$450 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

ON

H.R. 12910

TO PROVIDE FOR A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT

FEBRUARY 28, 1972

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
74-187 O WASHINGTON : 1972

(1,000)

CONTENTS

ADMINISTRATION WITNESSES

ADDITIONAL INFORMATION

APPENDIX

$450 BILLION DEBT LIMIT

MONDAY, FEBRUARY 28, 1972

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Harris, Byrd of Virginia, Nelson, Bennett, Miller, Jordan of Idaho, and Fannin.

The CHAIRMAN. The hearing will come to order.

This morning, the committee meets to hear the Secretary of the Treasury and the Director of the Office of Management and Budget state the case for the administration request to increase the debt limit. The debt limit at present is $430 billion—made up of a permanent limitation of $400 billion and a temporary additional ceiling through June 30, 1972, of $30 billion.

H.R. 12910, which passed the House of Representatives on February 9 by a vote of 247 to 147 would increase the temporary limitation by another $20 billion through June 30, 1972, making the debt limit $450 billion on July 1. Unless Congress takes further action the debt limit would revert automatically to $400 billion.

The debt subject to the limitation on February 23 was $427.2 billion. I note the acting chairman of the Committee on Ways and Means pointed out during their hearing on the House side on January 31 that the debt subject to the limitation 5 days earlier was $427.1 billion.

In looking at the statement to be presented this morning, I am impressed by reference to the "full employment budget." It is my belief that one of the obstacles which this Nation faces in achieving full employment is the difficulties which our labor-intensive industries are experiencing in competing with foreign products. It seems to me that if we are going to achieve full employment any time soon, we must stop the decline in our labor-intensive industries by steppping up our exports or limiting our imports, or by some combination of the two. In this respect, it is unfortunate that the administration was unable to gain any trade concessions from Canada and only token modifications from the European Economic Community in the followup to the Smithsonian currency revaluation talks. This committee had understood that meaningful concessions would be required as a condition to recommending that Congress change the price of gold. It can fairly be questioned whether the Canadian or European talks produced such concessions.

It is unfortunate and perhaps ironic that the single most important action this Nation has taken since the end of World War II to look after its own interest—he 10-percent surcharge—has now been suppressed, and we apparently got little in return for the suppression in the trade area.

In light of this situation, the committee would be particularly interested in hearing the Secretary describe for us how the administration plans to achieve full employment while our labor intensive industries are driven out of the country.

Let us print at this point in the record the bill, H.R. 12910; our press releases concerning this hearing; and the staff memoranda related to H.R. 12910 and the President's 1973 budget.

(The material referred to follows:)

92D CONGRESS
2D SESSION

H. R. 12910

IN THE SENATE OF THE UNITED STATES

FEBRUARY 9, 1972

Read twice and referred to the Committee on Finance

AN ACT

To provide for a temporary increase in the public debt limit.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That during the period beginning on the date of the enactment of this Act and ending on June 30, 1972, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as temporarily increased by section 2 (a) of Public Law 92–5, shall be further temporarily increased by $20,000,000,000.

Passed the House of Representatives February 9, 1972.

Attest: W. PAT JENNINGS,

Clerk.

II

FOR IMMEDIATE RELEASE
February 18, 1972
Further information: John Steen
(202) 225-4623

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office Bldg.
Washington, D. C. 20510

DEBT-LIMIT HEARING CANCELLED

Chairman Russell B. Long, D-La., of the Senate Committee on Finance, announced today the indefinite postponement of a one-day hearing, originally set for Monday, Feb. 21, on H. R. 12910, the Administration bill to increase the debt limit by $20 billion to a total of $450 billion.

The Chairman said the Committee was advised that John B. Connally, Jr., the Secretary of the Treasury, and George P. Shultz, director of the Office of Management and Budget, are unable to attend Monday.

"In view of the Administration's urgent request to lay aside H. R. 1 to proceed with the debt-limit bill, I had assumed they would be available when the hearing could be scheduled," Long said.

"The grave fiscal situation confronting this nation requires we have the best witnesses the administration can present," Long added. "Apparently the matter was not as urgent as I was led to believe. Unfortunately, I was in error."

The Chairman said the Committee will return to executive session on H. R. 1 on Tuesday, Feb. 22.

# # #

PRESS RELEASE

FOR IMMEDIATE RELEASE
February 22, 1972

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office Bldg.

Public Debt Hearing Announced

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee would hold a one-day hearing on Monday, February 28, 1972, to enable Administration witnesses to present the case for H. R. 12910, a bill which would increase the debt limit from the present level of $430 billion to $450 billion through June 30, 1972. At that time, the debt limit would automatically revert to $400 billion.

The Chairman reported that the Honorable John B. Connally, Secretary of the Treasury, and the Honorable George P. Shultz, Director of the Office of Management and Budget would present the Administration case for raising the debt limit.

The hearing will be held in Room 2221, New Senate Office Building, on Monday, February 28, 1972, and will begin at 10:00 a.m.

PR #1

February 17, 1972

MEMORANDUM

TO: Members of the Committee on Finance

FROM: Tom Vail, Chief Counsel

SUBJECT: H. R. 12910

H. R. 12910, which passed the House of Representatives on February 9, 1972, by a vote of 247 yeas to 147 nays, would increase the Federal debt limit by $20 billion through June 30 to provide for a "temporary" debt subject to limit of $450 billion. Under the House bill, the "permanent" debt limit remains at $400 billion.

DEBT LIMIT

Present Law[1/]. -- The ceiling on the Federal debt is presently $430 billion. This is made up of two parts:

(a) A "permanent" limitation of $400 billion, and
(b) A "temporary" limitation of an additional $30 billion through June 30, 1972.

House Bill. -- The House bill would leave the "permanent" debt limit at $400 billion and increase the "temporary" debt limit from $30 to $50 billion through June 30, 1972.

Administration Request. -- The Administration requested an increase in the temporary debt limit from $430 billion to $480 billion which was estimated to be sufficient "to carry us through the balance of the current fiscal year and to about this time next year."

BUDGET

FY 1972. -- The projected "unified" or "consolidated" budget deficit of $38.8 billion for FY 1972 is substantially higher than the $11.6 billion of last January. This adverse swing of $27.2 billion is due, in substantial part -- $19.8 billion of it -- to a shortfall in estimated revenues. Some of this shortfall -- $6.9 billion -- reflects tax changes not originally contemplated in the budget year. The main cause, however, was overly optimistic forecasts of GNP, personal income and corporate profits. As a result of these factors, individual income taxes were $7.2 billion less than anticipated last January, corporate income taxes were $6.6 billion less, and unemployment taxes and contributions were $3.8 billion less than anticipated.

On the expenditures side, the original estimates of $229.2 billion were exceeded by $7.4 billion.

1/ The Congress acted in March of 1971 to raise the permanent debt from $380 billion to $400 billion and the temporary limit from $15 billion to $30 billion through June 30, 1972.

Memo to Members of the Committee
Page 2
February 17, 1972

The original 1972 budget message contained \$3.75 billion for "revenue sharing" and \$502 million for start-up costs on the Family Assistance Plan. Mr. Shultz indicated before the Ways and Means Committee that the Administration is still carrying about \$2.25 billion in the 1972 budget for revenue sharing so that the inaction on revenue sharing and welfare reform saved the Government approximately \$2 billion for 1972.

On a "full employment budget" basis, the Administration now estimates that the outlays that would be made would exceed the revenues that would be collected at "full employment" (4 percent unemployment) by \$8.1 billion in fiscal 1972.

FY 1973 Budget. -- The current estimates for the FY 1973 budget are as follows:

Federal Funds Deficit	- \$36.2 billion
Trust Funds Balance	+ 10.7 billion
Unified Budget	- \$25.5 billion

The 1973 budget assumes an increase of 9-1/2 percent in GNP (from \$1,047 billion to \$1,145 billion) of which 6 percent would represent "real" growth and 3-1/2 percent represents inflation.

The unemployment rate is estimated to be about 5 percent by the end of 1972. It is now hovering about 6 percent.

If these forecasts prove to be optimistic, as they were last year, it could mean another shortfall in revenues and a larger budget deficit for 1973.

January 26, 1972

MEMORANDUM

TO: Members of the Committee on Finance

FROM: Tom Vail, Chief Counsel

SUBJECT: President Nixon's 1973 Budget

The 1973 Budget submitted to the Congress by the President contains a number of items and assumptions of interest to the Committee on Finance.

Federal Fund Budget. -- In fiscal year 1971, the Federal fund budget (comparable to the earlier "Administrative Budget") showed a deficit of $29.9 billion. The size of the deficit is expected to increase, rising to $44.7 billion in fiscal year 1972 and $36.2 billion in fiscal year 1973, as shown in the following table:

FEDERAL FUND BUDGET
(dollars in billions)

	FY 1971	FY 1972	FY 1973
Receipts	$133.8	$137.8	$150.6
Expenditures	163.7	182.5	186.8
Deficit	- 29.9	- 44.7	- 36.2

Consolidated Budget. -- The consolidated or unified budget, which includes trust fund receipts and expenditures, is also expected to show higher deficits in fiscal year 1972 and 1973 than in fiscal year 1971.

CONSOLIDATED BUDGET
(dollars in billions)

	FY 1971	FY 1972	FY 1973
Receipts	$188.4	$197.2	$220.8
Expenditures	211.4	236.6	246.3
Deficit	- 23.0	- 38.8	- 25.5

Full Employment Budget. -- The President's budget Message indicates that on a full employment basis, the budget would show a surplus of $700 million in fiscal year 1973 and thus would be a balanced budget. The full employment budget reflects the amount of Government receipts that would be generated and Government expenditures that would be incurred if the economy were operating on a full employment basis.

FULL EMPLOYMENT BUDGET
(dollars in billions)

	FY 1971	FY 1972	FY 1973
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

Tax Increase Legislation. -- The fiscal year 1973 revenue estimate of $220.8 billion under the consolidated budget includes the following tax changes under proposed legislation:

(1) An increase in the social security tax base from $9,000 to $10,200 effective retroactively to January 1972;

(2) A reduction in the combined employee social security tax from the 11.3 percent in present law for 1973 to 10.8 percent, as in H. R. 1; and

(3) Additional highway taxes of 2¢ per gallon on diesel fuel (present law levies a 4¢ per gallon tax), plus a shift from the present fixed-rate use tax on heavy trucks to a graduated scale based on weight.

Social Security Legislation. -- In addition to the increase in the tax base mentioned above, the budget makes allowance for the enactment of the social security provisions of H. R. 1. This includes a 5 percent benefit increase as well as various provisions affecting the Medicare program.

Welfare. -- The 1973 budget shows another large increase for welfare expenditures, with the largest increases (as in the past) in Medicaid and Aid to Families with Dependent Children. Total Federal and State Medicaid expenditures under present law are expected to rise from $5.9 billion in 1971 to $7.9 billion in 1973 -- a one-third increase in two years. Legislative measures included in H. R. 1 are expected to reduce Medicaid expenditures $700 million.

The number of recipients of Aid to Families with Dependent Children is expected to rise from 9.3 million in 1971 to 11.1 million in 1972 and to 12.6 million in 1973. Welfare costs in fiscal 1973 are assumed to be $400 million lower than they otherwise would be because of a number of administrative actions designed to reduce payments to ineligible persons and by tightening up the definition of social services for which 75 percent Federal matching would be available.

The welfare budget also contains a $1 billion advance against the enactment of revenue sharing legislation, described as follows (appendix to the budget, page 451):

"Recognizing the fiscal pressures already being borne by the States for public assistance costs, an advance payment of $1 billion will be made in 1972 to help ease the fiscal pressure of 1972. . . . The advance will be repaid during the course of 1973 from the extra State revenues generated by more rapid economic growth and proposed congressional action for permanent fiscal relief -- such as enactment of welfare reform and general revenue sharing."

Welfare Legislation. -- The budget assumes enactment of the Family Assistance Plan; $450 million has been included for fiscal year 1973 for this legislation. This amount is intended primarily for administrative start-up costs; payments to recipients under the proposed legislation would not begin until fiscal year 1974.

Other Social Security Act Legislation not Included in H. R. 1. -- The budget assumes enactment of three legislative proposals not included in H. R. 1: (1) substitution of social security payroll tax financing for Medicare's Supplementary Medical Insurance program in lieu of the present monthly premium paid by enrollees; (2) extension of the authority for project grants for maternal and child health in lieu of the transferring of this money to State health agencies; and (3) the Family Health Insurance Program for low income families.

National Debt. -- The debt ceiling is currently set at $430 billion until June 30, 1972; beginning July 1, 1972, the permanent ceiling will drop to $400 billion. The budget, however, estimates that the debt subject to the limitation will rise to $446 billion by June 30 of this year, and to $482 billion by June 30, 1973. In this respect, the Administration has just recommended that the $430 billion limit on the public debt be raised to $480 billion through June 30, 1973.

Revenue Sharing. -- The budget includes allowance of $2.25 billion in fiscal year 1972 and $5 billion for 1973 for expenditures under the Administration's proposal for distributing a portion of Federal tax revenue to State and local governments.

Tariff Commission. -- The budget provides funding for a 23 percent increase in the total number of permanent positions of the Tariff Commission, from 285 in fiscal year 1972 to 352 in 1973.

The CHAIRMAN. Mr. Secretary, we are glad to have you here. I understand it is a very auspicious day for you. We certainly wish you the best.

STATEMENT OF HON. JOHN B. CONNALLY, SECRETARY OF THE TREASURY, ACCOMPANIED BY PAUL A. VOLCKER, UNDER SECRETARY FOR MONETARY AFFAIRS

Secretary CONNALLY. Thank you, Mr. Chairman.

If I may, Mr. Chairman, I shall proceed with the reading of my statement. But before I do, I would like to present to the committee, someone who you all know, but I want to be sure the record reflects it. Under Secretary Volcker, of the Treasury Department, is here with me.

You have already, of course, indicated that Director Shultz is here, and on his left is Caspar Weinberger.

We are all delighted to be here. Director Shultz can speak for himself, but I want very clearly to indicate that it is always a privilege to appear before this distingiushed group. Because I know that there are a lot of things that you will want to cover, I shall keep my statement as brief as possible.

You have already pointed out, Mr. Chairman, that the temporary debt limit is now $430 billion, which the Congress provided last year. Now, that ceiling is going to be in jeopardy very soon, and our leeway is going to be exhausted. In anticipating the need for an increase in Treasury borrowing, I appeared on January 31 before the House Ways and Means Committee to request that the temporary debt ceiling be increased by $50 billion to $480 billion through June 30, 1973. On the basis of our projections, this increase would have been adequate to meet our requirements through early 1973.

But as you know, and as you pointed out to the committee, a moment ago, on February 9, the House passed H.R. 12910 which provides for a $20 billion temporary increase in the debt limit to $450 billion through June 30, 1972. Although the House of Representatives did not approve our request for the larger $50 billion increase, H.R. 12910 will meet our estimated needs through June 30 of this year. It is therefore a satisfactory resolution of the current need, assuming the Congress wishes to deal with this matter again before midyear. We therefore specifically request that your committee and the Senate act as a matter of urgency to approve H.R. 12910 as passed by the House, raising the temporary debt limit to $450 billion through June 30, 1972.

We, of course, felt that we were justified when we asked for the $50 billion increase originally that would carry us through all of this year and early next year. But since the Ways and Means Committee in the House has responded as it has, we frankly feel that the interests of the Government would be best served by this committee, if, in its wisdom, it can do so, would take the same action that the House has taken and raise the debt limit by only $20 billion. This would preclude the necessity for a conference and would result unquestionably in more expeditious handling.

We are delighted to come back before this distinguished committee prior to June and go into the matter further. We want to make it clear that we think we shall have to be back, that we have to have an increase in a debt ceiling again before June 30 of this year. But it will give us an opportunity again to review the economic situation, where we are, and we shall be delighted to do it.

As a background for this request, which we are making to you, the President's budget projects, on the unified budget basis, a deficit of $38.8 billion for fiscal 1972 and a deficit of $25.5 billion for fiscal 1973.

These are obviously huge deficits and no one can be happy about them. However, Federal budgets must be analyzed in the context of economic conditions and national objectives. The pace of our economic growth, while now substantial, has not been fast enough to produce the desired reduction in unemployment. Our objective therefore is to stimulate economic growth—sustainable economic growth—in order to reduce unemployment, while at the same time continuing to brake inflation.

We believe that the spending and taxing decisions set forth in the budget are appropriate in the light of present circumstances and objectives. Moreover, if this plan is carried out with discipline and determination, it will help lead to an improved budget position as we achieve our national goals.

Our fiscal 1972 budget deficit, projected at $38.8 billion, is substantially higher than the original estimate of $11.6 billion made in January 1971. The figures represent an adverse swing of $27.2 billion. The major portion of the change—$19.8 billion of it—results from a shortfall in estimated revenues. Some of this shortfall, $6.7 billion, reflects tax changes not contemplated in the budget a year ago. But apart from the consequences of legislation, our economic forecast for calendar 1971—on which the fiscal 1972 budget was based—was simply too optimistic. Total GNP, personal income, and corporate profits were all significantly below forecast. As a result, tax collections are falling short in most categories including the big items: personal and corporate income taxes.

On the expenditures side, we are projecting in the current fiscal year expenditures of $236.6 billion or $7.4 billion above the original estimate.

For fiscal 1973, we are estimating outlays of $246.3 billion, only 4 percent higher than this year. At the same time, revenues are anticipated to rise to $220.8 billion, which results in a unified budget deficit of $25.5 billion.

This budget will return us to a "full employment" balance. In other words, budget expenditures are set at a level which is about equal to the revenues our present tax structure would produce at "full employment" of our economic resources. While actual full employment is not a realistic expectation for fiscal 1973, if expenditures can be held on this path, the deficit will shrink as the economy grows, and will disappear when we fully achieve our goals.

The size of the debt ceiling increase needed is determined not only by the results of the unified budget but also by the amount of Treasury debt held by the Federal trust funds and other Government agencies. Since the trust funds are in substantial surplus and therefore acquiring Treasury debt, the necessary increase must be in excess of the size of the unified budget deficit. Changes in the debt are more closely reflected in the so-called Federal funds budget—which excludes the operations of the trust funds.

As the budget documents shows, the Federal fund deficits for fiscal 1972 and 1973 are now estimated at $44.7 billion and $36.2 billion, respectively. These forecasts can be translated into estimated Federal debt subject to limitation. On the assumption of a constant $6 billion cash balance, our peak fiscal 1972 level is $450 billion.

For this reason, H.R. 12910, setting a new temporary debt limit at $450 billion for the period through June 30, 1972, is fully acceptable to us. It should be recognized that this ceiling provides no allowance for unanticipated contingencies, and will meet our requirements only through June of 1972.

I shall not belabor the consequences for the Nation if the Treasury's borrowing capacity should be exhausted. A failure to obtain an increase in the debt limit will in a very short time force us to move to costly and uneconomic expedients to meet our obligations, and then to an abrupt cutting off of Government expenditures. As responsible public officials, we do not wish to contemplate such a possibility. Therefore, as our projections indicate, it is essential that the Senate take action to lift the debt limit in time for us to meet our early March borrowing requirements.

In the context of this review of our debt situation, I would also like to emphasize the importance of setting an effective limit on budget expenditures. It is the firm policy of this administration, as enunciated by the President in his budget message that "except in emergency conditions, expenditures should not exceed the level at which the budget wou'd be balanced under conditions of full employment." This concept of a full employment balance was central to the budget decision for fiscal 1973. Its meaning is simple. If one adheres to that objective, our deficits will disappear as the slack in the economy disappears.

Success in this effort is essential if our progress against inflation is not to be jeopardized. The result can and will be achieved by exercising vigorous restraint on spending. Our deficits must be reduced.

I believe a tight, effective, overall limit on expenditures binding on both the executive branch and the Congress would help assure that goal.

Mr. Chairman, as in previous years, we are furnishing your committee with updated statistical tables which relate Federal debt to GNP, private debt, population and prices.

Mr. Chairman, that concludes my statement, and I thank you very much.

(Tables referred to above and tables attached to Secretary Connally's statement follow:)

74-187 O - 72 - 2

TABLE I

PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1972
($ Billions)

1971	Operating Cash Balance	Public Debt Subject to Limitation
	ACTUAL	
June 30	8.7	399.5
July 15	7.3	407.3
July 30	7.1	406.6
August 16	4.6	410.8
August 31	9.4	415.9
September 15	5.5	416.2
September 30	9.9	413.6
October 15	4.6	413.9
October 29	6.5	413.3
November 15	4.1	416.5
November 30	4.2	416.0
December 15	5.2	422.2
December 31	11.2	425.5
1972		
January 17	7.4	426.4
January 31	11.1	424.2
February 15	6.4	425.7
	ESTIMATED (Based on constant minimum cash balance of $6.0 billion)	
February 29	6.0	426.1
March 15	6.0	433.6
March 31	6.0	431.6
April 17	6.0	440.3
April 28	6.0	432.3
May 15	6.0	440.8
May 31	6.0	442.1
June 15	6.0	450.0
June 30	6.0	443.4

TABLE II

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION

FISCAL YEAR 1973
($ Billions)

1972	Debt with $6.0 cash balance	With $3.0 margin for contingencies
June 30	443.4	446.4
July 17	450.0	453.0
July 31	453.0	456.0
August 15	457.5	460.5
August 31	461.1	464.1
September 15	462.3	465.3
September 29	457.9	460.9
October 16	461.0	464.0
October 31	462.1	463.1
November 15	466.3	469.3
November 30	468.7	471.7
December 15	469.7	472.7
December 29	469.8	472.8
1973		
January 15	470.8	473.8
January 31	470.6	473.6
February 15	475.3	478.3
February 28	478.1	481.1
March 16	483.1	486.1
March 30	482.5	485.5
April 16	484.5	487.5
April 30	478.2	481.2
May 15	483.8	486.8
May 31	486.8	489.8
June 15	486.0	489.0
June 29	479.3	482.3

January 19, 1972

TABLE III

Budget Receipts, Outlays and Surplus or Deficit (-) By Fund

	Fiscal Year		
	1971 (actual)	1972 (estimated)	1973 (estimated)
	(in billions)		
Receipts			
Trust Funds	66.2	73.2	83.2
Federal Funds	133.8	137.8	150.6
Deduct: Intragovernmental Receipts	-11.6	-13.1	-13.0
Total Unified Budget	188.4	197.8	220.8
Outlays			
Trust Funds	59.3	67.2	72.5
Federal Funds	163.7	182.5	186.8
Deduct: Intragovernmental Outlays	-11.6	-13.1	-13.0
Total Unified Budget	211.4	236.6	246.3
Budget Surplus (+) or Deficit (-)			
Trust Funds	+6.9	+5.9	+10.7
Federal Funds	-29.9	-44.7	-36.2
Total Unified Budget	-23.0	-38.8	-25.5

TABLE IV

Unified Budget Receipts
Outlays and Deficits (-)

($ billions)

	Fiscal Year 1972					
	January 1971 estimate	Change to September 1971 estimate	September 1971 estimate	Change to January 1972 estimate	January 1972 estimate	Change to January 1972 over January 1971
Receipts	217.6	-13.1	204.5	-6.6	197.8	-19.8
Outlays	229.2	+ 2.8	232.0	+4.6	236.6	+ 7.4
Deficit (-)	-11.6	-15.9	-27.5	-11.2	-38.8	-27.2

Office of the Secretary of the Treasury
Office of Tax Analysis

January 19, 1972

Note: Figures are rounded and may not necessarily add to totals.

