a major leader of his party in the coming campaign, and he is here to help us help the country, and that is my assumption and that is the basis on which I will question him; and whatever may be the fate of his candidacy or the success of it, if he is the candidate, our total aim, his, mine, everyone's here, is to be of help to America in every way we can.

I think he has picked a critical subject to discuss with us, because I gather from looking it over very early this morning that it represents

the turning point for him as to the whole financial status of the country. I gather he does not see much else which will enable us in a major way to readjust our priorities and that includes even his own tax proposals which seem now more and more to be social rather than financial in their implication.

So, Mr. Chairman, I welcome the Senator. I, too, have been the ranking member of the Hunger Committee, so-called; indeed, he and I set it up some years ago, and I know that notwithstanding his passion for what he is doing now in terms of his campaign, he will do his utmost to be as objective and as helpful as he can, and I know that will be our disposition.

TAX REFORM DOES NOT MEAN TAX REDUCTION

Only one point I would like to make: I hope that we won't be encouraged to think that tax reform means tax reduction. We have suffered from this very, very seriously latterly, and I think we are suffering from it now, also. I hope that Senator McGovern himself will give consideration to the fact that already we are suffering very seriously from the fallacy that more dollars of income make better standard of living. That is not true. Indeed, we are lucky now to hold our own. So greatly increased expenditures, unless we can find some trade-off—to wit, in the defense or in a similar way—only will in essence hurt us more.

My plea is that we deal with substance and not form or forms of words because I feel we owe that to the people we commonly try to serve. This does not lessen, in any way, the fact that what any of us may do in a presidential campaign, including myself—is well known that I support the President—but I shall do my utmost to give to Senator McGovern's proposals the dignity and the consideration which I feel they deserve and which will be most helpful to the common purpose that all of us have.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Senator McGovern, it is now 20 past 10. We have a rollcall possibly at 10:30, another possibly at 11:30. When we have these rollcalls, we will simply have to recess because you will have to go to the floor, too, and vote and come back; and we can do that probably in 10 minutes or so.

We also have a procedure in the committee which Senator Percy neglected to mention—he mentioned almost everything else—of timing you. So you have exactly 10 minutes. We put a timer up here; it will ring and at that point you will have 2 minutes left. So be our guest.

Senator MCGOVERN. Thank you, Mr. Chairman.

Before you start the timer [laughter] I would just like to take 30 seconds to say to Senator Percy and Senator Javits, my colleagues, that, as the chairman will recall, the invitation that came to me to testify before this committee asked me to testify about only one matter, and that was the alternative defense proposal that I had made.

Later, a news release went out from the committee suggesting a broad range of topics I might discuss, but that was not part of the agreement. The understanding which I am here, as the chairman, I believe, knows, is that our remarks today will be confined to the defense posture of the country, the possible savings in funds and the impact of that on the economy.

Chairman PROXMIRE. That is my understanding, and I think it is such an enormous subject that it will take all morning in any event.

Senator MCGOVERN. Mr. Chairman and members of the subcommittee, I am very grateful for the opportunity to——

Senator PERCY. Senator McGovern, would you mind if we do ask you some questions on the tax proposal——

Senator MCGOVERN. I would prefer——

Senator PERCY (continuing). Because I was guided by the Committee's public release announcing the hearings, and I am sure most of the public is here under the assumption that this hearing would cover economic priorities. Certainly the question of how we raise our revenue would be germane. If you wouldn't mind some questions on your tax proposals, this will probably be the only chance to put them to you.

Senator MCGOVERN. I would be willing to do that, but only with the understanding that the priorities be given to the defense proposal.

Senator PERCY. Sure.

Senator MCGOVERN. That is what my statement relates to, and I think we ought to cover that as well as we can before we get into these other matters on which I have no prepared statement.

Senator PERCY. Thank you very much.

STATEMENT OF HON. GEORGE McGOVERN, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator MCGOVERN. Mr. Chairman, I am grateful for the opportunity to join in this effort to evaluate national priorities and to look ahead over the next 5 years.

Your invitation asked that I discuss the alternative military budget, including a phasedown to $54.8 billion in arms spending by fiscal 1975, which I proposed last January.

DRAMATIC CHANGES NECESSARY IN MILITARY SPENDING

There is no more important subject to be considered in hearings of this kind. The truth is that we will have no new national priorities unless we make some dramatic changes in today's military spending trends; and unless we do that, the goal of full employment will remain an empty political pipedream.

THE 1975 MILITARY FORCE

First, let me say that I have not proposed cuts in the Nixon administration's defense budget. I have outlined a military posture for fiscal 1975, and there is no way of knowing what the Nixon administration, if it were still in office then, would propose to spend in that year. Instead, my proposal draws on existing forces and makes additions where necessary to come up with the kind of military force I believe we will need in 1975.

The budget retains a firm commitment to nuclear deterrence, and provides abundant insurance by retaining the triad—bombers, land-based missiles, and missile-firing submarines—and by maintaining substantially more forces than required for assured destruction of the potential enemy.

It would keep all the Minuteman missiles and all the Polaris-Poseidon missiles we presently have, including the conversions completed by January of next year. In addition, it would keep 200 strategic bombers, made up of the later series B–52's plus four squadrons of FB–111's. Total force loadings will be well in excess of those of the Soviet Union, and more than 10 times the number required to destroy every significant target in both the Soviet Union and the People's Republic of China.

The U.S. commitment to NATO, our highest priority overseas defense commitment, would be fully met. However, 2⅓ of the 4⅓ divisions now stationed in Europe would be gradually returned to the United States, after full consultation with our European allies. Two land divisions would remain, and six in the United States would be available for rapid redeployment, using new airlift capacity, in case of heightened tensions of buildups on the Warsaw Pact side.

The firm U.S. commitment to the survival of Israel would be maintained, and there would be no lessening of the demonstrated U.S. interest in the Middle East.

The most critical military need in the Middle East is to assist Israel in maintaining the balance of forces by providing modern aircraft and other military supplies so the Israelis themselves can deter further aggression.

At the same time, the alternative budget contemplates two carrier task forces in or within range of the Mediterranean to demonstrate our firm commitment to Israel and our determination to see an ultimate settlement which provides secure and recognized boundaries.

The proposal is based on the conclusion that the prospect for further direct U.S. military involvement in Asia is extremely remote. The first priority in Asia would be to end our involvement in Indochina just as quickly as that can be accomplished. I am convinced that all U.S. troops could be brought out and all U.S. prisoners of war and missing in action would be released or accounted for within 90 days of a decision to pursue those goals.

Chairman PROXMIRE. Senator McGovern, I think it may be necessary now, because that was a rollcall, for us to go over and vote; you may then finish your statement, and then we will proceed to questioning.

Senator MCGOVERN. How much time do I have remaining?

Chairman PROXMIRE. I am not sure. I think you have about 7 minutes.

Senator MCGOVERN. Seven minutes remaining. All right, Mr. Chairman, I will be back after the rollcall.

Chairman PROXMIRE. All right.

Representative MOORHEAD. These timers will keep on clicking away, though.

(Recess.)

Chairman PROXMIRE. The subcommittee will come to order.

Senator McGovern has, I believe, 7 minutes left. Go right ahead.

Senator MCGOVERN. Mr. Chairman, as you can see, I am skipping through the prepared statement and just giving certain parts of it.

U.S. LOSS OF BARGAINING CHIPS

I welcome and applaud the agreements which have come out of the strategic arms limitation talks, particularly the limitation on ABM's;

but, at the same time, I think it is fair to say that the "bargaining chip" strategy, under which we have begun building our own ABM's and MIRV's long before there was any military necessity, has been exposed as a grave and costly tactical blunder. And it is one the administration now seems determined to repeat.

By exercising restraint, I believe we could have prevented both Soviet and American MIRV's. But because we were so determined to play them, we have lost those bargaining chips; and now the administration is back before the Congress, demanding more.

Certainly our ability to build these systems should be just as effective for bargaining purposes as actual construction. My approach would be similar to that followed by President Eisenhower and President Kennedy in achieving the nuclear test ban treaty—to buy and build weapons according to military necessity rather than on negotiation cheekiness, and to hold fast against actions which can only push up the terms of ultimate arms control agreements. That means that instead of accelerating the ULMS—the so-called Trident system—and the B-1 programs now, we should be back at SALT immediately seeking a mutual freeze on further deployments.

BROADER DEFINITION OF NATIONAL SECURITY NEEDED

I think this country must grasp a broader definition of national security.

Certainly we must address the external threats to our own survival and to our vital interests around the world. My alternative defense proposal does that, and I stand by it. It provides all the forces we need for our own protection and roughly again as much to assist in the defense of other nations.

But the American people are concerned with other kinds of security as well.

The plain truth is that the major dangers to American society today are not threats from abroad but the deterioration of our own society from within. We have been so obsessed with the fear of international communism and have spent so much of our energy and resources to feed that fear, that we have robbed and weakened our domestic society. America can now best serve its own interests and the interests of the world community by devoting less of our resources to concerns overseas and investing more in the building of our own Nation.

"THE WORLD IN ARMS IS NOT SPENDING MONEY ALONE" (EISENHOWER)

President Eisenhower pointed out in 1953 that "Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed. The world in arms is not spending money alone."

"It is," he said, "spending the sweat of its laborers, the genius of its scientists, and the hopes of its children * * *."

"This is not a way of life at all, in any true sense. Under the cloud of threatening war, it is humanity hanging from a cross of iron."

Mr. Chairman, those words ring with devastating truth today.

THE DRUG ADDICTION PROBLEM

New York City loses more lives from drug addiction each year than the whole State of New York lost in Vietnam at the peak of the fighting, in the worst year of the war. Well over half of all the crime in that city is related to drugs.

I think effective action to crack down on drug pushers and to find and rehabilitate drug addicts will make far more difference to the security of New Yorkers than a gold-plated new bomber.

MASS TRANSIT SYSTEM A DISGRACE

For most Americans, our system of transportation is a disgrace. Our air is fouled by deadly exhaust gasses; and mass transit, where it exists, is unclean, uncomfortable, and unsafe.

I think building decent public transportation systems will influence our security far more than the effort to hang on to obsolete aircraft carrier strategies.

BASIC NUTRITIONAL NEEDS

The administration wants to turn back $1 billion in food program funds, to retreat further on our commitment to make sure that no American wants for basic nutritional needs. I think that issue has more to do with our security than keeping 5,000 superfluous top officers in our Armed Forces.

These are some of the security choices we have to face.

What I suggest to the committee is that the most serious national security questions today involve such issues as the health of our people, the quality of our schools, the safety of our streets, the condition of physical environment, and the vitality of our economy. The issue is clearly defined between those needs and more arms. And we can't postpone it any longer.

NEED TO ATTAIN FULL EMPLOYMENT

I contend as well that we must break our dependence on arms spending in order to achieve full employment.

We are familiar with the priorities, costs, and the security dangers of excessive arms spending; but we have paid too little attention to the economic consequences, to the fact that military spending is among the least efficient methods of creating and maintaining employment.

ARMS DOLLARS SHOULD BE SHIFTED TO URGENT CIVILIAN NEEDS

I propose to make a direct and immediate shift of arms dollars to urgent civilian needs. Economists working with me have developed a projection of what the employment effects of that exchange would be, assuming a transfer of $32 billion over a 4-year period. They have concluded that at the end of 4 years we would have created at least 5 million jobs in the civilian sector, replacing all the jobs lost in the Armed Forces and military industries, and adding about 1.5 million new jobs beyond that.

JOB-CREATING ENTERPRISES IMPORTANT

To deal with acute unemployment problems right now, we should precede that phased transfer with an immediate $10 billion investment in job-creating enterprise, principally in housing, transportation, environmental protection, and public-service employment.

If adopted immediately, an investment of that kind could, as illustrated in table VI of my prepared statement, reduce the unemployment rate to no more than 4.3 percent by the middle of next year.

In sum, if we reduce our dependence on arms spending, if we get out of the bad habit of trying to stimulate the economy by running more funds through corporate treasuries in special tax breaks, and if we begin investing directly in urgent public priorities, then full employment can become not a perpetually frustrated prospect but a realistic hope in the next several years. With these steps, we can guarantee a job for every man and woman who wants to work.

(The prepared statement of Senator McGovern follows:)

PREPARED STATEMENT OF HON. GEORGE MCGOVERN

A NEW DEFINITION OF NATIONAL SECURITY

Mr. Chairman and members of the Subcommittee, I am grateful for the opportunity to join in your effort to evaluate national priorities and to look ahead over the next five years.

Your invitation asked that I discuss the alternative military budget, involving a phasedown to $54.8 billion in arms spending by fiscal 1973, which I proposed in January.

There is no more important subject to be considered in hearings of this kind. The truth is that we will have no new national priorities unless we make some dramatic changes in today's military spending trends. And unless we do that, the goal of full employment will remain an empty political pipedream.

With the Committee's permission I would like to proceed in three steps; first by describing briefly the size and the meaning of the alternative military budget I have proposed; second by outlining some of the thinking behind it; and third by suggesting it's potential impact on the economy and national priorities.

I. FORCES AND SECURITY INTERESTS

First let me say that I have not proposed cuts in the Nixon Administration's defense budget. I have outlined a military posture for fiscal 1975, and there is no way of knowing what the Nixon Administration, if it were in office, would propose to spend in that year. Instead my proposal draws on existing forces and makes additions where necessary, to come up with the kind of military force I believe we will need in 1975.

We have estimated the total cost of that program at $54.8 billion. I have seen the analysis by the Assistant Secretary of Defense (Comptroller) which disputes that figure, and I can understand his confusion. The tables and labeling at the end of the original paper were misleading. If Mr. Moot had looked beyond the tables and attempted to price out the various elements of the program, I think he would have come up with roughly the same figures we did.

I am not anxious to get in a pricing argument with Mr. Moot because the focus of our debate obviously ought to be centered on whether the proposed force levels are adequate. But I have attached a complete description of the alternative program, along with a more detailed projection of its costs, at the end of my statement.

My proposal does not require major revisions in American commitments, or a major scaling down in real American security interests. Instead it changes the manner in which those interests are served, and moves on more practical assessments of when and where U.S. forces might be involved in combat.

The budget retains a firm commitment to nuclear deterrence, and provides abundant insurance by retaining the triad (bombers, land-based missiles and missile-firing submarines) and by maintaining substantially more forces than required for assured destruction of the potential enemy.

It would keep all the Minuteman missiles and all the Polaris/Poseidon missiles we presently have, including the conversions completed by January of next year. In addition, it would keep 200 strategic bombers, made up of the later series B–52s plus four squadrons of FB–111s. Total force loadings will be well in excess of those of the Soviet Union, and more than ten times the number required to destroy every significant target in both the Soviet Union and the People's Republic of China.

Aside from negotiating tactics, the major new assumption is that the triad should be seen as a vehicle for stability rather than military excess. It should permit us to wait longer before going ahead with new deployments, by assuring that our deterrent will remain secure even though there might be a temporary risk to one or another element.

The proposals also call for reductions in strategic air defense, on the premise that since no defense against missile attack is possible—in fact such a defense is now prohibited—it is irrelevant to build a defense against the limited Soviet bomber fleet.

The U.S. commitment to NATO, our highest priority overseas defense commitment, would be fully met.

The proposal plans for eight divisions of active land forces to NATO, which fulfills the apportioned share of the United States. It programs 16 tactical airwings for Europe, or two more than the U.S. share.

However, two and one third of the four and one third divisions now stationed in Europe would be gradually returned to the United States, after full consultation with our European allies. Two land divisions would remain, and six in the United States would be available for rapid redeployment, using new airlift capacity, in case of heightened tensions of buildups on the Warsaw Pact side.

The firm U.S. commitment to the survival of Israel would be maintained, and there would be no lessening of the demonstrated U.S. interest in the Middle East.

The most critical military need in the Middle East is to assist Israel in maintaining the balance of forces, by providing modern aircraft and other military supplies so the Israelis themselves can deter further aggression.

At the same time the alternative budget contemplates two carrier task forces in or within range of the Mediterranean, to demonstrate our firm commitment to Israel and our determination to see an ultimate settlement which provides secure and recognized boundaries.

The proposal is based on the conclusion that the prospect for further direct U.S. military involvement in Asia is extremely remote.

The first priority in Asia would be to end our involvement in Indochina just as quickly as that can be accomplished. I am convinced that all U.S. troops could be brought out, and all U.S. prisoners of war and missing in action would be released or accounted for, within 90 days of a decision to pursue those goals.

A more literal reading of the one and one half war planning assumption would permit further reductions in U.S. forces stationed in or oriented toward Asia, on the theory that we need not plan for a major war in Europe and in Asia at the same time. But regardless of what general planning assumption is used, it is realistic to doubt very strongly the premise that American forces might be called upon to confront Chinese forces in Asis. The People's Republic of China has formidable defensive forces, but hardly any standing capacity to wage conventional war outside her own borders. And the Chinese army is heavily preoccupied along the extensive common border with the Soviet Union.

Elsewhere in Asia noncommunist governments have formidable defensive capabilities of their own. South Korea has numerical superiority over the North, and the effect of recalling the remaining U.S. division in Korea would be offset by the return of Korean forces now fighting in Vietnam.

II. NEW MILITARY PLANNING DIRECTIONS

While the alternative budget does not signal a lessened American commitment to real security interests, it does pose a firm challenge to practices and tactics which have driven military costs sharply upward and which have frustrated attempts to control arms spending.

It is a zero-based budget, set by evaluating the threats which must be faced rather than by comparing with spending in prior years.

Military spending decisions are almost always measured according to how much we have been spending, or how much we spent last year.

Yet such descriptions lead to seriously distorted perceptions of our military posture.

Where new weapons are concerned, for example, a decision to forego new spending is usually called a "cut," "unilateral disarmament," or something worse. In fact, it is nothing of the kind. Turning down a new weapon does not reduce the existing force at all. If we spend $20 billion on new weapons in one year and $5 billion the next, we have not cut our military force. We have increased it by $5 billion.

The year-to-year budgetary practice leads to outrageous influences on defense spending. The Budget Bureau frequently sets the final total submitted to the Congress on the basis of whether or not we want to impress the Russians that year, irrespective of what the money is spent for or whether our forces in the field are or are not fully sufficient to impress the Russians.

I propose a return to reality and common sense in military budgeting. We should examine the *physical* threats which we and our allies must face in the foreseeable future. Then we should determine the strategic and conventional force levels needed to meet those threats, drawing on existing forces—including those of our allies—and building additions where they are necessary. No part of the current budget should be deemed sacrosanct simply because it exists; instead we should start from "zero" and then retain and construct the forces which can be honestly related to realistic defense needs.

That process would be greatly assisted by projections of national spending patterns—both for military and civilian programs—several years into the future. My alternative military budget is based on a three-year projection, but we can project further than that. Obviously changed conditions would mean changes in actual spending. But establishment of targets would help the Pentagon in making its plans; it would help the Congress in setting national priorities; and it would help the public in understanding how well all of us are fulfilling our responsibilities.

The alternative budget challenges current notions about the kinds of forces which will be useful in the modern context—it rejects inertia in military planning.

Some of the greatest pressures for higher defense spending come from romantic attachments to old systems and strategies which have become obsolete.

I frankly think, for example, that it is extremely dangerous to rely on aircraft carriers in any potential confrontation with the Soviet Union. They could be put out of commission—if not sunk—within a very short time after the war started.

Yet war at sea with the Soviet Union provides the justification for maintaining and modernizing most of the current carrier force and escorts, plus procurement of carrier-based anti-submarine aircraft, the S–3A, plus the F–14, plus the Phoenix missile.

Both our pocketbook and our security would be far better served if we simply recognized and accepted the limitations of aircraft carriers, retained them for functions which they can be expected to perform, and then concentrated on more realistic strategies to meet the threat as it evolves.

In short, I think our military planners should be looking to the future, instead of spending their time trying to justify, and the taxpayer's money trying to protect, traditional approaches which can be kept only at enormous cost and, even then, can make only marginal contributions at best.

My proposal differs sharply with the "bargaining chip" theory of negotiations, as practiced by the Nixon Administration.

I welcome and applaud the agreements which have come out of the Strategic Arms Limitation Talks—particularly the limitation on ABMs.

But at the same time I think it's fair to say that the "bargaining chip" strategy—under which we have begun building our own ABMs and MIRVs long before there was any military necessity—has been exposed as a grave and costly tactical blunder. And it is one the Administration seems determined to repeat.

Tugging the MIRV cat out of the bag has seriously compounded the problems of inspection. So we have ended up with a limited arms control agreement which completely leaves out the qualitative jumps that have become the real arms race issue in recent years.

By exercising restraint, I believe we could have prevented both Soviet and American MIRVs. But because we were so determined to play them, we have lost those "bargaining chips." And now the Administration is back before the Congress demanding more.

Certainly our *ability* to build these systems should be just as effective for bargaining purposes as actual construction. My approach would be similar to that followed by Presidents Eisenhower and Kennedy in achieving the nuclear test ban treaty—to buy and build weapons according to military necessity, rather than

on negotiating cheekiness, and to hold fast against actions which can only push up the terms of ultimate arms control agreements. That means that instead of accelerating the ULMS and B–1 programs now, we should be back at SALT immediately seeking a mutual freeze on further deployments.

The alternate budget proposes major reforms in military manpower and procurement practices.

The Brookings Institution's study, "Setting National Priorities—the 1973 Budget", has projected that the next generation of tactical aircraft could cost $40 to $50 million for each plane if costs continue growing at the same rate as they have in the past. The same incredible cost escalation has been occurring virtually across the board.

Aside from plain contractor and procurement sloppiness, one big reason has been the pressure to buy the latest and most exotic military technology, whether or not it provides a significant marginal improvement. That trend means that if there are to be any overall arms budget constraints at all, we will end up with sharply reduced combat capabilities, particularly since performance usually does not live up to paper expectations.

The problem is aggravated by the fact that we usually have only one option. The services develop their dream machines and then offer them to the Office of Management and Budget and to the Congress on a "take it or leave it" basis. A further upward pressure on costs has been the tendency to build too many capabilities—some of them inconsistent—into the same vehicle.

The Senate Armed Services Committee has suggested some fiscal discipline in one case, by choosing the AX over the Cheyenne and the Harrier for close air support. There are alternatives for the Navy F–14, the Air Force F–15, and for other systems as well. What I am proposing is that we move toward simpler designs and more specialized systems, and that we postpone technical innovations until they can have a truly significant impact on overall capabilities.

By far the biggest single increase in military costs in recent years has been in the area of military manpower. Pay raises have been necessary to allow recruitment of an all-volunteer force and to achieve comparability with civilian pay. But those same pay raises provide a strong motive for assuring that our manpower is used effectively.

At the present time our military establishment is ridiculously top heavy. We have 5,000 more officers above the equivalent rank of Lieutenant Colonel—Colonels, Generals, Commanders, Captains and Admirals—than we had in 1964, to command about 190,000 fewer men. Returning to the grade distribution pattern of 1964, still heavily weighted in the upper ranks, would save about $1.3 billion in pay and related costs for the same sized force, and substantially more for the force level I have proposed.

The transition to a voluntary force should permit further manpower reductions in such areas as training, rotation, and the ratio of support to combat forces.

III. THE ECONOMIC AND PRIORITIES OUTLOOK

I think this country must grasp a broader definition of national security.

Certainly we must address the external threats to our own survival and to our vital interests around the world. My alternative defense proposal does that, and I stand by it. It provides all the forces we need for our own protection, and roughly again as much to assist in the defense of other nations.

But the American people are concerned with other kinds of security as well.

The plain truth is that the major dangers to American society today are not threats from abroad but the deterioration of our society from within. We have been so obsessed with the fear of "international Communism" and have spent so much of our energy and resources to feed that fear, that we have robbed and weakened our domestic society. America can now best serve its own interests and the world community by devoting less of our resources to concerns overseas and investing more in the building of our own nation.

President Eisenhower pointed out in 1953 that:

> "Every gun that is made, every warship launched, every rocket fired, signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed.
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> "The world in arms is not spending money alone.
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> "This is not a way of life at all, in any true sense. Under the cloud of threatening war, it is humanity hanging from a cross of iron."

Those words ring with devastating truth today.

This Subcommittee has heard the budget and deficit projections in recent weeks. You know that the Administration has so far accumulated more than $90 billion in red ink; that about one fifth of our total national debt has been piled up since Mr. Nixon took office. And you know that military obligations to be incurred this year will grow to a minimum of $85 million by 1975, even if we leave out new weapons we don't know about and even if we neglect the cost escallation which has become an absolute certainty in military spending. The Brookings Institution has projected an arms budget of $100 billion by 1977 in current dollars.

So you are fully aware, as I am, that plans for new action on domestic priorities, whether they come from the President, from the Congress, or from presidential candidates, will amount to empty phrases unless we find new sources of funding. If we do not transfer funds from war to peace priorities, there will be no new peace priorities at all.

We are paying the trade-offs now.

In California there are schools in such a bad state of repair that they will collapse in the next earthquake.

Try telling those children that North Vietnamese guerillas threaten them more than a schoolhouse that might come crashing down on their heads.

In South Dakota we don't have enough doctors and nurses and we don't have the basic emergency medical services that could use existing technology to save lives. Those conditions are repeated throughout the country, especially in rural areas and central cities.

I think we can make a greater contribution to our security be meeting those needs, instead of feeding the Air Force preference for an elaborate F–15 aircraft, over a simpler version that could perform the major missions better.

New York City loses more lives from drug addiction each year than the whole State of New York lost in Vietnam, at the peak of the fighting. Well over half of all the crime in that city is related to drugs.

I think effective action to crack down on drug pushers, and to find and rehabilitate drug addicts, will make far more difference to the security of New Yorkers than a gold-plated new bomber.

For most Americans our system of transportation is a disgrace. Our air is fouled by deadly exhaust gasses, and mass transit—where it exists—is unclean, uncomfortable and unsafe.

I think building decent public transportation systems will influence our security far more than the effort to hang on to obsolete aircraft carrier strategies.

The Administration wants to turn back $1 billion in food program funds—to retreat further on our commitment to make sure that no American wants for basic nutritional needs.

I think that issue has more to do with our security than keeping 5,000 superfluous top officers in our armed forces.

These are some of the security choices we have to face.

What I suggest to the committee is that the most serious national security questions today involve such issues as the health of our people, the quality of our schools, the safety of our streets, the condition of our environment, and the vitality of our economy.

The issue is clearly defined between those needs and more arms. And we can't postpone it any longer.

I contend as well that we must break our dependence on arms spending in order to achieve full employment.

We are familiar with the priorities costs and the security dangers of excessive arms spending. But we have paid too little attention to the economic consequences—to the fact that military spending is among the least efficient methods of creating and maintaining employment.

I propose to make a direct and immediate shift of arms dollars to urgent civilian needs. Economists working with me have developed a projection of what the employment effects of that exchange would be, assuming a transfer of $32 billion over a four year period.