TABLE V

Changes in estimates of Fiscal Year 1972 Receipts from January 1971 Budget Document

($ Billions)

	January 1971 budget	Change to September Estimate: Economic and re-estimate	Change to September Estimate: Legislation	Change to September Estimate: Other 1/	Change to September Estimate: Total	September 1971 Estimate	Change to January 1972 Budget: Economic and re-estimate	Change to January 1972 Budget: Legislation	Change to January 1972 Budget: Other 1/	Change to January 1972 Budget: Total	January 1972 budget
Individual income tax	93.7	-2.4	-1.3	+0.7	-3.0	90.7	-1.1	-0.6	-2.5	-4.2	86.5
Corporation income tax	36.7	-4.6	-2.2	--	-6.8	29.9	-2.0	+2.2	--	+0.2	30.1
Employment taxes and contributions	50.2	-0.8	-1.7	--	-2.5	47.7	-0.4	-0.9	--	-1.3	46.4
Unemployment insurance	4.2	--	--	--	--	4.2	--	--	+0.2	+0.2	4.4
Contributions for other insurance and retirement	3.2	--	--	--	--	3.2	--	--	+0.2	+0.2	3.4
Excise taxes	17.5	-0.1	-2.2	--	-2.3	15.2	+0.3	-0.3	--	--	15.2
Estate and gift taxes	5.3	-0.1	--	--	-0.1	5.2	--	--	--	--	5.2
Customs duties	2.7	-0.1	+1.7	--	+1.6	4.3	+0.1	-1.2	--	-1.1	3.2
Miscellaneous receipts	4.1	--	--	--	--	4.1	--	-0.2	-0.4	-0.6	3.5
Total budget receipts	217.6	-8.1	-5.7	+0.7	-13.1	204.5	-3.1	-1.0	-2.5	-6.6	197.8

Underlying Income Assumptions - Calendar Year 1971

	January 1971 budget	January 1972 budget
GNP	1065	1047
Personal income	868	857
Corporate profits before tax .	98 2/	85 3/

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1972

1/ Change in capital gains tax estimate.

2/ Before the effect of ADR.

3/ After the effect of ADR. Before the effect of ADR, the estimate would be $85.9 billion.

Note: The figures are rounded and may not necessarily add to totals.

TABLE VI

Comparison of Fiscal Year 1972 Receipts -- as Estimated in
January 1971 and in January 1972

($ billions)

	January 1971 budget	Change to January 1972 Budget: Economic and re-estimate	Legislation	Other	Total	January 1972 budget
Individual income tax	93.7	-3.5	-1.9	-1.8 1/	-7.2	86.5
Corporation income tax	36.7	-6.6	--	--	-6.6	30.1
Employment taxes and contributions	50.2	-1.2	-2.6	--	-3.8	46.4
Unemployment insurance	4.2	--	--	+0.2	+0.2	4.4
Contributions for other insurance and retirement	3.2	--	--	+0.2	+0.2	3.4
Excise taxes	17.5	+0.2	-2.5	--	-2.3	15.2
Estate and gift taxes	5.3	-0.1	--	--	-0.1	5.2
Customs duties	2.7	--	+0.5	--	+0.5	3.2
Miscellaneous receipts	4.1	--	-0.2	-0.4	-0.6	3.5
Total budget receipts	217.6	-11.2	-6.7	-1.8	-19.7	19[illegible]

Underlying Income Assumptions - Calendar Year 1971

	January 1971 budget	January 1972 budget
GNP	1065	1047
Personal income	868	857
Corporate profits before tax .	98 2/	85 3/

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1972

1/ Change in capital gains tax estimate.

2/ Before the effect of ADR.

3/ After the effect of ADR. Before the effect of ADR, the estimate would be $85.9 billion.

Note: The figures are rounded and may not necessarily add to totals.

PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

[Dollar amounts in billions]

Dec. 31	Gross national product[1]	Privately held debt[2]	Ratio of debt to GNP (percent)	Dec. 31	Gross national product[1]	Privately held debt[2]	Ratio of debt to GNP (percent)
1929	$96.7	$16.0	16.5	1951	338.2	193.1	57.1
1930	83.1	15.8	19.0	1952	361.0	196.8	54.5
1931	66.9	17.7	26.4	1953	360.8	200.9	55.7
1932	56.8	19.4	34.2	1954	379.8	204.2	53.8
1933	60.3	21.9	36.3	1955	409.7	204.8	50.0
1934	68.6	28.0	40.8	1956	433.2	199.4	46.0
1935	77.4	32.0	41.3	1957	438.1	198.8	45.4
1936	86.5	35.3	40.8	1958	469.2	204.7	43.6
1937	87.6	36.6	41.8	1959	496.8	214.8	43.2
1938	87.6	37.9	43.3	1960	503.4	212.4	42.2
1939	94.8	40.1	42.3	1961	542.8	217.8	40.1
1940	107.6	42.6	39.6	1962	574.7	222.8	38.8
1941	138.8	54.0	38.9	1963	611.8	223.9	36.6
1942	179.0	95.5	53.4	1964	654.0	227.0	34.7
1943	202.4	142.9	70.6	1965	719.2	225.6	31.4
1944	217.4	193.1	88.8	1966	770.2	227.5	29.5
1945	196.0	228.2	116.4	1967	825.4	237.3	28.7
1946	221.4	206.1	93.1	1968	898.3	238.9	26.6
1947	245.0	199.1	81.3	1969	952.0	232.1	24.4
1948	261.2	192.0	73.5	1970	1,004.6	239.0	23.8
1949	260.5	197.7	75.9	1971, estimate	1,089.0	255.7	23.5
1950	311.2	196.6	63.2				

[1] Implied level of gross national product, Dec. 31.
[2] Borrowing from the public less Federal Reserve holdings, unified budget concept.

ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

	December 1946		December 1960		December 1969		December 1970	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Federal debt:								
Public	$259	58	$290	29	$368	19	$389	19
Federal agency	1½	(1)	6½	1	14	1	12½	1
Total	260½	58	296½	30	382	20	401½	20
State and local	16	4	72	7	136	7	148	7
Corporate debt	109½	24	365	37	889	45	968	46
Individual debt	60	13	263	26	556	28	583	28
Total	446	100	996½	100	1,963	100	2,100½	100

[1] Less than ½ of 1 percent.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

Note: Detail may not add to total due to rounding.

ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

Dec. 31	Private			State and local	Federal			Total	Percent Federal of total
	Individual	Corporate [1]	Total		Public	Agency	Total		
1929	$72.9	$107.0	$179.9	$17.8	$16.3	$1.2	$17.5	$215.2	8
1930	71.8	107.4	179.2	18.9	16.0	1.3	17.3	215.4	8
1931	64.9	100.3	165.2	19.5	17.8	1.3	19.1	203.8	9
1932	57.1	96.1	153.2	19.7	20.8	1.2	22.0	194.9	11
1933	51.0	92.4	143.4	19.5	23.8	1.5	25.3	188.2	13
1934	49.8	90.6	140.4	19.2	28.5	4.8	33.3	192.9	17
1935	49.7	89.8	139.5	19.6	30.6	5.6	36.2	195.3	19
1936	50.6	90.9	141.5	19.6	34.4	5.9	40.3	201.4	20
1937	51.1	90.2	141.3	19.6	37.3	5.8	43.1	204.0	21
1938	50.0	86.8	136.8	19.8	39.4	6.2	45.6	202.2	22
1939	50.8	86.8	137.6	20.1	41.9	6.9	48.8	206.5	24
1940	53.0	89.0	142.0	20.2	45.0	7.2	52.2	214.4	24
1941	55.6	97.5	153.1	20.0	57.9	7.7	65.6	238.7	27
1942	49.9	106.3	156.2	19.2	108.2	5.5	113.7	289.1	39
1943	48.8	110.3	159.1	18.1	165.9	5.1	171.0	348.2	49
1944	50.7	109.0	159.7	17.1	230.6	3.0	233.6	410.4	57
1945	54.7	99.5	154.2	16.0	278.1	1.5	279.6	449.8	62
1946	59.9	109.3	169.2	16.1	259.1	1.6	260.7	446.0	58
1947	69.4	128.9	198.3	17.5	256.9	0.7	257.6	473.4	54
1948	80.6	139.4	220.0	19.6	252.8	1.0	253.8	493.4	51
1949	90.4	140.3	230.7	22.2	257.1	0.8	257.9	510.8	50
1950	104.3	167.7	272.0	25.3	256.7	1.1	257.8	555.1	46
1951	114.3	191.9	306.2	28.0	259.4	0.8	260.2	594.4	44
1952	129.4	202.9	332.3	31.0	267.4	0.9	268.3	631.6	42
1953	143.2	212.9	356.1	35.0	275.2	0.8	276.0	667.1	41
1954	157.2	217.6	374.8	40.2	278.8	0.7	279.5	694.5	40
1955	180.1	253.9	434.9	46.3	280.8	1.4	282.2	763.4	37
1956	195.5	277.3	472.8	50.1	276.6	1.7	278.3	801.2	35
1957	207.6	295.8	503.4	54.7	274.9	3.2	278.1	836.2	33
1958	222.9	312.0	534.9	60.4	282.9	2.4	285.3	380.6	32
1959	245.0	341.4	586.4	66.6	290.8	5.7	296.5	949.5	31
1960	263.3	365.1	628.4	72.0	290.2	6.4	296.6	997.0	30
1961	284.8	391.5	676.3	77.6	296.2	6.8	303.0	1,056.9	29
1962	311.9	421.5	733.4	83.4	303.5	7.8	311.3	1,128.1	28
1963	345.8	457.1	802.2	89.5	309.3	8.1	317.4	1,209.1	26
1964	380.1	497.3	877.4	95.5	317.9	9.1	327.0	1,299.9	25
1965	416.1	551.9	968.0	103.1	320.9	9.8	330.7	1,401.8	24
1966	466.9	617.3	1,084.2	109.4	329.3	14.0	343.3	1,536.9	22
1967	480.6	672.9	1,153.5	117.4	344.7	20.1	364.8	1,635.8	22
1968	520.3	774.6	1,294.9	127.4	358.0	15.1	373.1	1,795.3	21
1969	556.0	888.9	1,444.9	136.0	368.2	13.8	382.0	1,962.9	19
1970	582.0	968.0	1,550.3	148.0	389.2	12.5	401.6	2,100.7	19
1971	(2)	(2)	(2)	(2)	424.1	11.0	435.2	(2)	(2)

Office of the Secretary of the Treasury, Office of Debt Analysis Jan. 31, 1972.

1 Includes debt of federally sponsored agencies excluded from the budget which amounted to $700,000,000 on Dec. 31, 1947; $30,500,000,000 on Dec. 31, 1969; and $38,800,000,000 on Dec. 31, 1970.

2 Not available.

Source: Commerce and Treasury Departments.

TABLE I.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT 1929 TO PRESENT

End of calendar year	Government debt						Private debt				Total Government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and non-corporate business	Corporat business	Individual and non-corporate business	Amount outstanding (billions)	Per capita
1929	$17.5	$17.8	$35.3	$143	$145	$288	$107.0	$72.9	$874	$595	$215.2	$1,757
1930	17.3	18.9	36.2	140	153	293	107.4	71.8	868	581	215.4	1,742
1931	19.1	19.5	38.6	153	157	310	100.3	64.9	805	521	203.8	1,636
1932	22.0	19.7	41.7	176	157	333	96.1	57.1	767	456	194.9	1,555
1933	25.3	19.5	44.8	201	155	355	92.4	51.0	733	404	188.2	1,493
1934	33.0	19.2	52.2	260	151	411	90.6	49.8	714	392	192.9	1,520
1935	36.2	19.6	55.8	283	153	437	89.8	49.7	703	389	195.3	1,529
1936	40.3	19.6	59.9	313	152	466	90.9	50.6	707	394	201.4	1,566
1937	43.1	19.6	62.7	333	151	484	90.2	51.1	697	395	204.0	1,576
1938	45.6	19.8	65.4	349	152	501	86.8	50.0	665	383	202.2	1,549
1939	48.8	20.1	68.9	371	153	524	86.8	50.8	660	386	206.5	1,569
1940	52.2	20.2	72.4	393	152	545	89.0	53.0	670	399	214.4	1,615
1941	65.6	20.0	85.6	489	149	638	97.5	55.6	727	414	238.7	1,779
1942	113.7	19.2	132.9	837	141	978	106.3	49.9	782	367	289.1	2,128
1943	171.0	18.1	189.1	1,242	131	1,374	110.3	48.8	801	355	348.2	2,529
1944	233.6	17.1	250.7	1,678	123	1,801	109.0	50.7	783	364	410.4	2,947
1945	279.6	16.0	295.6	1,987	114	2,101	99.5	54.7	707	389	449.8	3,197
1946	260.7	16.1	276.8	1,825	113	1,938	109.3	59.9	765	419	446.0	3,123
1947	257.6	17.5	275.1	1,771	120	1,891	128.9	69.4	886	477	473.4	3,254
1948	253.8	19.6	273.4	1,715	132	1,847	139.4	80.6	942	545	493.4	3,334
1949	257.9	22.2	280.1	1,713	147	1,860	140.3	90.4	932	600	510.8	3,393

1950	257.8	25.3	283.1	1,685	165	1,850	167.7	104.3	1,096	682	555.1	3,627
1951	260.2	28.0	288.2	1,671	180	1,851	191.9	114.3	1,232	734	594.4	3,817
1952	268.3	31.0	299.3	1,694	196	1,890	202.9	129.4	1,281	817	631.6	3,988
1953	276.0	35.0	311.0	1,714	217	1,931	212.9	143.2	1,322	889	667.1	4,142
1954	279.5	40.2	319.7	1,705	245	1,950	217.6	157.2	1,327	959	694.5	4,236
1955	282.2	46.3	328.5	1,691	276	1,961	253.9	180.1	1,522	1,079	762.5	4,552
1956	278.3	50.1	328.4	1,638	294	1,925	277.3	195.5	1,632	1,151	801.2	4,696
1957	278.1	54.7	332.8	1,609	315	1,918	295.8	207.6	1,712	1,201	836.2	4,820
1958	285.3	60.4	345.7	1,624	342	1,960	312.0	222.9	1,776	1,269	880.6	4,992
1959	296.5	66.6	363.1	1,653	371	2,024	341.4	245.0	1,903	1,366	949.5	5,293
1960	296.6	72.0	368.6	1,627	395	2,022	365.1	263.3	2,002	1,444	997.0	5,469
1961	303.0	77.6	380.6	1,635	419	2,054	391.5	284.8	2,112	1,537	1,056.9	5,704
1962	311.3	83.4	394.7	1,654	443	2,097	421.5	311.9	2,240	1,658	1,128.1	5,994
1963	317.4	89.5	406.9	1,663	469	2,131	457.1	345.8	2,395	1,812	1,209.8	6,337
1964	327.0	95.5	422.5	1,690	494	2,183	497.3	380.1	2,570	1,965	1,299.9	6,718
1965	330.7	103.1	433.8	1,688	526	2,214	551.9	416.1	2,818	2,124	1,401.8	7,156
1966	343.3	109.4	452.7	1,736	553	2,290	617.3	466.9	3,122	2,362	1,536.9	7,773
1967	364.8	117.4	482.2	1,827	588	2,415	672.9	480.6	3,370	2,407	1,635.8	8,191
1968	373.1	127.4	500.5	1,850	632	2,481	774.6	520.3	3,840	2,580	1,795.3	8,899
1969	382.0	136.0	518.0	1,874	667	2,542	888.9	556.0	4,362	2,728	1,962.9	9,631
1970	401.6	148.1	549.7	1,950	719	2,668	968.0	582.8	4,697	2,829	2,100.7	10,195
1971	435.2	(4)	(4)	2,092	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)

1 Total Federal securities, including public debt and Budget Agency securities.

2 Debt divided by the population of the conterminous United States and including armed forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.

3 Includes debt of federally sponsored agencies excluded from the budget.

4 Not available.

NOTES

Debt levels estimated by the Bureau of Economic Analysis, Commerce Department. Details may not add to totals because of rounding.

TABLE II.—GROSS GOVERNMENT AND PRIVATF DEBT RELATED TO GROSS NATIONAL PRODUCT

End of calendar year	Gross national product (billions) [1]	Ratios of debt to gross national product (percent)				
		Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	18.1	18.4	110.7	75.4	222.5
1930	83.1	20.8	22.7	129.2	86.4	259.2
1931	66.9	28.6	29.1	149.9	97.0	304.6
1932	56.8	38.7	34.7	169.2	100.5	343.1
1933	60.3	42.0	32.3	153.2	84.6	312.1
1934	68.6	48.1	28.0	132.1	72.6	280.8
1935	77.4	46.8	25.3	116.0	64.2	252.3
1936	86.5	46.6	22.7	105.1	58.5	232.8
1937	87.6	49.2	22.4	103.0	58.3	232.9
1938	87.6	52.1	22.6	99.1	57.1	230.8
1939	94.8	51.5	21.2	91.6	53.6	217.8
1940	107.6	48.5	18.8	82.7	49.3	199.3
1941	138.8	47.3	14.4	70.2	40.1	172.0
1942	179.0	63.5	10.7	59.4	27.9	161.5
1943	202.4	84.5	8.9	54.5	24.1	172.0
1944	217.4	107.5	7.9	50.1	23.3	188.8
1945	196.0	142.6	8.2	50.8	27.9	229.5
1946	221.4	117.8	7.3	49.4	27.1	201.4
1947	245.0	105.1	7.1	52.6	28.3	193.2
1948	261.2	97.2	7.5	53.4	30.9	118.9
1949	260.5	99.0	8.5	53.9	34.7	196.1
1950	311.2	82.8	8.1	53.9	33.5	178.4
1951	338.2	76.9	8.3	56.7	33.8	175.8
1952	361.0	74.3	8.6	56.2	35.8	175.0
1953	360.8	76.5	9.7	59.0	39.7	184.9
1954	379.8	73.6	10.6	57.3	41.4	182.9
1955	409.7	68.9	11.3	62.0	44.0	185.9
1956	433.2	64.2	11.6	64.0	45.1	184.9
1957	438.1	63.5	12.5	67.5	47.4	190.8
1958	469.2	60.8	12.9	66.5	47.5	187.6
1959	496.8	59.7	13.4	68.7	49.3	190.8
1960	503.4	58.9	14.3	72.5	52.3	197.7
1961	542.8	55.8	14.3	72.1	52.5	194.7
1962	574.7	54.2	14.5	73.3	54.3	196.6
1963	611.8	51.9	14.6	74.7	56.5	197.9
1964	654.0	50.0	14.6	76.0	58.1	199.1
1965	719.2	46.0	14.3	76.7	57.9	195.1
1966	772.6	44.4	14.2	79.9	60.4	198.9
1967	825.4	44.2	14.2	81.5	58.2	198.2
1968	898.3	41.5	14.2	86.2	57.9	199.9
1969	952.0	40.0	14.3	93.4	58.4	206.2
1970	1,004.6	40.0	14.7	96.4	58.0	209.1
1971	1,089.0	40.0	(2)	(2)	(2)	(2)

[1] Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of December 31 levels.

[2] Not available.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, Jan. 31, 1972.

Note: Debt levels estimated by the Bureau of Economic Analysis, Commerce Department. Details may not add to totals because of rounding.

ESTIMATED NET GOVERNMENT AND PRIVATE DEBT OUTSTANDING ,BY MAJOR CATEGORIES

	December 1946		December 1960		December 1969		December 1970	
	Amounts in billions	Percent of total	Amounts in billions	Percent of total	Amounts in billions	Percent of total	Amounts in billions	Percent of total
Federal debt	$229.5	57.9	$239.8	27.4	$389.3	16.8	$301.1	16.4
State and local debt	13.7	3.5	64.9	7.4	131.4	7.6	143.3	7.8
Corporate debt [1]	93.5	23.6	306.3	35.0	746.0	43.3	812.9	44.2
Individual and noncorporate debt	59.9	15.1	263.3	30.1	556.0	32.3	582.8	31.7
Total	396.6	100.0	874.2	100.0	1,722.7	100.0	1,840.2	100.0

[1] Includes debt of privately owned federally sponsored agencies.

Note: Detail may not add to total due to rounding.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

	Private			State and local	Federal	Total	Percent Federal of total
	Individual	Corporate [1]	Total				
Dec. 31—							
1916	$36.3	$40.2	$76.5	$4.5	$1.2	$82.2	1
1917	38.7	43.7	82.4	4.8	7.3	94.5	8
1918	44.5	47.0	91.5	5.1	20.9	117.5	18
1919	43.9	53.3	97.2	5.5	25.6	128.3	20
1920	48.1	57.7	105.8	6.2	23.7	135.7	17
1921	49.2	57.0	106.2	7.0	23.1	136.3	17
1922	50.9	58.6	109.5	7.9	22.8	140.2	16
1923	53.7	62.6	116.3	8.6	21.8	146.7	15
1924	55.8	67.2	123.0	9.4	21.0	153.4	14
1925	59.6	72.7	132.3	10.3	20.3	162.9	12
1926	62.7	76.2	138.9	11.1	19.2	169.2	11
1927	66.4	81.2	147.6	12.1	18.2	177.9	10
1928	70.0	86.1	156.1	12.7	17.5	186.3	9
1929	72.9	88.9	161.8	13.6	16.5	191.9	9
1930	71.8	98.3	161.1	14.7	16.5	192.3	9
1931	64.9	83.5	148.4	16.0	18.5	182.9	10
1932	57.1	80.0	137.1	16.6	21.3	175.0	12
1933	51.0	76.9	127.9	16.3	24.3	168.5	14
1934	49.8	75.5	125.3	15.9	30.4	171.6	18
1935	49.7	74.8	124.5	16.1	34.4	175.0	20
1936	50.6	76.1	126.7	16.2	37.7	180.6	21
1937	51.1	75.8	126.9	16.1	39.2	182.2	22
1938	50.0	73.3	123.3	16.1	40.5	179.9	23
1939	50.8	73.5	124.3	16.4	42.6	183.3	23
1940	53.0	75.6	128.6	16.4	44.8	189.8	24
1941	55.6	83.4	139.0	16.1	56.3	211.4	27
1942	49.9	91.6	141.5	15.4	101.7	258.6	39
1943	48.8	95.5	144.3	14.5	154.4	313.2	49
1944	50.7	94.1	144.8	13.9	211.9	370.6	57
1945	54.7	85.3	140.0	13.4	252.5	405.9	62
1946	59.9	93.5	153.4	13.7	229.5	396.6	58
1947	69.4	109.6	179.0	15.0	221.7	415.7	53
1948	80.6	118.4	199.0	17.0	215.3	431.3	50
1949	90.4	118.7	209.1	19.1	217.6	445.8	49
1950	104.3	142.8	247.1	21.7	217.4	486.2	45
1951	114.3	163.8	278.1	24.2	216.9	519.2	42
1952	129.4	172.3	301.7	27.0	221.5	550.2	40
1953	143.2	180.9	324.1	30.7	226.8	581.6	39
1954	157.2	184.1	341.3	35.5	229.1	605.9	38
1955	180.1	215.0	395.1	41.1	229.6	665.8	35
1956	195.5	234.1	429.6	44.5	224.3	698.4	32
1957	207.6	249.1	456.7	48.6	223.0	728.3	31
1958	222.9	262.0	484.9	53.7	231.0	759.6	30
1959	245.0	287.0	532.0	59.6	241.1	833.0	29
1960	263.3	306.3	569.6	64.9	239.8	874.2	27
1961	284.8	328.3	613.1	70.5	246.7	930.3	27
1962	311.9	353.5	665.4	77.0	253.6	996.0	25
1963	345.8	383.6	729.5	83.9	257.5	1,070.9	24
1964	380.1	417.1	797.2	90.4	264.0	1,151.6	23
1965	416.1	463.1	879.3	98.3	266.4	1,244.1	21
1966	446.9	517.8	964.7	104.8	271.8	1,341.4	20
1967	480.6	562.7	1,043.3	112.9	286.5	1,442.7	20
1968	520.3	649.5	1,169.8	122.8	291.9	1,584.5	18
1969	556.0	746.0	1,302.0	131.4	289.3	1,722.7	17
1970	582.8	812.9	1,395.2	143.3	301.1	1,840.2	16
1971	na	na	na	na	325.9	na	na

[1] Includes debt of privately owned, federally sponsored agencies excluded from the budget which amounted to $7,000,000,000 on Dec. 31, 1947; $30,500,000,000 on Dec. 31, 1969; and $38,800,000,000 on Dec. 31, 1970.

Source: Commerce and Treasury Departments.

TABLE I.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, 1916 TO PRESENT

End of calendar year	Government debt: Amounts outstanding: Federal [1] (billions)	Government debt: Amounts outstanding: State and local (billions)	Government debt: Amounts outstanding: Total (billions)	Government debt: Per capita [2]: Federal	Government debt: Per capita [2]: State and local	Government debt: Per capita [2]: Total	Private debt: Amounts outstanding: Corporate business [3] (billions)	Private debt: Amounts outstanding: Individual and noncorporate business (billions)	Private debt: Per capita [2]: Corporate business	Private debt: Per capita [2]: Individual and noncorporate business	Total Government and private debt: Amount outstanding (billions)	Total Government and private debt: Per capita
1916	$1.2	$4.5	$5.7	$12	$44	$56	$40.2	$36.3	$391	$353	$82.2	$800
1917	7.3	4.8	12.1	70	46	116	43.7	38.7	420	372	94.5	909
1918	20.9	5.1	26.0	199	49	248	47.0	44.5	448	425	117.5	1,121
1919	25.6	5.5	31.1	242	52	294	53.3	43.9	504	415	128.3	1,213
1920	23.7	6.2	29.9	220	58	278	57.7	48.1	537	447	135.7	1,262
1921	23.1	7.0	30.1	211	64	275	57.0	49.2	522	450	136.3	1,247
1922	22.8	7.9	30.7	205	71	277	58.6	50.9	528	459	140.2	1,263
1923	21.8	8.6	30.4	193	76	269	62.6	53.7	554	475	146.7	1,298
1924	21.0	9.4	30.4	183	82	264	67.2	55.8	584	485	153.4	1,334
1925	20.3	10.3	30.6	174	88	262	72.7	59.6	623	511	162.9	1,397
1926	19.2	11.1	30.3	161	93	254	76.2	62.7	639	526	169.2	1,419
1927	18.2	12.1	30.3	152	101	253	81.2	66.4	678	554	177.9	1,485
1928	17.5	12.7	30.2	144	105	249	86.1	70.0	711	578	186.3	1,538
1929	16.5	13.6	30.1	135	111	246	88.9	72.9	726	595	191.9	1.567
1930	16.5	14.7	31.2	133	119	252	89.3	71.8	722	581	192.3	1,555
1931	18.5	16.0	34.5	149	128	277	83.5	64.9	670	521	182.9	1,468
1932	21.3	16.6	37.9	170	132	302	80.0	57.1	638	456	175.0	1,396
1933	24.3	16.3	40.6	193	129	322	76.9	51.0	610	404	168.5	1,336
1934	30.4	15.9	46.3	240	125	365	75.5	49.8	595	392	171.6	1,352
1935	34.4	16.1	50.5	269	126	395	74.8	49.7	585	389	175.0	1,370
1936	37.7	16.2	53.9	293	126	419	76.1	50.6	592	394	180.6	1,405
1937	39.2	16.1	55.3	303	124	427	75.8	51.1	585	395	182.2	1,407
1938	40.5	16.1	56.6	310	123	434	73.3	50.0	562	383	179.9	1,379
1939	42.6	16.4	59.0	324	125	448	73.5	50.8	559	386	183.3	1,393
1940	44.8	16.4	61.2	337	123	461	75.6	33.0	569	399	189.8	1,429
1941	56.3	16.1	72.4	420	120	540	83.4	55.6	622	414	211.4	1,576
1942	101.7	15.4	117.1	749	113	862	91.6	49.9	674	367	258.6	1,903
1943	154.4	14.5	168.9	1,122	105	1,227	95.5	48.8	694	355	313.2	2,275

1944	211.9	13.9	225.8	1,522	100	1,622	94.1	50.7	676	364	370.6	2,662
1945	252.5	13.4	265.9	1,795	95	1,890	85.3	54.7	606	389	405.9	2,885
1946	229.5	13.7	243.2	1,607	96	1,703	93.5	59.9	655	419	396.6	2,777
1947	221.7	15.0	236.7	1,524	103	1,627	109.6	69.4	753	477	415.7	2,858
1948	215.3	17.0	232.3	1,455	115	1,570	118.4	80.6	800	545	431.3	2,914
1949	217.6	19.1	236.7	1,445	127	1,572	118.7	90.4	788	600	445.8	2,961
1950	217.4	21.7	239.1	1,421	142	1,562	142.8	104.3	933	682	486.2	3,177
1951	216.9	24.2	241.1	1,393	155	1,548	163.8	114.3	1,052	734	519.2	3,334
1952	221.5	27.0	248.5	1,399	170	1,569	172.3	129.4	1,088	817	550.2	3,474
1953	226.8	30.7	257.5	1,408	191	1,599	180.9	143.2	1,123	889	581.6	3,611
1954	229.1	35.5	264.4	1,397	217	1,604	184.1	157.2	1,123	959	605.9	3,696
1955	229.6	41.1	270.7	1,376	245	1,616	215.0	180.1	1,289	1,079	665.8	2,975
1956	224.3	44.5	268.8	1,320	261	1,576	234.1	195.5	1,378	1,151	698.4	4,094
1957	223.0	48.6	271.6	1,290	280	1,565	249.1	207.6	1,441	1,201	728.3	4,198
1958	231.0	53.7	284.7	1,315	304	1,614	262.0	222.9	1,491	1,269	769.6	4,363
1959	241.4	59.6	301.0	1,346	332	1,678	287.0	245.0	1,600	1,366	833.0	4,643
1960	239.8	64.9	304.7	1,315	356	1,671	306.3	263.3	1,680	1,444	874.2	4,795
1961	246.7	70.5	317.2	1,331	380	1,712	328.3	284.8	1,771	1,537	930.3	5,021
1962	253.6	77.0	330.6	1,348	409	1,757	353.5	311.9	1,879	1,658	996.0	5,292
1963	257.5	83.9	341.4	1,349	439	1,788	383.6	345.8	2,010	1,812	1,070.9	5,610
1964	264.0	90.4	354.4	1,364	467	1,832	417.1	380.1	2,156	1,965	1,151.6	5,951
1965	266.4	98.3	364.7	1,360	502	1,862	463.2	416.1	2,365	2,124	1,244.1	6,351
1966	271.8	104.8	376.6	1,375	530	1,905	517.8	446.9	2,619	2,260	1,341.4	6,785
1967	286.5	112.8	399.3	1,435	565	1,999	562.7	480.6	2,818	2,407	1,442.7	7,224
1968	291.9	122.8	414.7	1,447	609	2,056	649.5	520.3	3,220	2,580	1,584.5	7,856
1969	289.3	131.4	421.7	1,420	645	2,064	746.0	556.0	3,660	2,728	1,722.7	8,453
1970	301.1	143.3	444.4	1,462	696	2,157	812.9	582.8	3,945	2,829	1,840.2	8,933
1971	325.9	NA	NA	1,567	NA	NA	NA	NA	NA	NA	NA	NA

[1] Borrowing from the public.
[2] Debt divided by the population of the coterminous United States and including Armed Forces Armed Forces overseas. Alaska is included beginning 1959, and Hawaii beginning in 1960.
[3] Includes debt of federally sponsored agencies excluded from the budget.

Note: Debt levels estimated by the Bureau of Economic Analysis, Commerce Department. Detail may not add to totals because of rounding.

TABLE II.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

End of calendar year	Gross national product (in billions) [1]	Ratios of debt to gross national product (in percent)				
		Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	17.1	14.1	91.9	75.4	198.4
1930	83.1	19.9	17.7	107.5	86.4	234.7
1931	66.9	27.7	23.9	124.8	97.0	273.4
1932	56.8	37.5	29.2	140.8	100.5	308.1
1933	60.3	40.3	27.0	127.5	84.6	279.4
1934	68.6	44.3	23.2	110.1	72.6	250.1
1935	77.4	44.4	20.8	96.6	64.2	226.1
1936	86.5	43.6	18.7	88.0	58.5	208.8
1937	87.6	44.7	18.4	86.5	58.3	208.0
1938	87.6	46.2	18.4	83.7	57.1	205.4
1939	94.8	44.9	17.3	77.5	53.6	193.4
1940	107.6	41.6	15.2	70.3	49.3	176.4
1941	138.8	40.6	11.6	60.1	40.1	152.3
1942	179.0	56.8	8.6	51.2	27.9	144.5
1943	202.4	76.3	7.2	47.2	24.1	154.7
1944	217.4	97.5	6.4	43.3	23.3	170.5
1945	196.0	128.8	6.8	43.5	27.9	207.1
1946	221.4	103.7	6.2	42.2	27.1	179.1
1947	254.0	90.5	6.1	44.7	28.3	169.7
1948	261.2	82.4	6.5	45.3	30.9	165.1
1949	260.5	83.5	7.3	45.6	34.7	171.1
1950	311.2	69.9	7.0	45.9	33.5	156.2
1951	338.2	64.1	7.2	48.4	33.8	153.5
1952	361.0	61.4	7.5	47.7	35.8	152.4
1953	360.8	62.9	8.5	50.1	39.7	161.2
1954	379.8	60.3	9.3	48.5	41.4	159.5
1955	409.7	56.0	10.0	52.5	44.0	162.4
1956	433.2	51.8	10.3	54.0	45.1	161.1
1957	438.1	50.9	11.1	56.9	47.4	166.0
1958	469.2	49.2	11.4	55.8	47.5	163.8
1959	469.8	48.6	12.0	57.8	49.3	167.5
1960	503.4	47.6	12.9	60.8	52.3	173.6
1961	542.8	45.4	13.0	60.5	52.5	171.3
1962	574.7	44.1	13.4	61.5	54.3	173.3
1963	611.8	42.1	13.7	62.7	56.5	175.0
1964	654.0	40.4	13.8	63.8	58.1	176.1
1965	719.2	37.0	13.7	64.4	57.9	172.7
1966	772.6	35.2	13.6	67.0	57.8	173.6
1967	825.4	34.7	13.7	68.2	58.2	174.8
1968	898.3	32.5	13.7	72.3	57.9	176.3
1969	952.0	30.4	13.8	78.4	58.4	181.0
1970	1,004.6	30.0	14.3	80.9	58.0	183.1
1971	1,089.0	29.9	(2)	(2)	(2)	(2)

[1] Implied level end of year, calculated as the average of the 5th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.
[2] Not available.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900–1971

	Federal debt (billions)			Per capita Federal debt [1]			Real per capita Federal debt [2]		
	Gross [3]	Net [4]	Privately held net [5]	Gross [3]	Net [4]	Privately held net [5]	Gross [3]	Net [4]	Privately held net [5]
June 30:									
1900	$1.3	$1.3	$1.3	$17	$17	$17	N.A.	N.A.	N.A.
1901	1.2	1.2	1.2	16	16	16	N.A.	N.A.	N.A.
1902	1.2	1.2	1.2	15	15	15	N.A.	N.A.	N.A.
1903	1.2	1.2	1.2	14	14	14	N.A.	N.A.	N.A.
1904	1.1	1.1	1.1	14	14	14	N.A.	N.A.	N.A.
1905	1.1	1.1	1.1	14	14	14	N.A.	N.A.	N.A.
1906	1.1	1.1	1.1	13	13	13	N.A.	N.A.	N.A.
1907	1.1	1.1	1.1	13	13	13	N.A.	N.A.	N.A.
1908	1.2	1.2	1.2	13	13	13	N.A.	N.A.	N.A.
1909	1.1	1.1	1.1	13	13	13	N.A.	N.A.	N.A.
1910	1.1	1.1	1.1	12	12	12	N.A.	N.A.	N.A.
1911	1.2	1.2	1.2	12	12	12	N.A.	N.A.	N.A.
1912	1.2	1.2	1.2	13	13	13	N.A.	N.A.	N.A.
1913	1.2	1.2	1.2	12	12	12	$49	$49	$49
1914	1.2	1.2	1.2	12	12	12	49	49	49
1915	1.2	1.2	1.2	12	12	12	48	48	48
Dec. 31:									
1916	1.2	1.2	1.1	12	12	11	43	43	39
1917	7.3	7.3	7.2	70	70	69	210	210	207
1918	21.0	20.9	20.7	200	199	198	499	496	494
1919	25.8	25.6	25.3	244	242	239	529	525	518
1920	24.0	23.7	23.4	223	220	218	473	467	463
1921	23.5	23.1	22.9	215	211	210	511	501	499
1922	23.2	22.8	22.4	209	205	202	510	500	493
1923	22.2	21.8	21.7	196	193	192	466	458	456
1924	21.5	21.0	20.5	187	183	178	445	436	424
1925	20.8	20.3	19.9	178	174	171	408	399	392
1926	19.9	19.2	18.9	167	161	159	388	374	370
1927	18.6	18.2	17.6	155	152	147	368	361	349
1928	18.4	17.5	17.3	152	144	143	365	345	343
1929	17.5	16.5	16.0	143	135	131	342	323	313
1930	17.3	16.5	15.8	140	133	128	357	339	327
1931	19.1	18.5	17.7	153	149	142	431	420	400
1932	22.0	21.3	19.4	176	170	155	553	535	487
1933	25.3	24.3	21.9	201	193	174	628	603	544
1934	33.3	30.4	28.0	260	240	221	795	734	676
1935	36.2	34.4	32.0	283	269	250	842	825	744
1936	40.3	37.7	35.3	313	293	275	920	862	809
1937	43.1	39.2	36.6	333	303	283	949	863	806
1938	45.6	40.5	37.9	349	310	290	1,023	909	850
1939	48.8	42.6	40.1	371	324	305	1,091	953	897
1940	52.2	44.8	42.6	393	337	321	1,458	983	936
1941	65.6	56.3	54.0	489	420	402	1,301	1,117	1,069
1942	113.7	101.7	95.5	837	749	703	2,036	1,822	1,710
1943	171.0	154.4	142.9	1,242	1,122	1,038	2,929	2,646	2,448
1944	233.6	211.9	193.1	1,678	1,522	1,387	3,875	3,515	3,203
1945	279.6	252.5	228.2	1,987	1,795	1,622	4,485	4,052	3,661
1946	260.7	229.5	206.1	1,825	1,607	1,433	3,489	3,073	2,740
1947	257.6	221.7	199.1	1,771	1,524	1,369	3,107	2,674	2,402
1948	253.8	215.3	192.0	1,715	1,455	1,297	2,927	2,483	2,213
1949	257.9	217.6	197.7	1,713	1,445	1,313	2,979	2,513	2,283
1950	257.8	217.4	196.6	1,685	1,421	1,285	2,771	2,337	2,113
1951	260.2	216.9	193.1	1,671	1,393	1,240	2,595	2,163	1,925
1952	268.3	221.5	196.8	1,694	1,399	1,243	2,606	2,152	1,912
1953	276.0	226.8	200.9	1,714	1,408	1,247	2,621	2,153	1,907
1954	279.5	229.1	204.2	1,705	1,397	1,246	2,619	2,146	1,914
1955	282.2	229.6	204.8	1,691	1,376	1,227	2,590	2,107	1,879
1956	278.3	224.3	199.4	1,638	1,320	1,174	2,438	1,964	1,747
1957	278.1	223.0	198.8	1,609	1,290	1,150	2,325	1,864	1,662
1958	285.3	231.0	204.7	1,624	1,315	1,165	2,307	1,868	1,655
1959	296.5	241.4	214.8	1,653	1,346	1,197	2,312	1,883	1,674
1960	296.6	239.8	212.4	1,627	1,315	1,165	2,244	1,814	1,607
1961	303.0	246.7	217.8	1,635	1,331	1,175	2,240	1,823	1,610
1962	311.3	253.6	222.8	1,654	1,348	1,184	2,238	1,824	1,602
1963	317.4	257.5	223.9	1,663	1,349	1,173	2,214	1,796	1,562
1964	327.0	264.0	227.0	1,690	1,364	1,173	2,224	1,795	1,543
1965	330.7	266.4	225.6	1,688	1,360	1,152	2,178	1,755	1,486
1966	343.3	271.8	227.5	1,736	1,375	1,151	2,167	1,717	1,437
1967	364.9	286.4	237.3	1,827	1,435	1,188	2,215	1,739	1,440
1968	373.1	291.9	236.1	1,850	1,447	1,171	2,141	1,675	1,355
1969	382.0	289.3	232.1	1,874	1,420	1,140	2,044	1,549	1,243
1970	401.6	301.1	239.0	1,950	1,462	1,160	2,014	1,510	1,198
1971	435.2	325.9	256.7	2,093	1,568	1,235	2,093	1,568	1,235

[1] Debt divided by population of the coterminous United States, and including Armed Forces overseas.
[2] Per capita debt expressed in December 1971 prices (Consumer Price Index for all items).
[3] Total Federal securities outstanding, unified budget concept.
[4] Borrowing from the public, unified budget concept. Gross Federal debt less securities held by Government accounts.
[5] Borrowing from the public less Federal Reserve holdings.
N.A.=Not available.

74-187 O - 72 - 3

The CHAIRMAN. Perhaps Mr. Shultz would like to get his statement in first.

Would you care to proceed, Mr. Shultz?

STATEMENT OF GEORGE P. SHULTZ, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY CASPAR W. WEINBERGER, DEPUTY DIRECTOR

Mr. SHULTZ. Thank you, Mr. Chairman. I share the Secretary's sense of privilege in appearing before this committee.

Mr. Chairman and members of the committee, Secretary Connally has explained the need for an increase in the statutory debt limit. I want to support the request for the increase. My remarks will focus primarily on the implications of the current budget estimates for fiscal years 1972 and 1973.

Although the outstanding debt and the debt limit depend on the receipts and outlays of Federal funds—a concept similar to the old administrative budget—the unified budget, including the trust fund transactions, is more closely related to the impact of the Federal Government on the national economy.

On a unified budget basis, the budget that was sent to the Congress on January 24 estimated that there would be deficits of $38.8 billion in 1972 and $25.5 billion in 1973. These deficits, which will play a vital role in providing the stimulus needed to expand production and reduce unemployment, represent our confidence in the economy's ability and capacity to respond to sensible stimulation.

Because of the size of these deficits, we are evermore watchful of the rise in Federal outlays. Reflecting the careful scrutiny of Federal programs, the budget for 1973 is held to full-employment balance. This will diminish stimulation as prosperity takes hold, and act as a barrier against the renewal of inflationary pressure.

The 1972 budget is expected to be $8 billion in deficit on a full-employment basis. The size of this deficit is a potent danger signal, for the lessons of the late 1960's clearly warn that large full-employment deficits in both 1972 and 1973 would lead to the risk of renewed inflation. Both the Congress and the executive branch must, therefore, hold a tight rein on the growth of outlays.

In the formulation of the President's 1973 budget, that discipline has been imposed on the growth of outlays. Spending is expected to rise only $9.3 billion, only about a 4-percent increase from 1972 to 1973. This compares with average annual increases in outlays of 17 percent from fiscal year 1965 to fiscal year 1968, and about 9 percent from fiscal year 1969 to fiscal year 1972. Between fiscal year 1972 and fiscal year 1973, receipts are estimated to increase by $23 billion, primarily because of increased economic activity. As a result, the present estimate is for the 1973 budget deficit to be substantially less than the 1972 deficit—about $25.5 billion.

To make certain that the 1973 budget does not breach the full-employment principle, the President has proposed to the Congress that a rigid ceiling on 1973 spending be established before any 1973 appropriations bills are passed. The outlays of $246.3 billion proposed by the President in his fiscal year 1973 budget are sufficient to provide the stimulus needed by the economy. We must remember that this stimulus will occur at a time when we believe we will be making substantial progress toward full employment. Indeed, the economic indicators are already registering encouraging progress. For that reason, it is essential that we assure ourselves now, by putting a statutory ceiling on spending, that the stimulation we provide through the 1973 budget will not be excessive.

The spending ceiling the President requests is simple, straightforward, and all inclusive. Past experience indicates that such a ceiling will be necessary to hold the budget outlays and the debt subject to limit within present estimates.

On a Federal funds basis, the basis that determines the debt subject to the statutory limit, the budget totals are set forth in this chart.

FEDERAL FUNDS RECEIPTS AND OUTLAYS

[Fiscal years. In billions]

	1971 actual	1972 estimate	1973 estimate
Outlays (by agency):			
Department of Defense military functions and military assistance	$75.5	$75.8	$76.5
Department of the Treasury:			
Interest on the debt	21.0	21.4	22.7
Revenue sharing		2.2	5.0
Other	.1	.6	.1
Department of Health, Education, and Welfare	21.3	26.1	26.4
Veterans' Administration	9.5	10.7	11.6
Department of Agriculture	8.6	11.6	11.0
Allowance for civilian agency pay raise		.3	.8
All other	27.7	33.8	32.7
Total	163.7	182.5	186.8
Receipts	133.8	137.8	150.6
Deficit	29.9	44.7	36.2

Note that on a Federal funds basis, total outlays in the fiscal year 1973 are estimated to rise by $4.3 billion, compared to an increase of $18.8 billion in 1972.

This is the fifth year that the budget has been presented on the unified, comprehensive basis. Prior to the adoption of the unified budget, several competing concepts were commonly used. The resulting confusion made it very difficult for outside experts, as well as the general public, to keep abreast of the Government's financial affairs. A bipartisan presidential commission studied the matter in 1967, and concluded that a unified, comprehensive accounting that embraced both Federal and trust funds would be the best single measure of the budget. Since that time, the unified budget has been used by the President in transmitting his budget proposals to the Congress.

The unified budget effectively indicates how the budget carries out its basic functions of resource allocation and economic stabilization. It shows the total spending by the Federal Government, rather than just the spending from the Federal funds. Similarly, it reports the total amount of taxes collected from the American people for whatever purpose. To include just the Federal funds portion of the unified budget and ignore the finances of the trust funds would present an incomplete picture from the standpoints of economic analysis and full disclosure to the American people. This is why we believe that the unified budget is the most useful measure of the Government's finances.

The concept of Federal debt subject to limitation is roughly consistent with the administrative budget concept that was used until the

1969 budget. It is also generally similar to the Federal funds part of the unified budget. For this reason, changes in the Federal debt subject to limit are more closely related to the Federal funds surplus or deficit than to the unified budget surface or deficit.

FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO LIMIT, 1971-73

[Fiscal years. In billions]

Description	1971 actual	1972 estimate	1973 estimate
Federal funds surplus (—) or deficit	$29.9	$44.7	$36.2
Means of Federal funds financing other than debt:			
Increase (—) or decrease in deposit fund balances	—.9	.1	1.5
Seigniorage on coins (—)	—.4	—.5	—.5
Increase or decrease (—) in cash balances and other means of financing (net)	—3.6	.6	.4
Total, means of financing other than debt	—5.0	.2	1.4
Increase or decrease (—) in Federal funds investment in Federal debt	2.0	1.4	—.2
Decrease or increase (—) in other Federal debt not subject to limit (net)	—.8	.2	—1.5
Change in debt subject to limit	26.1	46.5	35.9

It is repeatedly said that the budget deficit would be much bigger if we did not use the trust funds surplus to reduce it. Actually, the trust funds have a surplus only because of very large payments by the Federal funds to them. These payments are mainly interest on the Federal securities held by the trust funds, the Federal Government's contribution as employer to its employees retirement fund, and Federal contributions for such groups as the elderly and the long-term unemployed. As the following table shows, trust fund payments to the public exceed trust fund income received directly from the public.

BUDGET SURPLUS OR DEFICIT (—) BY FUND GROUP

[Fiscal years. In billions]

Description	1971 actual	1972 estimate	1973 estimate
Federal funds:			
Transactions with the public	—$18.5	—$31.8	—$23.3
Transactions with trust funds	—11.4	—12.9	—12.8
Total	—29.9	—44.7	—36.2
Trust funds:			
Transactions with the public	—4.6	—7.0	—2.2
Transactions with Federal funds	11.4	12.9	12.8
Total	6.8	5.9	10.7
Budget total:			
Federal funds	—29.9	—44.7	—36.2
Trust funds	6.8	5.9	10.7
Total budget surplus or deficit (—)	—23.0	—38.8	—25.5

I think if you look at this chart, you can see the pattern of transactions. In transactions with the public in 1971, theFederal funds were in deficit by $18.5 billion, and the Federal funds flowed to the trust funds $11.4 billion.

Looking at the trust funds, the transactions with the public were in deficit by $4.6 billion; that is, the trust funds paid out $4.6 billion more than actually was collected in the form of taxes. However, the trust funds acquired from Federal funds $11.4 billion. Adding the two together, you get the unified budget deficit picture in 1971 and then in 1972 and 1973.

I just wanted to point out the flow of funds between the trust funds and Federal funds, because it is often assumed that the trust funds in and of themselves, without the transactions with Federal funds, are generating large surpluses. That is not the case.

Secretary Connally has discussed the need for the proposed increase in the statutory Federal debt ceiling. I fully support his recommendations and wish to underscore the continuing need for prudent management of our public finances.