They have concluded that at the end of four years we would have created at least 5 million jobs in the civilian sector, replacing all the jobs lost in the Armed Forces and military industries and adding about 1.5 million new jobs besides. Stated another way, every $1 billion transferred to new priorities would create a *net* increase of 39,000 jobs the first year, 45,000 in the second, 47,000 in the third, and 48,000 in the fourth. Table V at the end of my statement provides a more detailed description of that projection.

To deal with acute unemployment problems right now, we should precede that phased transfer with an immediate $10 billion investment in job-creating enterprise, principally in housing, transportation, environmental protection, and

public service employment. If adopted immediately, an investment of that kind could, as illustrated in Table VI, reduce the unemployment rate to no more than 4.3 percent by the middle of next year.

In sum, if we reduce our dependence on arms spending, if we get out of the bad habit of trying to stimulate the economy by running more funds through corporate treasuries in special tax breaks, and if we begin investing directly in urgent public priorities, then full employment can become not a perpetually frustrated prospect but a realistic hope in the next several years. With these steps, we can guarantee a job for every man and woman who wants to work.

Special steps are needed to account for transitional dislocations during the shift from war to peace priorities.

It is plainly unjust to expect a small minority of Americans—workers in arms and aerospace industries—to carry by themselves the whole cost of achieving new national priorities.

A phased transfer of the kind I have proposed, coupled with steps to stimulate the civilian economy and to give arms contractors long range notice on national spending plans, would mean that long term unemployment would not be a threat to anyone. As old arms contracts are phased out we will be providing new contracts in the civilian sector to replace them. The companies involved will have fully adequate notice to gear up for peacetime production.

In the interim period, I think we have an obligation to provide income support to the individuals who do lose their jobs, both to protect against personal hardship and to prevent sharp economic dislocations in the communities which have become most heavily dependent on military contracts.

In addition, we should adopt a strong commitment to peacetime scientific and technical priorities, to deal with the special problems facing aerospace scientists and engineers. Legislation currently pending in the Congress, S. 32, sponsored by Senator Kennedy, would have a great impact in assuring that our scientific and technical talents can be put to work quickly on accumulated human needs.

Table I—Total alternate program by 1975

Military Personnel:	
Army	648, 000
Navy	471, 000
Marine Corps	140, 000
Air Force	476, 000
Subtotal, active duty	1, 735, 000
Reserves	600, 000
National Guard	250, 000
Total	2, 585, 000
Civilian Personnel	761, 000
Strategic Forces:	
Minuteman missiles	1, 000
Polaris (submarines/missiles)	34/544
Poseidon (submarines/missiles)	7/112
Strategic Bombers (B–52s and FB–111s)	200
Manned fighter-interceptor squadrons	5
Air defense firing batteries	8
General Purpose Forces:	
Land forces:	
Army divisions	10
Marine divisions	2
Tactical air forces:	
Air Force wings	18
Navy attack wings	6
Marine Corps double wings	2
Naval forces:	
Attack carriers	6
Nuclear attack submarines	69
Escort ships	130
Amphibious assault ships	56
Troopships, cargoships, replenishment ships	80
Airlift Forces: Aircraft Squadrons:	
C–5A	4
C–141 and other	14

Table II—Strategic forces costs by 1975

Strategic forces:	*Millions*
Minuteman/Titan	$170
Polaris/Poseidon	1, 120
B–52's/FB–111's	665
SRAM/SCAD	100
Bomber defense	980
Missile surveillance	500
Safeguard	0
Subtotal	3, 535
Intelligence and communications	3, 190
Research and development	2, 500
Central supply and maintenance	840
Training, medical and other Personnel activities	1, 305
Administration and Associated Activities	160
Total	11, 550
Operating Outlays	7, 750
Investment Outlays	3, 800
Total	11, 550

Table III—General purpose forces costs by 1975

	Millions
General purpose forces	$18, 435
Intelligence and communications	2, 460
Airlift and sealift	1, 720
Guard and Reserve Forces	3, 810
Research and development	3, 000
Central supply and maintenance	4, 320
Training, medical and other personnel activities	6, 805
Administration	1, 300
Support of other nations	500
Military assistance program	900
Total	43, 250
Operating outlays	33, 150
Investment outlays	10, 000
	43, 250

Table IV—Total program costs by 1975

	Millions
Military personnel	$18, 600
Military retired pay	5, 600
Civilian payroll	10, 400
Other operations and maintenance	6, 000
Subtotal, operations	40, 600
Research and development, procurement and military construction	14, 200
Total	54, 800

TABLE V.—IMPACT OF McGOVERN PEACE PRIORITIES

[Jobs in millions]

	1973	1974	1975	1976
Loss in defense jobs (cumulative)	0.7	1.3	1.9	2.5
Military manpwer cut (cumulative)	.2	.4	.6	.8
Total reduction	.9	1.7	2.5	3.3
Civilian employment gain (cumulative)	.8	1.6	2.5	3.3
Government employment gain (cumulative)	.4	.8	1.2	1.5
Total gain	1.2	2.4	3.6	4.8
Net gain	.3	.7	1.1	1.5

The projection assumes a phased reduction of $8 billion each year over four years, down to a $55 billion defense budget by 1976, compared to a budget holding steady at $87 billion a year over the same period. Estimates are based on the 1970 Cumberland analysis of employment effects of various alternative defense budgets, using the Almon Input-Output Program, and on the Leontief Input-Output model. Job gains are calculated on the assumption that half of the alternative military budget savings would go to non-military government expenditures, one fourth would go to personal consumption, and one fourth would go for construction.

TABLE VI.—IMPACT OF JOB INVESTMENT PROGRAM

	Actual values	Forecast values				
		1972			1973	
	I	II	III	IV	I	II
GNP	1,103.2	1,128.2	1,150.2	1,175.0	1,206.1	1,232.4
Change	30.3	35.0	22.0	24.8	31.1	26.3
Real GNP	761.0	772.7	782.4	794.2	808.9	821.7
Percent change	5.2	6.2	5.0	6.0	7.4	6.3
Unemployment rate (percent)	5.8	5.8	5.7	5.6	5.4	5.2
Percent change in private outlook deflator	5.2	3.0	2.9	2.7	2.6	2.5
JOB INVESTMENT ALTERNATIVE						
GNP	1,103.2	1,131.1	1,159.5	1,189.6	1,222.5	1,250.0
Change	30.3	27.9	28.4	30.1	32.9	27.5
Real GNP	761.0	774.1	788.2	803.4	818.8	831.8
Percent change	5.2	6.9	7.3	7.7	7.7	6.4
Unemployment rate (percent)	5.8	5.4	5.2	5.0	4.7	4.3
Percent change in private output deflator	5.2	3.0	3.0	2.9	2.8	2.8

Chairman PROXMIRE. Thank you. Your timing is perfect.

Senator McGovern, on June 5, as I said, Secretary Laird appeared before my Foreign Relations Subcommittee and, in the course of his testimony, he said this, and I quote, with respect to your proposed defense budget. He said:

I would say that the thing to do if you go the $30 billion route is to direct the Department of Defense to spend at least $1 billion in white flags so that they could run them up all over because it means surrender.

NUCLEAR ARSENAL RETAINED

I might say, parenthetically, the way the Pentagon wastes money in overruns, six white flags would cost them about $1 billion. [Applause.]

But I calculate from your testimony that by retaining 1,000 Minuteman missiles, 200 bombers, and the Polaris-Poseidon conversions through next January, that you would retain in your nuclear arsenal about 6,500 strategic force loadings plus another 1,500 to 2,000 tactical loadings—that is, available in Europe and the periphery of the Soviet Union capable of delivery on Russia—for a total of 8,000 targeted nuclear weapons.

The Minuteman loadings have 100 times the power of the Hiroshima bomb. The submarine loadings have about two to three times the power of the Hiroshima bomb.

I calculate from the Pentagon's public damage tables that your strategic budget would retain enough nuclear weapons to destroy 30 percent of the population and 75 percent of Soviet industry 20 times over.

Is this correct? And would you call that amount of nuclear terror running up the white flags of surrender?

NO WHITE FLAGS INVOLVED

Senator McGOVERN. I think your point is well taken, Mr. Chairman. The billion—it seems the Pentagon has gotten to the point where they can't estimate the cost of anything in less than billions of dollars, even white flags.

Now, there is no white flag involved in the McGovern defense budget. The cost of that could be covered by one Wrigley spearmint gum wrapper, but it is typical of the extravagance of that whole statement. The capacity to destroy every single significant target in both the Soviet Union and the People's Republic of China, and to do that 10 times over, is not a surrender budget; it is a very powerful budget comprising nearly $55 billion in public investment.

Chairman PROXMIRE. Now, as I understand it, the reasoning behind the position taken by Secretary Laird and the administration goes farther than this numbers game of destruction several times over. The argument is something like this: If we do not pursue—if we follow your program, do not pursue the B–1 bomber, the accelerated underwater long-range missile, the ULMS, and the new submarine-launched cruise missile, if we retire our oldest ICBM, halt our Minuteman, Poseidon, and MIRV program and 40 percent of our strategic bomber force, all of which I understand you advocate in your defense budget, the question is, would the present Soviet leadership feel an incentive to negotiate at the end of this 5-year period for a further reduction or limitation on offensive weapons?

CAPABILITY AS IMPORTANT AS CONSTRUCTION

Senator McGOVERN. Well, Mr. Chairman, my thesis is that the capability of increasing our defense strength is just as good a bargaining chip as starting construction, and it is a whale of a lot less expensive.

I think it is quite possible that the decision to proceed on the construction of the ABM accomplished nothing other than the waste of money; and even Senator Jackson now says it would be very foolish to proceed with the second ABM site construction unless we are going to go ahead with the whole system. So I think that it is both frivolous and unnecessary for us to assume that in order to negotiate an understanding on arms, we have to begin building every conceivable system.

That is why I was so surprised that immediately on the heels of President Nixon's welcome announcement that we are going to turn down the arms race—and I applaud the President for his efforts in Moscow, just as I applaud him for his efforts in Peking—that Secretary of Defense Laird came here to the Hill and said we are going to have to increase the military budget now because of these arms reductions that were worked out in Moscow; and because we have reached some agreement on ABM's, we are now going to have to increase our offensive capability. I really don't understand that kind of reasoning.

Chairman PROXMIRE. I agree in part. It doesn't make much sense to have an arms limitations agreement that results in increased spending which, I understand, is the proposal of the Secretary of Defense. Perhaps I am wrong, but that is my understanding, and it seems to have been affirmed—spending almost the same amount on

the two ABM sites that we would have spent on the 12; in addition to that, stepping up research and development; in addition to that, moving ahead at length in these other areas.

WOULD M'GOVERN BUDGET AFFECT U.S. ABILITY TO NEGOTIATE?

At the same time, I wonder if your position, however, in a dramatic and drastically different way, wouldn't put us in a position with the Soviet Union of at the end of 5 years, of having very little incentive left for them because wouldn't they have such a demonstrably clear superiority if they do go ahead, that we wouldn't be in a very strong position to negotiate?

Senator McGOVERN. Mr. Chairman, I think you have to ask yourself, and we all have to ask ourselves, what is it that fuels an arms race? Why is it that each side feels so insecure that it continues to invest more and more in weapons, even at the time when each government must surely know that it is neglecting its own society.

Chairman PROXMIRE. Well, then, is it your position if we did not go ahead, if we followed your strategy, that the Soviet Union unilaterally would or, rather, in concert with our voluntary holddown, would also be less likely to accelerate?

Senator McGOVERN. I think what we have to do, Mr. Chairman, is to estimate as best we can what we need to defend this country, to defend our interests overseas and to maintain a credible deterrent without reference to guesses as to what the Soviet Union might do 2 or 3 years hence.

I have posed that kind of a budget. I have posed one which I believe will provide the capability that we need, several times over, to utterly destroy any target in either the Soviet Union or China no matter what they do. They have already agreed to limit their defensive capabilities in this recent arms reduction agreement. We are maintaining in this alternative budget enough power to provide an utterly devastating blow to either the Soviet Union or China under any circumstances.

Chairman PROXMIRE. But aren't you putting too much reliance on that? After all, isn't the hope of the world in a sense to provide adequate conventional forces so we wouldn't have to—there will be no prospect of or much less prospect at least of having to rely on nuclear power?

Senator McGOVERN. That is correct.

DANGER IN MANPOWER REDUCTIONS

Chairman PROXMIRE. If we follow the policy of cutting back our manpower to 1.7 million or so, which is far below that which I understand the administration would advocate, and the 10 divisions you suggest for the Army and two divisions for the marines, wouldn't we have such a clear inferiority with respect to Soviet Union, with respect to conventional Army Forces, not in some other respects but Army Forces, that once again we would lose our leverage in negotiating with them in various areas of the world?

Senator McGOVERN. No, Mr. Chairman, that is not the case. Of the nearly $55 billion which we would propose to reach by fiscal 1975, of that $55 billion, $43 billion of it is in general purpose or con-

ventional forces, and only about $12 billion in strategic and nuclear forces, and the——

Chairman PROXMIRE. That is right in dollars, but in manpower you have a dramatic reduction in our divisions and especially in sharp contrast with the very heavy divisional concentration the Russians have.

NATO STRENGTH MUST BE CONSIDERED

Senator MCGOVERN. Yes, but with the combined force of our European allies, and we have to assume a situation in which they would be with us in any major confrontation with the Soviet Union, the manpower levels come out with a slight edge in our favor.

I also think the committee and Members of Congress have to recognize, so far as the Soviet Union is concerned, that there is no longer an international Communist monolith. I think it is safe to assume that part of their forces have to be oriented toward China and vice versa; but when we add together the strength of the NATO system, even with the reduced American troop levels that we have proposed in this budget, we come out with a slight advantage in our favor as against the Soviet Union.

WHAT ABOUT SOVIETS AND RED CHINESE WORKING TOGETHER?

Chairman PROXMIRE. Aren't you making a series of best assumptions, though? You assume support from the so-called allies of ours' including Germany and perhaps Japan's economic strength; you are assuming that the two Communist giants may be opposed to each other—would be opposed to each other. Supposing you don't get that favorable assumption? Supposing you get the two Communist powers working together and supposing we don't have this kind of support from our allies, then are we in an enfeebled position in the conventional strength?

Senator MCGOVERN. We are not, Mr. Chairman. If we are ever confronted in a situation where China and the Soviet Union team up against the United States in a major confrontation, we are perfectly capable of utterly destroying both of those nations simultaneously, and I am confident they know that.

Chairman PROXMIRE. Once again, we would rely then on the nuclear destructive capability under those conditions?

Senator MCGOVERN. If that were necessary, but we probably don't have the capacity now to wage conventional warfare against both the Soviet Union and China. We are having enough difficulty with Vietnam waging a conventional war without taking on the Soviet Union and China combined.

TOTAL MOBILIZATION WOULD BE NECESSARY

I can't conceive of a circumstance in which our present dollar levels would be adequate to meet a total conventional war, if I can use that term; it wouldn't be total if it were conventional, but taking your assumptions that we wanted to somehow fight a major land war with conventional forces against the Soviet Union and China at any one time, we would have to vastly increase our present capabilities. We would have to do at least what we did in World War II where we

mobilized practically all the available manpower in the country. If my memory is right, we had 12 million men under arms instead of the 2.5 million that we now have under arms. And in that war we had both China and Russia with us. So I think the possibilities that the chairman poses would require us to turn the country into such an enormous armed camp that practically all the manpower in the country would be permanently under arms.

Now, that is not the kind of a world we are dealing with; otherwise, I don't think our President would be traveling back and forth to Peking and Moscow negotiating arrangements for arms reductions. I think the general recognition is that none of the great powers want to commit mutual suicide.

Chairman PROXMIRE. My time is up.

As I understand it then, you would rely on a smaller conventional force and rely on the assumption that if we have to meet a conventional attack we would have to go to all-out mobilization. You have some reliance, I see, in your statement on Reserves and National Guard; you make that more real perhaps than it has been in the past, but you would have greater deficiencies certainly to make up by far than the proposals made by the administration.

Senator MCGOVERN. You would have, Mr. Chairman, the difference between our present manpower levels of about 2.5 million and the 1.75 million which I propose. But you would also, as I said earlier, have the airlift capacity to move divisions very quickly to where they are needed.

We have also proposed in this budget an upgrading of the training of our manpower so they can perform more services under differing circumstances in various parts of the world, so I think the overall capability of our manpower forces would remain about what it is today.

Chairman PROXMIRE. Senator Percy.

NATO COST-SHARING

Senator PERCY. Senator McGovern, in the defense area, would you concur that one of the best ways for us to reduce our contribution to the costs of NATO, which are $17 billion a year, without reducing our common defense, would be to get the European allies who are now prosperous, even booming in many respects compared to years ago, to pay a fair share of the costs of NATO defense?

Senator MCGOVERN. Yes, I would. I don't think the United States ought to pressure our European allies into building up a larger NATO system than they think is required for the security of Western Europe. But if the assumption is that we need to replace the 4⅓ American divisions there, that is any that are withdrawn, with forces from elsewhere on the continent, I think it is possible for them to do that. What I have suggested is that we withdraw 2⅓ divisions. That would still leave two American divisions in Western Europe. We would have another six divisions here in this country ready for immediate deployment to Europe by airlift if needed; but, as the Senator from Illinois has said, if our European allies feel that it is necessary to put more forces in place on the European mainland to make up the difference in these 2⅓ divisions we would withdraw, obviously they are capable of doing that. Their economies are no longer in ruins; they are not in

a situation like they were at the end of World War II when we made these commitments a quarter of a century ago; and I think the Senator's question is well taken.

MILLS-MANSFIELD TAX APPROACH

Senator PERCY. In the economic area, as I understand it, you have supported the Mills-Mansfield approach to phase out all exemptions over a priod of 3 years, and to have a flat rate tax of 33⅓ percent, eliminating all exemptions. In addition, you have made this very dramatic proposal that there be a $1,000 grant to every man, woman, and child in America, which obviously would cost about $210 billion. Would you detail for the committee how you would intend to finance this very large program?

Senator MCGOVERN. Well, with regard to the Mills-Mansfield proposal, that is a 3-year phaseout of all of some 54 so-called tax loopholes, and I would want to say the same thing that Senator Mansfield and Congressman Mills have said, that I have reserved judgment as to which one of those tax concessions ought to be restored.

Their bill provides that we would repeal them one at a time, and then consider which ones ought to be restored. It is an ingenious proposal that I fully support.

Senator PERCY. Obviously, many of them are probably going to be restored?

Senator MCGOVERN. That's right. You are certainly going to restore some of the philanthropic considerations. There are various others, but it would give the Congress for the first time in memory a chance to review all of these tax concessions one at a time. And one of the things that appeals about it to me is that it would give the President of the United States a chance to review them one at a time. As a matter of fact, the ones that he thought were not in the national interest he could veto one at a time, and then it would be up to the Congress to provide a two-thirds majority if they thought it essential to restore those loopholes to the law. That is the feature of it, very frankly, that I find very intriguing and very impressive; and I think it is an ingenious proposal, and I joined in cosponsoring it in the Senate.

M'GOVERN $1,000 PER PERSON GRANT

Senator PERCY. Now, depending on when the chairman, wants to break for this next vote, I will ask the $64 question: How would the $210 billion program be financed?

Senator MCGOVERN. Well, obviously there would be no $210 billion price tag because the $1,000 grant that I have used simply for purposes of illustration——

Senator PERCY. It could be $900?

Senator MCGOVERN. It could be $900.

Senator PERCY. It could be $750?

Senator MCGOVERN. It could be $1,007.64, depending——

Senator PERCY. For ease of computation, though, we will stay with the $1,000.

Senator MCGOVERN. But what we suggested was that the poverty level is $4,000 for a family of four, so we adopted that for illustrative purposes.

We began with the assumption that the present welfare program is a hopeless mess, that nobody likes it, neither the recipients nor the people who are paying for it. It certainly does not do anything for the working people of this country; they are the ones who really catch it in the neck.

You have people who are working 8 or 10 hours a day and who are earning a few dollars a year more than people on welfare. Yet the only thing they see out of the welfare program is an increase in their own taxes, and that is why you have this war going on between the working people, on the one hand, and those who are unable to work, on the other.

Now, what I want to propose is a system which would raise the income of working people in this country, and also take care, at least to the poverty level, of those people who are unable to work. We have proposed that we replace the present $750 income exemption, which every American now gets—all 210 million of us get a $750 income tax exemption. I don't have to explain to the Senator that that helps people in high-income brackets more than it helps the poor.

Senator PERCY. It helps families with a large number of children, too.

Senator MCGOVERN. Yes, but it doesn't help those who have very little income; it helps you and me more than it does the person on an income of $5,000 to $6,000 a year. So I have proposed that we replace that with a straight $1,000 grant to everybody, and we would tax—we would make that grant taxable, so that it would be taxed back into the Treasury from those who don't need it. Obviously, there would not be any $210 billion figure. The $750 income tax exemption, the economists estimate, would save around $60 billion at the outset. Then beyond that, you would tax back the grant from all citizens who don't need it. We estimate that at the $4,000 per family level, if that were the grant that we agreed on, anybody who had an income above $12,000 a year would get nothing out of this proposal. The tax, the graduated income tax, would take it back from him at the level above $12,000. So this silly statement about us giving $1,000 to Governor Rockefeller or to Howard Hughes is so much nonsense; they are going to be paying more under the McGovern system, and I think they know it. [Laughter.]

But the principal beneficiaries, Senator Percy, the principal beneficiaries of the McGovern income maintenance program would be the working people who are earning between $4,000 a year on up to $12,000. Every one of those families would be better off. Instead of just paying for somebody's else's welfare, they would be getting a fair break for a change. Their income would be supplemented.

Now, to be sure, some of that supplemental income would be taxed because the grant that I am proposing is taxable. But they would at least be able to keep some of it up to a level where their earned income was $12,000 a year, and the additional income supplement took it to $16,000 a year. They would at least be able to keep some of that. And those people below who are unable to work—and most people on welfare can't work; they are children or mothers without a wage earner in the family; old people, the crippled, the blind—those people would be assured a grant of $4,000 for a family of four or increases if the family were larger.

Chairman PROXMIRE. We only have about 10 minutes, only about 10 minutes left before the end of the rollcall, so we had better once again recess.

My apologies. We would have the House take over, but the witness, of course, is a Senator and he has to vote, too; so we will recess for 10 minutes.

(Recess.)

Chairman PROXMIRE. As I understand it, Senator Percy has 3 minutes remaining in his questioning.

Senator PERCY. Senator McGovern, I am not quite sure whether 3 minutes will enable us to fully understand and explain the very dramatic proposals that you put forward, but maybe we could narrow it down just a little bit.

THE TOBIN TAX PLAN

As I understand it, you support the Tobin program. Under this, all family income is taxable, including social security payments and veterans' benefits and other kinds of social welfare payments. Do you endorse Tobin's plan to tax these kinds of income?

Senator MCGOVERN. Senator Percy, in the Congressional Record I suggested various possibilities that we might consider to arrive at some kind of a system that would help working people as well as helping those unable to work. I listed the Tobin plan as one of three possibilities. I don't want to be wedded completely to the details of all three of those proposals. I think any one of the three is a useful one that we could look at. The one that we were talking about just before we broke for the vote is not the Tobin plan; it is an income maintenance plan that would automatically provide a grant at some agreed upon level, and let's take the $1,000 figure for illustrative purposes, and that would be taxable.

But the proposal does not relate to other forms of assistance; that is, it does not increase taxes on other forms of public assistance.

Senator PERCY. Could you particularly comment though on—if we are working toward—in your proposal—eliminating as many of the exemptions as possible; and if you eliminate the $750, and you are on record as saying you eliminate that——

Senator MCGOVERN. Yes.

MORTGAGE INTEREST AND STATE AND LOCAL TAX DEDUCTIONS

Senator PERCY. That is very specific. Would you comment on your feelings on the deductions for home mortgage interest, for interest, and for the deduction of State and local taxes?

Senator MCGOVERN. My proposal would not affect that, Senator Percy. Neither of those proposals would be affected—the existing arrangements with regard to housing or State and municipal bonds.

Senator PERCY. So you do not look on those as loopholes? Those are incentives for homeownership——

Senator MCGOVERN. Yes.

Senator PERCY (continuing). That we want to maintain?

Senator MCGOVERN. Yes; those are incentives.

Now, it is fair to say that under the Mills-Mansfield proposals those would be some of the concessions that Congress would review

and they would either repeal them or they would renew them one at a time. I would be inclined, if I were voting on that, to vote for the renewal of both of those two.

CHARITABLE CONTRIBUTION DEDUCTIONS

Senator PERCY. How about charitable contributions?

Senator MCGOVERN. I think the same thing is true there. We would have to retain——

Senator PERCY. You would keep the deductions for charitable contributions?

Senator MCGOVERN. Yes; at least we would want to review that with the thought if we closed off all considerations on philanthropic giving, we would kill off a good many of our private universities and other important institutions. So you would either have to make arrangement for retaining those tax considerations or else provide some other kind of direct assistance.

I do want to correct one misimpression that the Senator may be laboring under. The Mills-Mansfield bill does not call for the establishment of a 33-percent rate.

Senator PERCY. I know that.

Senator MCGOVERN. It leaves that question—well, the Senator said earlier that he thought it did. But it does not change the tax rate.

TOBIN PLAN CALLS FOR 33⅓ PERCENT TAX RATE

Senator PERCY. This is Prof. James Tobin of Yale?

Senator MCGOVERN. Yes.

Senator PERCY. His proposal of 33⅓ percent flat rate?

Senator MCGOVERN. Yes; before we recessed I was under the——

Senator PERCY. And I get the impression you are also supportive of the Mansfield-Mills proposal?

Senator MCGOVERN. Yes.

Senator PERCY. My time is up. We will come back later with some more specific questions.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

Welcome, Senator McGovern. I think this statement you have made is an excellent one that has cleared up a lot of questions that I had and I commend you for it.

ZERO-BASED BUDGET CONCEPT

I think one of the most significant things you said in your prepared statement is the concept of the zero-based budget. It is a concept that is not as well known as it might be—but correct me if I am wrong—this starts just with the slate wiped clean and then says here is what we should have rather than saying let's cut a little here and let's cut a little there. Is that the essence of it?

Senator MCGOVERN. That is correct, Congressman Moorhead. I think we are operating now under a strange assumption that if we spent, let us say, $20 billion for new weapons in fiscal year 1971, and we spend $10 billion on new weapons the next year, that somehow is regarded as a cut. It is not a cut at all; it is another $10 billion more

in new weapons. So we have added to the $20 billion in new weapons we had the previous year another $10 billion the next year. And it is the failure to understand that—people will use terms when you say that we spent $20 billion on new weapons one year and we spend $10 billion the next year—they will use terms like unilateral disarmament or cuts or running up the white flag—all these various things.

Actually, we are increasing the weapon system all the time regardless of whether the figure is somewhat lower or higher than it was the year before when you consider this an acquisition of more and more materials that are going into the stockpile. I think that is what is important to understand.

Representative MOORHEAD. And your tax proposal, that is, the Mills-Mansfield, is somewhat like a zero-based budget? We go back and say let's get rid of all exemptions except those that we decided are in the national good?

Senator MCGOVERN. Absolutely; and we would review those one at a time. The Congressman is familiar with the fact that many times we are given a tax package where it is difficult to look at each aspect of it. You finally come up to final passage; there are things in there you like and things you don't like; but when it gets to final passage you vote yes or no, and the President is up against the same situation. He may see things in that tax package that he thinks are outrageous but he either takes the whole package or he vetoes it. Under the Mills-Mansfield proposal, both the Congress and the President would have an opportunity to act on each one of these individual tax concessions and I think that is the important thing.

REDUCTION OF WEAPONS SYSTEMS

Representative MOORHEAD. In examining military budgets, I think the easiest ones to target in on and have the people making decisions are the big weapons systems, and in looking over your table, I would see the ones that jump out of it, that you would propose reducing our number of attack aircraft carriers to a level of six. We now have some 16 attack carriers and four antisubmarine carriers. I certainly agree with you that is far in excess of the a ıount—I don't know whether we can safely go down to six, but I think this is one area where your budget is very clear; the people can decide for themselves.

You would eliminate, I take it, the B–1 bomber; is that correct?

Senator MCGOVERN. That is correct.

Representative MOORHEAD. And this new—well they now call it the Trident, what used to be called the ULMS, you would eliminate that?

Senator MCGOVERN. That is correct; that is not a part of the present system. It is a proposed weapon as is the B–1, both of them are under consideration now. But the——

Representative MOORHEAD. You would also agree with me when we are talking about these new systems, the first bit of money—research and development—is just a fraction of what the total overall cost we are really committed to and that is the reason for the projected—now projected gross increase in defense spending over future years?

Senator MCGOVERN. That is correct.

The Brookings Institution study, that I think all the members of the committee are familiar with, that has just been released, a very painstaking and careful study, indicates if we just operated at our present assumptions, the budget—the military budget—will probably be about $100 billion by 1977, and they project for fiscal year 1975 a military budget of around $85 billion, even if we just stay where we are, operating under present assumptions. So these costs have a way of escalating unless we begin to reexamine some of the fundamental assumptions. I mean, who was the wise man at some point who decided we needed 16 aircraft carriers. Why is it——

Representative MOORHEAD. That goes back to the time we had the same number of battleships; that is the ratio; that is the only reason for me——

Senator MCGOVERN. I tried to research the history of it and it does seem to go back to some ancient arms agreements that were reached many, many years ago before we had such things as surface-to-surface missiles that are capable of knocking an aircraft carrier out of the water in 30 seconds. I think in the event of major war with the Soviet Union most of those aircraft carriers would be gone in a very short time. I think that is why the Soviet Union does not waste money building aircraft carriers. They don't have any at all. And if we are going to—an aircraft carrier is probably effective against Vietnam but you don't need 16.

Representative MOORHEAD. I quite agree with you; 16 as zero superiority seems quite considerable.

Senator MCGOVERN. They are enormously expensive, as the Congressman knows; they have to have several hundred supporting ships for each one of those aircraft carriers and now we are talking about building a new plane to defend the aircraft carrier, new missiles to defend the aircraft carrier, new ships to defend the aircraft carrier. What is all of this about? Why don't we go back and ask what the original assumption was that led us to think we had to have 16 in the first place? Those are the kind of fundamental questions that I think need to be asked.

Now, it is quite possible that there is nothing magic about this figure of six that I have proposed. We believe it is a defensible figure; we think that you can argue with conditions as critical as they are in the Middle East today, that we ought to have an aircraft carrier in the Mediterranean, another one standing by in the Atlantic, a couple of others in the Pacific, and so on; but we don't—we certainly can't find any evidence that we need 16 of these enormously expensive carrier task forces around the world.

JOB CREATION AND INFLATION

Representative MOORHEAD. Let me now turn to the question of the impact on the jobs in the economy. At the present time we have an economy which is both inflationary and recessionary at the same time.

Would you not agree with me that, first, the dollars spent for exotic weapon systems do not produce as many jobs as could be produced by other expenditures; and, second, that expenditures for weapons systems which don't produce civilian goods or even produce capacity to produce civilian goods are also inflationary?

Senator McGOVERN. Yes, I would agree with both of those assumptions, Congressman Moorhead. There is no question that if we could trim x billions of dollars from military systems that go beyond our needs, and invest that same money in the construction of housing, in the construction of cheap public transit systems, or environmental protection systems, that the same investment would create many more jobs.

I think every study that has ever been made demonstrates that. Senator Proxmire brought that out at the time of the SST debate, that if you invested the same amount of money on other types of construction in this country, it would create many, many more jobs than would be lost by the cancellation of the SST contract; and beyond that, as the second part of your question implies, it would have less distorting effect on the economy. There would be a more wholesome and continuing impact of those investments we make in the civilian sector. When you build a new neighborhood health clinic, it is there; it continues to serve the people of that community. It may cut down on the costs of delivering medical care to people who otherwise would have to go clear across town. It is a continuing service to the community.

But once one of those bombs goes off over in Laos, it is gone; it costs a lot of money, and it has had some temporary impact, I suppose, on the economy, but most of the impact is on the guy who gets hit over in Laos, or on the village that is destroyed.

Now, when the war is over, we will have to take our tax funds and rebuild those areas over there, I suppose, that we are now destroying. So how much greater impact and more positive impact it would have on the economy if we eliminated every possible area of waste in the military budget and invested those things in health, in education, cleaning up the environment, building transit facilities, doing the kinds of things that have a continuing, long-term impact not only on our economy but also on any hopes we have for a decent life.

THE $1,000 PROPOSAL

Representative MOORHEAD. I just want to touch very breifly on your proposal you discussed with Senator Percy of the $1,000 taxable grant to be funded at least in part by the elimination of the $750 exemption.

Senator McGOVERN. Yes.

Representative MOORHEAD. Some of the arithmetic bothers me. It seems to me—take a man, a single man, in the 50-percent bracket; he is very high up in the tax bracket and you give him $1000 and you, take $500 back and you get half of the $750 exemption back; you still are only up to $825 so that the Government loses that difference of $175. It would seem to me that you might have to consider either a reducing scale of this $1,000 grant as you go up the income level or some other method. Your proposal, as I understand it, and I may have it wrong, is difficult to justify in economic terms.

Senator McGOVERN. You are talking about a man in the $50,000 income bracket?

Representative MOORHEAD. I was saying just 50 percent.

TAX LEVELS WOULD INCREASE FOR WEALTHY INDIVIDUALS AND CORPORATIONS

Senator McGOVERN. He is going to pay more taxes under the proposal that we are talking about here. There is no question that if you finance a program of income maintenance of this kind to take care of people who are unable to work, and also to increase the income of the working people who now have an income of less than $12,000 a year, to finance that program you are going to have to raise the taxes on people who are in the 50-percent income bracket, no question at all about that.

Representative MOORHEAD. I see. It is not—the proposal is not self-financing in your concept; that is, that the removal of the exemption and the grant of $1,000 do not balance out?

Senator McGovern. They certainly do not. There is a sizable gap that is going to have to be made up by increased tax levels on wealthy individuals, and increased taxes on the corporations.

Senator Percy was interrogating me here earlier about the Mansfield-Mills proposal to close off a number of tax loopholes. Most of those loopholes that we are talking about would affect the rich, and would affect the corporations. Now, that would be one source of revenue to provide income maintenance for working people who are now having a hard time making ends meet, but I can't tell you exactly what the increase in taxes would be.

The only reason I cited the cancellation of the $750 income tax deduction is to indicate one source of additional revenue, and for most, for many people above an income of $12,000 a year, this $1,000 grant would just be a bookkeeping transaction; they would never see the grant; it would just be a credit on their tax bill, and the people who would see it are those—the low income of below $12,000 who would benefit from it; they would at least get to keep part of it. Part of it would be taxed back. People above that level—it would just be a credit toward their tax returns.

Representative MOORHEAD. Thank you, Senator. My time has expired.

Senator McGOVERN. I want to make clear to Senator Javits, who is not here, but he asked earlier if I was going to suggest some tax reduction. I am suggesting tax increases for those above a certain income level.

Chairman PROXMIRE. Before I call on Congressman Widnall, let me say, Senator McGovern has kind of opened this up himself, but he did say, and he was perfectly correct, in the letter we wrote to Senator McGovern, we said, "We would like you to discuss your recent paper 'Toward a More Secure America—An Alternative National Defense Posture.' I believe your paper is the most comprehensive and thoughtful analysis of defense budgets attempted by a Member of Congress."

That is what we asked you to do, and, as I say, you and the committee members are free——

Senator McGOVERN. Mr. Chairman, I really would prefer to stay with the invitation of the committee which was to stay with my defense budget. I am not going to refuse questions on these other things, but I would hope the members of the committee would concentrate on the defense budget which is what I testified to and the subject I was asked to testify on.

WILLINGNESS TO TESTIFY ON ECONOMIC AND TAX PROGRAM?

Senator JAVITS. Mr. Chairman, would you yield at that point?

Senator McGovern, would you be willing to come back and testify? You are a very important witness to the country, let alone to us; would you be willing to come back and testify on your economic and tax program?

Senator McGOVERN. Well, I would if Senator Percy won't criticize me for dominating the committee here as a Democratic presidential candidate. [Laughter.]

Senator JAVITS. You have been criticized for a lot more than that, Senator McGovern. [Laughter.]

Representative BROWN. Mr. Chairman, may I inquire—the only notification I got of this meeting indicated what subjects—what subjects would be discussed, was a press release issued Wednesday, May 31, 1972, which says Senator McGovern will discuss defense, welfare, tax, and other proposals. I assume there are others we will hear about today or can ask about. Was there an error in that press release released by the Joint Economic Committee?

Chairman PROXMIRE. It was an error. On June 8, 1972, we sent a copy of the letter that we sent to Senator McGovern to the minority; it was available to them. We did not send—the error was, we did not send to Senator McGovern the release in which we indicated he would discuss his welfare proposal and other issues.

Senator McGovern has already opened it up; he has already answered questions at great length from Senator Percy and Congressman Moorhead. I am sure if Congressman Brown wants to ask questions about it, he will be just as free to ask them. All I am saying is, we put him on the spot; he is ad libbing his answers to questions. If you wish to ask questions this is a free country and a free committee, and I know there is nothing I can do to stop the Congressman from Ohio if he wanted to ask questions.

Representative BROWN. And apparently a free press release.

Chairman PROXMIRE. That's right; mistaken press release.

Congressman Widnall.

Representative WIDNALL. Thank you, Mr. Chairman I also had the misapprehension that other matters would be discussed besides security, and I came prepared with some questions in other areas which I feel are of very vital interest to the country.

COST OF REDUCING UNEMPLOYMENT

It has been estimated it will cost $5 billion to reduce unemployment by 1 percent, under the present circumstances. Under your proposals, 3 million people will lose their jobs over a 3-year period, as I gather, as a direct or indirect result of your defense cutbacks. You propose to spend only $10 billion to cope with the existing unemployment plus this new unemployment. How can this be accomplished?

Senator McGOVERN. Congressman, the $10 billion that I proposed to spend is an immediate investment. I am urging that right now on the Government, that we spend it now, that is in addition to allocating any defense savings. In other words, if we could save $30 billion by fiscal 1975, as I proposed, I would strongly recommend that that money be diverted into civilian programs such as housing, transportation, environmental programs. What I am saying to you is that

even without waiting for those defense cuts, the unemployment situation in this country is so critical today that I think we need an immediate $10 billion investment in job-creating enterprises. Part of that could be contracted out with private industry to build things under contract with the Government. Part of it might be in the form of public service employment. But that $10 billion would reduce the unemployment level, we estimate, to 4.3 percent.

Then beyond that, the military cuts I have proposed, if properly invested in civilian job-creating activities, would not only replace all the defense jobs that are lost as a consequence of those cuts, but also it would add beyond that 1.5 million new jobs because of the reasoning that Congressman Moorhead brought out here a while ago, that you get more jobs per billion dollars spent on civilian enterprises than you do in developing these very complicated and sophisticated military systems.

5.9 PERCENT OF WORKING FORCE NOT CONTINUOUSLY UNEMPLOYED

Representative WIDNALL. Senator, I would just like to emphasize this in connection with unemployment: A lot of people seem to think that the 5.9-percent unemployment figures mean a certain 5.9 percent of the working force are continually unemployed. Now, actually the hard-core unemployment is about 1.5 percent.

Senator MCGOVERN. Yes.

Representative WIDNALL. And the other is varying from week to week, month to month, year to year. They are not the same people unemployed.

Senator MCGOVERN. Yes.

Representative WIDNALL. I don't feel that that means that we are in as poor shape as a lot of people try to emphasize on this. I know the hard core have got to be taken care of and we have got to provide programs for them; we have been trying to do that.

Senator MCGOVERN. Congressman, I was at Long Island yesterday, and while I was there, a number of people who have been unemployed for 6 months or a year or so came to talk to me. Some of them are aerospace people, others in various defense firms that have reduced their employment, and those men and women who talked to me are almost desperate. They are people who are skilled, not that they don't want to work, that they are unemployed, but some of them have been out of employment for as much as a year, some of them 2 years, others are doing jobs that are very much below their skills, and at very low income just to survive.

UNNECESSARY MILITARY BUDGET FUNDS SHOULD BE USED TO CREATE JOBS

Now, I think the only way you are going to reach people like that with additional job opportunities is with an intelligent effort to divert funds that are no longer needed in the military budget into the kind of programs that the country needs here at home, as I have suggested.

These public transit needs are so great in the cities, the environmental needs, the housing needs, neighborhood health clinics—there are so many things that we need, so it seems unnecessary for me to plead, for anybody to be without a job in this country, but it is going to take some money to put those people back to work, and that is why

I urged this transition away from excessive military outlays into the kind of enterprises that would produce more jobs for the same money.

Representative WIDNALL. Senator, I understand the impact on the present unemployment and also the fact that it has affected a different class of people in our economy than have been affected before. They are higher income people, many of these, than we have had——

Senator MCGOVERN. Yes.

Representative WIDNALL (continuing). And higher than the mean as far as national income is concerned.

WRITING BLANK CHECKS NO CURE

I would just like to emphasize the fact that we are working in all directions in creating new jobs in the economy. There has been a great amount of success with that effort. As the total employment figures will show, total employment is at an all time high in the United States. Of course, this doesn't mean we should abandon any of our efforts at the present time. But I just don't want to see Congress get to the point where they feel they are going to cure everything just by appropriating money and writing out the blank checks.

Senator MCGOVERN. I couldn't agree with that more.

Representative WIDNALL. We have done that in the past with duplication of programs.

Senator MCGOVERN. I couldn't agree with you more, Congressman, and I think in the area we have done that most excessively is in the military field. I think the blank checks have gone easier in that direction than to any other part of the budget.

What I am pleading for here is that we exercise a little more caution in the way we commit taxpayers' funds to the Pentagon, and that we begin to look at some of our needs here at home.

PRINCIPAL DANGER TO THE COUNTRY COMES FROM WITHIN

The real thrust of my statement is that the principal danger to this country now comes from within; the country is almost falling apart in some areas. As one walks through these great cities they almost look like bombed out areas. They look like we have already had a war and the enemy has already struck. And the enemy is there. He is there in the form of bad housing and filthy neighborhoods. Growing numbers of addicts, growing numbers of criminals. When you walk out on the street at night in a great city it isn't the Russians you worry about. We had a meeting in the Bronx the other night and it was scheduled for 6:30 and I asked the advance man, "What in the world are we doing with a political rally at 6:30? There won't be anybody there." He said, "Senator, there won't be anybody there if we schedule it for later than that; they want to get home before dark."

It is not safe to walk the streets after dark. That is not because of Hanoi or Moscow or Peking; it is because we have so seriously neglected the needs of our own people here at home, while we have been obsessed with this fear that somebody is going to hit us from abroad, that the time has come when we have got to take a new turn. We have got to begin looking at the needs of our own country, stop bombing other people and begin building up our own country.

Representative WIDNALL. I have seen these large cities deteriorate in my own State of New Jersey, alongside of us in New York City; I live about 26 miles from midtown New York. It has been a very sad thing to witness. But part of this is due to the attitude of the American people as a whole—they don't care, it is not their business. And we have got to get back to some unified, cooperative effort to try to have the cities remain clean and healthy and far better than in the past.

I know many of us who live close to New York dread going to New York because of the situation there.

Senator MCGOVERN. Congressman, don't you think that one of the reasons there may have been lack of public support to deal with our problem here at home is that for 25 years our leaders have been telling us that the principal danger is from outside the country, that the great danger to this country was an international Communist conspiracy, and that is where we had to direct two out of our three tax dollars? I think it is now the responsibility of leadership to help the American people understand that the great danger to their lives and their happiness is the neglect of their needs here at home. We have got to quit worrying so much about the conspiracies abroad and start getting properly concerned about the deterioration here at home if we want to save this Nation.

Representative WIDNALL. Senator, my time is up. Thank you.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman. I note there has been some criticism of the suggestion that Senator McGovern be invited back, on the ground that he would be dominating the proceedings, and I think there is a point to it. I serve notice now I am going to insist on equal time for the front runner for the Republican nomination [laughter] to give him a right to explain his views on oil depreciation and rapid depreciation and the other loopholes.

M'GOVERN PROPOSAL ANTI-INFLATIONARY

Senator McGovern, you made the point in response to a question by Congressman Moorhead that shifting our economic emphasis from military production to civilian production would per public dollar expended make more jobs, and I think you were quite clear on that. I would like to ask you whether there wouldn't also be a benefit in such a shift on the inflationary side—less inflation with a peaceful civilian emphasis than with a military emphasis? For example, under your program which you have described designed to help the poorer end of the working spectrum, someone making $6,000 a year and with a large family, would then be able to aspire, let us say, to an automatic washing machine which he never had before.

If that item of civilian production is called forth, it would be true, would it not, that the sale of that washing machine would sop up consumer spending power, whereas the dropping of a bomb over Vietnam doesn't result in the equivalent reduction in the spending power created by the manufacture of that bomb; therefore, isn't there a considerable gain not only on the make-jobs side but also on the fight-inflation side?

Senator MCGOVERN. Yes; I am convinced of that, Congressman Reuss, and I have looked at some of the studies that have been made

in this area that bear that out. I am not an economist but I have read a number of these reports which convinced me beyond any doubt that it would serve as an anti-inflationary move if we were to spend less on our war operations and spend more on goods and services to meet the needs of our people here at home.

There is no question that the availability of civilian services and civilian goods in larger numbers, and the capacity to purchase those things which would come with greater levels of employment, would be much less inflationary than the kind of thing that is now going on with so much of our investments going to the war, and going to war production.

Representative REUSS. One of your criticisms of our current military expenditures is in the manpower field and there you point out that as our Armed Forces have grown less in numbers, the number of officers, particularly high ranking officers, has actually increased and, therefore, the paring of what you regard as unnecessary military expenditures would inevitably, and properly, result in fewer officers.

PUBLIC SERVICE EMPLOYMENT AND CCC-TYPE ACTIVITIES

Included in your program on raising civilian employment is one program that I very much believe in, public service employment, jobs in the environment, in conservation, in our parks, recreational areas, water pollution work, and so on.

What FDR did about that in the 1930's was the Civilian Conservation Corps which, incidentally, employed some 3 million young Americans in those days. When FDR did it, he availed himself to a very considerable extent of Army officers as dedicated leaders, particularly for some of these CCC conservation activities.

Do you see a similar possibility, looking at the situation ahead where on the one hand we have an absurdly inflated military establishment and, on the other hand, we have terrible unemployment and all of the things that need to be done in conservation and recreation?

Senator MCGOVERN. Yes; I think there could be a direct connection there and, as a matter of fact, a retired colonel came to see me the other day to propose that very thing. He said there are a number of retired officers, others about to retire, that he thought would be more than anxious to offer their services in civilian conservation activities of this very kind. He referred to the fact that his father had been involved in one of the CCC camps in the 1930's and it was one of the most satisfying periods of his life. I think there are millions of people across this country, both young and old, who would welcome a chance to participate in public service activities of this kind.

I don't think the officers in the Armed Forces, who may feel they are superfluous to any real needs, necessarily welcome that prospect. I think if there were alternatives open to them they would be very quick to seize them.

Chairman PROXMIRE. Unfortunately, we have another rollcall so we will have to once again recess. We are pretty well into it, too, and we will have to recess it right away.

(Recess.)

Chairman PROXMIRE. Senator McGovern has accommodated the committee to come before it when he is in the middle of a campaign. He is in a very tight bind; he does have appointments set up this

afternoon that he cannot possibly break. We are going to give everybody their 10 minutes but we hope if anybody can possibly abbreviate his questioning or wants to do so they would accommodate Senator McGovern.

Congressman Reuss.

Representative REUSS. I am told I have 4 minutes and I will take less than 2 as my contribution.

Senator McGovern, one more question: You have opposed the new proposed bomber on the ground that our deterrent is already adequate with our existing bombers and our missiles.

DOES U.S. DEFENSE SPENDING CAUSE INCREASE IN SOVIET DEFENSE SPENDING?

An argument for a new bomber was advanced, however, by the Chief of Staff of the Air Force not so long ago in testimony before the Senate Preparedness Subcommittee in which he said, and I am quoting General Wheeler: "As a matter of fact, one of the solid advantages of maintaining a modern bomber threat is to cause our adversary to spend more resources on defense." In other words, let's drive the Russians into spending into bankruptcy.

Do you consider that a valid argument for the addition of new weapons systems to our inventory?

Senator MCGOVERN. Well, Congressman Reuss, apparently the Russians are not buying that argument; they don't have a bomber fleet that even compares with our existing bomber force. There is no Soviet bomber that is comparable to the B–52 and especially to the latest versions of it. I am not proposing ending the bomber fleet. I am simply saying that for the time being we can get by very well indeed with 200 of the latest B–52's and FB–111's, and that still leaves us with a clear nuclear bomber advantage over either the Soviet Union or the Government of China.

I think it is a kind of a silly argument anyway to say that we ought to spend billions of dollars on a weapons system that we don't need just to make the Russians waste money on something they don't need. Both countries would be better off to do what President Nixon was trying to do, and did somewhat successfully a couple of weeks ago, and that is to move in the other direction; to agree we are not going to move these things on either side that contribute nothing to the well-being of our people.

Representative REUSS. Thank you very much, Mr. Chairman.

Chairman PROXMIRE. Thank you.

Senator Javits.

COMPARISON OF M'GOVERN'S PRESENT AND PAST POSITIONS

Senator JAVITS. Senator McGovern, I am troubled by one recurring thing which goes through your public positions today and that is their relationship to things you said in the past.

Now, how do you prefer to treat us—do you want us to take you front on as you stand today—these are your final positions; or do you welcome a comparison with what you have done before and how your mind and advocacy has matured, changed—call it what you will?

Senator MCGOVERN. I think it would be useful to explore the past as well as where we are today, Senator.

Senator JAVITS. So you don't draw the line on that kind——

Senator MCGOVERN. No. And if there are places where there are differences in positions that I held years ago, and what I said, I think it would be useful to bring that out.

Senator JAVITS. Well, I thank you, because I did have in mind doing that. [Laughter.]

Senator MCGOVERN. I would hope that I am not exactly the same today as I was 5 years ago or 10 years ago. I would like to think I am learning.

Senator JAVITS. Well, or even more recently?

Senator MCGOVERN. Well, that is fine, too. I look on every day as a new one.

"ADVERSARY CAPABILITY"

Senator JAVITS. Good. [Laughter.]

Senator McGovern, I noticed that on the previous occasion in your address toward a more secure America you made your defense proposals on the basis of "the best current estimate of adversary plans."

For that you were rather sharply criticized, as the normal way is enemy capabilities. Your adversary—I think I like your words "adversary capability."

Now, in advocating a zero-based defense budget, you establish it by "evaluating the threats" which must be faced rather than by comparing with spending in prior years.

Would you add to that, "evaluating the threats which must be faced rather than by comparing even with my own standards of priorities"?

Senator MCGOVERN. Yes; I think that is a good way to state it.

Senator JAVITS. Now, the thing that troubles me—and please, I think you know me well enough to know I really want to know the facts on what you think—I think the American people are mature enough to judge between you and President Nixon, and I think we owe it to them to develop exactly what you and he—I wish he could appear and I think it would be great. I will tell you that.

CONVENTIONAL CAPABILITIES

Are we to take it that you heavily discount conventional force factors, because it is very heavily claimed that where we are weak is in the conventional force area as compared with the Soviet Union, and that as is always so often true with human beings, you fall into the pit that is at your feet, not the one down the road?

Senator MCGOVERN. Yes.

Senator JAVITS. And because we are so seriously disadvantaged in conventional forces, your plans and even the euphoria induced by a SALT I Agreement will lead us to neglect what is likely to be the area of contention, even without war, just in which way Europe will lean—as you say, NATO is so important and you are right—rather than in any nuclear confrontation with both sides now "ain't" going to happen because the overkill is so enormous.

So isn't it a fact, therefore, a conventional force inferiority question rather than bargaining chips or nuclear confrontation which is a big problem for us in defense?

Senator McGOVERN. Yes; I think I would agree with most of that, Senator Javits, that a major portion of our defense outlay also ought to be in the so-called conventional area.

I would not agree that we are weak there now or that we are weak under the alternatives that I propose.

In the approximate $55 billion alternative budget that I suggested we work toward by fiscal 1975 over the next 3 years, approximately $43 billion of that would be allocated toward the so-called conventional capabilities, and the other $12 billion would go to the nuclear and strategic systems. But I don't see anywhere in the proposals that I have made here where I have jeopardized our conventional capabilities.

It is true it does call for a reduction in manpower levels overall from about 2.5 million to 1.75 million; but I believe it is fair to say that the last Secretary of Defense—not the last Secretary of Defense but Secretary of Defense McNamara—had reached the conclusion after 8 years in that job that one of the problems with our military is that it had too much fat in it, too many people running around without anything to do, there was not enough streamlining in the various military units.

I have had a lot of military people tell me that; they have said, "We don't have anything to do." There are too many people without enough assigned missions, so what I would hope in this alternative program is that if we could tighten up on our manpower levels without weakening ourselves, we could——

Senator JAVITS. I am sorry——

Senator McGOVERN (continuing). And we could do a better job of training; we could develop men who are more versatile, who are capable of performing more functions in time of war. We keep a modern airlift capacity so that men could be moved quickly wherever they are needed, rather than operating on the assumption they have to be on station at all times. I really don't see, Senator, where I have weakened in this proposal the conventional capability of our forces.

Senator JAVITS. Of course, money alone, as you will agree, I am sure, is not the sole criterion?

Senator McGOVERN. That's right.

Senator JAVITS. The fact you have allocated $40-odd million, even granting your statement, will not necessarily determine that we are adequately set up.