Adjustment of the debt ceiling is consistent with and necessary to meeting the national objectives that have been acknowledged by both the Congress and the administration. At the same time, we recognize that an increase in the debt ceiling brings with it the need for greater fiscal responsibility. We, therefore, intend to maintain a disciplined vigil on spending in order to insure that our limited financial resources are employed in a prudent and effective manner. That is why the President proposed a rigid ceiling on outlays.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Shultz.

I shall now call on Senator Byrd. I would suggest that we limit ourselves to 10 minutes of questioning per Senator, for the first round of questions at least. I know that Senators can think of many things they would like to ask the distinguished witnesses, but we want to give everybody a chance to participate in the morning session. Then if necessary we can come back this afternoon and finish up.

Senator BYRD. Thank you. If I should go over my 10 minutes, I am sure the chairman will let me know.

Mr. Shultz, the budget is based on the full-employment concept of what revenues might be if—if—we were to have full employment. How do you determine that figure?

Mr. SHULTZ. First, by making an assumption about what is considered to be full employment—the full use of resources. Then, given that assumption, calculating the gross national product that would be attained, and calculating from that the various components, particularly estimating corporate and personal income. From that, you estimate receipts that would be associated with that level of gross national product.

Senator BYRD. Well, then, the current estimate is based, the full employment estimate is based on what it says, full employment or zero unemployment?

Mr. SHULTZ. No, sir. The convention that we have used is a level of operation of the economy roughly consistent with a 4-percent unemployment level. Of course, when it comes to calculating receipts for the Federal Government, it is not so much the unemployment level as the resource utilization that you are looking at. Receipts are calculated from the gross national product and more particularly, the amount of personal income and corporate income that is generated.

Senator BYRD. So it is not a full-employment budget, but it is a 4- or 96-percent employment budget, is it not?

Mr. SHULTZ. If you want to express it that way. The assumption of about 4 percent being the equivalent of full employment has been used a lot in the past, and we have adopted it.

Senator BYRD. And the unemployment rate now is what percent?

Mr. SHULTZ. I believe 5.9 percent is the most recent reading.

Secretary CONNALLY. That is correct.

Senator BYRD. What was the unemployment rate a year ago? Do you have that?

Mr. SHULTZ. Approximately the same, I do not happen to have that number right in my head, but we have had a period of about a year in which the unemployment level has stayed at roughly in the neighborhood of 6 percent.

Senator BYRD. I was reading yesterday, I guess it was, where one of the economists says that the unemployment rate is slightly higher now than it was when the recession ended in November of 1970. Is that approximately correct?

Mr. SHULTZ. I do not happen to have the November figure on this chart.

Senator BYRD. In any case, there has been no fundamental change?

Mr. SHULTZ. It has stayed, as I said, roughly in the vicinity of 6 percent for about a year.

I think one point that might be made is that we had a fairly rapid acceleration of unemployment and that acceleration stopped; now we have had a plateau. We expect, as the economy continues its expansion—we hope at a somewhat stronger pace, more in accord with what was going on in the fourth quarter of last year, than in the second and third quarters of last year—that unemployment will start to come down.

Senator BYRD. How much inflation would you guess we might have if you were now at full employment?

Mr. SHULTZ. Well, that depends upon the manner in which we get there. If we are able to get there in a manner that keeps the Federal budget under control, we shall, when we reach full employment, be able to have a balance in the unified budget and, therefore, not be adding to the demands on the economy, extra demands over and above what the Federal Government removes through taxes. That would be most helpful in continuing the progress that we are making now against inflation.

We also expect that the wage and price control system that has been put into place will increasingly help us in maintaining control of inflation. But I think a great deal depends on the sense of discipline that we exhibit in the management of our budgetary affairs. That is why the President has himself been very careful in making proposals for increases in spending, and they are much more moderate than in past years on the one hand. On the other, why, he has maintained adherence to the full-employment budget principle.

Senator BYRD. How many years since World War II have we actually attained full employment?

Mr. SHULTZ. Do you want just the numbers of years? Since World War II, in 1946 it was 3.9. In 1947 it was 3.9; in 1948 it was 3.8; in 1951 it was 3.3; in 1952, 3; in 1953 it was 2.9. In 1955 it was 4.4; in 1956 it was 4.1; in 1957 it was 4.3.

I think those 3 years are especially significant in that they were peacetime years. Some of the earlier ones I read were——

Senator BYRD. Were wartime figures?

Mr. SHULTZ. Right.

In 1966, we hit 3.8; in 1967, 3.8; in 1968, 3.6; in 1969, 3.5—again years in which we had a major conflict going on. But those are the years.

Senator BYRD. I noticed you mentioned the question of fiscal discipline. Over the weekend, I read the testimony of March 8, 1971, by Secretary Connally and by the Director of the Budget. I noticed this statement from a year ago.

> Secretary CONNALLY. I think this budget, which anticipates an $11.6 budget deficit, is a full employment budget. It is a budget that calls for the discipline of its spending ceiling.

Then in another place in that same hearing:

> Secretary CONNALLY. If you subscribe to this full employment budget and it is something that is worthwhile and it is worth considering and it is worth adhering to simply because it imposes a discipline on the administration and the Congress itself.

Well, I am wondering, Secretary Connally, just where that discipline is when, in that particular year which you were speaking of, the Government ran almost the highest deficit, Federal funds deficit, in its entire history, with the exception of one or two World War II years when the country was battling for its life. I am wondering where the discipline in this particular full employment budget is? That is the point I am trying to get at.

Secretary CONNALLY. I think the discipline, Senator Byrd, is still there. I think it is fair to say that we did not entirely react to that discipline because in the current fiscal year, we will have a deficit on the full employment basis of approximately $8 billion, and that violates the discipline.

Senator BYRD. Well, what is the discipline though? That is what I am getting at.

Secretary CONNALLY. Well, the discipline is—if you really adhere to the full employment budget and constantly keep that as a goal, as an objective—that in times of stagnation, in times of a recession, in times of slow economic activity, it would indicate that you need some fiscal and monetary stimulant so far as the Government is concerned.

But on the other hand, during times of full employment such as we have had in the last few years of the 1960's, you have to be careful not to provide overstimulation, because it inevitably results in inflation. That is the discipline of the full employment budget.

Senator BYRD. I cannot see that that is any discipline, frankly.

I noticed you used the word a number of times last year and Mr. Shultz used it again this morning, but I cannot see where there is any discipline involved in that. Where is the discipline?

Secretary CONNALLY. Well, the discipline is that you restrain your spending——

Senator BYRD. Restrain your spending.

Secretary CONNALLY (continuing). To the point where you do not have a deficit at a time of full employment, at a time when the economy is operating on the assumed full employment basis. That has been one of the conventions of this document.

Now, in the 1973 budget, we shall have on a unified budget basis a deficit, as you know, of $255 billion. On a full employment budget concept, however, we have a very small surplus.

Now, that simply means that we have projected a spending level that in actuality will result in a deficit. But if the economy were operatting at full flow, if the employment were down to 4 percent, if we had the economic expansion which we are trying to reach, if our goals were met, we would not have a deficit at all. We would have about a $700 million surplus.

Senator BYRD. Well, of course, neither one of us can forsee with preciseness just what the situation will be at the end of fiscal 1973. We can see with more precision as to what the representatives of the administration—I mean the Secretary of the Treasury and the Director of the Office of Management and Budget—said a year ago in regard to fiscal 1972. We know, of course, that there was no full employment balance, and we know that there was an unbelievable deficit of $45 billion or will be by the end of this fiscal year.

Secretary CONNALLY. That is correct.

Senator BYRD. The discipline, as I see it, is what you also mentioned. You do not connect it with discipline, but the discipline, as I see it, is on page 41 of the committee hearings last year where I read, in replying to a question by Senator Miller:

> Failing that, the second position would be that if you are going to be over those spending requests of administration, then those in control of the Congress ought to be willing to match them with tax increases sufficient to offset that so that they will end up with an $11.6 billion deficit.

Which is the deficit that was estimated by the administration on a unified basis the last year.

> Senator MILLER. Do I state the proposition accurately?
> Secretary CONNALLY. You state my position accurately.

So it seems to me that is the discipline, but that leads back to a tax matter, a tax increase.

Now, I have just about exhausted my time, but I would like to explore this more fully later.

Secretary CONNALLY. Senator, may I suggest also that in addition to the discipline of the full employment budget, what we are asking Congress to do during this session is to provide an added discipline of a very strict legal limit on total spending, both by the administration and the Congress.

Senator BYRD. Let me take just 30 seconds, Mr. Chariman, in that direction.

The record will show that the Congress, for fiscal year 1972, the year we are now in, the Congress is appropriating less money—less money than the administration requested.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Gentlemen, I very much appreciate this opportunity to have you here this morning. I commend you for the effort you are putting forth. Certainly, you have been taking action that I feel have been very helpful but we still have very difficult problems that we all realize.

I have advocated fiscal responsibility for many years, including a balanced budget. I have discussed this with some of you gentlemen. But now most of the economists state that a deficit is desirable, or there are periods, anyway, when it is undesirable to raise taxes. This is the so-called full employment concept. But whatever the concept is called, we are back at the same old problem, how to prevent a deficit with a full employment concept. Would you propose an arrangement under which the President would propose and the Congress would vote a budget such as would be at some high level of defined activity, any changes of full employment budget levels would have to be matched by changes in tax rates; thus the Congress would have to appropriate within the limits of the budget or raise taxes to meet excess appropriations. Would you support such a proposition?

Well, Mr. Secretary, perhaps if you would answer that.

Secretary CONNALLY. Basically, that is what we are suggesting now, Senator Fannin. We are suggesting that there be an absolute ceiling on spending applicable to both the executive branch of the Government and the legislative branch of the Government—on the Congress. I think that is precisely what we are saying. I have no argument with the position that you take.

Senator FANNIN. Well, Mr. Secretary, I agree that you have to that extent, followed through. But at the same time, I think you have also advocated that we cut taxes, and I just cannot agree that with the tax cuts we have had, we had the commensurate growth that was anticipated. It is disappointing, but it just has not brought forth the results that were projected. We still continue to cut taxes. I just do not agree with that. I just cannot see how we can take in less money and spend more money and still, whether we call it a full employment budget or whatever we call it, that we come out without being in deeper and deeper trouble.

Secretary CONNALLY. Well, Senator Fannin, I do not think the failure to increase taxes or the tax reduction, however you want to phrase it, really have a great deal to do with the full employment budget in the sense that we are now discussing it. There are times, I think, when we are justified in deficit spending. I think that time is now. We are running a deficit, an enormous deficit, in 1972, and, on a Federal budget basis, a deficit in 1973. There is no question about it. On a full employment basis, it is not a deficit in 1973, but we frankly have to make a decision.

What are you going to do in a time of high, relatively high unemployment, a time of rather stagnant economic activity? Are you justified in going in and cutting spending or raising taxes so that you have a balanced budget, when the result of that, in your best judgment, would be to throw the country into an economic tailspin and compound your problems and wind up with a greater deficit, or even a recession. There are very few people in the country who would recommend that.

I understand what you are saying, and I happen to agree with you, Senator Fannin. I do not believe in deficit spending. I know you and I have a similar background and you did a superb job as Governor of your State in seeing that you did not have it. I do not like deficit spending anymore than you do.

Senator FANNIN. I doubt that, because you did a better job in Texas. I commend you for that.

But you have chastised both labor and business for their antagonism toward each other, and I agree. This is a big problem. We have seen that labor unions are able to tie up our docks, and threaten our economic lifelines through paralyzing strikes. Certainly we can be critical of some of the things that industry has done. But here we are, as far as the Government is concerned, talking about keeping down inflation and we are doing more to promote inflation, I think, than the industries are. Larger Government expenditures must bear an important part in our inflation problems. Do you not agree?

Secretary CONNALLY. Well, now, not necessarily, Senator.

Senator FANNIN. Well, maybe I should state it a little differently, Mr. Secretary.

Secretary CONNALLY. We are doing everything, the administration is doing everything it can to stop inflation. The President imposed a freeze on wages, prices, and rents. We are following that with phase II—control of prices, control of wages. I do not think our Federal spending level is creating a demand to the extent that we have a demand inflation today. I just do not think it is.

Senator FANNIN. Maybe I stated it improperly, but we spent about $30 billion, I understand, either directly or indirectly, in Government contracts last year on construction. In other words, either we did the financing or in actual payment. Now, do you not agree that exhorbitant wage increases without equivalent increases in productivity have been devastating?

Secretary CONNALLY. No question about that.

Senator FANNIN. Do you not consider that wages in different industries have become relative?

Secretary CONNALLY. Oh, absolutely.

Senator FANNIN. All right, then, I am getting to this. Construction increases forced by union leaders challenged manufacturing union leaders to fight for similar increases. Is that not true? In other words, when they get increases in the construction industry, this results in the union leaders in other industries fighting for their increases just to protect their own image. Is that not true?

Secretary CONNALLY. Yes, I think that is true.

Senator FANNIN. Then why do we retain the Davis-Bacon Act?

Secretary CONNALLY. Well, as you know, the President suspended it, as he has the power to do. He does not have the power to repeal it; that was passed by Congress. That is a matter for Congress to decide.

There is no question that in the construction industry, wage increases were getting out of line. They were running, some of them, in excess of 18 percent. They were running 12 percent the average. This was clearly out of line with what was needed in this economy. Largely through the administration's—well, not largely, solely through the administration's activities wage demands have been brought down a great deal. Director Shultz personally had a hand in it as did the former Secretary of Labor, Hodgson, and the Committee on the Construction Industry. I think they made some real progress.

Senator FANNIN. Well, I think as one of your good Texas Senators, Mr. Secretary, has introduced a bill—I am cosponsor of it. We are not getting any support from the administration. We are trying to rescind the Davis-Bacon Act. I feel this is vital.

Just to give you an illustration, in Tuscon, Ariz., there happens to be a gentleman who wrote a letter to me. He is a machinist in one of the factories there. He receives $3.90 an hour and he is a skilled machinist. His son works on a Government Davis-Bacon job, financed under the Davis-Bacon Act, and he receives $5.40 an hour for waving a flag telling trucks which way to go.

Now, there is not any equity in that.

Another illustration. I was with Secretary Morton at a job at Page, Ariz. The place where we were staying, the people were quitting and going to work—here was a cook going over as a laborer, just a common laborer, because he could make $7.20 an hour on the Tower project. This is under Davis-Bacon.

Now, there is no rhyme or reason to that. That is why I feel a great deal of effort should be put forth by the Government to enforce these laws. I am sure it was not intended that way by the Congress, that those exorbitant wages be paid. And here we are in our own administration helping to promote this inflationary scale of wages.

I am very concerned about it. And the administration is asking Congress to formally devalue the dollar by raising the price of gold, and here the purchasing power of the dollar is going down every day as a result of what is happening to these wage increases. Is this not a serious enough problem for the administration to take some action on?

Secretary CONNALLY. Well, Senator Fannin, I certainly have to say that all of the problems which you have alluded to are very serious problems and the administration is indeed taking action on a great many of them.

Now, frankly, I am not qualified here to enter into any extended discussion with you about the advisability of the repeal of the Davis-Bacon Act. I do not propose to get into it, simply because the Secretary of Labor and other individuals in this Government have that responsibility; I do not. But we are certainly doing everything we know how to do to bring down the costs in the construction industry.

As I say, we have taken an unprecedented action in peacetime of putting a complete freeze on. That freeze is being followed by price controls and wage controls on the American economy to be sure that we do stop and break this inflationary trend in this country. You made reference to the fact that I have scolded both labor and industry. I did not intend to do either. I intended to point out to both, however, that the time is past when we can engage in the luxury of just competing one with another and both with Government. There is going to have to be a triumvirate established of Government, labor, and industry to solve our mutual problems or we are all going to be in deeper trouble.

Senator FANNIN. You have asked one of the questions I was going to pose to you. I agree wholeheartedly. The big problem is we are no longer, in our wage scales, just competing throughout our United States or, indeed, worldwide.

Secretary CONNALLY. That is correct.

Senator FANNIN. Now, the recent concessions from the Europeans appear to be very inadequate. The Canadians made no concessions. The only country which did give some meaningful concessions was Japan, and I think that was very slight. I just wonder what is going to happen, whether we are going to continue our tremendous imbalance of trade with them. Was it not about $3 billion last year?

Secretary CONNALLY. That is about right.

Yes, I think we will probably continue to have an imbalance of trade with Japan in calendar 1972. Last year, they had a balance of payments surplus of $7.9 billion, worldwide, in spite of the 16.9 percent revaluation of the yen versus the dollar.

We anticipate, and their own studies now indicate, that they will have probably a surplus in their balance of payments this year of approximately $7 billion.

Senator FANNIN. And with the United States; I have heard it conjectured for 1973 that it could be as much as $5 billion with the United

States if it continues on its present trend. Do you feel that is a possibility?

Secretary CONNALLY. I would not want, Senator—I do not know. I have not seen any projections of trade deficit figures for the United States. I think it will improve this year. I would think $5 billion would be too high on a trade deficit basis.

What do you think?

If you are talking about Japan, I know it is too high. I think even worldwide, $5 billion trade deficit is probably too high.

Senator FANNIN. If we look at one industry, that is the motor vehicle industry, it could easily be that, from what I have understood. If the others are proportionally increased it would be more than that.

But my time is up. I thank you very much.

Secretary CONNALLY. Thank you, sir.

The CHAIRMAN. Senator Harris?

Senator HARRIS. Mr. Director, is it a fair statement of the full employment budget concept to say that if we have the same rate of unemployment now that we had when this administration took office, we would not have a deficit in the budget?

Mr. SHULTZ. I think that is correct.

Senator HARRIS. Do you agree with some line of Marxist-Leninist thought that a capitalist country such as ours has to fight a war or have high military expenditures to have full employment?

Mr. SHULTZ. No; I do not.

Senator HARRIS. Then do you agree that there are millions of people who are out of work today through no fault of their own?

Mr. SHULTZ. That is correct.

Senator HARRIS. As I read the economic——

Mr. SHULTZ. Millions in the sense that there are lots and lots of persons. If the unemployment rate comes down from, say, 6 percent to 4 percent the number of persons who are unemployed will come down by about a million and a half.

Senator HARRIS. As I read the economic report, I get the sense from it that it pretty much takes the position that a lot of the unemployment problems in the country are structural—that is, they particularly relate to young people and to minorities, and that fiscal and monetary policy alone will not necessarily reduce that 6 percent to 4.

Do you think that your own course realistically could reduce the unemployment from 6 to 4 percent, simply by monetary and fiscal policy and, to some degree, manpower policies?

Mr. SHULTZ. Well, I am glad you added the last point about the manpower policy, because I think what you see from the administration is an attack on unemployment problems that is much broader than simply fiscal and monetary policy.

Now, analysis of what has happened to the composition of unemployment will show, for example, that those who are seeking part-time work has gone, over the last 10 years or so, from about 14 percent of the unemployed to about 21 percent of the unemployed. What that means is that there is a somewhat different problem than existed 10 or 15 years ago and, therefore, we need to adapt our policies to the different problem, and we are.

We are also studying what further adaptation should be made in order to get to the goal that we have.

Senator HARRIS. You do not maintain that the full-range of policies, including manpower—fiscal, monetary policies that you and the administration are recommending—could get full employment this year, do you?

Mr. SHULTZ. No, we do not.

Senator HARRIS. Then, how realistic is it to talk about a full-employment budget, if you do not intend that you reach it this year?

Mr. SHULTZ. It is extremely important to talk about it because what we are trying to do is develop economic policies that can get us to the point where we have both full employment and reasonable stability of prices, recognizing that if we get to a period of full employment accompanied by a period when prices are rising and rising at an ever-increasing rate, as was the case in the late 1960's, it will be necessary—and widely assumed to be necessary—to take corrective action of a drastic sort.

Probably, that corrective action would have to concentrate on fiscal and monetary policy, and we would go through exactly the same sort of period that we are now going through. When we made the sharp shift in policy from the fiscal 1968 budget to the fiscal 1969 budget, you would have to say that was a bipartisan budget policy. It was affected tremendously by the surtax, and it was originally put forward by President Johnson and he administered, so to speak, the first half of it, and President Nixon administered the second half of it.

That budget comparing fiscal 1969 and fiscal 1968 probably was the biggest fiscal wrench that the economy has ever been put through. Such a wrench causes dislocation and causes problems.

Now, what we want to do is get to full employment on a basis that does not impose on us the necessity of going through all that all over again. That is what the use of the full-employment concept is about.

Senator HARRIS. Without massively protectionist trade policies, which I think some have proposed—hopefully unsuccessfully—do you look for there to continue to be, with foreign competition, rather serious shifts in types of employment in the United States in order to compete in the foreign market as a result of competition with foreign goods?

Mr. SHULTZ. I think there will be some. Over a period of time, for many reasons, there will be shifts in the pattern of employment in the United States. What consumers want will change. What inventions produce will create new consumer desires. And the systematic changes that take place as people's incomes rise, as their incomes finally have come to rise on a real basis this last year, makes for changes.

New technology, new ways of doing things, make the changes as well as rearranged patterns of trade.

Therefore, it seems to me very important to have, as we have tried to develop in the manpower policies in this administration as before, a system or systems which will accommodate themselves to change. If we say to ourselves that we cannot ever make any changes, then we basically create a dead economy and a dead society.

Senator HARRIS. I do not think we are doing enough in that regard, but let me go on to another thing.

Do you think that it is possible to have, given the present concentration of economic power in America, full employment, meaning 4 percent as you define it, without inordinate inflation? Will we continue to have in the future the sort of tradeoffs we have had in the past—that is, up until the last 3 years—of either high and unacceptable unemployment or high and unacceptable inflation without price controls?

Mr. SHULTZ. The implication of the question is that there has been a shift in the pattern of economic concentration, let us say as compared with 1955 and 1956, which was the last sort of peacetime period in which we were in the range of full employment and some kind of reasonable price stability, and that this change is fundamentally responsible for the inflationary problem that we have today.

Senator HARRIS. You do not have to make all those assumptions to answer my question.

Mr. SHULTZ. Well, a lot of the structural problems that we talk about are quite different, but my answer to the question would be, no, I do not think the changes in economic concentration are the responsible factor, although, I do believe that concentrations of economic power which change the distribution of income are, on the whole, undesirable and we should be working away to keep them under control.

But I think the data which show that the extent of concentration of economic power has probably diminished or, at most, has stayed the same, say, in the last 10 or 15 years.

Senator HARRIS. I would very strongly disagree with that. Your own figures show that the top 200 corporations control about 60 percent of manufacturing as compared with about 45 percent that those top 200 corporations controlled at the end of World War II. And, in addition to that, around 35 percent of the industries of the country are dominated by shared monopolies—as you know, the technical term for fewer firms that have 70 percent or more of the sales.

The FTC has lately said it is going to file a complaint against Kellogg's, General Mills, General Foods, and Quaker Oats, because they have a shared monopoly in the cereal industry that is not only giving us less in quality, but that is overcharging us by about 15 percent. Why should we not do that in other such industries as well?

And I ask you the question again—given the present concentration of economic power, is it possible for us to have both full employment and acceptable inflation? Is that possible, do you think, with our present economic system?

Mr. SHULTZ. It was, you might say, barely possible back in 1955 and 1956, the last peace-time period, when we got somewhere near that. I think that in the middle 1960's, before the start of the Vietnam War, the policies being followed had gotten us to the point where we were within reach of that golden age. Then, with the combination of the Vietnam War buildup, which was not compensated for in taxes, and the Great Society programs, and adding the stupendous full employment deficits we had, we sort of blew that chance. We are trying to get back to it by the economic policies now being followed.

I think it is possible, but I think it is very difficult.

Senator HARRIS. My time is up, but I just want to ask one last question of Secretary Connally, if I might.

You have said that we were overly optimistic on our predictions on revenue and that the deficits that we have now primarily result from undercollection or a short-fall in revenues.

Why were you overly optimistic? And did that involve an overly optimistic assessment of what the accelerated depreciation and investment credit tax would do, or where are we in regard to that?

Would it be possible for us to have some tax reform as a part of this bill?

Secretary CONNALLY. Well, I think your question, as I understand it, breaks out into three parts.

Senator HARRIS. I had to put it in one because my time is up.