NIXON DOCTRINE OF EQUIVALENCY

Do you, by the way, accept Nixon's doctrine of equivalency or parity as being a proper new strategic stance for the United States?

Senator McGOVERN. I think it is a pretty good way to state it.

Senator JAVITS. Equivalency?

Senator McGOVERN. Yes.

Senator JAVITS. You would accept it?

Senator McGOVERN. Yes.

Senator JAVITS. So that you and the President meet on common ground?

Senator McGOVERN. I think so, in terms of that concept.

Senator JAVITS. I think it is terribly important again for people that as much common ground that can be established be established.

COMPARISON OF M'GOVERN AND BROOKINGS BUDGETS

Are you dismayed—I was comparing your estimates with Brookings, to which you referred favorably—the low option; they give a low option defense reduction after their analysis of $12 billion as compared with your some $30-odd billion.

Senator McGOVERN. Well, Senator the point to keep in mind there is that they are talking about a $12 billion reduction in fiscal year 1973; that is actually a faster reduction than I have advocated. I have called for $32 billion in 3 years, which would be at a rate just a little over $10.5 billion a year; so it is perfectly consistent for me to allude favorably to their Brookings alternative budget that calls for a $12 billion reduction in 1 year and not see any inconsistency with my $32 billion proposed reduction in 3 years.

Senator JAVITS. Your $32 billion would be a figure attained at the end of 3 years?

Senator McGOVERN. That is correct. The hope would be that we would be at that level by the fiscal year 1975. Now, there is a typo possibly in the statement that the Senator has in front of him. The very first paragraph or the second paragraph says, A phasedown to $54.8 billion in arms spending by fiscal 1973." Some of the releases were not corrected; that should read 1975 as it does throughout the rest of the statement.

Senator JAVITS. Good.

Now, would you mind if I interrupted my own questioning on defense, and I would like to honor our view, just to complete the record on this tax business, because papers and everybody are bound to comment as there has been some questioning on it?

Senator McGOVERN. Yes.

MATERIAL TAX INCREASE IN M'GOVERN PLAN?

Senator JAVITS. One thing that, as I understand it, and I would like to get it clearly from you, whether we agree on that, as I understand it, there will be a very material tax increase in your plan, assuming this is your final view, in the bracket between $15,000 and $50,000, and that it is they who would bear—and an increase of about one-half of the total tax—additional tax money—which would be generated which is estimated at about $25 billion?

Senator McGOVERN. Senator, I think that overstates the burden which would fall on that income category.

TAX INCREASE NEGLIGIBLE BELOW $20,000

Until you got up to a level of about $20,000, the tax increase would be negligible, and I mean exactly that. You might be talking about a $50 increase. Above $20,000 on up to $50,000, there would be appreciable increase in the tax. But the real bite would come after you got above $50,000 under the proposals that we have made.

Senator JAVITS. Senator McGovern, that can't be true as to singles—that is, individuals—because they get hit even at the $3,000 level. They only get $1,000 exemption, and they pay a third of $2,000 unless they were exempted as under present law from any tax, and it can't be true because the 31-percent rate for single individuals begins at $14,000 to $16,000.

Senator McGovern. I don't know what the Senator is referring to on the 31-percent rate.

SINGLE INDIVIDUALS EARNING $14,000 TO $16,000 WOULD PAY MORE TAXES

Senator Javits. Well, the 31-percent income tax rate begins for single individuals, if they earn between $14,000 and $16,000; so they would at once be paying more taxes.

Senator McGovern. It begins at what level?

Senator Javits. $14,000 to $16,000 is the bracket that is 31 percent for the single individual.

Senator McGovern. Yes. In the case of single individuals at the income level $14,000 to $16,000, I readily admit they will be paying more taxes.

Senator Javits. And the same would be——

Senator McGovern. I was thinking about a family of four when those were the illustrations we were using earlier, but I readily admit that a single person earning between $14,000 and $16,000 is going to pay more taxes if the whole package of proposals we are talking about here were to become law; and I think they should pay more.

Senator Javits. My time is up, but the same would be true, would it not, of a family consisting of a husband and wife?

Senator McGovern. Yes, at that——

Senator Javits. A family consisting of a husband and wife and one child?

MAJOR TAX INCREASES AT ABOVE $50,000 LEVEL

Senator McGovern. At that income level, the Senator is correct; I don't think the tax would be a major change for families of that kind, but there would be some modest increase. The major bite where the increases become substantial is above the $50,000 level. I am going to——

SENATOR JAVITS DISAGREES

Senator Javits. I don't agree with you on that, Senator McGovern. I am sorry. You said this would mainly affect the rich and corporations. I think you are going to take a tremendous bite out of the middle.

Senator McGovern. We have to respectfully disagree on that.

Chairman Proxmire. Congressman Brown.

Representative Brown. It would be helpful if we get to specifics. I find your statement very charming, but I also find it very vague, and I would like to nail it down if we could.

THE MILLS PROPOSAL—H.R. 15230

I have tried to put down figures as we talked here. You would eliminate the tax deductions which are proposed in the legislation put in by Mr. Mills—I think it is H.R. 15230; you would eliminate those and then consider them, you said, one at a time?

Senator McGovern. That is what the legislation provides for.

Representative Brown. The legislation does not provide for considering them one at a time. It provides for eliminating them, and they would have to be restated.

Senator McGOVERN. Right.

Representative BROWN. But there is no language in the legislation which provides for it to be reinstated one at a time.

Senator McGOVERN. That is correct; the Congress would have the option of looking at each one of these separately.

Representative BROWN. As I add them up, they amount to $49 billion, and you said family interest on private loans and so forth would not be one of those that you would discard, that the municipal bonds would not be one that you would discard, that the exemption for charitable contributions would not be one you would discard—that takes care of $18.6 billion—and I have as a result of that $30 billion left that your program would return to the Federal Treasury that is not now returned?

Senator McGOVERN. Yes.

Representative BROWN. And that allows for no credit, for instance, for retirement income. Would you eliminate that?

Senator McGOVERN. I would not.

Representative BROWN. So that is another $200 million. The exclusion for the gross income of scholarship and fellowship grants—would you eliminate that?

Senator McGOVERN. I would not.

Representative BROWN. The additional exemption for people aged 65 or blindness of a taxpayer or his spouse—would you eliminate that?

Senator McGOVERN. No, I would not. I am not going to say——

Representative BROWN. Medical expense deductions—that is $1.9 billion.

Senator McGOVERN. Well, maybe by then we will have what we ought to have, which is a national health insurance program for all Americans. I want to say to the Congressman I don't want to be examined on all 54 of these loopholes today.

Representative BROWN. I am finished with that. I would like to say though that brings us now down to savings of $28 billion rather than $30 billion. The defense cuts, as I understand, would be $46 billion; is that correct?

Senator McGOVERN. Pardon.

Representative BROWN. Would you say you would save $46 billion in defense cuts; is that right?

Senator McGOVERN. $32 billion.

Representative BROWN. $32 billion.

Senator McGOVERN. If the Congressman would just pause here for a moment, I want to keep the record straight.

The $49 billion that he is talking about which would be saved by the Mills-Mansfield bill, is only in the first year. Congressman Mills and Senator Mansfield had proposed repealing 54 loopholes, and the first year it is estimated there would be savings between $47 and $49 billion. Now, that does not take care of the second year and the third year when additional reductions would be made.

Representative BROWN. I grant that, and you don't speak currently in your defense savings to this year. If you want to leave it at this year, why we will save, I guess, what, $10 billion, $11 billion, in defense?

Senator McGOVERN. We are talking about the level that we tried to achieve by fiscal year 1975.

Representative BROWN. Well, all right. Let's make it $32 billion, is that all right?

Senator MCGOVERN. That is correct.

Representative BROWN. All right. Then we have $32 and $28 billion. Now, as I understand in welfare savings you have got about $9.4 billion spent in welfare savings, in State and local welfare expenditures or welfare expenditures, State and local welfare expenditures about 5.1; that is over 14.5 in welfare expenditures savings?

Senator MCGOVERN. I think that is about right.

Representative BROWN. That would be made—the $750 exemption savings leaves me a little confused because Eileen Shanahan in the Times estimated that that in effect is more close to $35 billion. Can you justify this $63.6 billion for me, please?

Senator MCGOVERN. No, I can't, Congressman; and we have a team of economists working on this now to try to come up with an accurate assessment of what the impact would be.

The first people that I had look into this matter told me that they thought savings would be in excess of $60 billion. After a figure was questioned, we asked a group of different economists, other experts, to go into the matter more in depth, and I hope we can come up with an accurate answer on it, but I can't this morning tell you that I know absolutely what the savings would be.

Representative BROWN. Well, even taking your $63.6 billion, I come up with about $138 billion savings. Now, against that you would increase expenses by $10 billion on job-creating enterprises, and that, I assume, leaves a net savings of $22 billion in defense; is that right?

Senator MCGOVERN. No, no.

Representative BROWN. Or would you spend that money on something else?

Senator MCGOVERN. The $10 billion, Congressman, I would spend regardless of what we do with the defense budget. That is an effort to deal with what I believe is a real employment or unemployment crisis in this country, and I am talking about moving on that without regard to what we do with the defense budget.

Representative BROWN. All right, but we still have $32 billion in defense contributing to the $132 billion savings?

Senator MCGOVERN. That's right.

Representative BROWN. Eliminating the $750 individual exemption, we have to put that $1,000 in on a per person basis so it does come out to $210 billion, $220 billion versus savings of $138 billion. Am I off in my mathematics someplace?

Senator MCGOVERN. Yes; I think you are because there would have to be an adjustment made in the tax laws to take care of these additional expenditures.

I wouldn't propose any kind of an income maintenance program without calling for whatever tax increases were necessary to fund it.

Representative BROWN. That looks like $82 billion to me.

Senator MCGOVERN. Well, I can't argue with the Congressman on the basis of these extrapolations here today because he——

Representative BROWN. When you look at the record, I wonder if you could correct them and give it to me correctly?

Senator MCGOVERN. I would be glad to do that. As a matter of fact, we have said publicly many times we are going to try to put as

nearly accurate price tags as we can on any proposal we make. I don't want to be like the Pentagon and say that a system is going to cost $2 billion and then have it end up costing $5 billion. I would like to be more accurate than that.

Representative BROWN. Miss Shanahan estimates the increase or the tax rate, I think, for those people in the higher categories, that is above $12,000; $15,000 a year income at 80 percent. Is that a fair figure?

Senator MCGOVERN. It is a totally false figure.

Representative BROWN. What would it be, say, for somebody, to cover your plan for somebody who makes $15,000 a year?

Senator MCGOVERN. Maybe another 50 bucks.

Representative BROWN. And for somebody who makes $20,000 a year?

Senator MCGOVERN. At that level it would be about the same. Those in——

Representative BROWN. Above that would it be confiscatory?

Senator MCGOVERN. It would not be confiscatory at any level.

Representative BROWN. What would it be for somebody making $30,000?

DEFENSE BUDGET—NOT TAX PROGRAM IS FOCUS OF HEARING

Senator MCGOVERN. I can't answer that in exact terms. I don't have a tax table in front of me, and, Congressman, I did not come here prepared to talk about the details of this tax program. I came to talk about the defense budget.

Representative BROWN. Well——

Senator MCGOVERN. I doubt very much if the President of the United States could sit at this table where I am today and answer these questions about the proposals that he has made; these are matters that have to be computed. I don't have the services of the Treasury Department and the Budget Bureau with me, and I am trying to outline certain basic concepts in which I think the country ought to be concerned. If those assumptions are wrong, we ought to reject them. If they are right, then we ought to figure out what they are going to cost.

Representative BROWN. But you have made this specific, sir, in terms of the proposals and that is everybody gets $1,000 and that everybody would have——

Senator MCGOVERN. Everybody gets a $750 income tax exemption now which tends to help higher rather than lower income people; so there is nothing new in saying we are going to do something for everybody.

Representative BROWN. And you said we are going to save a lot of money for these tax shelters or deductions?

Senator MCGOVERN. That's right.

Representative BROWN. I tried to nail down several that you are for closing and I found several of them are pretty good deductions. That attacks the total dollar figure because we have to work and you and everybody would have to work at it in the United States with budgets.

CONGRESSMAN BROWN LOOKING AT 1-YEAR SAVINGS ONLY OF MILLS-MANSFIELD PROPOSAL

Senator McGovern. Congressman, you would stop with one-third of the closing loophole proposals that were made. The Mansfield-Mills legislation for closing 54—you have looked at the impact of 1 year and said it comes to $49 billion. Do you have the figures on the next 2 years on what those tax proposals would save?

Representative Brown. Well, I do have the figures here on what the ones that you would not have changed——

Senator McGovern. That is correct.

Representative Brown (continuing). Would cost, so I gather that you would only cut it down by about, let's see, two-fifths, three-fifths?

Senator McGovern. In the first year. I would want to reserve the right to look at every one of those loopholes. Just as Congressman Mills had said, they are not committed at this point to saying which one of the tax concessions they would restore; I reserve that same privilege. I am not going to——

Representative Brown. Let me ask you another question, if I may, to sort of get specific here. Let's take a welfare mother with some children, let's say—I see my time is up, but if you could give me some figures on this welfare mother with seven children, as I understand it, that would be $8,000 they would get. She would not pay taxes?

M'GOVERN $1,000 PER PERSON TREATED AS TAXABLE INCOME

Senator McGovern. No; she would pay taxes the same as anyone else. If the tax system required it. That is the taxable grant.

Representative Brown. Oh, people who get the $8,000 would have to pay tax?

Senator McGovern. Anybody who gets this grant who is raised to a level where the tax system reaches him would have to pay taxes. It is treated as any other income.

Representative Brown. But it would be a graduated tax, 33⅓ percent, that I heard mentioned?

Senator McGovern. That is correct.

Representative Brown. I heard mentioned on the floor of the Senate is not applicable anymore; you have abandoned that?

Senator McGovern. I never made any such proposal.

Representative Brown. I must have misunderstood it. I thought there was a proposal that everybody would pay a 33⅓ percent tax.

Senator McGovern. No; it is not.

Representative Brown. Is that a token proposal?

Senator McGovern. That was never made by me. There was a proposal of that kind made by Mr. Pechman of the Brookings Institution—Mr. Pechman and Mr. Okner, I believe—but I never made any such proposal.

Representative Brown. Could I just ask how much this woman getting $8,000 would pay in taxes?

Senator McGovern. I couldn't tell you that. If I had a tax table here, I might be able to compute it for you, but I can't tell you off the top of my head.

Representative Brown. Thank you, sir.

Chairman Proxmire. Congressman Blackburn.

Representative BLACKBURN. Thank you, Mr. Chairman.

Senator, I believe you mentioned with some admiration the services of Mr. McNamara as our Secretary of Defense?

Senator MCGOVERN. No; I didn't say that. I just said that he had felt there was too much fat in the military manpower level. I didn't express any judgment about his overall record.

M'NAMARA AND M'GOVERN AND THE "FLEXIBLE RESPONSE"

Representative BLACKBURN. I believe he proposed a doctrine which he referred to as a flexible response, meaning one whereby we could respond differently under different situations; and I find that your statement here today has certainly demonstrated a flexible response because it is impossible to determine exactly what your positions are.

Senator MCGOVERN. I don't agree with that, Congressman; I thought I said that I am willing to answer any reasonable question you want to put.

Representative BLACKBURN. If you tell a welfare mother today whose total benefits may be $8,000 to $10,000 under the present system that you are going to tax her when she gets over $8,000, you are going to find some elements of lost support——

Senator MCGOVERN. Congressman, if you can find a welfare mother who is getting $8,000 to $10,000 in welfare payments, I will eat this entire report.

Representative BLACKBURN. Well, one of the things we have been learning on this committee is that the benefits of some welfare recipients, received in the form of food, medical treatments, food stamps, free lunches for their children and others, can be the equivalent of $8,000 to $10,000 in some areas because a citizen who has been working must earn that much to live on the same scale so I am suggesting that maybe your flexibility is greater than you intend.

Senator MCGOVERN. Congressman, on that point, then, you and I are in agreement: The present system is no good.

Representative BLACKBURN. I agree with that.

RELIANCE ON THE C–5A

Let's get back to the matter of defense. You are proposing a rather heavy reliance on such instruments as the C–5A, are you not?

Senator MCGOVERN. That is correct.

Representative BLACKBURN. All right. Now, you are also proposing, as I read your statement, to eliminate such things as the F–14 and the F–15?

Senator MCGOVERN. Yes; but to replace them with alternative systems.

Representative BLACKBURN. Well, Senator, you seem quick to announce the demise of the aircraft carrier. You understand I don't really know what the future of the aircraft carrier is anymore than anyone else in this room, but I note your willingness to write off the aircraft carrier as being a major instrument of defense, because it is susceptible, because it can be sunk, yet you put a very heavy reliance on our airplane that can be shot down. Now, how are you going to defend this C–5A as it is flying across the Atlantic Ocean carrying all these troops?

Senator McGOVERN. Well, Congressman, a ship can be sunk, too. No matter how you are going to move forces to Europe or anywhere else in the world, the vehicle that you use is subject to attack.

Representative BLACKBURN. I am asking you though——

Senator McGOVERN. There is no certainty, no matter what system we go to, that we are going to have one that is impregnable.

Representative BLACKBURN. None of them are going to be invulnerable. I think we can all agree with that, and yet I sense a basic inconsistency: You are quick to accept the vulnerability of the aircraft carrier and, of course, an aircraft carrier fleet with all of its defense mechanisms is a formidable force, and yet you don't seem to worry about the vulnerability of an airplane flying in the air.

Senator McGOVERN. Well——

Representative BLACKBURN. If you are going to take away the F–14 and F–15, which may be devices that could protect a C–5 in ferrying operations, what are you going to put in their places?

Senator McGOVERN. Well, let me say to the Congressman the only increased reliance we are placing on the C–5A is that we are reducing the number of American ground forces in Europe from about 4⅓ divisions——

Representative BLACKBURN. I understand, but I am asking a very practical question, how you are going to move those troops over there if you don't have a defense for the C–5?

Senator McGOVERN. Well, the C–5A is operating today as part of our defense system. May I ask how it is defended at the present time?

Representative BLACKBURN. Well, just fortunately for the sake of this country the North Vietnamese don't have the capability of shooting it down, but I don't think we can compare the North Vietnamese capability with that of the Soviet Union.

RELIANCE ON NUCLEAR FORCES?

Let me ask you this question: Are you putting an everincreasing reliance on nuclear forces?

Senator McGOVERN. That is not true, Congressman.

Representative BLACKBURN. Well, now, under what circumstance would you use unusual forces?

Senator McGOVERN. Well——

Representative BLACKBURN. Can you imagine any situation in which you would push the doomsday button?

Senator McGOVERN. If this country were hit by a nuclear attack I think we would have to respond.

Representative BLACKBURN. Well, that would mean after we had already received a first strike you would retaliate?

Senator McGOVERN. Has anybody ever suggested that we would make the first strike?

Representative BLACKBURN. Well, are you suggesting that that is the only deterrent we have, in a realistic sense, to deter aggressions abroad?

Senator McGOVERN. Congressman, I have repeatedly said here today just the opposite.

CONGRESSMAN BLACKBURN QUESTIONS M'GOVERN LOGIC

Representative BLACKBURN. Well, let me question your logic on that. The Brookings Institution study that you relied on points out that the cost of defense equipment is going to increase over the years and it has, and I abhor that, but the cost of not having it I abhor even more.

You are proposing to spend less and yet you are going to receive more. How does that logic work out?

Senator McGOVERN. I have never said we would have more.

Representative BLACKBURN. Well, if you are going to cut back on your purchasing of conventional weapons, how are you going to have more of them?

Senator McGOVERN. I am just saying, Congressman, that this is not an alternative budget based on reducing the component, that is, the percentage of the budget, in conventional forces. We are going to end up with a $55 billion budget of which $43 billion is in conventional forces and only $12 billion on the nuclear strategic force levels.

I don't think that indicates a lack of appreciation on my part of the need for strong conventional forces; and we have to remember that we are talking here about manpower levels that are not cut to pieces. We are reducing them from 2.5 million to 1.75 million over a 3-year period, but we are also calling here for greater training, for greater versatility, and greater capacity on the part of those men to serve.

I can't prove this to you, Congressman, but I will wager there are many thoughtful people in the Defense Department that you respect who will admit that we have got too much fat in manpower levels in the Defense Department.

Representative BLACKBURN. Well, I certainly wouldn't challenge that. An army is inherently an inefficient organization; it has been that way since the beginning of time.

Now, you say somewhere in your statement here that the fact that we don't spend on new weapons does not mean that we are achieving a savings; it just means we don't receive new weapons. I am trying to make sure I understand how you are going to spend less and have more.

Senator McGOVERN. Well, Congressman, let me explain that.

Representative BLACKBURN. Here it is. Turning down a new weapon does not reduce the existing force at all. If we spend $20 billion on new weapons in 1 year and $5 billion the next, we have not cut our military force; we have increased it by $5 billion.

Now, if we followed that logic and we did not buy new weapons, we could still have an army carrying——

SPENDING DECREASE NOT A WEAPONS DECREASE

Senator McGOVERN. Congressman, let's take a hypothetical case. Let's say that in 1972, this year, we are going to spend well, take this figure here—we are going to spend—this is obviously not true—but let's say we are going to spend $20 billion on submarines. Next year we are going to spend $5 billion building more submarines.

Now, all I am saying is that it is wrong to say, well, we have cut the submarine fleet; we haven't at all. We spent $20 billion in 1972; we spent another $5 billion in 1973; that is $25 billion worth of submarines. But somehow in this Pentagon vocabulary we got the notion that when we are buying weapons if we change the figure from 1 year to another that is a cut in weapons. It is not. Whatever money you spend any year on weapons is that much more than you had the year before.

Representative BLACKBURN. My time has expired, but I think you are assuming our submarines are going to last forever; our ships don't last forever.

Senator MCGOVERN. No; no, I understand.

Representative BLACKBURN. It is a constant upgrading process, to maintain our strength.

Senator MCGOVERN. I understand that, Congressman, and there are provisions in this budget for constant modernization of all these systems that we recommend.

CONCLUSION

Chairman PROXMIRE. Senator McGovern, we have all had our 10 minutes. It is, unfortunately, 1 o'clock. I have a brief statement; Senator Percy has a statement; and I would like to say, No. 1, I personally greatly appreciate your frankness, your willingness to answer questions on anything at all you were asked about, and you were asked about many things you were not called upon to respond to in your invitation from the committee.

WOULD M'GOVERN PROPOSAL LEAD TO DRAMATIC INFERIORITY?

Now, I would like to leave you with the notion that you consider that what I think troubles millions of Americans and, frankly, troubles me, is if we sharply reduce our manpower, as you propose, and our conventional strength is not continued at the present effective level, and if we reduce our strategic power, we may very well be in a position of dramatic inferiority with the Soviet Union. In a showdown in Cuba, Berlin, the Middle East, the Far East, that we might have to back down. Also our prospect for negotiating further reductions from strength with the Soviet Union would be impared.

REDUCTION IN UNEMPLOYMENT WOULD INCREASE REVENUES AND REDUCE WELFARE PROBLEMS

No. 2, and this was not brought out at all, this committee has taken the position that we should not aim at a 4 percent full employment but 3 percent. This would greatly increase our revenues, and, No. 2, lessen the welfare problem. As a matter of fact, we are working now on a proposal suggested to us for consideration by Charles Schultze, the former budget director, that we might be able to do what Japan and Germany have done and get down to a 2-percent level of unemployment and keep our controls. After all, you have got seven-tenths of 1 percent unemployment in Germany; you have less than 2 percent in Japan and other countries.

If you do that, you solve many of your problems and really increase your revenue.

Senator McGOVERN. Mr. Chairman, I am sure it has occurred to you they have done that without a big arms industry.

Chairman PROXMIRE. Exactly. If other countries can do it; they are free enterprise countries; they are countries that don't have controls; I don't see why we couldn't at least approach it.

Unfortunately, we are into a rollcall. Senator Percy did ask for a minute to summarize.

Senator PERCY. I will be very brief, Senator McGovern.

MILLS PROPOSAL NEEDS CLARIFICATION

I think we should keep open the record, for your examination, in order to correct one point. I believe you said the $47 billion cut in the Mills exemptions would total $47 billion for the first year. It is only $7 billion for the first year, as I have just added up these details. It is $47 billion for 3 years, and you may want to——

Senator McGOVERN. I want to tell you, Senator, I think he is wrong on that but let's keep the record open for check.

Senator PERCY. Let's keep the record open so we can examine that.

TAX SYSTEM NEEDS REFORM

I think we do see the complexities of trying to do justice to a proposal of this kind. I too think we ought to take a good look at our tax system; I have presented a series of proposals for tax reform to the Government Operations Committee, where Senator Muskie's subcommittee is focusing on property tax reform. We need to reform our tax system in this country and close the unconscionable loopholes but we can't do justice to these issues in 3 hours here, so I would very much hope that you would give us and the committee a clarification of the operation of your plan as it relates to families of one, two, three, and four persons at various income levels so that we can study them and do justice to them; and I, for one, would welcome you back if you care to come.

Senator McGOVERN. Thank you.

Representative REUSS (presiding). Thank you very much, Senator McGovern.

We now stand in adjournment.

(Whereupon, at 1:05 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.)

NATIONAL PRIORITIES—THE NEXT FIVE YEARS

TUESDAY, JUNE 27, 1972

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room G-308, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire.

Also present: Loughlin F. McHugh, senior economist; Richard F. Kaufman, economist; and Lucy A. Falcone and Jerry J. Jasinowski, research economists.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

We began this year's hearings on "National Priorities—The Next 5 Years" on May 29 when we heard Charles L. Schultze and Murray Weidenbaum discuss their respective analyses of the Federal budget.

It is appropriate, therefore, to hear this morning from Caspar Weinberger, Director of the Office of Management and Budget. Mr. Weinberger is the official who has the greatest single responsibility for the budget, a document that constitutes the most comprehensive Federal statement on national priorities.

DISTURBING TREND IN FEDERAL SPENDING DECISIONS

The Joint Economic Committee in its current annual report comments on the way the Federal tax dollar has been allocated. We found a most disturbing trend in Federal spending decisions, and we concluded that the reality of resource allocation is far different from the picture painted by official pronouncements.

For example, the budget document compares the portion of budget outlays allocated to human resource programs to the portion allocated to national defense programs and finds that human resources represents a greater share.

We disagree with the thrust of this assertion for two fundamental reasons.

HUMAN RESOURCES ON NATIONAL DEFENSE?

First, the administration has made some very convenient but inaccurate definitions of what goes into human resources and what goes into national defense. I find that it has inflated the human resource category with such items as veterans' programs, which can

also be considered as part of the costs of national defense. It has also omitted entirely from the national defense categories the major costs, such as the space program and a portion of the interest on the national debt attributable to defense.

Second, we disagree with the alleged new trend toward human resource program outlays because the spending increases derive from programs enacted years ago.

What we do find when we look at the major changes in obligational authority requested for fiscal year 1973 is that the largest increases in funding requests go for national defense and defense-related programs such as military assistance, veterans' benefits, and the Space Shuttle.

NO NEW HUMAN RESOURCE PROGRAMS

This Senator has been unable to discover what new human resource program initiatives have been pushed in the past 3 years. Aside from not interfering with previously enacted laws and programs, and permitting the relentless growth of trust funds such as the highway trust fund, what has this administration done and what does it plan to do in the future to meet the pressing human needs to which the Federal Government ought to respond?

Mr. Weinberger, we have had you testify before this committee in two other capacities, as head of the Federal Trade Commission and as No. 2 man in the Office of Management and Budget. This is your first appearance before us as Director of OMB. We are very glad to have you and hope you will be as responsive and candid with us today as you have been in the past, and we know you will.

Let me say I have had a chance since preparing this statement and I find while we differ sharply, as I indicate here, on defense spending, we agree on other things, I think surprisingly, emphatically.

I think that your emphasis on the importance of realistically recognizing the great costs of all our programs, and I would concede that our human resource programs are very costly, I would also concede that we have to reduce some of those or have a big tax increase if we are going to have any of the new initiatives that the administration is interested in, and I am.

LITTLE MONEY AVAILABLE FOR NEW PROGRAMS

I was startled by your observation that except for programs enacted by June 5, there will be very little money available in the future for any new programs. This means after all, by June 5 we had not enacted into law the revenue-sharing program; we had not enacted the welfare program, H.R. 1. We had not enacted the pollution program, which is going to cost a great deal of money—many programs which the administration itself is pushing. So that on this basis, it seems to me that you do paint a realistic as well as a depressing picture, but one which I do not think should be too depressing if we are determined to reduce costs not only in Defense, and I think you are soft on reducing costs and maybe you are not, and reducing costs also in some of the wasteful programs which have been identified as human resource programs but do represent wasteful standards.

Now, I apologize again, but we have had a uniform policy applying, as you may know, to every witness, the 10-minute rule. Whatever you are not able to read or include in your oral statement will be included without objection in the record, and at the end of our colloquy and end of our questioning, you can add anything you wish if you think it was not adequately covered.

We will time your presentation and give you a 2-minute warning. Go right ahead.

STATEMENT OF HON. CASPAR W. WEINBERGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET; ACCOMPANIED BY KENNETH DAM, ASSISTANT DIRECTOR; SAMUEL M. COHN, ASSISTANT DIRECTOR FOR BUDGET REVIEW; AND WILLIAM H. TAFT IV, EXECUTIVE ASSISTANT

Mr. WEINBERGER. Mr. Chairman, it is always a pleasure to be here before you and have the opportunity to renew our acquaintance.

I have with me this morning Kenneth Dam, the Assistant Director of the Office of Management and Budget; and Samuel Cohn, also Assistant Director for Office of Management and Budget; and William Taft, who is executive assistant to the Director; and we are all very pleased to have this opportunity to share our thoughts with you.

I do not know how many minutes I have before I get the 2-minute warning, Mr. Chairman, so I do not quite know how to pace myself.

Chairman PROXMIRE. You will have 10 minutes before that, and then you will have a few more minutes.

Mr. WEINBERGER. Thank you very much, sir.

FEDERAL BUDGET IS A STATEMENT OF PRIORITIES

Mr. Chairman and members of the committee, the Federal budget that is transmitted to the Congress each January is a statement of national priorities as perceived by the President at that time. This is not to say that the President has a free hand in setting priorities. He does not. The momentum of ongoing programs is the major determinant of priorities for the year ahead; in fact, about 70 percent of Federal spending is relatively uncontrollable under existing law.

PRESIDENT'S PRIORITIES NOT IMMUTABLE

Nor are the President's priorities for that portion of the budget over which he has substantial control immutable. As the year unfolds, several factors cause the priorities stated in his January budget to be modified:

Changes in social, economic, and international conditions may prompt the President to reorder his priorities, as he did on August 15 of last year;

Unforeseeable changes in uncontrollable elements—for example, the effect of weather conditions on crops and, therefore, on crop support payments, or the flood that we have been witnessing this last week—these must be accommodated; and, of course:

Congressional action on the budget modifies the President's priorities.

PRESIDENT HAS SIGNIFICANT IMPACT

The momentum of ongoing programs is so strong that there is rarely a dramatic shift in priorities from one year to the next. Over the course of a term in office, however, a President is able to have a significant impact. This point comes through clearly in table 1 which is in my prepared statement which I assume will be printed in full in the record.

Chairman PROXMIRE. Yes. Without objection, it will be printed in full, including all the tables in your prepared statement.

Mr. WEINBERGER. Thank you, sir.

The years for which figures are shown are fiscal years during which Presidential terms ended or, in the case of the current term, will end.

The percentage distribution of budget outlays by major functional categories is shown here, and you can see between 1969 and 1973 that defense went from 44 percent to 31, and human resources from 34 to 45

BUDGET PRIORITIES SHIFTING UNDER NIXON ADMINISTRATION

There can be no questioning the fact that budget priorities are being shifted to a remarkable degree under this administration. The shift since 1969 is a reflection of the coincidence of Presidential, congressional, and public concern that real spending on defense be reduced significantly as our involvement in Southeast Asia diminished, and that greater attention be given to the Nation's domestic problems.

The success of the President's defense and foreign policy measures has made it possible for us to make this shift. The share of the budget allocated to national defense is declining by a third, while the share for human resources programs is increasing at about the same rate. Our national security has not been compromised in the process.

The record is equally impressive in terms of dollar outlays. Between 1969 and 1973, outlays for the national defense function decrease despite the substantial pay increases needed to make military pay comparable with pay in civilian jobs and move us toward an All-Volunteer Army. At the same time, total outlays will increase by more than one-third, and those for human resources programs will grow by more than 75 percent, and all of that is illustrated by table 2 in my prepared statement.

DEFENSE SPENDING

The committee asked that particular attention be given in this statement to defense spending.

Some persons argue that the proposed level of defense spending is inappropriately high for peacetime. The administration, of course, does not agree. The spending it proposes is based on the principle that the national interest is best served when defense is maintained at a level adequate to deter aggression and to provide the base of strength that is essential if we are to negotiate a stable and lasting peace.

Another way of phrasing it, Mr. Chairman, is that none of the urban or domestic or human resource programs can have much meaning if the borders are not secure.

Assistant Secretary of Defense Moot covered the subject of defense spending thoroughly when he testified before this committee on

May 31. Mr. Moot put the matter in proper perspective by noting that while we spent $50.8 billion for the Department of Defense military and military assistance programs in prewar 1964 and have proposed spending $76.5 billion in 1975, or $25.7 billion more, price and pay increases since that time have actually added $29.5 billion to the cost of the 1964 defense program.

DEFENSE PROGRAM LOWER THAN 1964

In other words, in real terms—that is, when the effect of price and pay increases is excluded—the defense program is actually lower now than it was in 1964. This is the first time in our history that the level of real defense spending was lower after a war than before it.

MAINTENANCE OF PEACE REQUIRES MILITARY STRENGTH

From the very start of his administration, one of President Nixon's highest priorities—the one upon which so much of our progress at home depends—has been to create a peaceful world order. As he has said repeatedly, this Nation's hopes for a peaceful world order could never be achieved from a position of weakness; the ability to negotiate successfully and to maintain peace requires starting from a position of military strength.

The recent successes in our diplomatic relations with Peking and Moscow and in the SALT negotiations prove beyond any reasonable doubt the soundness of the President's policy. If we did not have a strong defense and the willingness to commit our strength, it is safe to say that neither Peking nor Moscow would have paid any real attention to us.

DEFINITION OF NATIONAL SECURITY EXPENDITURES

Before leaving the subject of defense spending, I would like to mention one additional point. This committee has urged that the Office of Management and Budget adopt a very broad definition of national security expenditures, one which would include veterans' programs, interest on the public debt, and other so-called defense-related activities. We think it would be very deceptive indeed to change the rules of the game as this committee apparently desires us to do. With arguments like that, we might even say that part of the commerce, transportation, health, education, and housing programs have a greater or lesser element of defense relatedness to them. Such a definition of "national defense" would be highly misleading and a total departure from the definitions that we have used consistently since 1954.

In designating and defining the national defense budgetary function, the Office of Management and Budget has attempted to make the most conceptually accurate and broadly useful classification of the entire Federal budget possible. To do this, the categories have to be mutually exclusive.

Other definitions of defense spending are, of course, possible, depending on the point one wishes to make. Indeed, there are about half a dozen different concepts of defense spending now in routine use within the Federal Government, not counting this committee's proposal.

Knowing that different concepts are appropriate for different purposes, we always try to print the budget in sufficient detail so that others can take it apart and put it back together in any form that suits their fancy.

Using such aids, it is clear that even if we adopted the committee's definition of "national security expenditures," it would still show a decline in recent years, from over 13 percent of the GNP in 1968 to only 9.4 percent of the GNP in fiscal 1973.

SHIFTS IN SPENDING

For example, in March 1970, the Joint Economic Committee Report on the Economic Report, page 39, called for an expansion of spending on "housing and community development, education and manpower, health, antipoverty and income support, environmental control, and the administration of justice" and a reduction or elimination of spending on "space, the supersonic transport and highways; and * * * defense." The detail included in the budget permits us to measure the shifts since 1969 in spending for these categories of programs, and table 3 in my prepared statement shows the results. For one reason or another, the committee's preferences have been realized.

NATIONAL INCOME ACCOUNTS

The trends shown by a functional classification of spending are by no means the only valid measure of changing priorities. The classification of Federal spending used in the national income accounts provides another interesting and useful yardstick.

In the national income accounts, the primary division is between purchases of goods and services (separately for defense and nondefense), and all other Federal spending. Purchases represent that portion of the Nation's output that is bought directly by the Federal Government.

The other categories consist primarily of transfers of income to other levels of government, individuals, or other groups which, in turn, of course, can use them to purchase goods and services or to invest.

A major shift in the composition of federal spending in this context has been under way for several years. There has been a relative decline in the total of both defense and nondefense purchases of goods and services and a corresponding rise in other Federal spending, especially grants to states and local governments and income transfer payments.

As a result, in calendar year 1971, total Federal spending for domestic income transfer payments and grants to State and local governments was larger than the Federal Government's direct purchases of goods and services for the first time in 40 years.

As table 4 in my prepared statement indicates, the shift away from direct federal spending has accelerated greatly since 1969, and table 4 shows that.

Purchases have declined from 53 to 42 percent of the total in the past 4 years. At the same time, transfers and grants have grown from 38 percent to 50 percent. These shifts are the sharpest that have occurred in any recent 4-year period.

This substantial shift reflects, of course, the shift in priorities shown by the functional categories discussed above. It is also indicative of an increasing decentralization of decisionmaking regarding the ultimate use of Federal money.

One of the principal objectives of our administration is to return spending power to individuals and State and local governments; these figures show impressive progress in this direction.

"FEDERAL GOVERNMENT" IS NOT SYNONYMOUS WITH "GOVERNMENT"

On the general subject of changing priorities, Mr. Chairman, we in Washington, being so deeply involved in Federal budget matters, sometimes make the mistake of considering "Federal Government" to be synonymous with "government." We forget that Federal spending for domestic programs is not representative of total governmental spending for these purposes.

Under our system of government, the Federal Government has full responsibility for national defense, but the responsibility for domestic programs is shared. Let me point out that by the same token, what the Federal Government does not do in defense does not get done. What we do for domestic fields is supplemented and filled out by other government levels and private sector spending, but defense is entirely the responsibility, fortunately, of the Federal Government, and we do not have other governmental or private sector spending in that field.

HUMAN RESOURCE PROGRAMS NOT STARVED

Summarizing the rest of the prepared statement, I would simply say that we have not starved human resources programs in this administration. On a per capita basis, all governments spent about $425 on those programs in 1965 and about $875 in 1971, and that certainly is not starvation. But the important thing is to look at some of the accomplishments, the output from this spending. When we do that, I think we find a very, very modest degree of accomplishment by many of these programs. The idea that simply shifting priorities solves all of your problems, I think, is one of the current myths in Washington that we should do something about trying to right.

The resetting of priorities is usually the way it is phrased. If you reset priorities, you will spend very little for defense, a great deal more for human resources. The only trouble is that what people are talking about is spending more for the same programs that have obviously and clearly not solved the problems.

INCREASING TAXES IS THE WRONG ANSWER

I would like to emphasize in closing that we think that the quick, easy suggestion of increasing taxes is exactly the wrong answer to our situation here. An increasing share of our national resources must be retained by private citizens to enable them, rather than the Federal Government, to decide how to meet their individual needs, and we must restrain the size and power of the Federal Government because we are already forcing contributions of more than a third of the GNP to government at all levels, and that is too much.

It is an immensely difficult task to try to cut this back, but it certainly is not to say, as you indicated in your opening statement, Mr. Chairman, that there cannot be any new programs.

What is clear is that unless Congress wishes to force a huge tax increase, there must be some deletions if Congress or anyone else wants to add new programs.

We would conclude simply by repeating the statement of the President that what is good for all the special interests who force spending upward is usually bad for the public interest.

NEED FOR RIGID SPENDING CEILING

So I think the wisdom of the President, Mr. Chairman, in asking a rigid spending ceiling in January was and is unassailable, and the sooner Congress can give us that, I think the better we will all be.

(The prepared statement of Mr. Weinberger follows:)

STATEMENT OF HON. CASPAR W. WEINBERGER

Mr. Chairman and members of the committee:

The Federal budget that is transmitted to the Congress each January is a statement of national priorities as perceived by the President at that time. This is not to say that the President has a free hand in setting priorities. He does not. The momentum of ongoing programs is the major determinant of priorities for the year ahead; in fact, about 70 percent of Federal spending is relatively uncontrollable under existing law.

Nor are the President's priorities for that portion of the budget over which he has substantial control immutable. As the year unfolds, several factors cause the priorities stated in his January budget to be modified:

Changes in social, economic, and international conditions may prompt the President to reorder his priorities, as he did on August 15 of last year;

Unforeseeable changes in uncontrollable elements (e.g., the effect of weather conditions on crops and, therefore, on crop support payments) must be accommodated; and, of course,

Congressional action on the budget modifies the President's priorities.

The momentum of ongoing programs is so strong that there is rarely a dramatic shift in priorities from one year to the next. Over the course of a term in office, however, a President is able to have a significant impact. This point comes through clearly in the following table. The years for which figures are shown are fiscal years during which Presidential terms ended or, in the case of the current term, will end.

TABLE 1.—PERCENTAGE DISTRIBUTION OF BUDGET OUTLAYS BY MAJOR FUNCTIONAL CATEGORIES, SELECTED FISCAL YEARS

Functional category	1953	1957	1961	1965	1969	1973
National defense	66	56	48	42	44	31
Human resources	15	23	30	30	34	45
Physical resources	9	9	10	12	10	10
Net interest	7	7	7	7	7	6
Other	3	5	5	[1] 9	5	[2] 8
Total	100	100	100	100	100	100

[1] The substantial increase in this category resulted mostly from a rapid expansion of the space program
[2] General revenue sharing is the primary component of this increase.

There can be no questioning the fact that budget priorities are being shifted to a remarkable degree under this Administration. The shift since 1969 is a reflection of the coincidence of Presidential, congressional, and public concern that real spending on defense be reduced significantly as our involvement in Southeast Asia diminished, and that greater attention be given to the Nation's domestic problems. The success of the President's defense and foreign policy

measures has made it possible for us to make this shift. The share of the budget allocated to national defense is declining by a third, while the share for human resources programs is increasing at about the same rate. Our national security has not been compromised in the process.

The record is equally impressive in terms of dollar outlays and the change from fiscal year 1969. Between 1969 and 1973, outlays for the national defense function decrease despite the substantial pay increases needed to make military pay comparable and move us toward an all-volunteer army. At the same time, total outlays will increase by more than one-third and those for human resources programs will grow by more than 75%.

TABLE 2.—BUDGET OUTLAYS AND CHANGE IN OUTLAYS, FISCAL YEARS 1969, 1973

[Amounts in billions of dollars]

	Outlays (amount)		Change in outlays 1969–73	
	1969	1973	Amount	Percentage
National defense	81.2	78.3	−2.9	−4
Human resources	63.6	113.1	49.5	78
Physical resources	18.2	25.0	6.8	37
Net interest	12.7	18.9	6.2	49
Other	8.8	14.7	5.9	67
Total	184.5	250.0	65.5	35

SPENDING FOR DEFENSE

The Committee asked that particular attention be given in this statement to defense spending.

Some persons argue that the proposed level of defense spending is inappropriately high for peacetime. The Administration does not agree. The spending it proposes is based on the principle that the national interest is best served when defense is maintained at a level adequate to deter aggression and to provide the base of strength that is essential if we are to negotiate a stable and lasting peace.

Assistant Secretary of Defense Moot covered the subject of defense spending thoroughly when he testified before this Committee on May 31. Mr. Moot put the matter in proper perspective by noting that while we spent $50.8 billion for the Department of Defense-Military and Military Assistance programs in prewar 1964 and have proposed spending $76.5 billion in 1973, or $25.7 billion more, price and pay increases since that time have added $29.5 billion to the cost of the 1964 defense program. In other words, in real terms—i.e., when the effect of price and pay increases is excluded—the defense program is lower now than it was in 1964. This is the first time in our history that the level of real defense spending was lower after a war than before it.

From the very start of his Administration, one of President Nixon's highest priorities—the one upon which so much of our progress at home depends—has been to create a peaceful world order. As he has said repeatedly, this Nation's hopes for a peaceful world order could never be achieved from a position of weakness; the ability to negotiate successfully and to maintain peace requires starting from a position of military strength. The recent successes in our diplomatic relations with Peking and Moscow and in the SALT negotiations prove beyond any reasonable doubt the soundness of the President's policy. If we did not have a strong defense and the willingness to commit our strength, it is safe to say that neither Peking nor Moscow would have paid any real attention to us.

Before leaving the subject of defense spending, I might mention one additional point. We think it would be very deceptive indeed to change the rules of the game as this Committee apparently desires us to do. This Committee has urged that the Office of Management and Budget adopt a very broad definition of "national security" expenditures—one which would include veterans programs, interest on the public debt, and other so-called "defense-related" activities. With arguments like that we might even say that part of the commerce, transportation, health, education, and housing programs have a greater or lesser element of "defense relatedness" to them. Such a definition of "national defense" would be highly misleading and a total departure from the definitions that we have used consistently since 1954.

In designating and defining the national defense budgetary function, the Office of Management and Budget has attempted to make the most conceptually accurate and broadly useful classification of the entire Federal budget possible. To do this, the categories have to be mutually-exclusive.

Other definitions of defense spending are possible, depending on the point one wishes to make. Indeed, there are about half a dozen different concepts of defense spending now in routine use within the Federal Government, not counting this Committee's proposal. Knowing that different concepts are appropriate for different purposes, we always try to print the budget in sufficient detail so that others can take it apart and put it back together in any form that suits their fancy.

Using such aids, it is clear that even if we adopted the Committee's suggestion of "national security expenditures" it would still show a decline in recent years, from over 13% of the GNP in 1968 to only 9.4% of the GNP in fiscal 1973.

For example, in March 1970, the Joint Economic Committee Report on the Economic Report (p. 39) called for an expansion of spending on "housing and community development, education and manpower, health, antipoverty and income support, environmental control, and the administration of justice" and a reduction or elimination of spending on "space, the supersonic transport and highways; and . . . defense." The detail included in the budget permits us to measure the shifts since 1969 in spending for these categories of programs.

The table below shows the results. Clearly, the Committee's preferences have been realized.

TABLE 3

[Fiscal years; dollar amounts in billions]

	1960	1965	1969	1971	1973 estimated [1]
Enumerated domestic activities: [2]					
Total outlays (billions)	$21.3	$30.5	$58.6	$83.8	$112.0
Percent of budget outlays	23.1	25.7	31.8	39.7	45.5
Percent of GNP	4.3	4.7	6.5	8.3	9.3
Defense, space, etc.					
Total outlays (billions)	$49.4	$58.7	$89.7	$85.8	$86.5
Percent of budget outlays	53.5	49.6	48.6	40.6	35.1
Percent of GNP	10.0	9.0	10.0	8.5	7.2

[1] As estimated in the 1973 budget.
[2] Including general revenue sharing which, presumably, would go mainly for these purposes.

THE DECLINING ROLE OF DIRECT FEDERAL SPENDING

The trends shown by a functional classification of spending are by no means the only valid measure of changing priorities. The classification of Federal spending used in the national income accounts provides another interesting and useful yardstick.

In the national income accounts, the primary division is between purchases of goods and services (separately for defense and nondefense), and all other Federal spending. Purchases represent that portion of the Nation's output that is bought directly by the Federal Government. The other categories consist primarily of transfers of income to other levels of government, individuals, or other groups, which, in turn, can use them to purchase goods and services or to invest.

A major shift in the composition of Federal spending in this context has been underway for several years. There has been a relative decline in the total of defense and nondefense purchases of goods and services and a corresponding rise in other Federal spending, especially grants to State and local governments and income transfer payments. As a result, in calendar year 1971, total Federal spending for domestic income transfer payments and grants to State and local governments was larger than the Federal Government's direct purchases of goods and services for the first time in 40 years. As the following table indicates, the shift away from direct Federal spending has accelerated greatly since 1969.

TABLE 4.—PERCENTAGE DISTRIBUTION OF FEDERAL SPENDING IN NATIONAL INCOME ACCOUNT CATEGORIES, FISCAL YEARS 1953–73

	1953	1957	1961	1965	1969	1973
Purchases of goods and services	74	63	57	54	53½	(42)
Defense	(64)	(56)	(48)	(41)	(42)	(30)
Nondefense	(10)	(7)	(9)	[1] (13)	(11½)	(12)
Transfer payments	15	21	26	26	27½	34
Grants	4	5	7	9	10½	[2] 16
Interest	6	7	7	7	6½	6
Other	1	4	3	4	2	2
Total	100	100	100	100	100	100

[1] A rapid expansion of the space program accounted for most of this increase.
[2] General revenue sharing is the primary cause of this increase.

Purchases have declined from 53 to 42 percent of the total in the past four years. At the same time, transfers and grants have grown from 38% to 50%. These shifts are the sharpest that have occurred in any recent four-year period.

This substantial shift reflects, of course, the shift in priorities shown by the functional categories discussed above. It is also indicative of an increasing decentralization of decisionmaking regarding the ultimate use of Federal money. One of the principal objectives of the Administration is to return spending power to individuals and State and local governments; these figures show impressive progress in this direction.

CHANGING PRIORITIES: ALL GOVERNMENTAL UNITS

We in Washington, being so deeply involved in Federal budget matters, sometimes make the mistake of considering "Federal Government" to be synonymous with "government." We forget that Federal spending for domestic programs is not representative of total governmental spending for these purposes. Under our system of government, the Federal Government has full responsibility for national defense, but the responsibility for domestic programs is shared. A considerable portion of Federal "spending" for domestic programs is done through State and local governmental units, and these units spend all of their own funds for these programs.

The following table shows the resource allocation shares for all units of government in the United States combined. The share of spending consumed by defense in the last year for which estimates are available (calendar year 1971) was lower than for any other year in the underlying data series, which begins with 1952, while the share going to human resources programs was higher.

TABLE 5.—PERCENTAGE DISTRIBUTION OF GOVERNMENT EXPENDITURES [1] BY MAJOR FUNCTIONAL CATEGORIES SELECTED CALENDAR YEARS

Functional category	1953	1957	1961	1965	1969	1971
National defense	49	39	33	28	28	22
Human resources	27	36	41	43	46½	53
Physical resources and other	19	19½	21	24	21	21
Interest	5	5½	5	5	4½	4
Total	100	100	100	100	100	100

[1] National income accounts basis.

In 1952, the first year for which these data are available, defense spending was equal to 50% of total government spending; by 1971, the defense share had reduced to 22% and is continuing downward. In 1952 and 1953, the human resources share was 27%; it nearly doubled by 1971 and is continuing upward.

Governments in the United States have not starved human resources programs. Spending for these programs more than doubled between 1965 and 1971 alone; on a per capita basis, governments spent about $420 on them in 1965 and about $875 in 1971. This is not a starvation diet.

While this impressive expansion has resulted in some progress, the problems that remain are formidable. But our experience with the limited progress made from this huge expansion of domestic civil spending should have taught us a lesson.

We ought to have learned by now that throwing the taxpayers' money at social problems is not the automatic way to solve them, as so many seem to think, if we judge by the size of authorizations and appropriations. We ought to become much more modest about our estimate of governments' ability—particularly the Federal Government's ability—to correct these problems by starting a spate of big, expensive, untested programs under the misguided assumptions that we know the solutions. A realization of our limitations is what led this Administration to think more in terms of restraining the size and the power of the Federal Government through:

revenue sharing to provide more funds to State and local governments without restrictions;

more State and local participation in the administration of domestic programs for which the Federal Government retains primary responsibility; and

tax reductions and spending control that would leave spending power in the hands of individuals and firms.

THE LONGER VIEW

The sheer inertia of the Federal budget is such that only relatively small changes in program and functional allocations occur from one budget to the next. Several years are required to effect any large-scale reordering of the priorities embodied in the budget. At the same time, budget decisions made in any one year have powerful ramifications for years after. For these reasons, the implications of each budget must be analyzed and considered in a long-range context. This Administration pioneered in making such considerations possible.

The budget for fiscal year 1971, the first submitted by President Nixon, was the first to present a projection of the budget outlook four years beyond the budget year. In the 1972 budget, these projections were coupled with estimates of the impact of future budgets on the overall allocation of resources in the American economy among major functions such as health, business investment, and transportation. Then, in conformance with requirements of the Legislative Reorganization Act of 1970, the 1973 budget added long-range estimates of the costs of all major items in the President's legislative programs, and the mid-session review contained five-year projections of spending under relatively uncontrollable programs and expenditures from balances of budget authority expected to be available at the end of 1973. These several long-range projections indicate that the general trend in Federal priorities discussed above can be expected to continue for the period of the forecast.

The long-range estimates are *projections*, not forecasts. The estimated receipts assume current and proposed tax legislation at the time the projections are made. The outlay estimates assume *no* new Federal initiatives beyond those proposed by the President at the time the projections are made. Thus, the outlay projections, in particular, are quite conservative. Even so, they show a margin four years out that is both tenuous and precarious, providing virtually no room for new programs or expansions of existing programs that are not offset by reductions either in those programs or elsewhere in the budget. They say, in short, that our current budget problems are likely to be with us for some time to come.

THE BASIC PROBLEM: CONTROLLING SPENDING

The major resource allocation problem facing the Nation today is not that of setting priorities within the Federal budget. As the preceding figures on the distribution of governmental spending demonstrate convincingly, major shifts are occurring and will continue. Whether those shifts are solving domestic problems is highly problematical, as even the Brookings study pointed out, but they have occurred. I fear, however, that the results belie the assumption that if we "shift priorities" we solve all problems. The results also belie the further illogicality that because the problems are not solved by such a major shift, there should be more of a shift.