Secretary CONNALLY. The first part, Senator, results largely from the fact that I think the slowdown, the stagnation, was deeper and stronger than was anticipated when the forecasts were made. Of course, the tax revenues, both from personal income standpoint and corporate income standpoint, were below expectations.

The second part of your question: No. I would say that the accelerated depreciation and the job development credit had nothing whatever to do with the shortfall in revenues, nor did it have any substantial impact on the creation of this deficit.

The third part of your question: I would simply hope that there would be no effort to expand this bill to include any element of tax reform, primarily because this is a debt ceiling bill. We need this debt ceiling legislation, and we need it very quickly. We are going to be in trouble in a matter of a few weeks if we do not get it.

I just think if we get into talking about tax reforms—which, Senator, you went through in 1969, which again you went through in 1970, as you recall—this committee, as I recall, spent hundreds of hours, and weeks, and weeks talking about it. You held hearings, as I recall, for about 6 weeks before this committee on tax reforms in 1969, from Labor Day to November.

Then you went for 2 or 3 weeks, about 3 weeks, in executive session during that period.

So, if we get into that kind of consideration on this bill, I think we shall create some real problems.

The CHAIRMAN. Mr. Secretary, if I might just interrupt at that point, we went through 6 weeks of intensive hearings to move that bill, and we had an egg timer sitting there with a bell ringing on the witnesses every 10 minutes. If we had not done that, we would have been 6 months on that bill.

Senator HARRIS. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

I want to pursue the discrepancy between forecasting and the actual results a little further.

As I recall it, when the two of you were here before this committee earlier, you were talking about a gross national product in the neighborhood of $1,065 billion and either one of you or both of you insisted that that might be conservative. Well, there was a good deal less actual gross national product in 1971 than $1.065 billion. I wonder why your projections fall so wide of the mark for 1971?

The original unified budget estimate was for a surplus of $1.4 billion, as I recall it. Yet it turned out to be $23 billion deficit for a difference of $24.4 billion.

Now, as the Secretary said in his testimony here, we were simply too optimistic a year ago it was estimated that the 1972 deficit would be $11.6 billion and now the estimate is $38.8 billion.

Now, there is a difference in that length of time of $27.2 billion.

How do we have any assurance, any idea at all, what the deficit is likely to be finally for 1972 and 1973? Your track record is not very good in projecting.

Secretary CONNALLY. Well, I think the track record for this year is not very good. I agree with that. I think we missed the $1,065 billion. I do not recall that either Director Shultz or I thought that was a conservative figure. I do not believe we ever characterized it as such. I certainly do not recall that I did.

But nevertheless, we missed it. Now, why did we miss it? Simply because a number of things happened. First, the economy was too slow to respond. Secondly, I think we have a slowdown in the economy that was more than economic. It was psychological as well. It is being influenced by a number of different factors, not the least of which was our trade problems, our international trade problems.

I think it is important to point out that last year we had a deficit in our balance of trade for the first time since 1888. When you take the size of this economy—when you talk about an economy that produces over $1 trillion worth of goods and services—and you consider the factors that work within it, in this free enterprise system, not only domestically but internationally as well, I can well understand how we could miss our forecast by the amount that we did. I do not think this should discourage us too much.

I think there are times when this is just going to happen. I think, on the other hand, we feel more certain of the estimates for 1973 simply because we have turned the corner, in my judgment. And I think the economy is expanding. I think employment is increasing beyond any question. Employment is now 80,636,000 people in this country. I think we have every reason to believe the report out today on the leading indicators; they are up again. I think we have every reason to be more confident, because I think we have turned the corner.

Senator JORDAN. But what do you suppose has gone wrong with the old economic concept that budget deficits would stimulate the economy and stimulate domestic employment? We have had these large deficits totaling over $121 billion since 1968 but our economy has still been lagging, with unemployment near 6 percent and utilization of plant capacity at about 75 percent. Does this not call into question the dogma that budget deficits will produce economic expansion?

Mr. SHULTZ. I do not think that we should take the position, and I do not believe I ever have, that budget deficits in and of themselves, or by themselves, can rearrange the economy precisely to your liking. The economy is large and complicated. As big and important as the Federal Government is in the picture, there was a lot more to the economy than the Federal Government budget.

First of all, there is the monetary policy, which has been mentioned, and beyond that there is the whole intricate process of reaction in the private economy.

So I do not think that any kind of simple budget deficit and surplus approach to how to manage the economy is called for. At the same time, I think we can see, as a kind of logical proposition and also as something that you can observe, that the Federal impact on the economy is important and that, at a time when unemployment is higher than desirable and the utilization of capacity is lower than desirable, that is a time when the Federal Government can appropriately run at a deficit.

As we have had some disastrous examples in our history, going back over a 40-year period, where we have tried to act from the opposite theory and failed to stem the rise in unemployment as we have done this time, or have short-circuited an expansion, as has happened on a number of occasions.

I think that the notion of a budget deficit is a healthful notion, although it does not solve all of the problems.

I might say, on your previous question about our inaccuracy in the forecast, that I can only subscribe to what Secretary Connally has said. We did miss. There are some things about that miss that might be mentioned.

First of all, the basic statistics on Gross National Product were revised substantially twice during the year. First of all, the level of 1970 was lowered by about $3 billion. What we were estimating essentially was the increase from 1 year to another. So, if you decrease the base from which you are operating, you decrease everything.

Second, the administration has been dissatisfied with the quality of our statistics and undertook early in the game to revise and improve some of the important underlying statistical programs from which the Gross National Product estimates are derived, particularly in retail trade. The result of those revisions became available toward the end of this past year and together they produced a lowered GNP of about $5 billion.

Now, whether or not that lowered GNP is a lowering that would extend back in time, nobody will ever know because they did not have the new statistical theories back in time. But there are some technical explanations for part of the bad guess.

Nevertheless, I would agree with you that the economists—and I must say everybody else—have a lot to be humble about in their ability to estimate what each economic activity is likely to be a year or so from now.

Senator JORDAN. Well, we know economic projections are not an exact science, but you are always on the low side. You are substantially on the low side, always.

Here is another question I would like your reaction to, Mr. Director, because you have said that the administration wants to exercise restraints in expenditures. I assume that would be out of the trust funds as well as the general fund budget. Chairman Mills of ways and means has recommended a 20-percent increase across the board in social security. He said it can be done without jeopardizing the integrity of the trust funds. But under your unified deficit concept, this increase will increase your unified deficit; is that not correct?

Mr. SHULTZ. Yes, sir; it would, by about $6 billion.

Senator JORDAN. Does the administration support a 20-percent increase in social security benefits without any increase in social security taxes?

Mr. SHULTZ. Well, the President's position, as expressed in the budget, is the support of the provisions contained in H.R. 1, which provides for a 5-percent increase in social security benefits, and also provides that as time goes along, those benefits are automatically adjusted for changes in the Consumer Price Index.

Now, that does not mean that there would not be other changes recommended in social security benefits, but this is the President's position.

As far as the proposals by Chairman Mills are concerned, I think there are some points to be made without presuming to be ready for a full-scale discussion of the subject. But, first of all, as you have suggested, this would be about a $6 billion increase in the unified budget deficit. It would mean an increase of about that amount in the full employment deficit, too, and would create a 1973 deficit at full employment of about $6 billion.

It would violate the principle of an across-the-board rigid ceiling on outlays that the President has proposed. Those points need to be kept very firmly in mind. Chairman Mills' proposal raises the question, if you are going to add $6 billion here, where are you going to cut $6 billion?

Having gone through this whole budget process, I would expect that it is hard to find where you are going to cut $6 billion. We think that the budget is fairly tight. I think also it should be noted that social benefits have increased about twice as fast as the Consumer Price Index for 1965 to 1971 and three times as fast as the period 1969 to 1971.

In fact, with the 5-percent increase budgeted in H.R. 1, the benefits will have increased by a third in just 2½ years. We have had large increases in social security benefits that we should take into account.

I might also note that the chairman, in his statement, referred to an advisory commission report. In that report, the recommendation is made that the social security payments be on a so-called current cost financing basis. This means that roughly 1 year's anticipated outlays should be present in the assets of the trust funds so that they are always sort of 1 year ahead of the game under this plan, no attempt would be made to accumulate a large trust, as you would in a private pension plan.

The committee also recommended that around this 1-for-1 ratio, we might expect that there will be deviations from year to year, but that if we get to the vicinity of three-quarters of a year or in the vicinity of 1¼ of a year in the assets, that would be a sort of flash point for the Congress to recognize that you are getting into very dangerous territory, even under the committee's recommendations.

And as we read the recommendations the chairman made, it would, by about 4 years from now, reduce the asset value of the trust funds to less than three-quarters of the anticipated year's outlays, so that it would violate that principle right there.

I am suggesting that in the first place, we have the President's position as stated in the budget, as you know, but also indicating some of the problems raised by the chairman's suggestion, I would add, of course, that any time the chairman or members of this committee or the Ways and Means Committee chairman or its members, which deal directly and so knowledgeably with this legislation, make a proposal, naturally, we are going to study it very carefully, as we are.

Senator JORDAN. Thank you. My time is up.

The CHAIRMAN. Senator Miller.

Senator MILLER. Thank you, Mr. Chairman.

Mr. Shultz, on page 5 of your statement, you state that to include just the Federal funds portions of the unified budget and ignore the finances of the trust funds would present an incomplete picture from the standpoint of economic analysis and full disclosure to the American people.

Would it not be fair to say that the American people, in order to have full disclosure, ought to have both? If they don't have the unified budget, they are not going to know until you come over here and ask for an increase in the national debt limit, how much taxes and interest on the national debt are in store for them. So would it not be fair to say that the American people, to have full disclosure, should have both the unified and the Federal funds budget so they will know everything?

Mr. SHULTZ. They do, and in the budget, we show both concepts.

Senator MILLER. I understand that, perhaps I misread your statement, but I thought you were giving great emphasis to the need to take into account the trust funds, and that is all right with me, but if the people are going to be advised, they are going to have to be advised when they see that unified budget, possibly by a footnote, that that does not reflect the total amount of the additions to the national debt that are going to be in order, which they are going to have to take care of through their taxes, not only on principal but on interest.

Does that concur with your thinking?

Mr. SHULTZ. Yes, and we have a considerable discussion of this in the budget itself, and I think all of the necessary information is here.

Senator MILLER. Well, I know you do, but I thought I ought to put that in perspective in the light of your statement.

Now, Mr. Secretary, you say on page 3 of your statement that $38.8 billion 1972 deficit represents an adverse swing of $27.2 billion. You say the major portion of that change, $19.8 billion, results from a shortfall in estimating revenues.

This troubles me, because the way I look at the testimony we received this morning, I can see that of the $19.8 billion $6.7 represents tax changes which drain off revenue. That brings it down to $13.1 billion, and the only place I can find a shortfall of revenue that might cause part of that is in roughly a $20 billion shortfall on the estimate of GNP. But, from all I know—I have talked to Director Shultz about this—the $20 billion shortfall on GNP is not going to give us a $13 billion shortfall in revenue. I am wondering where that comes from.

Secretary CONNALLY. Well, I think we are comparing two different things.

On the one hand, we are dealing with a fiscal-year figure when we are talking about the adverse swing of $27.2 billion and the $19.8 billion, whereas in the GNP, of course, we are talking about a calendar year basis.

Senator MILLER. Well, I am pleased that you pointed that discrepancy out, but I still find $13.1 billion of that $19.8 billion unaccounted for.

Mr. VOLCKER. If you will look on table 6, which is attached to the end of the Secretary's statement, Senator, you will see a detailed reconciliation of these numbers. It shows $11.2 billion——

Senator MILLER. I am sorry, I do not have that table.

Mr. VOLCKER. It is divided up into three categories there, you see, Senator. $11.2 billion is called economic and reestimate. In other words figures in that column reflect the changes from the assumptions as to the economy that were made a year ago as well as any estimating errors and change in legislation. Then there is a miscellaneous category which is small except for the change in capital gains tax estimate, which is included in that column rather than in the economic columns, for some reason I do not fully understand.

Senator MILLER. All right. I appreciate getting that. I shall have to study this a little more.

Now, that $27.2 billion adverse swing, do I understand correctly that $6.7 billion of that results from tax changes, and $7.4 billion represents expenditures in excess of the budget, for a total of $14.1 billion?

Mr. VOLCKER. That is roughly correct. I think that is right for the expenditure side. It is right for the tax side.

Yes, it is right for the expenditures.

Senator MILLER. Then what we really are saying here is that over half of this adverse swing did not occur from bad estimates; it occurred because of congressional action. Am I correct?

Mr. VOLCKER. That is correct. I think it is fair to say some of that congressional action was proposed by the administration as in the case of the tax changes.

Mr. SHULTZ. And also, if I could interject, some of the additions to outlays were the result of rises in uncontrollable programs—unemployment compensation, for example. Outlays were higher than originally estimated because the economy did not operate as strongly as originally estimated. So that is not the action of anybody; it is the action of a program operating as it has been set up to operate.

Senator MILLER. Well, then, I get back to my colloquy of a year ago with the Secretary, which Senator Byrd referred to earlier. We had a $11.6 billion estimated full-employment budget deficit, and I said, "Mr. Secretary, if the Congress sees fit to increase the expenditures over and above that in the budget, would you favor having a tax increase so we end up with $11.6 billion?"

You stated your first choice was to leave the expenditure side alone, because this represented what the administration thought was the proper mix of spending between the private sector and the public sector; but that as a fallback position, as executive, if those expenditures were going to be increased, then Congress ought to take tax action to offset them so that we would end up with a $11.6 billion budget deficit.

Now I understand that tax changes were recommended and program expenditures went beyond estimates, and still there was no action taken, or recommendations made that I can recall, to try to keep that $11.6 billion budget deficit.

Secretary CONNALLY. Well, I think that is right, and I think we could not keep to the estimated $11.6 billion deficit—particularly in the light of the circumstances that we were confronted with late last fall. As a matter of fact, the administration did support tax reductions instead of tax increases.

Mr. SHULTZ. That is correct. At the same time, as the President proposed the reductions in tax rates, he also proposed some changes, some in his position with respect to bills such as special revenue sharing (by changing the effective dates) and actions that would save money in other ways.

One was a reduction in Federal personnel, which we have been trying to attain, and with some success. The other was a slippage by a 6-month period of the scheduled increase in Federal pay raises, which the Congress originally went along with and then turned around on. So we were not able to get that savings. But the President did propose about $5 billion worth of savings.

Senator MILLER. I would like to get one thing clear, Mr. Shultz. On page 2 of your testimony, you say the 1972 budget is expected to be $8 billion in deficit on a full-employment basis. The estimate is a $38.8 billion deficit.

Mr. SHULTZ. That is on an actual basis. That is, that compares the revenues that we expect to actually come in, with the outlays we expect actually to be made. Now, if the economy were operating at full employment, we would have much higher revenues than that. We would also have somewhat lower outlays because we would not have as much payment of unemployment compensation.

Senator MILLER. I understand that, but what I am wondering is this: When I take $8 billion and subtract it from the $38.8 billion projected deficit, I get $30.8 billion. Is this the deficit we would get if the economy were operating at full employment—in other words, are you saying that a $30.8 billion deficit is a full-employment deficit for 1972?

Mr. SHULTZ. Well, if the actual deficit, all things remain the same, if the actual deficit were $30.8 billion, we would have a balance at full employment, roughly speaking.

Senator MILLER. All right. Then what we are really getting down to is this: You are now saying today that $30.8 billion would be a full-employment deficit for fiscal 1972——

Mr. SHULTZ. That amount of deficit would be consistent with the balance at full employment.

Senator MILLER. I understand. It is the full-employment budget deficit, is it not?

Mr. SHULTZ. No.

Senator MILLER. Well, how does the $30.8 billion compare with the $11.6 billion which you projected a year ago?

Mr. SHULTZ. They are not the same. The $11.6 billion was an estimated actual deficit, but with full-employment balance. Now, if we said we now looked for full-employment balance in fiscal 1972, what would the deficit be, it would be $30.8 billion. So you could compare the $11.6 billion with the $30.8 billion in that sense.

Senator MILLER. That is the point I want to make. Hindsight is always better than foresight, but if we were sitting here a year ago and you could look into the crystal ball, you would not have come over here and recommended an $11.6 billion full-employment budget deficit; you would have recommended a $30.8 billion full-employment budget deficit. Is that correct?

Mr. SHULTZ. Well, what we have tried to do——

Senator MILLER. I am not trying to be tricky here, but the Secretary testified that there is $27.2 billion adverse swing. If I took the $11.6 billion and add the $27.2 billion adverse swing, I get $38.8 billion which is your projected deficit this year.

Then I take the $8 billion away, which is what you testified to be the deficit on a full-employment basis, and I get the $30.8 billion which ought to be a perfectly even amount for a full-employment budget deficit for this fiscal year.

Mr. SHULTZ. I would say this, that the use of the full-employment concept means that when the President put forward a budget with a deficit of, an actual deficit of, $11.6 billion and a full-employment balance. Using that principle, he was also saying that if the economy turns out not to be as strong as we predicted, so that the $11.6 billion would not be attained, we should not try to raise taxes or cut expenditures on that account by itself and should accept the larger deficit. And, in fact, as it has turned out, we have in effect accepted a somewhat larger deficit than that; namely, a full-employment deficit.

But being conscious of the problem implied by that and the danger to the longer run effort, we have drawn the 1973 picture back in the balance of full employment.

Senator MILLER. Thank you. My time is up.

The CHAIRMAN. Senator Nelson?

Senator NELSON. On September 9, the President, in a statement to a joint session of Congress, said:

> That is why in the next session of Congress, I shall present new proposals in both these areas, tax reform to create new jobs, and new programs to insure the maximum enlistment of America's technology in meeting the challenges of peace.

Then I notice that on February 7, Mr. Wilbur Mills sent a letter to the President, making reference to that statement of September 9, 1971. The letter said in part:

> To me and most others, this term means a program of further elimination of preferences and so-called loopholes in the Federal income, estate, and gift tax system. If this is what you had in your mind, and I am sure it is, let me call your attention to the fact that in order for the Congress to complete action on any such proposal, you should give us the benefit of your thinking in a message either delivered in person to the Congress, or submitted by messenger to the Congress, not later than March 15, 1972.
>
> My suggestion is not with respect to any new type of tax such as the value added tax, which I am sure you did not mean to include in your definition of tax reform in your appearance before the Congress.
>
> Since your statement advising us of your intention, this matter has become all the more important because of developments in the House in recent days raising the question about the support of continued increases in the debt ceiling unless such requests are coupled with tax reform ostensibly that would produce additional revenues.

As we all know, a substantial package of reform proposals has been developed in the Treasury Department over the past few years. With the revenues raised from closing loopholes, we could reduce taxes by some $15 billion or thereabouts.

My question is this: Does the Administration intend to send to Congress a tax reform bill this session in accordance with the commitment of the President last September 9?

Secretary CONNALLY. Well, first let us go back—I do not want to try to read the President's mind about what he intended to do. So far as I know, in talking on September 9, he was then concerned, and still is concerned, about the inordinate increase in property taxes on homes throughout this Nation. He still is concerned about the high tax increases—both local and State, as well as other types of taxes by school districts, water districts, and so forth—on people's homes in this country.

He thinks it has important social implications. He has been searching for weeks and months, as we have been, to find out what position the Federal Government can take to help alleviate these onerous taxes, this great tax burden that is now borne by homeowners in this country.

I think that is probably what he had in mind. I do not think he had in mind a reform bill such as you now say you think he had in mind. We have had two of those in recent years. In 1969—we alluded to it a little earlier, Senator Nelson—Congress spent the entire year, both the House and Senate, talking about tax reforms and very, very substantial tax reforms were made.

Senator, the reform and relief provisions in the 1969 act reduced individual income tax receipts for the fiscal years 1970 through 1973 by nearly $20 billion. Tax increases on corporations have resulted in approximate increases of around $3½ billion during the same period.

The net of it is that the Treasury has lost enormous revenue each time a reform bill is up and we do not now anticipate that there is going to be a reform bill such as you apparently have in mind.

Senator NELSON. Mr. Secretary, all the things you make reference to had been accomplished, or were nearly accomplished, by the time of the President's message. We were well on our way to passing the tax reduction bill, which I had never heard anybody call a reform bill before. That bill passed in November. We are talking about a statement of the President's on September 9 making reference to this session.

It says:

> That is why, in the next session of the Congress, I shall present new proposals in both these areas, tax reform to create new jobs, and new programs to insure the maximum enlistment of America's technology in meeting the challenge of peace.

So on September 9, the President was not talking about the tax bill that was in the mill and that passed within a month of his statement. He was talking about a message to this session of the Congress—this year, 1972.

All I am trying to get clear is this: Does the President intend to present it, or does he not?

Secretary CONNALLY. At this time, we are not prepared to present it, Senator. We are very early in the session. You have only been in session approximately 45 days, and there is lots of time left, if indeed we can devise a solution, whereby we can indeed help State and local governments with respect to the onerous tax burdens that homeowners now have.

The other part of the question to which you refer deals with tax incentives to promote research and development on the theory of the President that part of the economic strength and vitality of this Nation—the continued expansion of our economy, the ability of industry to provide jobs for the American people—has always depended upon the great advantage that we have had in the technological field.

We have lost much of this advantage. The Federal Government—because of its cutback in the space program, because of its cutback in defense procurement—has likewise cut back enormously on its own contributions to basic research. Industry has not increased its contributions to research and development to the point where we have any assurance whateever that we are going to be able to stay ahead of the competition in terms of new products, new developments, new technologies.

We are searching, very frankly—we have been for months—searching to develop a feasible way to provide some incentive, some encouragement, some stimulant that makes sense, that will be effective to increase the research and development which is so essential, in our judgment, to be continued economic leadership of the United States. We do not have it yet. We have not found the answer to it yet.

Senator NELSON. Well, I am still not clear about this, Mr. Secretary. The President's language is, "I shall present tax reforms" in this session. There are a lot of us here interested in tax reforms. A lot of people, and I think most economists in this country, consider that the tax loopholes in the present tax law are disgraceful. So I would ask you this: Did the President make a commitment that you now find, after exploring it, you are not able to keep?

Are we or are we not going to have tax reform proposals? You state that it is early in the session. Well, I think it is kind of late in the session, and Mr. Mills himself, who I suppose is as expert as anybody here on the mechanics of dealing with tax legislation, states that it would be necessary for the Congress to have these proposals by March 15. That is only 15 days away.

I am just curious to know: Are we going to have a tax reform proposal or are we not?

Secretary CONNALLY. Well, we are certainly not prepared to submit one at this time. I do not want to get into an argument with the distinguished chairman of the Ways and Means Committee, who certainly knows more about the time required for tax reforms than I, but Congress made very significant tax changes last year in a matter of about 6 weeks. So when I say that there is ample time left in the session, I do not think that there is any great problem insofar as time is concerned.

Senator NELSON. Well, last year, we did not have to face two political conventions. This session is going to be interrupted.

Secretary CONNALLY. I am sure that neither party would want to set aside the Nation's business purely for political purposes, and both conventions will last only a matter of a few days. I am sure that the Congress would not want to, in any event, set aside essential duties and responsibilities just for that purpose.

Senator NELSON. Oh, I think the distinguished Secretary has been around long enough to know that one of the fundamental and essential duties of the country is the nominating conventions of the party. That is a time-consuming process.

Secretary CONNALLY. Yes, I know, but under our system, as you know, Senator, better than I, the convening and the conduct of political conventions is not the sole responsibility of the Congress. A great many people will have a part in that, and it is not normally run by the Congress, as a matter of fact, or by those who hold congressional seats. It just so happens that this year, there is an inordinate amount of interest because of the number of Senators who are candidates.

The conduct of those conventions certainly should not in any sense impair the ability of the Congress to act on essential legislation.

Senator NELSON. Is there any reason why the Treasury does not send down to the Congress these proposals that have been pending there for sometime? What about such loopholes as the oil depletion allowance, the accelerated depreciation, and the various other loopholes that run throughout the system that are discussed day after day?

Secretary CONNALLY. Senator, I am glad we came face-to-face with our respective definitions of "reform," because obviously yours and mine do not jive.

In 1969, as you well recall, you had a reform bill of great magnitude. You changed the depletion allowance from 27.5 to 22 percent. This resulted in increased taxes on American oil companies of approximately $670 million.

You passed a minimum tax; you affected the real estate taxes; you changed the capital gains tax. You have an enormous Tax Reform Act.