The major problem facing us now is that of keeping Federal Government outlays from exceeding the capacity of our present tax revenues under conditions of full employment.

Holding to the full-employment budget concept is crucial for two reasons:

First, the evidence is clear now that the economy is well along on the path to full employment and that no additional fiscal stimulus is needed. Moreover, the lesson of 1966–1968, when three successive large full-employment deficits led to an intolerable inflation, remains too clear and too close to permit any relaxation of the full-employment guideline.

Second, increasing taxes is exactly the wrong answer. An increasing share of our national resources must be *retained* by private citizens to enable them—rather than the Federal Government—to decide how to meet their individual needs. In other words, we must restrain the size and power of the Federal Government. We are already forcing contributions of more than one-third of the GNP to government at all levels. That is too much; we must make every effort to lower it.

This is an immensely difficult task. The Mid-Session Review of the 1973 Budget, which was issued on June 5, reported that we foresee a $3 billion full-employment deficit in 1973. As the Review stated, the Administration's objective is to keep 1973 outlays below the projected $250 billion in order to keep as close as possible to a full-employment balance. Since then, threats of pending congressional add-ons that were referred to (and warned against) in the statement have become more real as pending legislation has advanced through the Congress. We will have a far deeper deficit in 1973 if this trend continues on its present course.

Looking ahead to 1974, the outlook is even more ominous. Full-employment receipts are expected to be about $245 billion in fiscal year 1973. Assuming no changes in tax law other than those proposed in legislation that is currently before the Congress, the growth in full-employment receipts will be $15 to $20 billion, and total full-employment receipts in 1974 will be in the $260 to $265 billion range. Tables 5 and 6 of the Mid-Session Review show that relatively uncontrollable outlays for open-ended programs, fixed costs, and spending from end of fiscal year 1973 balances of budget authority will amount to about $200 billion in 1974. This leaves $60 to $65 billion for all other Federal outlays if we are to maintain a full-employment balance in 1974. These estimates make *no* provision for *any* congressional addition to the cost of the programs proposed in the 1973 budget except those enacted before June 5.

This is not to say that there cannot be any new programs. But it is clear that unless Congress wishes to force a huge tax increase, there must be some deletions if Congress wants new programs.

It is not crying, "Wolf!" to repeat—with greater emphasis now—the concluding sentence of the Mid-Session Review.

"The time for fiscal restraint is here now—both for the Congress and for the Administration."

The practical difficulty of exercising fiscal restraint was described graphically and well in the President's 1973 budget message. Commenting on probable reactions to his budget (in which he proposed a full-employment balance), he stated:

"There will be those who contend that in this budget their favorite programs are not financed, or are not financed as much as they want them to be.

"They will be absolutely right.

"Government expenses increase each year because special interest groups, representing only those who stand to benefit from their program, persuade decision-makers that more resources are needed for those programs without regard to the effect on the total budget. The cost is multiplied by geometric progression when this tactic is repeated for literally hundreds of programs. Seldom do any of these groups recommend additional taxes to finance their proposed spending.

"Then inflationary factors, frequently induced by the large total volume of spending resulting from individual decisions made without consideration of the larger picture, force the cost of these programs upward. At the same time the special constituency benefiting from the program is enlarged and strengthened, its demands are correspondingly increased, and the cycle continues to feed upon itself."

As the President observed after making these comments, taken together, what is good for all the special interests is bad for the public interest.

Our top priority in government today is to hold down spending totals so the public interest can be served.

Chairman PROXMIRE. As I said, Mr. Weinberger, there is a great deal in your prepared statement with which I can enthusiastically agree, especially the necessity for exercising far more discipline in our spending generally.

The tone of your prepared statement is defensive. I understand that. This committee has been very critical.

Mr. WEINBERGER. Well, it was criticized by some of the people who examined it as offensive, Mr. Chairman.

SPENDING REDUCTIONS GENERALIZATIONS ONLY

Chairman PROXMIRE. Well, it certainly was not offensive to me but what I am getting at is, I did not see a great deal, except generalizations, as to the kind of reductions which you would recommend in existing programs.

We have been told over and over again that we can find ways to have a more efficient Government and to provide better services and solve some of our very serious problems without a tax increase. I am very hopeful we can do so. I think that is correct and I hope we can get at it. But I do not see your office, which I think has done a fine job in many respects—you do have the toughest, meanest job in Government. You have to say no. Nobody likes to do that. You have to be a tough guy to the Congress and the executive branch and to everybody else who wants Federal largesse, so I do not want to be critical of you except I do think that we have to find ways of just turning off some of these old programs that have gone on and on.

I do not see the Nixon administration, which I think should be out in front in doing that kind of thing, doing it.

TERMINATION OF PROGRAMS

Mr. WEINBERGER. Well, sir, we have in the first two budgets, I believe, of the President listed a number of programs for termination and abolition under the general heading of economy acts. We also have a three-page list of functions and activities that have been discontinued, which we would be glad to put in the record, or I could read.

Chairman PROXMIRE. My administrative assistant, Howard Shuman, made a list of every program for this year and he could not find a single one that was reduced; not one.

Mr. WEINBERGER. Well, I think we have to——

Chairman PROXMIRE. Is he wrong and, if so, in what respect?

REVENUE-SHARING BILLS WILL ASSIST IN TERMINATION AND/OR ENCOMPASSING OF MANY PROGRAMS

Mr. WEINBERGER. Well, we have six special revenue-sharing bills which propose folding in a very large number of——

Chairman PROXMIRE. That would be more money, after all.

Mr. WEINBERGER. No, sir. We believe that, with the growth of those programs and particularly with their ineffectiveness in many cases, the substitution of the dollars proposed by the special revenue-sharing programs would not only bring us about a better result, but would keep the level of spending far lower than it would be if those individual categorical programs were allowed to persist and to grow.

As I said, I have a list, which I will be glad to furnish for the record, of substantial terminations both of activities and of proposals to the Congress, many of which I must agree have not been enacted yet; but they are proposals that have been made and I do commend to

you these special revenue-sharing bills because I think they would eliminate a lot of programs that the test of time has shown to be not very effective.

I think the Brookings Institution report, with its rather surprising admission that we have not achieved, as they rather curiously phrased it, "instant success" with all of these programs is a significant agreement with the views we have expressed.

$110 MILLION "SALT-RELATED ADJUSTMENTS" INCREASE IN DEFENSE BUDGET

Chairman PROXMIRE. Well, I want to get back to that in a minute.

First let me ask you this: Since the SALT agreements were signed in Moscow, Department of Defense witnesses have been testifying before Congress on behalf of a $110 million "SALT-related adjustment" increase in the fiscal 1973 defense budget. My staff has been trying to obtain information about the purpose of this increase and some details on the programs covered.

INCREASE BEING REVIEWED BY OMB

As late as yesterday afternoon, however, my staff was told by the staff of the Senate Armed Services Committee that the proposed increase was still undergoing review in your office, the Office of Management and Budget, and that the Armed Services Committee itself would receive no formal request for the funds and no detailed backup information until OMB's review was concluded.

Has that review been concluded as yet, and if not, when will it be wrapped up?

Mr. WEINBERGER. No, sir; it has not been concluded yet, and I do not really know precisely when it will be wrapped up; but we certainly regard it as a high priority, and we are examining it and reviewing it.

Chairman PROXMIRE. I have argued in the past that OMB has too little impact in the defense area.

Do you believe it proper for the Secretary of Defense to request funds from Congress before an OMB review has taken place?

Mr. WEINBERGER. Well, I do not think he formally requested them, Mr. Chairman. There is only one way funds can be formally requested, and that is by request from the President and going through our office. I think the Secretary has discussed some of his individual views, but I do not think he or the administration can be said to have requested——

Chairman PROXMIRE. He has made it about as emphatic as he could. In five separate committee hearings he made this request. It seems to me if the Secretary of Defense is free to do this, I do not see how your office can have a major impact in the defense process.

Mr. WEINBERGER. I think the examination we are giving the requests we have in—and I think I use the term correctly in this sense, it is his request—demonstrates that we do have an opportunity to review this and to make our recommendations known to the President.

Chairman PROXMIRE. If you decide that the Secretary of Defense is wrong—is asking for too much—he is in a very embarrassing posi-

tion. He said that he would not support the SALT agreements unless we go all out with everything he has asked. Now presumably your office could say no to him and then he would have to reverse his position, Is that correct?

Mr. WEINBERGER. We expect to review his requests and make our recommendations to the President, and I would assume the President's request of the Congress, which is the only way a formal request for supplemental funds can come in, would solve it.

Some of the items that the Secretary mentioned, of course, are in the President's budget as submitted last January.

Chairman PROXMIRE. Well, some of them, yes; but he is asking for more. There seems to be a division not only in the Congress on this issue, but a division in the administration, too.

Mr. WEINBERGER. I would say he is discussing certain matters with the committees informally.

Chairman PROXMIRE. Well, it is more than that when he goes before five committees and in each case consistently asks for a full increase that goes beyond what your office has approved.

Mr. WEINBERGER. I do not want to get hung up on a semantical difficulty, but the problem is, Mr. Chairman, we know of no way in which the administration can ask anything of the Congress without a formal request transmitted by the President. That has not occurred yet.

Chairman PROXMIRE. Then what you are saying, what Secretary Laird has done is not to make a formal request even for his office, even the Office of the Secretary of Defense. All he can do is to say what his own personal position is and it does not represent the position of the administration or the President and it has not been passed on by you and has been finally approved and decided by the President of the United States.

Mr. WEINBERGER. What I am saying is, Mr. Chairman, the only way I know of that a formal request for a supplemental appropriation or budget amendment or, indeed, a budget, can be made of the Congress is by transmittal by the President; and the system that we use is that we have an opportunity to examine all suggestions for requests and make our recommendations to the President. What he finally transmits back to Congress, if he does, then becomes the administration position. I know of no way to have an administration position other than by following that process.

SAFEGUARD FUNDING REALLOCATION

Chairman PROXMIRE. The administration has placed great emphasis in recent weeks on the $692 million reduction in the Safeguard ABM system which the recent SALT agreement will permit. It has also left the impression that no major funding for a Washington, D.C., ABM defense will be requested until fiscal year 1974, and until further studies have been conducted.

The fact remains, however, that a sizable fraction of the more than $800 million Safeguard funding still requested would be earmarked not for work on the Grand Forks ABM site approved by the SALT pact, but for ABM system components which could be used later, if at all, only for a Washington, D.C., ABM.

Will you tell the committee, please, what fraction of the $800.5 million in Safeguard funding still requested by the administration and approved by the House Armed Services Committee is earmarked for work at Grand Forks and what fraction is, for practical purposes, allocated to NCA work?

Mr. WEINBERGER. Mr. Chairman, I am going to have to refer you to the Department of Defense for the answer to that. You started your question by saying that suggestion has been left with the committee or has been made or some phrase such as that.

Chairman PROXMIRE. Left the impression; yes.

Mr. WEINBERGER. And I do not know who left that impression or what was the basis for anyone forming an impression of that kind.

We have had, as I say, no formal request from the Department of Defense concerning a reallocation of those funds at this time.

I do understand that the Montana Safeguard work was terminated immediately on the signing of the agreement and that that was an action made necessary by the terms of various contracts.

Chairman PROXMIRE. What I am getting at is this.

Are you contemplating money for the ABM, Washington, D.C., ABM deployment in the 1973 budget? If so, you have to submit it in a supplemental.

Mr. WEINBERGER. That is correct. It would have to be submitted by supplemental if that is the decision of the administration. The SALT agreement, as you know, permits——

Chairman PROXMIRE. Well, you do not know whether that is being——

Mr. WEINBERGER. Not at this time because we have not yet received a formal request covering that subject, Mr. Chairman. The SALT agreement is not all that old; and I am sure that some rather extensive analysis is required before a decision of that kind is made. All I can tell you from my own knowledge is that we have not yet received a formal request for the reprograming or additional funds for that purpose at this time. But this is just——

Chairman PROXMIRE. Time is pretty short, is it not? Friday is the end of the fiscal year.

Mr. WEINBERGER. The end of this fiscal year, yes; but we are talking about the 1973 budget.

Chairman PROXMIRE. And you feel that can come in any time?

Mr. WEINBERGER. It might; yes, sir.

WOULD PUBLIC BUDGET HEARINGS PRIOR TO PRESIDENT'S SIGNATURE BE FEASIBLE?

Chairman PROXMIRE. I want to get into more specific questions in a few minutes. Before I do that, however, I would like to ask you about a very interesting idea which several staff people here have kicked around and suggested and I think it has some merits. I would very much like your opinion of it.

The most important priority document we have in this country is the President's budget. You indicated very well in your statement the limitation on that document. Nevertheless, it comes to the Congress pretty much as a full-blown priority document. Congress makes marginal changes in it and that is it.

The question is, Why would it not be possible or why would it not be wise to have a budget which is subject, before the President finally makes his decision, to public hearings, an opportunity for adversary challenge of some of the proposals made by the various agencies, so there is a greater understanding in the public and the Congress before it comes down?

It seems to me that the budget is delivered to the Congress, that we, of course, have our own hearings and act on it, but our opportunity to change it is limited, as I say, and this Presidential decision which is so crucial is made secretly, privately, without any public decision in the press or without any opportunity for any independent expert input into it.

How about that kind of a suggestion? Do you think it is practical or not?

Mr. WEINBERGER. No, sir; I really do not; but I will be glad to say at the outset that that is simply an initial, horseback opinion. I have not heard the proposal before. Let me just point out——

Chairman PROXMIRE. It is not a completely novel proposal, as you know. Municipal governments do that. The government of the city of Washington does it and it is done generally throughout the country.

Mr. WEINBERGER. In the government of the city of Washington and most cities that I am familiar with, of course, the legislative body is also the executive body, so that you have a combination of functions that does not exist at the Federal level. But——

Chairman PROXMIRE. The legislative body for Washington is the Congress.

Mr. WEINBERGER. Well, that is right; but the District of Columbia's City Council has had considerable authority given to it by the Congress and the President over the years.

ACTION TIME ALREADY SUBSTANTIAL

Let me just point out a couple of problems with that suggestion, Mr. Chairman. As you know, at the present time it is usually well into December before the budget that was submitted the preceding January is enacted.

Let me also say that I am not aware of any inhibition on the part of the Congress with respect to making substantial changes in the President's budget as it is submitted. There does not seem to be any concern about the fact they only have a narrow band in which to move.

The length of time that it takes the Congress to hear the budget and complete its action on it is very substantial now, running anywhere from 12 to, in some cases, 14 months.

I remember a year ago—2 years ago I guess it was—we never did get the Department of Transportation bill. We ran on a continuing resolution all year.

What I am saying is that if you add to this another lengthy hearing process, you certainly have pushed farther back from the day when the funds are actually spent, the time when the consideration——

Chairman PROXMIRE. That is right; and I think that is a very real and realistic objection.

Mr. WEINBERGER. The other problem——

Chairman PROXMIRE. But I do not think it is sufficient entirely. This year the Congress is doing a whale of a lot better on appropriation measures. We will have completed most of them by June 30.

All but two or three will have passed the Senate and I think a number of them may be signed into law before the end of the fiscal year. I think we can speed this up.

Mr. WEINBERGER. We have been very pleased——

Chairman PROXMIRE. I hope you will not dismiss it out of hand as something that will not be given consideration——

Mr. WEINBERGER. No.

Chairman PROXMIRE (continuing). Because I think it could be a very significant improvement in help and understanding knowledge, and really getting at the basis for reorganizing our priorities in a more effective way.

THERE IS ALREADY AMPLE OPPORTUNITY FOR PUBLIC INPUT

Mr. WEINBERGER. It was a suggestion submitted somewhat casually. At least I had not heard it before, and my reply, of course, was somewhat casual; but I am impressed with one other point and that is the amount of public input which does come into the budget process during the consideration by usually four, sometimes more, committees of the Congress, spread over, sometimes, a 12-month period. I do not know that there would be any additional value in another 6 months of hearings and individual input.

Also, I think it has to be borne in mind that in the final analysis it is the President's budget. It is the President's set of recommendations which he makes to the Congress, and presumably whatever procedure he finds most convenient and helpful to him would be the one that would be used. What happens after that, and has been happening for centuries in the Anglo-American system, is entirely up to the Congress. So there is an ample opportunity for public input into the process.

The construction of a budget is a very difficult and complex thing.

Chairman PROXMIRE. That is right.

There is, for example, ample opportunity for congressional action later on except that, as I say, once the President has made up his mind, once he has determined what the budget is going to be, once he has sent it down, that is about 98 percent, well, 95 percent of the job. That is about it.

If the President should make up his mind a little later I think he would be assisted, I think you would have greater public participation, better understanding, and Congress would do a better job.

70 PERCENT OF EXPENDITURES UNCONTROLLABLE

You said in your prepared statement that 70 percent of the expenditures are uncontrollable. I think that is right. A number of the people in the press and staff have commented on the weakness of both the Congress and the Executive in handling uncontrollable spending.

5-YEAR PROJECTIONS LAW

One way to get at this is to ask where are these programs going to take us so we have a clear picture of what we are going to have to spend. With that in mind, the Congress has passed a law requiring, of course, the submission of 5-year expenditures extent or "each proposal in the budget for new additional legislation which would create and

expand any function, activity or authority in addition to those functions, activities, and authorities then existing or then being administered and operated."

NONCOMPLIANCE BY ADMINISTRATION

Now, I have come to the conclusion that this administration simply is not abiding by that law. I know that you say you made projections. On page 53 in the budget you have a table in which you project the expenditures in very general terms; health, general Government housing, business investigation, education, basic necessities, 1969, and then 1976. But there is no year-by-year breakdown of each specific proposal and, as I quote the law, it says each proposal in the budget for new or additional legislation which would expand any function, et cetera. There does not seem to be compliance with that law.

BELIEVES ADMINISTRATION IS COMPLYING

Mr. WEINBERGER. Actually, Mr. Chairman, we believe we are in full compliance, and we have a great deal of material on page 540 of the budget, which I think Mr. Cohn could present very well to you at this time.

Mr. COHN. Mr. Chairman, table 16 of the budget, which starts on page 540 and continues for three pages, lists the legislative proposals for major new and expanded programs in the 1973 budget.

We feel that that table is in compliance with the section of the Legislative Reorganization Act that you read.

In addition, in our midsession review, relating to the point you made first, we have year-by-year listed the outlays for the relatively uncontrollable programs, the mandatory programs, as also required by the Legislative Reorganization Act. So that there is a total there for each year through 1977.

Chairman PROXMIRE. Well, let me point out one glaring and conspicuous example of why I think this does not comply with the law.

VOLUNTEER ARMY ONLY DOD FUNCTION LISTED

On that page, it goes down to page 541, what I am referring to, on Department of Defense you have only one item and that is the additional cost of the all-volunteer Army. And so you have an item of about $634 million in 1977 in what is probably going to be a $100 billion budget for that particular department.

Now, this certainly does not comply with the law. Every new expansion of new function for the entire Department of Defense, you limit it to 1 percent.

DOD INTERPRETATION OF ACT REGARDS VOLUNTEER ARMY AS ONLY NEW FUNCTION

Mr. COHN. We seem to have a question as to what is a new function. The way we read the law, this is the only new function of the Department of Defense—requiring new legislation—that we believe is covered.

Chairman PROXMIRE. The law provides the expansion of existing functions, too, and you certainly—the testimony by Mr. Moot was that they were going to have, as I recall, a $100 billion budget in 1976 and if you have that, you obviously have expansion.

Now, it is true that a lot of that is because of increased pay, because of inflation, but there are also new——

Mr. WEINBERGER. I think his testimony was——

Chairman PROXMIRE (continuing). In all kinds of areas.

Mr. WEINBERGER. I think his testimony was to the effect that if everything continued on present paths and projections it might reach that amount.

PROJECTIONS DIFFICULT BECAUSE OF CHANGING CONDITIONS

I do not think he was submitting a $100 billion budget for the Department of Defense nor was he even suggesting that it would total that amount. I think he said that if we kept going at various levels this is the way the projection looked. This is, of course, one of the difficulties with the whole projection business because, as I indicated, there are a great many changed conditions that have to be met, some up, some down.

We do not know yet what perhaps the second SALT agreement may bring, things of that kind.

PROJECTIONS NOT FROZEN—CAN BE CHANGED

Chairman PROXMIRE. Oh, yes, I am not saying, and certainly the law does not contemplate the notion that you would be frozen in concrete on this. You have complete discretion. It is just what the present intentions are, what the present expectations are so we have some notion of where we are proposing going.

Congress can change it, the President can change it, but as chairman of this committee I am now asking you and the OMB to provide to the committee 5-year budget estimates required under the Legislative Reorganization Act of 1970 as well as Public Law 84–801 enacted in 1936.

I hope you will give us the kind of detail which we will give to you, in writing, indicating precisely the areas where we feel we would be greatly helped and the Congress would be helped if we had a detailed specification of where we are going.

Mr. COHN. Mr. Chairman, I do not think we can. Let me say I do think we have complied with the Legislative Reorganization Act of 1970. The fact that we meet certain defense objectives, the same general objective, with one weapon system instead of another weapon system does not mean it is a new and expanded program. We do not feel it is feasible for us to prepare a budget and list in all detail every change in every weapon system, every change in every activity which is generally oriented to the same objective.

Now, with respect to Public Law 801, the requirement is law, and we have always interpreted it as being applicable to the various agencies, when they appear before congressional committees. Section 252 of the Legislative Reorganization Act puts similar requirements on congressional committees.

Chairman PROXMIRE. Well, Mr. Cohn, as I understand it, the administration contemplates vast and decisive changes in our military expenditures. The whole thrust of the Nixon doctrine, as I understand it, is that we are going to rely more on assistance to our allies, that they will carry more of the burden of providing troops, et cetera, reduce our military personnel, and none of that is spelled out here.

The law provides, as I say, that we should have information regarding those functions, activities, and authorities then existing or then being administered and operated.

We require 5-year projections, not simply something new. But we need them broken down for the present functions even if the administration contemplates no initiative except the volunteer Army.

Mr. COHN. I thought the law referred to legislative proposals for new and expanding activities.

Chairman PROXMIRE. No. No. Read the law, really.

Mr. COHN. Yes; I did, very carefully.

LAW APPLIES TO EXISTING AS WELL AS NEW LEGISLATIVE INITIATIVES

Chairman PROXMIRE. Look where it says legislative. I have read the whole law because the first part does not seem to be that, but if you read the whole law all the way through, you will find it applies to existing, not only new legislative initiatives.

Mr. WEINBERGER. We went through that quite carefully at the time we made up the budget, because we wished to be in compliance with the Legislative Reorganization Act. We believe we are, and we believe we submitted the information required. We will be glad to look it through again with the points you made in mind, and if we find we have not submitted all the information required, we will be glad to reexamine the question. But at this point, with the information we have submitted, we believe we are fully in compliance.

REACTION TO BROOKINGS RECOMMENDATIONS

Chairman PROXMIRE. Now, the Brookings Institution, along the same line in its current analysis of the budget and national priorities, recommends a series of steps, including a 5-year budgetary outlook presented annually by the administration to Congress. This would be a detailed outlook including revenue projections and identification of majority items in the budget.

What is your reaction to this suggestion?

Mr. WEINBERGER. We do that in a general way, Mr. Chairman. There is a tremendous amount of imprecision.

Chairman PROXMIRE. I am not talking—I am talking about what your reaction is.

Again, this is not a direct request as the other was. What is your reaction to a detailed projection?

Mr. WEINBERGER. I think the value of it varies inversely with the amount of detail required.

5-YEAR PROJECTION VERGES ON THE ABSURD

The British have a rolling 5-year budget also, and I have talked with several of the people at their Treasury about it, and we do it;

but when you get down to trying to say in 1972 that your expenditures in 1977 or 1978 are going to be $121.25 million for a particular activity, it verges on the absurd. We know now the approximate thrust, which is almost always upwards, of existing programs that are on the books and we can make projections with respect to unemployment conditions, gross national product, the population growth, and things of that kind, and we can get in a general way the thrust of where the present programs will take us, assuming no change in world conditions.

Now, just——

EFFICIENT CORPORATIONS PROJECT COSTS

Chairman PROXMIRE. What really is absurd, Mr. Director, it seems to me, is buying a pig in a poke. We are not asking a great deal. We are asking what these projections are, what every big corporation that has any efficiency does, projects what their costs are, what their sales will be, but they are in considerable detail if it is any kind of a corporation, and they hold their subordinate people right along the line to those estimates as much as they possibly can.

It seems to me if we are going to get control of spending, if we are going to know what these enormous programs that we authorize and then expect to fund in the future are going to mean, we should have them spelled out.

UPWARD THRUST OF EXISTING PROGRAMS KNOWN IN A GENERAL WAY

Mr. WEINBERGER. Mr. Chairman, we do know in a general way the upward thrust of these programs. We reported in our statement in a portion I did not read, but that I will be glad to read now, the out-year effect of some of these existing programs, and let me just quote this right here.

> The long-range estimates are projections, not forecasts. The estimated receipts assume current and proposed tax legislation at the time the projections are made. The outlay estimates assume no new Federal initiatives beyond those proposed by the President at the time the projections are made. Thus, the outlay projections, in particular, are quite conservative. Even so, they show a margin 4 years out that is both tenuous and precarious, providing virtually no room for new programs or expansions of existing programs that are not offset by reductions either in those programs or elsewhere in the budget.
>
> They say, in short, that our current budget problems are likely to be with us for some time to come.

Now, we have those and they have been made public; they were included in the midsession report. We will be glad to make them again.

However, I think the idea of writing a budget 5 years out on the assumption that you can go back through it and change just a few pieces and it will still be your budget is, to say the least, naive and not realistic.

INFORMATION ESPECIALLY IMPORTANT ON COSTLY HUMAN PROGRAMS

Chairman PROXMIRE. I do not have that view and I do not know anybody who has. Of course, we do not have that and cannot expect to have that view. But I think we should know, as I keep repeating over and over again, especially on these human programs that are going to cost so much, where they are going to go. We ought to know in detail.

I think that if we had a better idea, for example, where that higher education program was going, we might have modified it quite constructively and improved it.

Mr. WEINBERGER. We made every effort to bring that to the attention of the Congress, Mr. Chairman. We have done the same thing with the proposed social security increases and we have done it with all of the programs that we have been asked to comment on. We have it, and we have made public our long-range view as to what this is going to require.

CHANGES VITIATE EFFECTIVENESS OF PROJECTIONS

We know, for example, that we will have a budget margin of just about $5 billion, 5 years out, assuming we do not have any reductions and assuming an ongoing upward thrust as closely as we can figure it on some of these programs now. But the number of changes that occur vitiate to some extent the effectiveness of trying to do this in line item detail.

Just since January there have been a very substantial number of changes with respect to the President's peace initiative and the SALT agreements.

Also there was enacted the black lung bill, which will cost us a billion dollars next year.

Chairman PROXMIRE. I think you are right, anything that affects international affairs. They change so dramatically and they obviously need a great deal of flexibility, but I think domestic programs are less likely to change——

Mr. COHN. Mr. Chairman, may I add a point to that?

ADMINISTRATION IS LEARNING AND PROGRESSING

I would not like the record to appear as negative as I think it might. We have all been learning in this business, and I think if you look over the last four budgets you will find we have made a lot of progress.

For the first time we have included a 5-year outlook. We may differ about the detail of it and the number of years shown, but we have made a start. I think we are adding more to it.

This year with the midsession review, we have added more information on the 5-year basis. We are learning and I have no doubt that at some period in the future we will have even more as we learn how to do this.

CONGRESS ALSO NEEDS TO LEARN

I wish the Congress would for one year have at least a 1-year budget so it would look at the whole budget and issue a report that it would stick with. We are hoping the Congress will learn to get there, too, just as we are learning.

Mr. WEINBERGER. Mr. Cohn makes a very good point.

Chairman PROXMIRE. I think he does and I accept it. I think it is an improvement, a great improvement, but I do not think it complies in full with the law and I think you can, and if you do we can improve it more.

My job here is to try to push you fellows into doing a better job than you are doing, although I think, as you say, there has been an improvement.

Mr. COHN. We understand that and we will accept the criticism. We listen carefully to the committee. We have added many things over the years in the budget because of suggestions of this committee. We do everything we can.

Now, of course, as I said, we think we have complied with the Legislative Reorganization Act, but you mentioned the higher education bill.

THE HIGHER EDUCATION BILL AS AN EXAMPLE

Now, as I read the Legislative Reorganization Act, if the committee that reported that bill does not provide a 5-year projection, of its cost——

Chairman PROXMIRE. You are right.

Mr. COHN. It is not in order and can be objected to on the floor. I think that was an innovation that could be taken advantage of and if the committee that was required to report asked for the estimate from the responsible agency, it could get it. And I think that——

DILIGENT WORK BY OMB MIGHT HAVE IMPROVED THE PROGRAM

Chairman PROXMIRE. Let me take that. I was going to get into something else, but as long as you have raised that higher education situation, here seems to me to be a good case study where diligent work by the Office of Management and Budget might have given us a greatly improved higher education program than we have had in the past.

JEC-AUTHORIZED STUDY INDICATED WEAKNESSES

This committee authorized a study by David Mundell and Robert Hartman, two experts in the area of higher education, and they prepared a study indicating significant weaknesses in our higher education subsidies which have only been partially alleviated by recently passed higher education legislation.

First, they found there is a duplication of effort as old programs never die and new programs fade in.

Second, they found Federal higher education subsidies are built into the Federal budget in uncontrollable form, leaving Congress with little margin to respond to new needs. They also found that those who needed the assistance the most and were kept from going to college because they did not get the assistance were the ones who had not been benefited in the past and probably are not going to be benefited in the new higher education legislation.

CONGRESS MADE PRINCIPAL ERROR

I think that here again Congress is delinquent and Congress is the principal—made the principal error here, perhaps—but I think it could have been helped greatly by criticism by the executive branch along these lines.

Mr. WEINBERGER. My impression is that that information was communicated to the substantive committee that was considering the bill. If that is wrong——

JEC CONCLUSIONS TOO LATE

Chairman PROXMIRE. Well, this information I read was not communicated. Unfortunately, it was completed just a little too late. We got it I think the day after the Senate acted.

Mr. WEINBERGER. Those are conclusions which your study team reached. The information is susceptible of the same interpretation when others look at it and those statements sound very familiar; I would suspect that they come very close to the conclusions we reached in our report on the bill.

"CONTROLLED DEFICIT" PROGRAM

Chairman PROXMIRE. In the Sunday New York Times Ed Dale wrote about a "Controlled Deficit" program to achieve full employment without runaway inflation. This was discussed somewhat when Charles L. Schultze, one of your predecessors, testified in these hearings. Under this concept, as I understand it, we would continue the large deficits to spur the economy and create jobs, while keeping the lid on wages and prices through the existing controls.

What is your reaction to this idea?

REACTION NEGATIVE

Mr. WINBERGER. Very negative, Mr. Chairman.

Chairman PROXMIRE. Well, let me get into that. We have all made the assumption that full employment, as I understand it, is 4 percent. Some people in the executive branch have challenged whether that is realistic. Others have said there is no reason why we could not get down to less than that.

COMMITTEE STUDYING 2 PERCENT UNEMPLOYMENT GOAL

Mr. Schultze said he was thinking—he did not propose 2 percent as a full employment goal or favor it or oppose it, but he said it is worthy of consideration and this committee is making a study of it.

This committee I think has this kind of responsibility and I certainly do not mean to favor this notion, but I think we ought to know just where it leads us.

We had a dramatic experience in World War II, an experience where we got down to less than 2 percent unemployment, an experience in which we had immense increase in productivity, in which we had our resources, especially our human resources, more fully utilized than ever before.

COMPARISON OF U.S. UNEMPLOYMENT WITH OTHER COUNTRIES

We now have a system of wage and price controls in effect. At the same time we have a very bad record of heavy unemployment. We look at free economies in Japan which has an unemployment rate of less than 2 percent. Germany that has seven-tenths of 1 percent unemployment.

We look at almost all the other free countries in the world that have far, far less unemployment than we have. They have different problems. They have more homogenous societies, et cetera, but nevertheless

they are able to do this with no controls, able to do this with inflation, true, but inflation no worse than ours.

Mr. WEINBERGER. Oh, yes.

WHY NOT RUN ECONOMY FULL BLAST?

Chairman PROXMIRE. Well, certainly in recent years it has been no less than ours. In the past couple of years Germany's unemployment has not been as bad as ours and, as I say, they have seven-tenths of 1 percent unemployment. If they had 3 percent unemployment, let alone 6, they would have a revolution there. So why is it not worth at least our consideration, as long as we have controls in effect why not try a program of running the economy full blast.

This would greatly increase Federal revenues. This would solve many of our welfare problems because people who are now receiving some kinds of Federal grants or income would be working and paying taxes.

INCREASING DEFICIT WILL NOT AUTOMATICALLY INCREASE EMPLOYMENT

Mr. WEINBERGER. Well, Mr. Chairman, there is an assumption that as you increase your budget deficit, even with very little analysis of what you are spending the money for, you automatically increase employment, and I think this is one of the fundamental misconceptions right at the beginning.

Chairman PROXMIRE. Let me just interrupt to say this has not been my assumption. I think you are absolutely right. You can run the wrong kind of deficit. You can spend in the wrong kinds of areas and may not get more employment.

BUDGET NO FINE TUNING INSTRUMENT

Mr. WEINBERGER. I am glad you agree with that. The other part of the problem is the same thing we have been discussing a moment ago: The budget, with 71 percent of it uncontrollable—a proportion which is unfortunately increasing—is anything but a fine tuning instrument to be used to bring the economy to any particular condition that you want. It can be used in a broad brush way when the economy is well below its full potential to do some stimulation; it has been used for the purpose, and it has produced some stimulation.

The problem is that when the times no longer call for stimulation, and I think this is clearly one of them, it is very difficult indeed to remove that stimulative effect from the budget.

ADVISABILITY OF ADOPTING TEMPORARY PROGRAMS

Chairman PROXMIRE. Now, have you taken a look—some of the recommendations from Arthur Okun and others, for example, have been very constructive along this line recommending and emphasizing, instead of letting the Government become an engine of inflation which, you are right, it would become if we permit these to become permanent programs, we deliberately accept or adopt temporary programs to be terminated at specific periods of time and to be closed out as unemployment does diminish.

Mr. WEINBERGER. Mr. Chairman, if you——

Chairman PROXMIRE. Why is that—has your agency studied if we can adopt that?

NO GUARANTEE TEMPORARY PROGRAMS WOULD END

Mr. WEINBERGER. I am familiar in a general way with them and if you could give me any kind of a guarantee that any program labeled "temporary" would ever end, I would be delighted to consider these studies more seriously. But you must remember that we are still running a railroad in Alaska and a steamship company in Panama that were put in for the purpose of aiding construction of facilities.

Chairman PROXMIRE. My whole questioning has been we ought to end some of these programs and I think it is possible. WPA ended.

Mr. WEINBERGER. And RFC ended about 2 years ago.

Chairman PROXMIRE. I hope the President's wage and price controls programs are going to end, either that or we just ought to use it——

Mr. WEINBERGER. Well, it may. It is a program that may very well end because it is not a program that involves the spending of money. But the programs you are talking about, Mr. Chairman, are programs that involve the spending of money, and I have in mind particularly the water and sewer demonstration grants which were supposed to show small cities and counties how they could profitably and efficiently build a small sewer. This used to be the prime example of a local government function, but as I am sure you know, the Federal Government is now spending just over 40 percent of the cost of sewage disposal in the United States. That is the way temporary programs for budgetary expansion usually end up.

WHAT PROGRAMS WOULD REDUCE UNEMPLOYMENT MOST SWIFTLY AT LEAST COST?

Chairman PROXMIRE. Why wouldn't it be constructive and useful for your agency to make a study of what particular kind of government programs would help us to reduce unemployment more swiftly, for the least cost, and on the most—on a basis which could be terminated? There are some such programs. Perhaps to some extent we might say the programs assisting public service employment by the cities are. Maybe your revenue-sharing program. It may be or may not be.

REVENUE SHARING BEST HOPE; PUBLIC SERVICE EMPLOYMENT IS NOT

Mr. WEINBERGER. We think revenue sharing with the priorities left to local governments to make their own determination offers the best hope of this. Public service employment, I suggest, does not. It is designed for temporary purposes to alleviate unemployment.

As you know, it doesn't help any in the statistics because it isn't counted.

Chairman PROXMIRE. I apologize for interrupting except I do think you ought to be able either to document that with some kind of a study or analysis or it seems to me the generalization is one that the people have generally accepted because it is their bias rather than based on an analysis which can be convincing.

Mr. WEINBERGER. Well, I don't really think so, Mr. Chairman, because by its very nature, public service employment is supposed to be temporary. It is supposed under this bill, not under the bill the President vetoed, to be accompanied by training to move people out of public service employment into some kind of permanent employment. Now to the extent it can do that, it may have a longrun effect, but you don't get any short run, immediate effect from it.

Chairman PROXMIRE. Why is our record so much worse?

Mr. WEINBERGER. I am sorry?

WHAT ACCOUNTS FOR U.S. POOR UNEMPLOYMENT RECORD?

Chairman PROXMIRE. Why is our record in unemployment so much worse? It is obviously not a partisan matter but this country, throughout the years, even in prosperous times has had far heavier unemployment than other industrial countries. Why?

UNITED STATES FEELS COMPELLED TO REBUILD COUNTRIES IT DEFEATS

Mr. WEINBERGER. There are two or three very different fundamental factors between ourselves and Japan and West Germany. First, in all seriousness, Mr. Chairman, those are both countries we defeated in a war, and when this country defeats another country in a war, we feel some compulsion to rebuild it immediately. In this way we have contributed very materially to the development of a modern plant in Japan, far more modern that our own in many cases.

I am not saying this is right or wrong but this is what has happened.

JAPAN IS THE ENTIRE ECONOMY—"JAPAN, INC."

Second, in Japan the Government practically speaking is the entire economy. They have the ability, though there are private industries and all the rest, they have the ability to order things such that the entire economy moves as one. It is referred to, as you know, I am sure, frequently as Japan, Inc.

A third factor is that their people have had a different approach to life. They have had far less taste of freedom.

Chairman PROXMIRE. Far less of what?

Mr. WEINBERGER. Far less taste of individual freedom and liberty; they are subject to far more discipline than any American would want or should get. I am sure you know——

Chairman PROXMIRE. These are all very interesting and you may well be dead right but they are generalized conclusions.

Mr. WEINBERGER. They are generalized conclusions.

Chairman PROXMIRE. It seems to me a careful study of Germany, for example, which isn't that much different than our economic system, a study perhaps even of Italy and France and some of these other countries that have far lower unemployment, to find out why it is, how it is.

COMPETITIVE ADVANTAGES GAINED BY FEWER TRADE RESTRICTIONS

Mr. WEINBERGER. I am trying to give you some of the reasons, Mr. Chairman. There are undoubtedly others. Another is that these countries put rather substantial restrictions on our trade with them,

whereas we put very few on their trade with us. We have, therefore, given them a substantial competitive advantage over the years.

Chairman PROXMIRE. Until last year we had a consistently favorable balance of trade with all these——

Mr. WEINBERGER. Balance of trade but not balance of payments.

Chairman PROXMIRE. That is right. The balance of trade is where the jobs are.

Mr. WEINBERGER. This brings me to another point and that is that we have maintained the nuclear shields over these countries, Japan and West Germany, for a very long time, since the end of the war.

U.S. MILITARY SHIELD LESSENS MILITARY BUDGET FOR OTHER COUNTRIES

Chairman PROXMIRE. That is an argument advanced by some of the people who take the view that the problem is that we have provided the military shield and they haven't had to put as much of their budget into defense as we have.

Mr. WEINBERGER. Not as much of their budget. Practically none. They are forbidden to by treaty.

Chairman PROXMIRE. It is hard for me to understand how that creates more unemployment. If we are providing 70 percent of the defense of the free world, we should have more employment.

MORE FREEDOM TO DEVELOP PRIVATE SECTOR

Mr. WEINBERGER. No, sir; I don't agree. They are free to a much greater extent to develop the private sector of their economy, rather than having their prosperity depend on a war. It is the great goal of the President to secure prosperity without inflation and without a war, something we have not been able to do for many years.

Chairman PROXMIRE. Then you are saying that nondefense spending produces more jobs.

NONDEFENSE/NONGOVERNMENTAL SPENDING CREATES MORE JOBS

Mr. WEINBERGER. Yes, sir; I am convinced that it does, and I am convinced that it is generally better for the economy—not just nondefense spending, nongovernmental spending.

Chairman PROXMIRE. I agree with that idea. My instincts tell me that ought to be right and moral somehow but it still puzzles me as to how if we have people employed in helping defend the free world, largely military force compared to other free countries——

Mr. WEINBERGER. We are spending it over there.

Chairman PROXMIRE (continuing). Why we should have unemployment.

AMERICANS HAVE GREATER INDIVIDUAL FREEDOMS AND LIBERTIES

Mr. WEINBERGER. We are spending it over there. That is what contributes to the unfortunate imbalance of payments. As far as the unemployment is concerned, we have a great many factors which differentiate our economy from theirs. Many of these factors arise from the individual freedoms and liberties which our people have,

which we should have, which we wouldn't want to give up and which do not produce any inefficiencies, but which certainly give the Japanese a great competitive advantage.

I am sure you know that on the coffee break in Japan, no one sits around drinking coffee. They sit around singing songs about increasing the GNP. Their whole attitude is fanatical dedication to rebuilding a country that was very largely destroyed in the war. Japan has been very quickly rebuilt.

Chairman PROXMIRE. That recovery was 4 or 5 years ago, they vastly exceeded simple recovery. We could hire people to sit around and sing songs about improving our GNP.

Mr. WEINBERGER. I mention it only to indicate the difference in attitude, which is substantial.

REQUEST FOR OMB STUDY OF 2 PERCENT UNEMPLOYMENT

Chairman PROXMIRE. Let me ask you, if you would, and I realize this is the kind of a request you may have to say no to, but I wish you would give it consideration, give us a study and report the findings to this committee of the effects of an all-out Federal effort to reduce unemployment to 2 percent on the assumption that we could keep the controls we have, make them more effective, what the budgetary cost would be, what the revenues will be.

Mr. WEINBERGER. We will try and do that, Mr. Chairman. You will have to give us one thing at the beginning, a changed basis for statistics, because none of the people we would put to work in public service employment would be counted as employed.

So, that one of the other problems I didn't get into in the——

Chairman PROXMIRE. Say that again. None of the people you put to work would be counted as——

Mr. WEINBERGER. Public service employees do not count as employed for 1 year unless they happen to be in the kind of position where they jump two grades before the end of the year, which is very rare.

Chairman PROXMIRE. Maybe that is something you will have to modify.

Mr. WEINBERGER. Yes.

Chairman PROXMIRE. In addition to that I am not one of those who feels that the lion's share of that can come from public service employment. I think most has to be in the private sector.

Mr. WEINBERGER. I think so, too, and I don't think building your deficits and pouring out a lot more money will produce that. The thing Mr. Dale is talking about—and I am sure he is not recommending it, because I know him, but he is reporting it—is more of the same, so-called soaking up the unemployment figures by pouring out Federal money for continuation or expansion of programs.

STATISTICAL BASIS FOR CALCULATING UNEMPLOYMENT DIFFERENT IN OTHER COUNTRIES

I would like to mention in addition that one of the other differences between the two countries you mentioned and ours is the statistical basis for calculating unemployment.

Chairman PROXMIRE. That is a difference but it certainly doesn't account for anything like the whole differences——

Mr. WEINBERGER. It accounts for some. We have a very substantial amount of work to do in revising the whole basis for calculating unemployment.

FIGURES ADJUSTED BY BLS

Chairman PROXMIRE. The figures I have been offering on unemployment were adjusted by BLS to take into account the difference of statistics.

We have had Mr. Moore before us every month for the last 16 months and I have been after him on this and he made the adjustments.

OPPOSITION TO DEFICIT SPENDING

Do you agree with the administration policy of incurring the huge deficits we have been getting in the past 3 years? I seem to recall that you personally oppose deficit spending and feel strongly about balancing the budget.

Mr. WEINBERGER. Mr. Chairman, I have indicated my worries about the difficulties not so much of applying a policy of this kind—it is easy enough to apply—but of withdrawing from it when the need is no longer there. I think these are worries shared by everybody in the administration. The economy was running below its potential because we had a substantial amount of inflation to take out of it at the same time we were ending a major war; in order to restore things, fiscal stimulation was used and did have that effect very obviously.

But the problem with all of these things, Mr. Chairman, is that the fiscal weapons are, as I said, very blunt, not fine tuning instruments at all. For one thing, it is difficult to reduce spending because 71 percent of the budget is uncontrollable.

Another factor concerns lag. We inject fiscal stimulation into the system not when the President proposes a budget nor even when it finally gets enacted; there is about another 12, 18, 24 months in the case of highway money before it actually enters the economy. It is pretty hard to predict that far ahead whether you are going to need stimulation.

We have injected stimulation into the economy. I would be very skeptical, and I think the administration fully shares this view, of injecting more at this time because it will enter the economy about a year from now, maybe 18 months from now, and at that time I think you will clearly not need it.

One other thing that——

FEAR OF FULL EMPLOYMENT

Chairman PROXMIRE. Do I detect a real fear of full employment?

Mr. WEINBERGER. No, sir. No fear of full employment.

Chairman PROXMIRE. You are so far below it now.

Mr. WEINBERGER. Yes, but——

Chairman PROXMIRE. We have a situation where we have 6 percent, roughly 6 percent. We have been on that dead center month after month after month in spite of great improvements in other areas of the economy.

Mr. WEINBERGER. There is no fear of full employment but the——

Chairman PROXMIRE. The prospect that we are going to go too far in employing people seems very remote.

Mr. WEINBERGER. No; I am not in the least worried about going too far and employing people. What I am trying to attack is the myth, which I am disappointed to see you apparently share, that we can cure unemployment by pouring out Federal funds; I think that has been——

Chairman PROXMIRE. I don't share that myth at all. What I say is that——

Mr. WEINBERGER (continuing). What you can do——

MEETING HOUSING NEEDS WOULD CREATE JOBS

Chairman PROXMIRE (continuing). There are ways of getting at this. Other countries have done it and we ought to find out how and most of it can be done and I think this housing—for example, we can have at least another million jobs if we provide the right kind of stimulus almost entirely in the private sector, very little leverage on the part of the Federal Government.

Mr. WEINBERGER. We have a higher rate of housing starts than ever before, and it is increasing again after a couple of months of leveling.

Chairman PROXMIRE. The administration keeps saying that but, of course, we have had a country that has been growing enormously and the housing was a great disappointment.

HOUSING STARTS DISAPPOINTING

We went down below a million housing starts in 1966. And the housing goals set by the Proxmire amendment to the 1968 Housing Act, 26 million housing starts in the 10 years beginning 1968. We are not going to be anywhere near that. We are far, far below it and we haven't reached the 2.6 million a year in any year or come close to it and as you say, we have been going the wrong way in the last couple of years and interest rates are rising. So, it seems to me we have a really serious problem here.

Mr. WEINBERGER. Well, I just want to conclude on housing by saying that your committee, Mr. Chairman, has pointed out that some of the existing programs supply housing for people who aren't as much in need of it as others and that there isn't so much a need for expansion of the Federal subsidies to produce housing as there is a need to look at the direction that some of the spending is taking.

Chairman PROXMIRE. I agree with that.

ARE OMB PROTECTED DEFICITS ACCEPTABLE OR DESIRABLE?

Now, in its midsession review of the budget OMB projects a $27 million deficit in the actual budget and a $3 billion deficit in the full employment budget for fiscal 1973.

Do you regard these deficits as acceptable or desirable? Do you think a $3 billion full employment deficit is necessary to further stimulate the economy, or would the administration prefer to reduce these deficits?

ADMINISTRATION PREFERS FULL EMPLOYMENT BALANCE

Mr. WEINBERGER. We would prefer to get a full employment balance. That is the goal to which we have been working. As I say, it is made very difficult by the addition of unexpected programs or events that tend to require much higher outlays, but we believe that if you can get into the $1 billion, $2 billion full employment balance, surplus or deficit range, you are approximately right for the kind of economic conditions that the country now sees immediately ahead.

TAX REFUNDS WILL STIMULATE ECONOMY

I wanted to mention one other point on stimulation, Mr. Chairman, and that is, as you know, that next April approximately $5 to $6 billion in additional income tax refunds will be injected back into the economy and it will add to whatever fiscal stimulation is hitting at about that time.

Chairman PROXMIRE. You just mentioned the withholding situation. In the midsession review of the 1973 budget, fiscal 1972 receipts are estimated to be $9 billion above the January estimates. How much of this $9 billion is due to overwithholding?

Mr. WEINBERGER. I am going to ask Mr. Cohn if he knows the breakdown on that. Frankly, I don't.

Mr. COHN. Whatever——

Chairman PROXMIRE. Let me complete the question.

There are three questions. You can answer them all at the same time.

QUESTIONS REGARDING OVERWITHHOLDING

How much of this $9 billion is due to overwithholding?

Second, what is the total overwithholding in fiscal 1972?

And third, what would the fiscal year 1972 deficits be without overwithholding?

Mr. COHN. Let me say first we are still dealing with estimates for fiscal 1972, and even when we have the final totals for individual income taxes we won't have enough records available to answer your question factually. We will still be making estimates for the next couple of years.

Chairman PROXMIRE. We don't expect a precise answer.

Mr. COHN. We think the change in the estimate of revenues, the part that is due to overwithholding in fiscal 1972, is about $4.5 billion. The total overwithholding——

Chairman PROXMIRE. Say that again. I am sorry. I missed that.

Mr. COHN. The change in revenues from our January estimate, the increase in budget receipts, fiscal 1972——

Chairman PROXMIRE. $9 billion?

Mr. COHN. Is about $9 billion. About four and a half, roughly, is due to overwithholding, overwithholding more than we had assumed. That answers your first question. We had assumed there would be some overwithholding. We thought it might be about $2 billion and now it seems to be about $6.5 billion in total. I think that answers your second question.

We think that the——

Chairman PROXMIRE. So without overwithholding, then, mathematically we could figure it would be $4.5 billion, the deficit would be $4.5 billion greater. We have to consider the $27 billion as $31.5——

Mr. COHN. I am talking about fiscal 1972. Instead of 26 you would have about a 30 to 31.

Chairman PROXMIRE. As I understand your estimates, the figures for fiscal 1973 anticipate continued overwithholding. If the tax committees adjust the rates so there is no overwithholding, what will be the estimated fiscal year 1973 deficit?

Mr. COHN. Well, I am afraid I can't answer that. I would have to consult with the Treasury Department who helped us prepare these estimates, but I should clarify one point. I know that we are assuming in these estimates a decline in the amount of overwithholding. We are not assuming that it will disappear, but there is a decline in it, and the change from year to year is not very much affected. It is the first year with the new withholding system that you get the big impact, and then you pay out in refunds the next year the amount that has been overwithheld. If you are still overwithholding, you collect it again and the net effect of the refunds roughly washes out.

But there is still some overwithholding assumed in 1973.

JEC STUDY OF INTERNATIONAL SUBSIDIES

Chairman PROXMIRE. The Joint Economic Committee just recently published a volume of studies evaluating selected international subsidies. One study concluded that the "Buy American" subsidy might actually harm the very people it should be helping, No. 1.

No. 2, another study concluded that the Eximbank credit subsidies have very little or no effect on stimulating exports. This was an assumption that is very hard to come by in the Congress. Everybody wants to bet on that export-import wagon and exempt it from the budget which I think is a mistake.

No. 3, the final study argues that certain international tax subsidies may reduce U.S. productivity.

Has your staff evaluated these studies? The "Buy American" is the first, Eximbank is the second, and the international tax subsidies reducing U.S. productivity is the third.

Mr. WEINBERGER. We are generally familiar, Mr. Chairman, with the Eximbank because while, of course, their budget is removed from the budget, we do have the obligation still to review it and make reports on it. The examination of those other subjects generally would be, I think, more properly within the sphere of the Council of International Economic Affairs and I would suspect that that would be the place to go.

We will see what we have with respect to "Buy American." We may have something on that. But I think that those are matters which affect our international economy and would properly be there.

INTERNATIONAL TAX SUBSIDIES

Chairman PROXMIRE. Did you have any observation on the international tax subsidies, subsidies that permit deduction, for example, for depletion abroad, oil depletion also that permit a deduction for royalty payments from the tax, tax credit.

Mr. WEINBERGER. Mr. Chairman, I don't know that I have any observation that would be particularly useful for the committee. I do think there is a genuine need to encourage and increase our foreign trade and restore our balance of trade and balance of payments. Some of these may have the effect you say, but I don't think I have anything other than general observations because those aren't within our immediate ken.

"BUY AMERICAN" ACT

Chairman PROXMIRE. Doesn't your office have responsibility in the area of "Buy American?"

Mr. WEINBERGER. We aren't charged with any enforcement of it. That has been delegated to agency heads under Equal Opportunity 10582. Whenever an agency head determines that exceptions should be made to the general Buy American rules specified in that order, he is required to submit a report to the President through us. Therefore, we are familiar with it.

Chairman PROXMIRE. Any legislation affecting that doesn't have to be cleared with your office?

Mr. WEINBERGER. Legislation that affects all of these matters goes through our legislative clearance process. What we try to do with that, as you know, is resolve any differences that might exist between agencies and in that connection we have looked at some of the proposals in that field.