As a matter of fact, I think it is the most sweeping tax reform in the history of the Nation, and it is the first time in the history of the United States that the Congress ever passed a Tax Reform Act in 1 year. So this reform is under very great pressure of time.

The distinguished Chairman will recall that when this committee got it, at approximately Labor Day, you were under pressure of the Senate itself to report it by November 1 of that same year. And, frankly, as I recall, Senator, witnesses had to beg and plead to come here and testify for a matter of 10 minutes on matters that were extremely essential and very important to them. Now, this is the time pressure that you were under for reform.

As a result of that, you made massive changes. Now, when you talk about loopholes, I do not consider a capital gains provision of the tax law as a loophole. I do not consider depletion allowances as a loophole. This is a very conscious decision made by this Congress over almost half a century to stimulate the development of mineral resources of the country. If there was ever a time when we needed to stimulate it, it is now. We do not need to reduce it.

The truth of the matter is, if we were looking at the interest of the United States, we would probably provide a greater incentive. When you talk about allowing State and local taxes as a chargeoff against Federal taxes, this is a very conscious decision.

There was a provision in that tax reform bill to disallow tax-free municipal bonds, but you could not pass it and you ought not to pass it. A number of people appeared against it. I am not for it. The Treasury is not for it. The Congress years ago made a conscious decision that you were going to permit tax-free municipal bonds as a means for State and local governments to finance their operations. If you want to change that, you are going to get into massive reform, but it is not a loophole. Nothing about it is a loophole.

We are not going to submit any proposals to you at this particular moment, regarding these things. If we can find a means by which the Federal Government can assist State and local governments to meet their tax responsibilities and their financial responsibilities, at the same time encouraging them to repeal their taxes on homes throughout this country, we are going to try to do it and it will be a major reform. It is one of the things the President is talking about.

The other is this incentive for research and development. Those are the things that he addressed himself to, and we are not prepared to submit them to you yet.

Senator NELSON. I understand my time is substantially over. But I think it would be helpful if the administration would take a good, hard look at the whole package of proposals in the Treasury Department, developed over a period of years, and supported by, I think, the vast majority of the economists in this country, and tell us which loopholes you, as Secretary feel are not loopholes. I think this is worth giving some consideration to, because most economists who look at our system are satisfied that it is an absolute disgrace in that it permits all kinds of people to get large amounts of unearned income and not pay any taxes on it.

Moreover, the tax system is not progressive, as the Secretary knows. People in the lower income brackets are paying as high a percentage of their income in taxes as those in the higher income brackets. If what the administration means by tax reform is a general sales tax under the guise of a value added tax, I submit that that is not what the country understands as reform nor what the economists of this country understand as reform.

Secretary CONNALLY. Well, we certainly, Senator—and I do not want to use too much of your time, but I want to point out to you—we study every one of these proposals. We are studying the value added tax, the Treasury has been for 2 years. We study every suggestion that is made that we hear about.

We are studying the value added tax for a number of reasons, largely because a great many people who, for one reason or another, constantly criticize us—by "us," I am talking about the United States—for not following the great wisdom of the European Community. They do this in trade matters; they do it in monetary affairs. We are being criticized very sharply now, even within our own country, because we do not raise interest rates, because Europe has high interest rates.

We get all kinds of criticisms like this. So we—acting on the assumption that these people who believe in the wisdom of the Europeans—are looking very strongly at the value added tax. Nearly every major industrial country in Europe has the value added tax—they have imposed it, with all their wisdom—there must be some great merits in it. So we are investigating it.

Now, as far as other areas, you talk about some of the loopholes. Again, the Congress has in its wisdom, in my judgment, permitted the deduction of interest paid, although in the Tax Reform Act of 1969 you changed that provision. You permitted the interest deduction only to the extent that there is investment income to offset. If you did not have that kind of provision—this is labeled by many as an inordinate loopholes—it seems to me that you would create a tax system in this country that would do nothing but permit inherited wealth to continue and prevent anyone else from ever building any kind of estate.

If a fellow who starts with nothing cannot go out and build something build an estate, build a business, build an industry, and charge interest expense off, which he is now permitted to do, you are going to prevent anybody from ever again building an estate in this country. So I do not count it as an loophole. I think this is basically where you and I disagree, Senator.

The CHAIRMAN. We shall give you another shot at him later on, Senator. I might warn you, if you are going to let the Secretary have the last word, though, you are going to have a hard time winning a debate with him.

Senator Bennett?

Senator BENNETT. Mr. Chairman, I have sat here all morning listening to us wandering all over the wide range of economics and politics and international trade and I would like to bring us back to the bill.

Gentlemen, the debt ceiling as a discipline is an illusion and it also has been because it is imposed on a person or a part of the government that cannot affect the figures under which it is supposed to live. We imposed it on the Treasury and then we in Congress break it.

Now, it does not matter what kind of budget the President sends us. What actually happens to the debt is what we do to it. And we do not impose the debt snugly on ourselves.

Now, I would like to just to get into the record a little bit of history as to why we are in this session. I have been on this committee since 1953 and 21 times, I have sat through this charade, because it is a charade. We talk and talk and inevitably, we have to raise the debt ceiling because the government could not operate if we did not.

Now, the law which is the basis of the present situation is the 1917 Second Liberty Bond Act as amended. We were in the middle of World War I—not in the middle. We had been in it 3 months. And in order to make it possible for the Treasury to finance it, Congress gave up its power to pass on every new bond issue. In those days, the Treasury could not borrow anything unless after the Congress had authorized it. So in 1917, we gave that up.

In 1921, we put the control of notes and bonds in one piece. Prior to that time, there had been two debt ceilings—one for notes and one for bonds. We have acted on the debt ceiling 55 times since 1917, 45 increases and 10 decreases. If we raise it this time, this is the 55th time.

It seems to me we should realize that we get the Secretary of the Treasury up here and we beat him over the head for everything that we think the administration—any administration—has done that it should not have done.

But when we get all through, we remind me of a story that my father used to tell, and I have used it in this committee before.

It is the story of the old days of an old sailor, and there was a long bar and the proprietor was at the cash register and the bartender was waiting on a lone customer at the other end of the bar. And he yelled down the length of the bar, "Is Wallace Bennett good for a glass of beer?" And the proprietor says, "Has he had it?"

"Yes."

"Well, then, he is good for it." [Laughter.]

Now, we have already had this situation and we have to be good for it and there is not any amount of argument we can go through which will change that fact of life. And at this point, I would like to read into the record from page 8 of the report of the House.

It says, "Your committee believes that it has the responsibility to point out to the House some of the real complexes which would develop in the event of any delay in enacting a public debt limit such for the Government needs. While there would be no question concerning the legality of the outstanding debt, in such a situation, the Treasury Department would be unable to issue any new securities.

This prohibition would apply to issues designed to replace maturing securities as well as securities representing new debt. As a result, sayings bonds could not be issued, payroll savings placed would be disrupted. In addition, the Treasury cash balance would be depleted rapidly. Substantial amounts of Treasury bills become due on a weekly basis. If new bills can't be issued to replace these issues, the Treasury cash balance would soon be exhausted. Once the cash balance is exhausted, the Government would be compelled to delay full payment or resort to partial payment of contract obligations, governmental salaries, various loans and benefit programs, and grants to State and local government when they become due. The economic hardships resulting from such action would, of course, be most severe in the area where there are large concentrations of Federal employees or employees engaged in production under large Government contracts.

Now, those are the simple facts of life. I watched Danny Kaye on TV last week in the children's classic of the Emperor's New Clothes. Now, I think we are kidding ourselves if we think we are trying to clothe the Treasury with all these taxes and fiscal responsibilities when actually, the Treasury is just up here to tell us that as a result of our action—not theirs—they are approaching the point where all of these conditions that I have described will automatically follow. And they are asking us to do the only thing that can be done—well, that is not quite true. We can do another thing. We can repeal the debt limit and then let the situation operate without the charade and without the 55 hearings that we have had since 1917. And in no case have we denied the increase in the debt limit and we dare not deny it now.

So why we bring in all these, to me, strenuous facts of life which inevitably put it onus back on us, the Congress, for the situation that has been created, and why we beat the Secretary of the Treasury over the head for this—because he has no power either to increase the revenue or lower the expenses. His job is to pay the bills. Unless we increase the debt ceiling, we are making it impossible for him to pay the bills and the great U.S. Government can never allow itself to get into that situation.

So I think the question is. Has he had it? And the answer is, He has had it, therefore, he is good for it.

Thank you, Mr. Chairman.

Secretary CONNALLY. Senator, the Treasury is very grateful.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. I have no questions.

The CHAIRMAN. Mr. Secretary, I want to ask about several things. To give the devil his due, I think these charts I asked that the Treasury and the Bureau of the Budget provide, are very illuminating when we try to look at the matter in balance. Now, I am going to ask that all those be included in the hearing and also, I would like to have them included in the report.

The first chart presents a comparison of the gross national product to the privately held Federal debt. After all, I am not too much worried about the debt the Federal Government owes the Federal Government. I should think that that is one that could be paid as a bookkeeping matter. You could cancel it if you had to.

Now, it indicates that from the war year of 1945 when we had a ratio of 116.4, this debt has declined to where the percentage is now 23.5. It would seem to me that that is a very credible showing for a number of people—Presidents Truman, Eisenhower, Kennedy, Johnson, and President Nixon. That all made their contributions and I think that that is a good thing.

Now, in connection with that, I think it is fair to see to what degree we have had to inflate during that period of time, but the figures do not show that. Could the administration provide me with an estimate to cover those same years to show the degree of inflation or deflation that occurred during that period of time?

Secretary CONNALLY. All right, sir.

The CHAIRMAN. I would like to have that for the record.

Secretary CONNALLY. All right, sir.

Do you want to begin back in 1929?

The CHAIRMAN. If you would begin in 1929, you would probably have some deflation that occurred in 1929 and 1930.

Secretary CONNALLY. All right, sir.

(Table referred to follows:)

PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

[Dollar amounts in billions of dollars]

	Gross national product [1]	Privately held debt [2]	Ratio of debt to GNP (percent)	Year-to-year price changes (percent) [3]
Dec. 31—				
1929	$96.7	$16.0	16.5	0.2
1930	83.1	15.8	19.0	−6.0
1931	66.9	17.7	26.4	−9.5
1932	56.8	19.4	34.2	−10.3
1933	60.3	21.9	36.3	.5
1934	68.6	28.0	40.8	2.0
1935	77.4	32.0	41.3	3.0
1936	86.5	35.3	40.8	1.2
1937	87.6	36.6	41.8	3.1
1938	87.6	37.9	43.3	−6.8
1939	94.8	40.1	42.3	−.5
1940	107.6	42.6	39.6	1.0
1941	138.8	54.0	38.9	9.7
1942	179.0	95.5	53.4	9.3
1943	202.4	142.9	70.6	3.2
1944	217.4	193.1	88.8	2.1
1945	196.0	228.2	116.4	2.3
1946	221.4	206.1	93.1	18.2
1947	245.0	199.1	81.3	9.0
1948	261.2	192.0	73.5	2.7
1949	260.5	197.7	75.9	−1.8
1950	311.2	196.6	63.2	5.8
1951	338.2	193.1	57.1	5.9
1952	361.0	196.8	54.5	.9
1953	360.8	200.9	55.7	.6
1954	379.8	204.2	53.8	−.4
1955	409.7	204.8	50.0	.5
1956	433.2	199.4	46.0	2.9
1957	438.1	198.8	45.4	3.3
1958	469.2	204.7	43.6	1.8
1959	496.8	214.8	43.2	1.5
1960	503.4	212.4	42.2	1.5
1961	542.8	217.8	40.1	.7
1962	574.7	222.8	38.8	1.2
1963	611.8	223.9	36.6	1.6
1964	654.0	227.0	34.7	1.2
1965	719.2	225.6	31.4	1.9
1966	770.2	227.5	29.5	3.4
1967	825.4	237.2	28.7	3.0
1968	898.3	238.9	26.6	4.7
1969	952.0	232.1	24.4	6.1
1970	1,004.6	239.0	23.8	5.5
1971 estimated	1,089.0	255.7	23.5	3.4

[1] Implied level of gross national product, Dec. 31.
[2] Borrowing from the public less Federal Reserve holdings, unified budget concept.
[3] Measured by the all item Consumer Price Index.

The CHAIRMAN. Can you tell me, how much inflation has occurred in the 3 years since this administration has been in the White House?

Mr. SHULTZ. It has been approximately 14 percent. I am just recalling figures off the top of my head and adding them. But we can look that up.

The CHAIRMAN. That works out to an average of 4.5 percent per year. Is that about right?

Secretary CONNALLY. Right.

Mr. SHULTZ. Right. I think the pattern of that is important, that is, the inflation going back into the middle 1960's was accelerated—that is, the rate of increase was higher in each subsequent year, and it reached a high point in 1969. That was the high year. Then in 1970, the end-of-year to end-of-year increase was a little bit less and in 1971, considerably less.

I have the figures. In 1967, the percentage rate of increase was 3.0; in 1968, 4.7; in 1969, 6.1. Then, the efforts to control the inflation began to succeed, and we have 5.5 in 1970 and, in 1971, between December and August, 3.8 and from August through December, 2.3.

The CHAIRMAN. Now, that is an important factor, and the administration could improve that ratio by a higher degree of inflation and 4.2 is not necessarily a high degree. It is substantial, but I do not think it is nearly as high as we have had in some other years. We have had as much as 10 percent, for example, during the Korean war.

Now, another meaningful comparison chart that was provided to us shows the ratio of Federal debt to the public and private debt; and then further, a comparison of the total public and private debt to the gross national product.

It would appear from that later chart that for the gross national product to expand by $1, the total public and private debt structure seems to expand or perhaps it must expand by $2. That is what the record shows, that it tends to average out about that way. So to keep the country prosperous, the total public and private debt structure must expand as the gross national product expands.

Now, do you think that is a necessary situation, or do you think it just tends to work out that way, Mr. Shultz?

Mr. SHULTZ. Well, a little of both, I think. With the system of credit we have here has facilitated the expansion of the economy. I would not say it is impossible to conceive of other systems under which the economy could expand, but the use of private debt as a mean of financing things used beyond the sort of traditional business—installment buying and so on—has undoubtedly been a helpful thing for the expansion of the economy. And we have regarded the fact that the additions to debt over the recent months has been rising rapidly as a sign that the economy is moving ahead.

The CHAIRMAN. Now, I would like to have one additional set of figures prepared and made available to us and I would like to put it in the record. I think you can do it from what we have right here, but I would like you to provide it. Go back to the turn of the century, if you can, to show us what our economic growth has been on a per capita basis in real terms. I think we have it in these figures on a per capita basis somewhere, but if you put it in real terms so that you can discount inflation and then put it on a per capita basis I would appreciate it. But I would just like to have a chart prepared that shows what the growth of the economy has been in real terms and to do that, you have to take your gross national product and you have to adjust it for an increase of purchasing power, then you have to apply the increase in populations to that to see what has been. I think for this year, it would be about 1½ percent.

Could you do that for us, Mr. Shultz?

Mr. SHULTZ. Yes, sir.

The CHAIRMAN. If that would be made available, I think it would be very helpful to put the whole thing in perspective so we can see what we are talking about.

(The following was subsequently supplied for the record:)

Percentage change in per capita real GNP, 1910–71

Year:		Year—Continued	
1910	0.1	1941	14.9
1911	1.0	1942	11.6
1912	4.1	1943	11.6
1913	−1.1	1944	5.8
1914	−6.6	1945	−2.8
1915	−2.3	1946	−14.8
1916	6.3	1947	−2.7
1917	−0.1	1948	2.6
1918	12.3	1949	−1.6
1919	−0.5	1950	7.3
1920	−6.5	1951	6.1
1921	−12.3	1952	1.2
1922	14.1	1953	2.7
1923	10.1	1954	−4.8
1924	−2.0	1955	7.4
1925	6.8	1956	
1926	4.4	1957	−0.4
1927	−1.5	1958	−2.8
1928	−0.6	1959	4.6
1929	5.4	1960	0.8
1930	−12.1	1961	0.2
1931	−9.1	1962	4.8
1932	−18.1	1963	2.5
1933	−2.5	1964	3.9
1934	8.3	1965	4.9
1935	9.1	1966	5.2
1936	13.0	1967	1.4
1937	4.7	1968	3.5
1938	−6.1	1969	1.5
1939	7.6	1970	−1.4
1940	7.5	1971	1.5

The CHAIRMAN. Now, I want to applaud what you said, Mr. Secretary, about trying to pass this debt limit bill without passing a social security or tax reform as an amendment to it.

I wish the administration had taken more of that view with regard to that social security and welfare bill we passed in 1970. It did not get to the White House, but I think it might have gotten there if the President and the Secretary of Health, Education, and Welfare had joined in my entreaty to the House of Representatives to go to conference with us. So some of the things that are in there, which would include everything, I think except the welfare expansion plan, could be behind us. Then we would be looking at where we are going beyond that.

How does the administration feel with regard to this suggestion of this 20-percent social security increase?

Is the administration in the prospect of urging that or would it feel inclined to oppose it if we add that to it—I think that is more Mr. Shultz' problem than it is the Secretary of the Treasury. If we decide for a major increase along that line involving dollars to that degree, what is the administration's attitude about that likely to be?

Mr. SHULTZ. The President's position is to support the social security provisions in H.R. 1, namely, a 5-percent increase, plus the provisions for changing the payment levels as the Consumer Price Index changes.

Now, as I said a little while ago, when changes are suggested by members of this committee or the Ways and Means Committee, we look at them. But we can see without looking very far that some great problems are posed by a movement to a 20-percent increase. And they concern the budget as a whole. They have to do with the very rapid increase in social security benefits in recent years and to the extent that the Advisory Committee's recommendations, which were cited by Chairman Mills in his proposal, are to be taken seriously. The proposal seems to violate one of the principal conditions, namely, that the asset level should be kept at the approximate level of the following years' outlays. As we calculate it, the proportion would drop below 75 percent, which was their trigger point for flash action, by about 3 or 4 years. So I think there are some real problems connected with it.

The CHAIRMAN. Well, Mr. Secretary, the way I personally look at that matter is that if the President of the United States is planning to run for reelection on the platform that he will recommemnd immediately to the Congress a 20-percent increase in social security benefits on the theory that the trust fund can stand that kind of expenditure, if that happens, I would assume that his Democratic opponent will not let him outbid him in that area so that the Democratic opponent is then going to advocate at least the same thing. That would more or less assure that that would come about no matter who is elected President, and if the fund can stand it now, then I do not see why we here on this committee should wait a year for that to be an issue in a political campaign and deny the aged and the widows of this country the benefit of that increase during the interim.

Now, if the administration is strongly opposed to it and the President is going to be opposed to it when he runs for reelection, I think someone should make us well aware of that. Otherwise, I would think that those of us who are not planning to get elected this year in any event but are just trying to think of what's good for the public would like to vote for it.

If the condition of the fund and the anticipated revenues can stand that kind of increase, we ought to be considering it now rather than postponing action on that matter. Now, if the condition, I think you ought to let us know in such certain terms that we would know whether it would be vetoed if it came down or reached the President's desk in that shape.

Mr. SHULTZ. You talked about the anticipated revenues and assets of the fund being able to stand the additional outlays. The Advisory Committee's report, as I understand it, suggests a change from the notion that social security benefits would be paid in part from current contributions, but also in great part from the flow of interest from a built-up trust fund. To change that and to say directly, as we as a country have been saying more or less directly—that social security benefits will be financed on a current cost basis.

Now, having said that, they then try to provide some sort of guide to what that meant and their guide is that the assets in the fund ought to approximate the estimated outlays for the following year. So that you have that kind of assurance in front of you all the time.

As we compute the implications of the suggestion that has been made, a more or less 1-to-1 relationship between trust fund balances and annual outlays would not be maintained. The Advisory Committee further stated that you would seek around a 1-to-1 relationship, with some deviation up and down, but that you cannot let that deviation get too large. They described this "flash point" on either side as 75 percent on the one hand and 125 percent on the other.

Now, in computing the proposal at 75, we invoke the flash point, and you get close to it by 1973 with the proposal. So I think it is not quite correct to say that somehow, the assets are there and the money is there to finance this.

Beyond that, as we have said here, the basic budget on which we are operating as we look at the economy and our responsibility to the economy as a whole, the basic budget we are using is the unified budget. So as to the extent that you may subscribe to the notion that the Federal budget, taken as a whole, is an important part of the economic policy and has an important impact to the economy, then you have to look upon this as a matter facing the economy as a whole. And it would carry the budget deficit $6 million higher in 1973, it would carry the outlay $6 million above estimated receipts. And so it constitutes a genuine problem in that sense as well as the more particular one.

The CHAIRMAN. Well, I hear you. I heard what you said and of course, I can see in your answer that you leave the President plenty leeway to go ahead and advocate this 20 percent after you have testified against it, just on the theory of saying, well, now, here we have $40 billion in this fund and as long as we maintain a $40 billion level, that is enough peace of mind for those who are protected by the fund, so if we increase expenditures, we do not really have to increase the fund beyond that point and that will give us a little extra margin to work with. Then if you can assume, as you have—and I am not here to quarrel with you at this point about it—the kind of assumptions that cause you to come in here and recommend to us a budget that has a big deficit to the basis that if you had full employment, that would be a balanced budget, I can see enough liberality in your answer that if the President wanted to, he could run for office advocating the same thing that you are asking us to vote down on this committee. I do not like to be left out there like Freddie Flying squirrel who heads from one tree to another and finds that that is a mirage, it is not a tree at all, and then has to turn around in midair and head back in the direction he came from.

If not only my party but the Republican Party as well is going to leave me between now and November, I would like to know about it. Otherwise, I would like to be at the head of the operation, not the behind.

Secretary CONNALLY. I would like to suggest that we put this more in perspective. The President has not recommended any increase of 20 percent in social security payments. The Democratic chairman of the Ways and Means Committee did. It may be that you are talking about the wrong flying squirrel.

The CHAIRMAN. I am well aware of that, Mr. Secretary.

Secretary CONNALLY. The President has not recommended a 20-percent increase. He has not advocated it.

The CHAIRMAN. I am being told from all sources and that is why I want to get it from as near the horse's mouth as I can that one reason

Chairman Mills came out and advocated this is that the President is likely to advocate it any day. If there is going to be a parade, I think I would rather be at the front of the parade rather than the tail end. If it is going to change direction, I had better get toward the rear end of the parade so that when it turns around, those of us who are going to be asked to do this would not be in a position of having marched the army in the wrong direction.

Now, if that is in prospect, I think you ought to give us some indication that that is what is likely to happen so we can vote for it.

Once people vote for something, they like to be consistent.

Mr. SHULTZ. The President has a position on the record in the budget. So far as I know, there was no plan, as was alleged, to present a proposal for a 20-percent increase in social security benefits upon the President's return from China.

The CHAIRMAN. Well, I will not press you any further, Mr. Secretary. You should protect the right of your boss to make his own decisions and I will not press you any further on that. I think you have given us the best you can.

That concludes my time. I would like to ask, what is the pleasure of the committee. Shall we come back this afternoon or sit a while longer now?

Senator BYRD. It does not make any difference to me. I have only had 10 minutes this morning, though, I would like some time.

Senator BENNETT. Could we find out how much time each member wants and then we can decide whether to go or come back.

The CHAIRMAN. I would like to ask a few additional questions, but I am going to wait my turn.

How may other Senators have additional questions they would like to ask the Secretary?

Senator NELSON. Mr. Chairman, the Secretary answered my questions, but just on the point of social security increases, was the question asked if there was intent by the administration to raise benefits by 10 percent? We have been talking about a 20-percent figure. What about 10 percent?

The CHAIRMAN. Let me ask the Secretary and the Director: What is your pleasure? Would you prefer to quit now and come back at 2 o'clock?

Secretary CONNALLY. If we could finish by running until about 1 o'clock, Mr. Chairman, and meet the need of the committee, that would be very helpful to us, but we are obviously at your disposal.

Senator NELSON. I have nothing more then on that question.

Secretary CONNALLY. The answer is the same, Senator Nelson. The President has made no such suggestions. None of us knows anything about any 10-percent increase or 20 percent. The only position we have is that stated by the President in the budget.

Senator NELSON. May I have one more question, Mr. Chairman?