RETROACTIVITY OF REVENUE SHARING

Chairman PROXMIRE. The administration statements have recently stressed the need for restraints in spending to keep from overstimulating the economy in 1973. In view of this danger, does the administration still feel revenue sharing should be made retroactive to January 1972?

Mr. WEINBERGER. The administration position so far as I know, still is that revenue sharing should be retroactive. The decision was made some time ago, and I am not aware of any change.

Chairman PROXMIRE. It was made some time ago but in the light of the present economic situation do you——

Mr. WEINBERGER. I have heard nothing to the contrary.

Chairman PROXMIRE. What is your own personal view?

Mr. WEINBERGER. I would want to examine the whole fiscal situation as we see it before making a presentation to the President.

REPORTING OF PROFITS BY LINES OF BUSINESS

Chairman PROXMIRE. Mr. Weinberger, one of your great acts, and I think you were a fine Chairman of the Federal Trade Commission—one of your most outstanding acts was your insistence on better information on financial developments by line of business. You took the leadership on this problem. You recommended to the Budget Bureau that the FTC take over the regular, full-scale, reporting of profits by lines of business.

Now you are head of the Office of Management and Budget. I am hearing disquieting reports that your agency—the OMB—is actively fighting the development of such reporting. I hope I am wrong. This reporting of profits by lines of business is basic to our better under-

standing of what is happening in the economy. Mr. Grayson, Chairman of the Price Commission, has expressed the need for such information. But he seems to feel the information must be kept secret.

TRANSFER OF FUNCTION FROM FTC TO COMMERCE?

Now, the OMB seems to be adopting the same line. I am discouraged. Reports I hear are very disturbing. Are you planning to have the quarterly financial report transferred to Commerce? If so, why? Are the reports true that you now want the compilation of profits taken away from the FTC because you are afraid it would be used for regulatory purposes?

Mr. WEINBERGER. With all respect, Mr. Chairman, you are wrong. We are not fighting it. We do feel additional reporting and additional information is very useful and very important to have, particularly with companies engaged in different lines of commerce and different lines of activity.

There are a great many problems that must be worked out regarding the gathering and dissemination of the information when you get into a company-by-company analysis because you do have a competitive system. You do have antitrust laws. And you have the problem of where it is best compiled and where it can be most efficiently gathered and distributed.

I am not aware of any formal change or recommendation for change that has been made at this time. We have made, through our Statistical Policy Division, an examination of this problem and they have certainly received a lot of suggestions and recommendations from others and a lot of difficulties have been pointed out.

Maybe Mr. Cohn has something he would want to add on that.

Chairman PROXMIRE. Let me be more specific. I understand present planning calls for the transfer of quarterly financial reports to Commerce. I want to know where in Commerce and isn't this sort of like giving the fox the responsibility for guarding the chickens?

Mr. WEINBERGER. No; I wouldn't think so, Mr. Chairman.

First of all, let me say I am not aware of any formal decision to do that, and, second, I think we would have to assume that the people in the Department of Commerce who would do this work, like the people in the Department of Labor and FTC, are career civil servants, and the career civil servants I have encountered have been thoroughly dedicated and able people, people who would do a good job. It is simply a matter of what is the most efficient place for it.

But I am not aware of any recommendation for change, nor would I have any fear if a recommendation of that kind should be made.

Chairman PROXMIRE. You wouldn't have any fear no matter where it was put?

Mr. WEINBERGER. Well, I would want to examine what seemed to me the best place to do it from the point of view of efficiency, existing personnel, existing computerization, and that kind of thing.

When I was at the FTC I concluded we needed this information and that we had a section or a group of people——

Chairman PROXMIRE. Why wouldn't FTC be the best place?

Mr. WEINBERGER (continuing). Able to do this work.

The program was conducted jointly with SEC, and we discussed with them for a while a combination, trying to work out savings in that.

INVOLVEMENT OF THE CENSUS BUREAU AND BUREAU OF ECONOMIC ANALYSIS

Chairman PROXMIRE. Are the collection and analysis of these data being handed over to the Census Bureau? Where does the Bureau of Economic Analysis stand in the——

Mr. WEINBERGER. In the Department of Commerce.

Chairman PROXMIRE. Yes; first I want to know where the analysis of data is being handed over to the Census Bureau and, second, I want to know where the Bureau of Economic Analysis stands.

Mr. WEINBERGER. I would have to get an answer on the latter. Whether it is going to the Census Bureau or not, I don't know. The Census Bureau is rather fully protected by most of the privilege statutes and would be the place most likely to relieve any doubts and worries that people had who were concerned about too much information about themselves getting out to competitors. But whether it is going——

Chairman PROXMIRE. That is what concerns me, you see. That is exactly it.

Mr. WEINBERGER. I don't know whether it is going there or not.

Chairman PROXMIRE. You understand that is one of the reasons for handing it over to Commerce, to preserve confidentiality

Mr. WEINBERGER. Commerce or Census? The Census is in a different category, Mr. Chairman. They are part of the Department of Commerce but material within the Bureau of the Census is protected as I understand it by unique laws and regulations, which might not be, and in most cases probably would not be, of application to other units of the Department of Commerce.

The short answer is I really don't know because I haven't seen any recommendations of a conclusive nature on this at all.

Chairman PROXMIRE. You see, for years SEC and FTC have collected these data.

Mr. WEINBERGER. That is correct.

BREACHES OF CONFIDENTIALITY

Chairman PROXMIRE. Has either agency ever broken financial confidentiality?

Mr. WEINBERGER. Not while I was there, not to my knowledge.

Chairman PROXMIRE. I don't think they ever did, never.

Mr. WEINBERGER. We did have some breaches of pledges that had been made to people furnishing information in certain automobile studies that I felt concerned about. They did amount to breaches of pledges. But I am not aware of material that——

Chairman PROXMIRE. What breaches are you talking about?

Mr. WEINBERGER. There was an automobile warranty study in which detailed cost information had been given to the Commission on the pledge that it would not be revealed, because it would have a competitive effect, an antitrust factor, and would reveal cost data. Unfortunately that pledge was not kept to the people who furnished the information. I heard about it shortly after I came, and I was concerned because it involved the Government's pledging its word and not keeping it.

Chairman PROXMIRE. What agency was that?

Mr. WEINBERGER. FTC.

Chairman PROXMIRE. When was that?

Mr. WEINBERGER. In the early spring of 1970, I suspect. It was a very minor incident and I mention it only since you mention the question as to whether it had leaked. I am not aware of the corporate financial data having leaked.

Chairman PROXMIRE. But it certainly wouldn't be sufficiently important for taking this away from the FTC?

Mr. WEINBERGER. No; that would have nothing to do with it. There would be much broader considerations—where it could be effectively and efficiently handled—and I wouldn't have any concern that moving it from one agency to another would make it either more or less vulnerable.

COLLECTION OF DATA UNDER PREEMPTIVE CONFIDENTIALITY

Chairman PROXMIRE. Collection of data under preemptive confidentiality rules could lead to less rather than more information on conglomerate activities. Can you assure us this is not so?

Mr. WEINBERGER. I guess I didn't get the thrust of your question.

Chairman PROXMIRE. Collection of data under preemptive confidentiality could lead to less rather than more information on conglomerate activities.

Mr. WEINBERGER. No; I don't think so. In gross, Mr. Chairman, the problem is that you are talking about company A, and if you publish everything about company A you could conceivably interfere with some of the policies governing our antitrust law. If you collect the data and gather it together so you talk about industry A or a line of commerce or something of that kind, you mitigate that concern, and I don't think that any kind of proper pledge of confidentialities necessarily involves gathering less rather than more information. It shouldn't. I don't think it would.

EFFECTS ON REPORTING DEFENSE PROFITS

Chairman PROXMIRE. I am especially interested in reports on defense-type profits. What are you doing to assure the adequacy of such reports? I want to know whether the Commerce Department will assure us more complete reporting than we can possibly get from the FTC.

Mr. WEINBERGER. I can't answer that. I don't know at this point. As I say, I haven't seen any firm recommendations that this be moved.

Chairman PROXMIRE. You don't know of any effects on reporting of defense profits?

Mr. WEINBERGER. Sorry.

Chairman PROXMIRE. Profits of defense contractors.

Mr. WEINBERGER. I would not want to move any activity from one agency to another unless I thought it could be handled better, more effectively, less expensively, more efficiently.

Chairman PROXMIRE. Will you give us a report before these decisions are solidified, before they are finally made?

Mr. WEINBERGER. Well, I will certainly try and get a report to you. It is a little hard sometimes to get a report to you before a decision is made, because there is nothing to report.

Chairman PROXMIRE. All right, sir.

Just a few more questions. I realize the hour is late and I think you have done an excellent, very responsive job this morning.

Mr. WEINBERGER. Thank you, sir.

REGULATIONS AND PURCHASING REVIEW BOARDS

Chairman PROXMIRE. In June of 1970, President Nixon appointed the Regulations and Purchasing Review Boards to determine whether and where Federal purchasing and regulations drive up costs and prices. This is one of the most specific and definite actions the President could take, the Federal Government could play in its role of holding down inflation.

Since 1970, Mr. Weinberger, you have served as Chairman of this Board. During your testimony before this committee in February you admitted the Board has not met since the new economic program was announced. I think it is critical if an inflation control program is to succeed that the Government be the first to correct its own inflationary spending practices.

LACK OF FORMAL MEETINGS

Has the Board met any time since the wage-price control program began almost a year ago?

Mr. WEINBERGER. The Board, I believe, met once during that period of time. However, I think the number of formal meetings with people, busy heads of agencies, gathered in a room around a table, is sort of misleading. I think if I reported to you that the Board had met 22 times you might feel that was evidence of fine activity. I would want to know what has happened.

Chairman PROXMIRE. What has the Board done if it hasn't met?

Mr. WEINBERGER. A great many things have been done. There have been a lot of studies initiated, one of them into the "Buy American" proposals that you mentioned and some of them into other things that, because of existing laws that are on the books——

Chairman PROXMIRE. Have any of those studies been completed or made available to the Congress?

Mr. WEINBERGER. I think we sent a substantial amount of information to you after the January or February hearings. The Executive Director of the Board told me that he had transmitted material to you.

NO STUDIES RECEIVED

Chairman PROXMIRE. He may have given us material. We received absolutely no studies whatsoever. Although this Board was created with great promise and is in an area where the Federal Government can make a great contribution to stemming inflation, it must rank as one of the most ineffective in the annals of government.

Mr. WEINBERGER. I wouldn't say so.

INERTIA OF THE BOARD

Chairman PROXMIRE. How do you explain the inertia that surrounds that Board?

Mr. WEINBERGER. I don't think it is inertia.

It is true that the assignments to the Board coincide very specifically with assignments and responsibilities that we have in the budget field and I think that is why my appointment to it was made.

OMB PERSONNEL ASSIGNED TO BOARD ACHIEVE BOARD'S PURPOSE

The Board is staffed almost entirely by OMB personnel. We serve the Board's purposes and achieve the Board's objectives very largely in our budget examination of purchasing practices, of procurement by the Government. Issues are also examined by the management side of our office, and we have, as a result of that, without a great many formal meetings of the Board, managed to identify problem areas and reduce inflation resulting from procurements methods.

There is also, of course, a Procurement Commission that works on very much the same thing, and there has been a substantial amount of overtaking of the Board's duties by the President's economic stabilization program.

Chairman PROXMIRE. But here is a Board that has met if at all only once.

Mr. WEINBERGER. Oh, no, Mr. Chairman. It has met many more times.

Chairman PROXMIRE. Are there any studies that you can list? It has accomplished nothing specific that you can tell us, met only once in the last year since the new economic program.

Mr. WEINBERGER. Well, a lot of the Board's responsibilities and duties were specifically overtaken by the economic stabilization programs announced by the President. The Board was set up as you say in 1970 when there was no income policy and——

Chairman PROXMIRE. As I understand it, the new economic program is not designed necessarily to control the impact of the Federal spending on inflation or Federal programs on the inflation but to control the private sector. We have a Wage Board and a Price Commission which have responsibilities with respect as to the private sector. They also have some responsibilities with respect to State and local governments. The Federal Government, however, which can have a profound effect on inflation in all kinds of ways, seems to be pretty much outside of that framework.

Mr. WEINBERGER. No, sir. One of the problems is the one we have alluded to throughout the hearing. The most inflationary action that can be taken by the Federal Government is, of course, allowing additional spending programs.

We do try frequently to get into activities that have a direct and immediate control on this. One of them, that we have been much criticized for, is an activity that is operated not so much by the Regulations and Purchasing Review Board as it is by the Budget Office itself, and that, of course, is the withholding of appropriations in certain areas and in certain activities when we believe that those can be inflationary—for example by contributing to heavy construction demand at a time when construction wages were very high.

We have been mindful of these responsibilities throughout our budget activities, and I think it should be pointed out that the Board was created, as you said, in July of 1970, at a time when we did not have any other weapons and indeed had a policy of not employing governmental action, jawboning, et cetera, because we much preferred

to have the opportunity given to the private sector to deal with these matters itself.

EXAMPLES OF WHAT THE BOARD HAS DONE

Chairman PROXMIRE. Can you give me two specific examples of what this Board has done?

Mr. WEINBERGER. Yes. We have conducted studies with respect to the purchasing of food by the Department of Defense. We have also done things very much more recently than that.

Chairman PROXMIRE. What was the result of your study of purchasing of foods by the Defense Department?

Mr. WEINBERGER. We found in some situations that purchase offshore would be less expensive. We found congressional statutes that prevent that.

There is something much more specific, however, that the Board has done. The Board secured agreement from all of the major purchasing agencies of the Federal Government after the Camp David meetings that the Government itself would purchase only from suppliers who complied with the freeze and later with the orders of the phase II groups. That directed Federal purchasing toward companies that were in compliance and away from companies that were not in compliance.

Chairman PROXMIRE. That was obviously after the Camp David meeting and after the new economic program was announced on August 15.

You told the agencies they must stay in line. But what—what followup, what specific discipline was exercised to see that the purchases were——

Mr. WEINBERGER. We have not found violations so far, Mr. Chairman, I am pleased to say. But it seems to me directing the total purchasing, the totals of which are shown in the national income account to be very substantial—I think the Federal Government is the largest purchaser of goods and services in the world. Now, if you require that purchasing to be directed only toward people who are in compliance, it seems to me you have made a substantial step toward controlling inflation right there.

Chairman PROXMIRE. Are you satisfied with this?

Mr. WEINBERGER. Yes. I am satisfied with the work of the Board, given its responsibilities, given the other agencies of the Federal Government that are doing this, and given my strong desire to avoid duplication, unnecessary meetings, and unnecessary activity.

Chairman PROXMIRE. Now, let me ask you finally some questions relating to my opening statement.

BIASED AND INACCURATE DEFINITIONS OF "HUMAN RESOURCES" AND "NATIONAL DEFENSE"

It seems to me that your claim that priorities have been successfully changed rests on biased and inaccurate definitions of "human resources" and "national defense." Isn't it correct that if spending for the veterans program and trust fund outlays were removed from the budget category "human resources" that it would be drastically reduced in size? Can you calculate what would be left and the percentage of Federal spending it would comprise?

Mr. WEINBERGER. I am sorry. I didn't hear—if what were moved, Mr. Chairman?

Chairman PROXMIRE. Spending for the veterans programs and trust fund outlays. If they were removed from the budget category of human resources, wouldn't that category be drastically reduced in size?

Mr. WEINBERGER. Well——

Chairman PROXMIRE. After all——

Mr. WEINBERGER (continuing). Not drastically, but obviously it would be reduced.

Chairman PROXMIRE (continuing). Social security was established in 1937 and Congress over the protest of the President constantly expands and increases its benefits. The President wants an increase this year, for example of 5 percent and Congress is going to provide a 20-percent increase. For the administration to say they are changing priorities by expanding social security seems at best to be an overstatement. This as I say is an ongoing program that doesn't relate to the fundamental thrust of the administration with respect to human programs.

Mr. WEINBERGER. Anything you remove from any category certainly would reduce it. Nobody is going to argue that. But the simple fact of the matter is that all of these are definitional problems, and we think programs primarily designed for assisting in education, gaining and maintaining health, are properly categorized as human resource programs. The veterans programs serve and take care of a great many people who did not have active participation in our wars, and you can put it either way. You can say that because they are veterans all these expenditures should be classified as ongoing national defense and national security. I don't think they should be.

WHAT PART OF CONTROLLABLE EXPENDITURES ARE FOR HUMAN RESOURCES AND WHAT FOR DEFENSE?

Chairman PROXMIRE. Let me put it in a more neutral form and say suppose you leave out uncontrollables which would be the highway trust fund, social security, et cetera; leave out the uncontrollables, and leave out also the veterans programs and then tell me what percentage of the controllable expenditures the President can control are for human programs and what for national defense.

Mr. WEINBERGER. I think it is misleading unless you no longer require me to disburse these funds from the Treasury. It is a percentage of the amount of Federal spending that is the critical factor.

SHIFT IN PRIORITIES DISCRETIONARY WITH THE PRESIDENT

Chairman PROXMIRE. The point I am making, the extent to which proceeding to shift our priorities into a more human area is discretionary on the part of the President, whether he has taken the initiative to do this. It seems to me there is a tendency to claim credit for increases in social security, for example, and to lump such things as the highway program as a human resource program because it is not defense, and to increase, include veterans programs in defense.

Mr. COHN. Mr. Chairman——

Mr. WEINBERGER. No. Highways——

SHIFT IN CLASSIFICATIONS USED BY BOTH PARTIES

Mr. COHN. Mr. Chairman, having been party to our functional classification since it was started in 1947, I must beg to differ with you. In no administration, Republican or Democrat, has any effort been made to shift that classification around just to claim credit or not to claim credit. I know it has been used, and it has been used by both parties when they were in the executive branch, to show in the best light the program of the President, and that is fair game if the work is done objectively and the figures are calculated correctly.

But the classification has not been changed just to effect the result. As I testified before you a year or two ago, there are many uses to which different classifications can be put and classifications can be changed for different purposes.

Chairman PROXMIRE. Well, now, Mr. Cohn——

Mr. COHN. I have no objection——

Chairman PROXMIRE. I am not saying that administration has changed the categories at all. I am not—I am sure that the thrust of my question may have seemed partisan, perhaps it was, but I didn't mean to charge President Nixon as against President Johnson or President Kennedy or any other President with shifting these things. All I say is that these categories seem to be biased; that we ought to somehow be able to discriminate between on the one hand——

Mr. COHN. Let me agree that——

Chairman PROXMIRE (continuing). On-going programs starting with the Roosevelt administration establishing social security which Congress increases substantially over the objections of most Presidents, more than they would have it increased and say this is the great evidence of the administration's program for changing priorities.

I would like to know what in the controllable areas, the areas where the President has discretion, what the proportions are between defense on the one hand and human resources programs on the other, excluding from human programs the veterans programs.

Mr. COHN. I am sure we can try to calculate that for you, Mr. Chairman, but I would prefer if we didn't try to find a way of casting credit or blame.

(The information requested was later supplied as follows:)

PERCENTAGE DISTRIBUTION, FEDERAL FUNDS, OUTLAYS BY FUNCTION, SELECTED FISCAL YEARS

	1957	1961	1965	1969	1973
National defense	64	60	52	54	42
Human resources	12	13	14	18	25
All other	24	27	34	28	33
Total	100	100	100	100	100

Mr. COHN. I think it is still a fact that an awfully large sum of money, and a high proportion of our budget, is going for social security benefits. They were raised 15 percent 2 years ago. They were raised another 10 percent last year and there is talk in the Senate today of raising them 20 percent this year.

Now, I believe in social security. I always have. I think that these sums of money that are being spent are important and they are being——

Chairman PROXMIRE. Extraordinarily important, very important. Also, of course, self financing. There is some question as to its actuarial soundness but it is self financing, aside and a part from the general revenue increases, and it therefore is self contained and it seems to me it is a different kind of a program than some of these others.

Mr. COHN. Yes, a different kind, but let me just point out in defense of my President, if he is a responsible President fiscally, once the Congress enacts such an increase he must take it into account in what he has the discretion to recommend. It affects his budget and his program proposals.

Now, similarly, veterans programs. I have no objection to your classifying veterans as part of national security if you want to show the cost of war and the aftermath of war. That is fine, but I think you must recognize, too, that the largest parts of veterans' expenditures are for education, health and medical care, and income maintenance, and that the resources used are the same kinds of resources used in other programs for education, health and medical care, and income maintenance. I think that just as it is proper to classify veterans as national security, if that is what you want to show, if you have a story to tell about the cost of war, it is equally proper to classify them as human resources if you want to show what is going into the human resources kind of activities.

I think there is room for more than one classification.

Mr. WEINBERGER. I think it is important to point out——

Chairman PROXMIRE. I think that is an excellent answer. I think what we might try to do is to separate out in the veterans programs those that are for education and those that are for health and those that are pensions. The pensions probably do relate primarily to the war. I don't see any reason why we can't separate out that part of the interest on the national debt that has been accumulated primarily in wars.

Mr. WEINBERGER. The interest on the debt relates to wars. But it can't by any stretch of the imagination be called an expenditure for national security in the sense that we talk about the allocation of resources to protect our future. But in any event, Mr. Chairman, I think it is important to point out that even assuming that we should use the definitional standard that you suggested in your statement and in the letter requesting us to testify, we are still spending a declining percentage of budget outlays and of the gross national product on national security even defined as broadly and, I must say respectfully, as wrongly as you have done. So we aren't all that far away from the trend that you would like to see established.

Chairman PROXMIRE. The most striking thing about this year budget is the fact that the lion's share of the increase is going for defense and defense-related programs. We illustrate this with a table in our annual report which shows that of the $21 billion new obligational authority requested, $7.2 billion was earmarked for defense and related programs, and aside from general revenue sharing, which will go to governments, not people, only a relatively small amount is directed toward human resources. I am not sure that we can say revenue sharing does not go for human resources. Much of it will, of course, but how do you reconcile this with your claim that there has been an improvement in the ordering of priorities when a large proportion of the dollar increase is going to defense and defense relateds.

Mr. WEINBERGER. I don't have to reconcile it. I don't agree with your statement. General revenue sharing is $5.3 billion out of a $21 billion increase. Social security is $3.5. billion. Others are $2.7 billion. Defense is $6.3 billion. But when you add all of the other components of the $21.1 billion and measure it against the $6 billion, you will find that less than a third of the increase goes to defense in obligational authority, not outlays, and that is roughly comparable, a little less than the share that defense has of the total budget. So I don't agree.

Chairman PROXMIRE. I have 6.3 for defense, 0.5 for military security assistance—that is 6.8—0.2 for the space shuttle—that is 7.0.

Mr. WEINBERGER. The space shuttle is not a defense operation.

Chairman PROXMIRE. Is being justified as such.

Mr. WEINBERGER. It has never been carried by us as a defense operation. We think the functional——

Chairman PROXMIRE. That is the difficulty.

Mr. WEINBERGER (continuing). Functional category which we have used since the creation is the one we ought to continue to use.

Chairman PROXMIRE. There are a lot of things that have been in existence since the creation which are wrong.

Mr. WEINBERGER. There is also the problem of changing the rules in the middle of the game, and I am sure we would hear about that from several sources if we did it. We don't have any feeling that that is the proper thing to do. If we want a comparative classification, we think we ought to use the same rules. We have, however, provided all of the building blocks so that anybody who wants to take our classification apart and puts together others can do so, as your staff has done. However, we say even doing that, the amount devoted to your expanded definition of national security is taking a declining percentage of the budget and a declining percentage of the GNP.

Chairman PROXMIRE. Well, finally, the fact that so little is being allocated for future human resource programs underlines the problem of the fiscal squeeze. In short, Government spending is now rising faster than the growth of Federal revenues. When I look at this problem in light of the failure of this administration to make any substantial reductions in old programs, I conclude that President Nixon has priced himself out of his own initiatives. I say that because not only are we spending all available Federal funds on existing programs but there seems to be no plans to either cut down older programs or increase revenues. What, if anything, do you plan to do about the fiscal squeeze?

Mr. WEINBERGER. We plan to reexamine all of the programs, including Presidential initiatives, with the points that you have raised in mind. We do have a situation in which the expenditure momentum is greater than the revenue increase expected from existing taxes. We are opposed to tax increases, and for that reason our examination of existing programs will be all the more thorough.

I can't feel very encouraged by the failure of the Congress to give us very many of the reductions that we did request in prior budgets under the lists that I mentioned at the beginning of my testimony. But we certainly are not going to exempt anything from our examination, and we plan to examine Presidential initiatives, congressional initiatives, ongoing programs and programs that we believe are proven failures.

Chairman PROXMIRE. Well, Congress has cut the executive department's budget every year for the last 25 years without exception right through this administration.

Mr. WEINBERGER. Well, Mr. Chairman, that is another of those myths. Some of the appropriation bills have been reduced, but a great many of the appropriations and a great many of the requirements for more spending have been enormously increased. If you are just looking at the set of bills examined by the Appropriations Committee, it is true that some years the cuts in defense exceeded the increases for the social programs that we have spoken of.

Chairman PROXMIRE. Mr. Weinberger, the President controls the outlays. He can refuse to spend. He doesn't have—the fact that we pass legislation doesn't mean he has to spend it.

Mr. WEINBERGER. A great many——

Chairman PROXMIRE. Again, again, again this President and other Presidents, and I think they are absolutely right, have refused to spend money they feel shouldn't be spent. I commend President Nixon for having done this, too, but I wish he had done more and it seems to me he can't escape his responsibilities for controlling spending by saying Congress spends too much when, as you say, we have cut appropriations repeatedly.

Mr. WEINBERGER. Mr. Chairman, we have attempted to withhold. We have done no more than predecessor Presidents have done and less in some cases, but there are areas particularly in health and education where the Congress has laid on specific prohibitions against withholding, and while we have qualms about the constitutionality and legality of that, a protracted court test doesn't seem to be fruitful when we are talking about the immediate economic effects. The fact is that the President does try to hold down spending. The most dramatic attempt is his request in January, repeated many times since, that we be given a rigid outlay ceiling, fixed by the Congress, in the amount he submitted to Congress in January and I am——

Chairman PROXMIRE. You are absolutely right, so do I. I am glad you agree.

We asked your agency to provide the committee with updated figures of Federal subsidy programs. It was agreed the agency would do so. When can we expect these estimates?

Mr. WEINBERGER. I will have to ask Mr. Cohn about that.

Mr. COHN. I can't give you a date, Mr. Chairman, but I know we are working on them and we have gotten pieces of the work completed. You will be hearing from us soon.

Chairman PROXMIRE. Well, thank you, gentlemen, very, very much and once again I want to commend you on your responsiveness and your excellent statements.

Mr. WEINBERGER. I appreciate your comments, Mr. Chairman, thank you. I appreciate your courtesy at the hearing, too.

Chairman PROXMIRE. Thank you. The subcommittee is adjourned.

(Whereupon, at 11:45 a.m., the subcommittee was adjourned, subject to call of the Chair.)

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