The CHAIRMAN. Certainly.

Senator NELSON. When Mr. Shultz was talking about the flash point, I was not clear what percentage increase you were talking about. In discussing 1973 or thereabouts, you need a flash point of what, 75 percent? Were you talking about this with reference to a 5-percent increase or a 10-percent increase, or what?

Mr. SHULTZ. This was on the assumption that taking the proposal that was made, which is a proposal about tax changes as wellas outgo changes, then using the criterion of comparing the assets in the fund with the prospective outlays of the fund, as best you can calculate them, and saying how would the assets and the outlays match up, we made a calculation and that was the calculation I referred to.

Senator NELSON. This is what I am not clear on. Was this calculation based upon the pending proposal for a 5-percent increase and the accompanying tax increases to meet that 5 percent? Is that what you were talking about?

Mr. SHULTZ. What we were doing was looking at the implications of the proposal that was made by Chairman Mills for a 20-percent increase and for certain tax rate increases and then see how that compared with the recommendations and the advice of the committee to which he referred.

Senator NELSON. I understand. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman. How long I take will depend on how concise the answers are.

The CHAIRMAN. I understand.

Mr. SHULTZ. I get a certain message there.

Senator BYRD. I would like to ask the Secretary of the Treasury, in your judgment, would a 20-percent increase in social security benefits be wise or unwise?

Secretary CONNALLY. I think the position of the President—the recommendation of 5-percent increase—under all the circumstances, is a very wise recommendation to the Congress, especially when you consider that increases that have occured in social security benefits. Benefits have incerased roughly one third in the last 2½ years.

Senator BYRD. Though not speaking for the President, which I would not expect you to do, but in your judgment, it would be unwise to increase social security benefits?

Secretary CONNALLY. I would hate to see another $6 billion increase in outlays.

Senator BYRD. I would like to ask Mr. Shultz, in your judgment, would it be wise or unwise for the Congress to enact a 20-percent increase in social security benefits?

Mr. SHULTZ. I share the views the Secretary just expressed.

Senator BYRD. Well, speaking for yourself, not the President, but speaking as the Director of the Office of Management and Budget, do you feel it would be unwise to enact an increase greater than called for by the President's message?

Mr. SHULTZ. Well, I think if that were to be done, the clear imlication of the call for a rigid ceiling on outlay is that somehow or other, the Congress should take action that would cut outlays supplies by that amount or increase taxes by that amount.

Senator BYRD. Let me state the question again: In your judgment, not speaking for the President—I do not think anybody can do that—but in your judgment, would it be wise or unwise for the Congress to exceed the recommendatitons of the President in regard to social security benefits?

Mr. SHULTZ. I think it would be unwise.

Senator BYRD. Thank you, sir.

Now, Mr. Secretary, the press has quoted you as saying that a 5-percent unemployment rate is perhaps too ambitious a goal to achieve in fiscal 1973. Is that your view?

Secretary CONNALLY. No; I do not think that is a correct reporting of my views. My view is and has been that the actions which the Government is taking—the fiscal and monetary actions which the administration now has in progress—and the economic expansion that I think will result from it, should result in an unemployment rate in the neighborhood of 5 percent by the end of the year. Perhaps this will not be an average figure year, I expect the unemployment rate to be in the neighborbood of 5 percent by the end of the year. That is what I have consistently said.

Senator BYRD. Yes.

Now, I understand from Mr. Shultz's reply to one of my earlier questions that the present full employment budget is based on a 4-percent unemployment rate. Am I correct in that?

Mr. SHULTZ. Yes, sir.

Senator BYRD. So we start off assuming that the Secretary of the Treasury is correct, we start off with an unbalanced budget insofar as full employment is concerned?

Mr. SHULTZ. It is balanced insofar as full employment is concerned but unbalanced in actuality.

Senator BYRD. In other words, it is unbalanced under any conception that we are now working on? It is unbalanced on a Federal fund concept, unbalanced on a unified concept, and unbalanced on the full employment concept?

Mr. SHULTZ. No sir, it is balanced on a full employment concept.

Senator BYRD. Well, maybe I had better state it this way, then: It is balanced on a full employment concept; namely, a 4-percent unemployment rate, but you do not expect to attain a 4-percent unemployment rate?

Mr. SHULTZ. That is correct.

Secretary CONNALLY. That is correct.

Senator BYRD. So realistically, the budget is unbalanced even on a full employment, even at the full employment figure?

Mr. SHULTZ. No. If we were to have full employment for the full fiscal year 1973, the budget would be balanced. But we do not anticipate that we will.

Senator BYRD. So what in effect you have done, then, is to submit a budget which even on your own full employment concept, you know, you feel reasonably certain will not be achieved insofar as a 4-percent unemployment rate on which the budget is based?

Secretary CONNALLY. That is why we come up with a $25.5 billion deficit for fiscal year 1973, Senator.

Senator BYRD. But the point I want to get clear is that you do not anticipate a balanced budget even on a full-employment basis, because you do not expect full employment. Am I not correct in that assertion?

Mr. SHULTZ. No; on a full-employment basis—that is, calculating the revenues that would come in on full employment, we would expect a balance.

Senator BYRD. I understand that, but you do not expect full employment?

Mr. SHULTZ. That is right.

Senator BYRD. You do not expect a 4-percent rate. Is that correct?

Mr. SHULTZ. That is right, but that does not change the concept that we are using.

Senator BYRD. It does not change the concept, but it certainly means that you do not expect to have a full employment balance.

Mr. SHULTZ. We hope that if outlays can be controlled, they will stay within the revenues that would be collected if we were at full employment.

Senator BYRD. If you were at full employment, but you do not expect to reach full employment?

Mr. SHULTZ. That is correct.

Senator BYRD. Am I misquoting you?

Mr. SHULTZ. No; that is correct.

Senator BYRD. Thank you. I just want to comment on full employment, then I will leave that. It seems to me that it is not only misleading, but it is dangerous and fictitious to talk about a full-employment budget. We started out over the years we have always had administrative budget or a Federal funds budget. Then the previous administration found that that deficit was getting too high, so we went to a unified budget. This administration finds out that even under a unified budget, the deficit is too high, as they go to a so-called full-employment budget, which in my judgment, is a fictitious budget, or a fictitious way to figure it, but anyway, that is a different viewpoint.

(Senator Byrd subsequently submitted the following questions concerning the use of the full employment budget:)

QUESTIONS REGARDING THE USE OF THE FULL EMPLOYMENT BUDGET SUBMITTED BY SENATOR BYRD OF VIRGINIA

The President, in his budget document, again seems to stress full employment receipts and full employment outlays. He ha sindicated on a number of occasions that the objective is to balance full employment receipts and full ployment receipts and full employment outlays. He has indicated on a number budgetary concept.

First, am I correct in my understanding that in computing the full employment surplus or deficit for fiscal 1973, you have changed your method of computation? For prior years, I believe you did not change the estimated budget outlays. However, you adjusted receipts upward to the level which would be secured at full employment. For fiscal 1973, however, for the first time you also cut budget outlays down to the level which you believe would be incurred if we had full employment. Could you tell us why you changed your procedure in this regard?

What effect does the 1973 change have on the outlay figure? How much lower are the figures shown in the budget for full employment outlays for fiscal 1973 than the actual outlays that you anticipate for fiscal 1973? [NOTE: The budget document indicates full employment outlays at $244.3 billion in fiscal 1973 while estimated actual budget outlays are shown at $246.3 billion. So, the use of full employment outlays in the 1973 budget reduces the outlay by approximately $2 billion.] Doesn't this mean that if you had continued to use the proceedure for presenting outlays that you used last year, the budget would show a *full employ-* of a different outlay concept minus $700 million, the full employment surplus of $700 million? [$2 billion, the reduction in outlays resulting from the use of a different outlay concept minus $700 million, the full employment surplus shown in the budget document for fiscal 1973.]

Similarly, of you had not changed your concept of full employment outlays, wouldn't the full employment deficit of $8.1 billion that your current budget document now indicates for fiscal 1972 be raised to a deficit of $11.6 billion? [This is because for fiscal 1972, the current budget document shows full employment outlays of $233.1 billion or $3.5 billion less than actual budget outlays for that year.]

As I understand it, the full employment budget is a concept that the economists use for determining whether the budget has a stimulating or depressing effect on the economy.

But is there any real economic significance to such a balanced budget at full employment? How do we know that the full employment budget concept gives us the right degree of stimulus or depressant? For example, when we have inflation, would it be better to have a significant surplus at full employment? Or if the economy is underutilized, should we permit a significant deficit in the budget at full employment? Is there any unique advantage in balancing the budget exactly at full employment?

RESPONSE

The full-employment budget concept was revised in the fiscal year 1973 budget to allow for adjustments on the outlay side as well as on the receipts side of the budget. The outlay adjustment reflects the growing awareness that both sides of the budget are affected by the level of economic activity. Budget outlays were reduced by $3.5 billion in fiscal year 1972 and by $2 billion in fiscal year 1973 to arrive at full-employment outlays. These adjustments were for the unemployment insurance benefits and Emergency Employment Act outlays that are estimated to occur because the unemployment rate is in excess of 4%. Our outlay adjustments are on the conservative side, since we made no adjustments for social security payments, food stamp outlays, public assistance outlays, and veterans pensions, all of which would be lower at full employment.

The full-employment budget permits the Government to plan its expenditures and revenues with reference to the steady growth of the economy's capacity to produce, and not to have to make continuous departures from those plans to meet actual or forecast economic fluctuations. At the same time, the full-employment budget helps to stabilize the economy by generating fiscal stimulus in periods when the economy is operating at less than full employment and fiscal restraint when full employment is reached. Equally important, the full-employment guideline imposes effective and continuous discipline on the budget by setting an upper limit on spending.

The full-employment budget may or may not provide exactly the proper

The full-employment budget may or may not provide exactly the proper amount of stimulus desired for the economy; such precision cannot be claimed for any instrument of economic policy. What the full-employment concept does do, however, is to help us to avoid the large fiscal errors of the late 1960's when large full-employment deficits were accumulated in each of 3 successive years. These large full-employment deficits initiated the inflationary pressures that we have experienced since that time. This is why this administration has adopted the guideline that precludes significant full-employment deficits.

The full-employment budget principle does not preclude significant surpluses at full employment. There are conditions under which such surpluses would be entirely appropriate. Those conditions do not exist now, however.

Senator BYRD. Now, in reading the hearings of last year, I find them interesting and somewhat intriguing. I notice on page 42, Mr. Shultz said: "I think the full-employment revenues are more or less calculable and are independent of what the economy is actually doing during that fiscal year."

But I understand you to say a little while ago that the reason we had this $8 billion deficit in the full-employment budget is because of the situation in the economy.

Mr. SHULTZ. No; the situation in the economy, except insofar as you miss your estimate of the rate of inflation, does not alter the full-employment assets. What altered the full-employment assets fairly sharply last year was the fact that Congress changed the effective date of a social security tax increase, and acting on the President's recommendations, changed the tax rates last fall.

Senator BYRD. Now, I find on page 43, where Senator Hartke and Senator Talmadge indicate there would be a deficit, a Federal fund deficit of $35 or $40 billion for fiscal 1972, Mr. Shultz said: "I do not believe there is any chance"—any chance—"that we will have a $35 billion deficit."

Yet we have a deficit that you predict now for fiscal 1972 of how much in Federal funds?

Mr. SHULTZ. 44.7.

Senator BYRD. $45 billion; right?

Mr. SHULTZ. Yes, sir.

Senator BYRD. May I ask this, are you concerned about the size of the deficit?

Mr. SHULTZ. Yes, sir; I am.

Senator BYRD. I note in your statement today, Mr. Shultz, that assets are estimated to increase by $23 billion primarily because of increased economic activity. Now, that $23 billion increase will come from personal and corporate income taxes in main, I assume?

Mr. SHULTZ. Yes, sir.

Senator BYRD. Now, I go back again to last year. On page 54 of the committee hearing of March 8, 1971, I put this inquiry:

The source is the Office of Management and Budget. Now, Mr. Shultz, the estimates on corporate income taxes for 1972, fiscal 1972, you estimated would be $37 billion as compaerd with $30 billion in the current fiscal year, which is an increase of 23 percent. Is that not a very substantial increase in corporate profits that you expect?

Mr. Shultz, we believe it is perfectly consistent with our projections of the economy. We expect the economy to be moving forward. We believe there has been a considerable wave of cost consciousness throughout the business organization. When you add these two things together with the leverage that expansion gives in corporate profits, one should see a very sharp upward movement of corporate profits, and I expect that we will.

Now, as I understand it, you do not now expect $37 billion in fiscal 1972. What figure do you expect for corporate profits?

Mr. SHULTZ. $30.1 billion. I think that is the basic argument that you quoted; I would still stand by it. The problem is, as various members have brought out in their questioning, that our estimate of the economy and the rate of expansion was too high.

Senator BYRD. So you anticipated last year a 20-percent increase, a little more than 20 percent increase in corporate profits, which did not materialize, or asset from corporations. Now, as I visualize your figure this year, you also, you now anticipate again a 20 percent increase. Is that right?

Mr. SHULTZ. 16 percent for fiscal 1973 over fiscal 1972.

Senator BYRD. Well, as I understand it, you had $30 billion you estimated you would take in for fiscal 1972 and you estimated in the new figures $36 billion, did you not?

Mr. SHULTZ. Excuse me, Senator. I missed the last part of the question?

Senator BYRD. Did the new figure that is the figure for fiscal 1973 corporate income tax, what do you estimate that to be?

Mr. SHULTZ. $35.7 billion.

Senator BYRD. Say $36 billion versus $30 billion that you will take in in fiscal 1972?

Mr. SHULTZ. Correct.

Senator BYRD. That is a 20-percent increase?

Mr. SHULTZ. Wel, it does not work out quite that way, because 35.7 and 30.1—we have a calculation here.

Senator BYRD. It is pretty colse to 20 percent. Do you feel that is a realistic increase?

Mr. SHULTZ. Yes; that is our best estimate.

Senator BYRD. Then for personal income taxes, there again, you figure you will have an increase of about 10 percent?

Mr. SHULTZ. Approximately.

Senator BYRD. From 86——

Mr. SHULTZ. $86.5 billion to $93.9 billion.

Senator BYRD. Roughly 10 percent?

Mr. SHULTZ. Yes.

Senator BYRD. Do you think that is not too high?

Mr. SHULTZ. Well, I think given the projections of the economy that have been made, that is consistent with those projections. The revenue estimates, I might say, are basically made by the Treasury Department and they give us the estimates to use them in the budget. But I am glad to read the tables you provided.

Senator BYRD. Maybe I should ask the Treasury.

Secretary CONNALLY. My answers would be the same. I do not think it is too high, I think it is realistic. It is the best estimate we can make. We have neither been pessimistic nor optimistic in trying to make these predictions. We think they are realistic.

Senator BYRD. But even if you hit those figures, you still will have a very substantial Federal fund deficit?

Secretary CONNALLY. That is correct.

Senator BYRD. Of roughly $36 billion.

Secretary CONNALLY. Yes; that is correct.

Senator BYRD. Federal funds?

Secretary CONNALLY. That is correct.

Senator BYRD. So even with these huge deficits, and I think we would all have to agree that these Federal funds deficit are, I would say, smashing, and certainly huge, and even with that, we have approximately the same unemployment rate that we had in November of 1970, which was quite a while ago.

Mr. SHULTZ. We expect that the unemployment rate will decline as the economy expands and I believe myself that had we not had these deficits—that is, if we had not changed tax rates and if we had tried to cut expenditures wa y down—in other words, if we had tried to bring the budget in balance for fiscal 1972 on the unified basis, we would have a lot higher unemployment than we now have.

Senator BYRD. I want to refer to Secretary Volcker's statement on February 22. On page 9, it says:

> It is contemplated that the various obligations incurred by maintenance of value requirements, however remote, will need to be covered by appropriatoins in the amount of approximately $1.5 to $1.6 billion.

Would you comment on that?

Mr. VOLCKER. Well, that is a figure which arises as a result of the change in price of gold and our obligations to certain international financial institutions. When we change the price of gold, we must maintain the gold value of our subscriptions to the IMF, to the World Bank, to the Inter American Development Bank, and to the Asian Development Bank. And this involves the assumption of certain liabilities which in all cases have certain assets related to them. The biggest single chunk of those liabilities is a rather remote contingency item, the callable capital for the international development institutions of some $663 million. About $525 million, is an increased subscription of the IMF, and there is an increase of about $400 million of paid-in capital to those various international development institutions. All of which, under the terms of that bill, will be covered by an appropriation.

But, as I pointed out there, the appropriations covers the liability side; it does not cover the asset side and we have increases that about match these liabilities.

Senator BYRD. What I am trying to understand, is does it require an additional appropriation by the Congress of $1.5 to $1.6 billion?

Mr. VOLCKER. Yes, sir.

Senator BYRD. Is that figure in the present budget as submitted?

Mr. VOLCKER. No, sir. This has no budgetary impact on expenditures, I should point out, until fiscal 1974.

Senator BYRD. But it would require an appropriation for fiscal 1973?

Mr. VOLCKER. Well, the appropriation we anticipate will come promptly following the authorization; we hope it does. It will not be spent. There will be no expenditures resulting from this.

Senator BYRD. Well, so far as the Congress activity is concerned, would you propose to ask the Congress to appropriate or authorize the appropriation of $1.5 billion during fiscal 1973?

Mr. VOLCKER. Yes. The bill that we have proposed would authorize the appropriation and we hope the Congress will also appropriate the money.

Senator BYRD. Now, that is over and above, then, the budget as submitted in January?

Mr. VOLCKER. Well, it is in addition to the appropriations requested. It does not add anything to expenditures this year. And it does not add anything to expenditures next year.

Senator BYRD. I realize that, but a budget was submitted of $246 billion roughly, in January. But that did not include this $1.5 or $1.6 billion that you are calling for in separate legislation. Am I correct on that?

Mr. VOLCKER. Well, the expenditure side of the budget is not affected by this legislation.

Senator BYRD. The appropriations are?

Mr. VOLCKER. The appropriations are.

Senator BYRD. That is what I am getting at. This is in addition to the appropriations that you asked for in the budget. Is that right?

Mr. VOLCKER. Yes, sir.

Secretary CONNALLY. That is correct.

Senator BYRD. Now, under the, if you put a ceiling on expenditures at the level submitted in the budget, this would not adversely affect that?

Mr. VOLCKER. No; no expenditure is involved.

Senator BYRD. I understand that. But it would require an appropriation of an additional $1.5 to $1.6 billion?

Mr. VOLCKER. Yes, sir.

Secretary CONNALLY. Yes.

Senator BYRD. Now, I think I understand that.

To go back once more to this $23 billion increase that is expected, $6 billion of that in round figures—I am just giving round figures now—would be from corporate income taxes and roughly $8 billion from personal income taxes, making a total of $14 billion. Now, where would the additional $9 billion come from?

Mr. SHULTZ. On page 65 of the budget, there is a table of budget assets by source. The biggest single increase in that group other than the ones you have mentioned is in social security taxes and contributions, which would go up by about $9 billion.

Senator BYRD. This again, that would not affect, though, the Federal funds, would it?

Mr. SHULTZ. No.

Senator BYRD. And the deficit?

Mr. SHULTZ. No, but it would affect the total assets of the Treasury.

Senator BYRD. So in rounding figures, you will get $6 billion additional, you believe, from corporate income taxes, roughly $8 billion from personal income taxes, roughly $9 billion from social security taxes?

Mr. SHULTZ. That is correct.

Senator BYRD. Now, in testimony before the Senate Armed Services Committee, the Secretary of the Navy testified that an aircraft carrier which would be a twin to the one that is being built now—I guess you would say a triplet because three of them are being built that are rather identical. The last one, the one that is in process of being built now, cost $660 million. Now, the estimate for the new one, which has been recommended in the current budget, is $990 million. In other words, that is a 50-percent increase in the cost. I asked the Secretary of Defense why that was—I beg your pardon, it was Secretary of the Navy, Mr. Chaffee—why that was and he said it was because of inflation. Now, we are anticipating a pretty high inflation rate, are we not, if we have a 50 percent increase in that ship, the same ship?

Mr. SHULTZ. As I understand it, the ships are, if not identical, virtually identical, so that we are basically talking about the cost of doing a similar thing and I do not have in mind precisely what the beginning and ending dates are that are involved. One would have to make a calculation that is not an across-the-board Consumer Price Index-type calculation, but one that represents the particular parts of the economy that build that ship. But certainly that is the implication.

Senator BYRD. I have been a strong supporter of the aircraft carrier. I think we need an additional one. But I must say I was sort of shook up when I found that price had gone up from $660 million for the one under construction now to $990 million. As the Secretary pointed out, I think it is due to the anticipated inflation.

Senator BENNETT. Will the Senator yield?

Senator BYRD. Yes.

Senator BENNETT. Would that inflation not be represented largely by the cost of labor that went into the ship? In other words, it is not monetary inflation, it is wage inflation?

Senator BYRD. I do not know. That is really what I am asking, or trying to find out.

Mr. SHULTZ. Inflation affects many things. It affects the materials that are used to build the ship with, it affects all of the complex gear that is involved. And of course, to a degree, this all gets back to labor in the sense that for the economy as a whole, most of the value added is added by labor inputs.

Senator BYRD. I am sorry to take so much time. I am almost through. I just am terribly concerned about what I consider to be these smashing Government deficits. I am convinced I am right, but frequently, I think I must be wrong. I do not find in the Congress or for that matter in the administration much concern over them.

As you know, I am not very partisan in my political outlook. I am rather like Governor Connally; I am an independent Democrat. The Governor of Virginia, the Republican Governor, spent full time trying to defeat me for reelection. And the three Democrats elected by statewide vote, all opposed me. The Republican nominee got 14 percent and the Democratic nominee got 30 percent, so it turned out all right. I cite that to show that I am not partisan in my approaches.

I felt that the Johnson deficits, the Democratic deficits, were very, very bad and were a major cause of inflation—$28 billion in 1 year. Now, the last 4 years of President Johnson's administration, the total Federal fund deficit was $54 billion.

Now we come to the 4 years of this administration. The total Federal funds deficit will be $124 billion. To me, that is a smashing accumulation of deficits. If these heavy deficits totaling $54 billion are not a good thing under a Democratic President, then I can hardly say that deficits totaling $124 billion are so fine under a Republican President.

Be that as it may, I realize that my concern about this matter seems to be greater than most Members of the Congress. But I did feel that I wanted to register this view today.

I want to put in the record the compiling of revenues and outlays and budget deficits for the 20-year period 1954 through 1973. It shows the budget has been balanced on a Federal funds basis only three times during that period and that was under the administration of President Eisenhower. I ask unanimous consent that it be put in this record.

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT, 1954-73, INCLUSIVE

[In billions of dollars]

	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest		Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest
1954	62.8	65.9	−3.1	6.4	1966	101.4	106.5	−5.1	12.0
1955	58.1	62.3	−4.2	6.4	1967	111.8	126.8	−15.0	13.4
1956	65.4	63.8	+1.6	6.8	1968	114.7	143.1	−28.4	14.6
1957	68.8	67.1	+1.7	7.2	1969	143.3	148.8	−5.5	16.6
1958	66.6	69.7	−3.1	7.6	1970	143.2	156.3	−13.1	19.3
1959	65.8	77.0	−11.2	7.6	1971	133.7	163.7	−30.0	20.8
1960	75.7	74.9	+.8	9.2	1972 [1]	137.8	182.5	−44.7	21.2
1961	75.2	79.3	−4.1	9.0	1973 [1]	150.6	186.8	−36.2	22.3
1962	79.7	86.6	−6.9	9.1					
1963	83.6	90.1	−6.5	9.9					
1964	87.2	95.8	−8.6	10.7	20-year total	1,916.3	2,141.8	225.5	241.5
1965	90.9	94.8	−3.9	11.4					

[1] Estimated figures.

Source: Office of Management and Budget and Treasury Department.

The CHAIRMAN. If you put it on a full employment basis, you would find there were some balanced budgets.

Senator BYRD. I do not understand the full employment budget—it is pure fiction.

One thing I do understand, it has been estimated that the national debt at the end of the next fiscal year—that is fiscal 1973—will be $493 billion. Am I correct on that?

Secretary CONNALLY. Yes, sir.

Senator BYRD. Then by the figures submitted in the current budget, plus the previous budgets, the Federal funds deficit on which the national debt is based for the 4-year period of the present administration will be $124 billion. This means that 25 percent—25 percent of the total national debt will have occurred in these 4 years ending July 1973. I think that is cause for great alarm. That is why we are having this hearing today because of the need to increase the debt ceiling because of these deficits. Whatever concept you wnat to use, you would not need to increase the debt ceiling were it not for the fact that we are running these very heavy deficits.

I thank you, Mr. Secretary, and Mr. Shultz.

Secretary CONNALLY. Thank you sir.

The CHAIRMAN. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Shultz, did I understand you to say that it would take about one and a half million more people on the payroll to get from a 6-percent down to a 4-percent unemployment rate?

Mr. SHULTZ. Without doing a quick calculation, a 2-percentage point change would amount to giving a labor force on the order of 80 million people.

Senator MILLER. So what we really need to do is wave a magic wand to put one and a half million more people on the payroll, right now, and we would be down pretty close to our target of 4-percent unemployment. Is that correct?

Mr. SHULTZ. Well, the magic wand would have to be very broad. It would have to be a magic fan, so to speak, in the sense that the ecoonmy is constantly changing. People are being added to payrolls, subtracted from payrolls, and so on. So it is a net increase that we are talking about.

Senator MILLER. I understand. Now, if the Armed Forces had as many people in them today as they had 3 years ago, and if the defense and space industry employment today was what it was 3 years ago, what kind of an unemployment rate would we have?

Mr. SHULTZ. Well, we can show that the defense-related employment—did you say 4 years ago?

Senator MILLER. Three years ago.

Mr. SHULTZ. Well, going back to, say, 1969, defense-related employment was about 7.7 million. In 1971, we estimated it was about 5.8 million. So you can see, that is approximately 2 million. However, I think a fair statement would be that if we had continued the war and all of the defense-related employment connected with it that was going on in 1968 and 1969, everything else would not be the same. There would have been other changes.

Senator MILLER. Well, what about the reduction in the Armed Forces in that period of time? Do you have a figure on that?

Mr. SHULTZ. Yes, let's get the chart on the table. In 1969, the military had about three and a half million people in it and in 1971, about 2.4 million. So we declined by about 1.1 million in the military in that period.

Senator MILLER. Then we had a decline of 1.1 million in the military and 1.9 million in the defense or space related industries.

That comes out to about 3 million jobs.

Mr. SHULTZ. No; the defense-related that I cited earlier were a combination of military, Department of Defense civilian employees, and Department of Defense—defense-related jobs in private industry. It did not include the space.

Senator MILLER. Do you have any figure on that?

Mr. SHULTZ. We can get it easily enough.

I do not know whether I have it right on hand.

Senator MILLER. You can supply that for the record?

Mr. SHULTZ. Yes, sir.

(CLERK'S NOTE: The Office of Management and Budget subsequently informed the Committee that space-related employment was 218,000 in 1969 and 138,000 in 1971, a decline of 80,000.)

Senator MILLER. It would seem to me that if all these people were in the same slots they were 3 years ago, we would not be worried too much about the unemployment rate, would we?

We were not worried about the unemployment rate back in those days. As I recall, it was under 4 percent.

Secretary CONNALLY. That is right.

Mr. SHULTZ. That is correct. I would contend that there is a difference between a deficit at a time of underutilization of capacity is being utilized or fully used. But as a result of those deficits, we had an escalating inflation.

Senator MILLER. I guess what I am trying to get down to is something which will satisfy my colleague, Senator Byrd, because he knows that I share his deep concern about budget deficits. But would this be a fair statement: These budget deficits over which we have a lot of concern, and the reason you are here in this room asking for an increase in the debt limit, represent the price we are paying for moving from a wartime to a peacetime economy?

Mr. SHULTZ. I think there is a great deal to that. The combination of moving, the transition problems involved in moving from a wartime to a peacetime economy, plus the problems that are difficult to avoid in cooling off an economy that is experiencing an escalating inflation and turning that around are likely to produce the sort of weakness in the economy that we are experiencing.

Now, we had hoped that we would be able to turn this around with the economy somewhat stronger than it now is, but that has not been possible.

Senator MILLER. Well, we had hoped that the price of making that transition was not going to be so severe.

Mr. SHULTZ. Correct.

Senator MILLER. Now, Senator Byrd asked you earlier, Mr. Shultz, how you arrived at that full employment deficit of $25.5 billion for fiscal 1973, and you gave us a general feel for how this was calculated. But, I am wondering if you could supply for the record the specifics of how that was calculated?

What was the GNP, for example, and how much revenue derived from the various components of the GNP, and so on? Then we can see the rationale and the logic that was used in building it. Would that be asking you for something that you would not care to give us?

Mr. SHULTZ. No; we can produce that.

Senator MILLER. I would appreciate that.

(The following was subsequently received for the record:)

CALCULATION OF THE FULL-EMPLOYMENT BUDGET

Budget receipts and budget outlays are related to the level of economic activity. The full-employment budget abstracts from the current and anticipated level of actual economic activity and measures the budget as if the economy were operating continuously at full employment. Full employment has been conventionally accepted as the level of economic activity that produces a 4% unemployment rate for the civilian labor force.

I. FULL-EMPLOYMENT RECEIPTS

Estimates of full-employment receipts are based on a series of steps as outlined below:

Full-employment GNP consistent with the full-employment definition is calculated.

The major income components of full-employment GNP, namely corporate profits, taxable personal income, and wages and salaries, are calculated.

The appropriate tax rates are applied to the derived income shares. These rates change with tax law changes (such as increases in exemptions and deductions, increases in social security tax base and tax rate, etc.); the rates appropriate to the year for which the estimate is made are used.

II. FULL-EMPLOYMENT OUTLAYS

The two outlay categories most obviously affected by the level of economic activity are unemployment insurance benefits and Emergency Employment Act outlays (public sector jobs). Estimated budget outlays were reduced by \$3.5 billion in fiscal year 1972 and by \$2 billion in fiscal year 1973 to arrive at full-employment outlays. These adjustments reflect the outlays that occur because the unemployment rate is in excess of 4.0 percent.

Some economists suggest that other items should be included in the adjustment of outlays. For example, social security payments, food stamp outlays, public assistance outlays, and veterans pensions would undoubtedly be lower at full employment. In the other direction (although probably of a smaller magnitude), it is likely that at full employment interest rates would be higher and interest on the public debt would be greater. However, we do not feel that we have a sufficiently sound basis for making adjustments for these factors. We prefer for the present to limit the adjustment to unemployment insurance benefits and Emergency Employment Act outlays. The adjustment we have made is, therefore, a conservative one.

Senator MILLER. Now, at the time of the hassel over the escalated GNP a year ago, the \$1,065 billion, that was on a calendar year basis for calendar year 1971, wasn't it?

Mr. SHULTZ. What is right, that was the average for 1971.

Senator MILLER. Have you made a GNP estimate for calendar year 1972?

Mr. SHULTZ. Yes, we have, and the basis for the estimate in the budget is an estimate of GNP in the neighborhood of 1145—\$1,145 billion.

Senator MILLER. But as I understand it, many of the estimates in that budget are on a fiscal year basis.

Mr. SHULTZ. That is correct.

Senator MILLER. So do you have a GNP estimate for fiscal 1973?

Mr. SHULTZ. We do not in as precise a way, but it must be remembered that the bulk of the revenue collected during fiscal 1973 are a reflection of economic activities in calendar 1972. That is, the calendar 1972 activity that generates the payments into the Treasury, and particularly in the spring of 1973. So calendar 1972 is the important estimate.

Senator MILLER. All right. Then I wonder if you could supply this committee for the record this kind of a set of statistics? First, for calendar year 1972, the \$1,065 billion estimated GNP. Then the components of that?

Mr. SHULTZ. Well, now, wait a minute. The full employment revenues were not based on 1,065, they were based upon a GNP that was estimated to be a full employment GNP.

So we made an estimate of that and how much personal income and how much corporate profits will be generated.

Senator MILLER. The \$1,065 billion estimated GNP for calendar year 1971 was a hard estimate.

Mr. SHULTZ. That was an estimate and a target, something we hoped to see the economy truly attain.

Senator MILLER. I understand. Now, in order to arrive at that, you had various components of that GNP and there were estimates of how much each of those components was going to increase over 1970 in order to arrive at the $1,065 billion. We were furnished those by the Council of Economic Advisers. Now, what I would like to get is those original estimates and then show us where those estimates fell down within those components. For example, in the home building industry, there was an estimate of so much increase. I would like to see how much we fell short in some of these components. Perhaps we were up to target on some others. Could you provide that for us?

Mr. SHULTZ. We will, or it may be that we should question the Council of Economic Advisers to produce that.

Senator MILLER. That will be fine.

But I do think you have a combination of statistical changes which can be shown, and I agree, it is difficult to know whether the whole thing should be lowered by $3 or $8 billion, but somewhere in the $3 to $8 billion range, the 1065 should be lowered.

Mr. SHULTZ. That would be all right.

Senator MILLER. That would lower, of course, the estimate of the error.

Mr. SHULTZ. That would be all right.

Senator MILLER. Then I think the major thing that we did not estimate correctly was as Secretary Connally said earlier, the tremendous swing in the so-called net import-export balance in the gross national product. I think that had a big influence throughout the economy.

Mr. SHULTZ. But you could explain those factors in submitting this.

Senator MILLER. And those things we could submit in a table and some explanatory material.

And would you do this for the calendar year 1972, showing us the components and how much the estimated increase within each component would be, your target, in order to arrive at the $1,145 billion.

Mr. SHULTZ. Again, let me say that I would like to pass that question to the Council of Economic Advisers. And I would add that I think, myself—I am just speaking about my own outlook on this—that the method of estimating economic activity to come by estimating the various components shares of the GNP seems to have in it, to me anyway, a natural downward bias. And there is another way of going about it that looks at the overall and does not presume to be able to forecast quite so well some of the component parts.

But at any rate, there are implications broadly for the component parts and the Council can produce those.

Senator MILLER. Well, are you suggesting that we ask the Council of Economic Advisers for this information?

Mr. SHULTZ. Well, they were the source of the first information that you cited and they customarily do that kind of thing and present it in our own internal meetings.

Senator MILLER. May I ask the Chairman if he would direct the staff to obtain that from the Council of Economic Advisers so that we can have it in the report at that point?

The CHAIRMAN. Yes.

(The following was subsequently received by the committee:)

COMPARISON OF FORECAST AND ACTUAL GROSS NATIONAL PRODUCT, 1971, AND FORECAST OF GROSS NATIONAL PRODUCT, 1972

[In billions of dollars]

Item	January 1971 forecast			1971 actual [1]			Revisions in 1970 data during 1971	January 1972 forecast	
	Amounts			Amounts					
	1970 (actual) [2]	1971 (estimate)	Changes from 1970	1970	1971 [2]	Changes from 1970		Amounts (estimate)	Changes from 1971
GNP	977	1,065	88	974	1,047	73	−3	1,145	98
Consumption	617	675	58	616	662	46	−1	714	52
Investment	136	154	18	135	151	16	0	173	22
Business fixed investment	(103)	(106)	(3)	(102)	(108)	(6)	(0)	(117)	(9)
Residential construction	(30)	(41)	(11)	(30)	(41)	(10)	(+1)	(48)	(7)
Change in inventories	(4)	(8)	(4)	(3)	(2)	(−1)	(−1)	(8)	(6)
Government purchases	220	233	12	219	233	14	−1	258	25
Federal	(100)	(98)	(−2)	(97)	(98)	(0)	(−2)	(107)	(9)
State and local	(121)	(135)	(14)	(122)	(135)	(13)	(+1)	(151)	(16)
Net exports	4	4	0	4	0	−4	0	0	0

[1] January 1972.
[2] Preliminary.

Note: Detail will not necessarily add to totals due to rounding.
Source: Department of Commerce and Council of Economic Advisers.

Senator MILLER. Mr. Secretary, I want to commend you for, I think, demolishing this tax loophole myth that has been floated around in these last few weeks. I think you put it very properly, that it gets into a definition of what a loophole is. There are very few areas in the tax code today that are not in there specifically because of the legislative determinations of the Congress. There are some people, of course, I know, who think that capital gains should be eliminated. They think that all tax preferences should be eliminated. I do not know what would happen to our economy, to the capital formations needed to obtain jobs, to the tax competiveness of our American industry vis-a-vis overseas competitors. But the main reason that Congress has legislated these preferences over the years, I am quite sure, is for jobs and if we do not have those tax preferences, there go the jobs. I am afraid some people have been terribly misled by some of this talk about tax loopholes.

Now, finally, as long as the 20 percent social security tax issue has been raised, I am wondering, Mr. Shultz, if you could obtain and furnish for the record of this committee an estimate of how many people over the next 5 years would benefit from such a 20 percent increase and what would be the amount of the total benefits that they would rereceive?

And then just compare that against how many people in the work force or new entrants into the work force would be paying for that increase?

Can you obtain that for us?

Mr. SHULTZ. Yes. I think the source of that information would be the Social Security Administration and I can ask them to get that up and then we will forward it to the committee.

Senator MILLER. Thank you very much. Thank you, Mr. Chairman.

(The following was subsequently received by the committee:)

In fiscal year 1973, there will be 28.2 million recipients of OASDI. This number will increase by about 1 million in each year out to 1977. Therefore, by 1977, 32.2 million people would be receiving increased benefits from the 20% increase. The 28.2 million recipients in fiscal year 1973 would receive a total of about $6 billion more in benefits. The 32.2 million recipients in fiscal year 1977 would receive about $8½ billion more.

The number of contributors to OASDI in 1973 is 98.7 million. In 1977, there will be 108.1 million contributors. This is an increase of 9.4 million in the 4 years, most of whom would be new entrants to the labor force.

The number of contributors under the Mills proposal and under H.R. 1 would be the same. However, the budget receipts under the Mills proposal will be less than under H.R. 1 after 1975. Therefore, in 1977, the contributors will be paying less under Mill's proposal than they would under H.R. 1.

The CHAIRMAN. I have something I want to ask you about. Four subjects actually. A couple of them could be answered yes or no, I think.

This is to Mr. Shultz. Is it true that Congress actually appropriated less money than the administration recommended?

I heard Senator Byrd make that statement.

Mr. SHULTZ. I think it was approximately the same through the appropriations processes. Then it is important to recognize, of course, that there is an authorization process in addition that goes on and underneath those authorizations come new outlays. For example, in the field of unemployment insurance last year.

But just taking the appropriation bills as such, I believe that the amount appropriated was about the same as the administration recommended.

The CHAIRMAN. Well, you are saying that it extended what the administration wanted because of unemployment insurance.

Mr. SHULTZ. No, that as the Congress is working on appropriations bills and the appropriations committees are working away on that, at the same time, there is authorization processes going on. And when new authorizations come into play, they put forward things that were not included in the original appropriations request and they result in higher actual outlays than just the appropriations process by itself would imply.

The CHAIRMAN. Well, I do not see how the authorizations could make you spend more money—I mean without an appropriation. Can you explain to me how that would be?

Mr. SHULTZ. Excuse me, Mr. Chairman.

The CHAIRMAN. I can understand how authorization leads to an appropriation, but can you spend money on authorization without an appropriation?

Can you legally do that?

Mr. SHULTZ. In some cases, money is spent without an appropriation. But customarily, you have an appropriation.

For example, if social security outlays or rates are increased, then expenditures will be made without a specific appropriations committee action. And there are quite a number of cases where that kind of spending takes place.

The CHAIRMAN. My impression is that the social security increases we have recommended, we have also funded. We have put the increases in the tax to pay for them, have we not?

Mr. SHULTZ. Well, that is one of the questions that we were discussing earlier. But the point is that it does nothing through the appropriations process and I believe Senator Byrd's comment was directed to what goes through the appropriations process.

Senator BYRD. Mr. Chairman, would you yield at that point so I might put the figures into the record?

The CHAIRMAN. Yes.

Senator BYRD. For fiscal 1970, according to the Senate Appropriations Committee, the Congress appropriated $8.3 billion less than the administration recommended be appropriated.

It shows that for fiscal 1971, the Congress appropriated $3.5 billion less than the administration recommended.

Now, for fiscal 1972 and up to this point—and of course, we have not concluded—we have concluded all of the appropriations bills except, I believe, a possible supplemental. But up to this point, the appropriations has been $2.8 billion less than the administration recommended, $1.1 billion of that being in the foreign aid bill, for example, where the Congress appropriated $1.1 billion less than was sought.

Mr. SCHULTZ. I think your mentioning the foreign aid bill, Senator, brings out one of the problems because we do not yet have a foreign aid bill. Here we are at the end of February. We did not have a defense bill until almost the end of December. So we are constantly operating without knowledge of what the appropriations process is finally going to produce and we still do not know about foreign aid for sure.

Senator BYRD. But in any case, the Congress has appropriated less money—less money—than the administration asked the Congress to appropriate.

Mr. SHULTZ. That is through the appropriations process.

Senator BYRD. That is correct. That is the only way we can operate, through the appropriations process.

Mr. SHULTZ. No; you operate in many other ways.

The CHAIRMAN. Now, you tell us in what other respects the expenditures have exceeded what the Congress has provided for them? For example, we did increase social security, but we provided the tax increase to pay for it, as I recall.

If it is different, I would like to know it.

Mr. SHULTZ. I think the tax increase part was slipped a year as compared to the President's budget. That happened very early in the game. But we can provide a detailed list and we have a table that goes on for some number of pages in outlays by the type that gets you from the $229.2 billion that the President originally recommended to the $236.6 billion. I think it is now, that we currently estimate the outlays to be. But you had a number of new things come in.

For example, you had an Emergency Employment Act which Congress passed and which was then funded. You had the special short-term increase in unemployment insurance benefits, which Congress passed and which resulted in outlays, and so forth. And there are quite a number of things of that kind that are a reason why the total now exceeds the original total.

The CHAIRMAN. Then if you will provide us that material, we can study it and draw our conclusions from it. We cannot very well draw them until we see it.

(The following was subsequently received by the committee:)

JANUARY 13, 1972.

Change in 1972 outlay estimates from January 1971 to current

[In billions of dollars]

January 1972 estimate of outlays	229.2
President's proposed reductions in August 15 new economic policy announcement:	
Reduction in Federal employment	[1] −0.6
Deferral of effective date for:	
Federal pay raise by 6 months	−1.3
General revenue sharing	−1.1
Transportation and urban community development revenue sharing	−.5
Welfare reform and social services initiatives	−.6
Sales of HUD assets	−.2
Foreign economic assistance 10 percent reduction	−.2
Other	−.2
Total, August 15 reductions	−4.8
Congressional changes:	
Appropriations:	
Major increases in administration request:	
Food stamp and special milk program	+.3
Health and welfare	+.2

[1] A part of this decrease was taken into account by the Congress subsequent to August 15 in the appropriation actions listed later. Any double-counting resulting from this fact is offset in the line "All other changes, net" shown at the end of the table.

Failure to limit increase on limitation on social services to 110 percent of 1971 as proposed	+.2
Public works and atomic energy	+.1
Veterans medical care	+.2
School assistance in federally affected areas	+.1
Direct loans for higher education	+.3
Major reductions in administration request:	
Defense	−1.1
Higher education student assistance and subsidized insurance loans	−.2
Other changes (each less than $100 million)	+.4
Total, appropriation action	+.5
Mandatory authorizations:	
Emergency employment assistance	+.7
Increase in social security benefits above administration proposal	+1.4
Action to overturn 6 month deferral of Federal pay raises	+1.1
Military Selective Service Act:	
Military pay increase	+.8
Reduction in average military strength	−.2
Temporary increase in railroad retirement benefits	+.2
Liberalized payments for school lunches	+.2
Veterans compensation and pension increase	+.1
Total, mandatory authorizations	+4.2
Inaction on administration proposals:	
Medicare reform	+.4
Deferral of special revenue-sharing add-ons	−.3
Emergency school assistance	−.2
GSA stockpile sales and leaseback proposal	+.1
Total, inactions	(*)
Total, congressional changes	+4.8
Reestimates of identifiable uncontrollable programs (excludes the effect of Congressional action):	
Social security trust funds	[2]−.1
Unemployment trust fund	+2.1
Farm price supports (CCC)	+.8
Postal Service	+.6
Federal unemployment benefits and allowances	+.5
Medicare	−.5
Coal miner benefits	+.2
Medicaid	+.6
Public assistance	+.8
Retirement and other employee trust funds	+.2
Military retired pay	+.2
Interest	+.4
Other	+.4
Total, Reestimates of identifiable uncontrollable programs	+6.0
Other changes:	
Defense (and military assistance)	+.4
GSA stockpile receipts (effect on outlays)	+.6
Small Business Administration programs	+.2
All other changes, net	+.2
Total, all other changes	+1.4
Current 1972 estimate	236.6

*Less than $50 million.

[2] This is an increase over the January 1971 estimates for the social security program including new legislation estimated in that budget at $3.1 billion (not then shown as uncontrollable) but excluding the congressional add-on shown above.

The CHAIRMAN. Now, are there a lot of jobs in this country that people can't be persuaded to take at the present time?

Mr. SHULTZ. Well, there are certainly open jobs and there is a process of filling jobs constantly. And I am sure there are jobs that are very difficult to persuade people to take.

The CHAIRMAN. The average farmer claims to me he cannot get people to work. I had all kinds of people explain that here we have people saying that you must pay higher welfare benefits because you have unemployment. I saw an ad on television the night before last when I was in Los Angeles, a fellow in the electronics business with the best personality he could project trying to persuade somebody to go to work for him. He was talking about the opportunity he could offer. He urged anybody who had any experience at all, who had done any kind of work repairing television sets and so on to come in. He did all he could, put on his best front and nicest smile, trying to persuade folks to come in and go to work.

Against that background, I have difficulty understanding why we have so much unemployment. Can you help my thinking on that subject? Why is it that these people can't get somebody to go to work and yet we are told that we have 6-percent unemployment.

Secretary CONNALLY. Mr. Chairman, let me respond on that in part at least. I happened to be in Houston over the weekend and I just looked at the two papers, the Houston Post and Houston Chronicle. I noticed column after column, page after page, of employment opportunities for people in every type of endeavor. I looked at the job wanted column, and believe me, it does not span three column inches not three columns. I suspect that is true of nearly every paper in the country.

Part of it is because, No. 1, there is a lack of skilled people to fill a great many of the jobs that are available today. Now, to try to cure that, the administration and the Congress are spending in this fiscal year about $4½ billion for manpower training and employment services. So there is no shortage of activity.

Now, secondly, though, this Nation is now 56 percent service oriented; 56 percent of the people of the United States today are in service-oriented jobs. But there are a lot of service-oriented jobs that people do not want to work in.

So when you take those two things—the number of jobs for which people do not have the skills and the fact that many of the jobs are service oriented and people do not want them—you have a real problem and we are spending $4½ billion a year to try to solve it.

The CHAIRMAN. Well, I am conversant with the same problem in one respect or the other. I am looking for somebody to do some work and I have people coming to me—with the change of administration that is going on—who want me to help them find a job—one administration going out, the other administration coming in. I am sure you are familiar with that.

You have seen that happen in Texas and elsewhere.

Secretary CONNALLY. I sure have.

The CHAIRMAN. Yet there is no point in my offering those people the job I have available because that would not pay them anything like what they would like to have. They would like to have a job in line with what they used to receive on the State payroll, where they were well paid and not working very hard. Now what I have in mind is something that does not pay as much but expects a person to do more work. But nobody is interested in that, they are sort of offended at me for offering it. But I would like to find somebody to do those jobs. I think that is a problem that exists for employers all over the country, trying to find somebody who wants to work.

I was discussing that with a person who has been pretty successful in getting good help up here on the Hill. He explained to me that his success in hiring good people has to do with the fact of going through an employment agency where people pay an employment agency something to find them a job. He proceeds on the assumption that if those people want a job badly enough to pay to get it, they must really want to work. And his experience has been very good in that regard.

But I am really convinced that there are more than a million jobs in this country looking for takers. I just wanted to know if you think that, Mr. Shultz.

Mr. SHULTZ. Yes, I think that is probably right. We have seen in the figures that are collected, the National Industrial Conference Board, I think, tries to summarize the figures on help-wanted advertising all over the country. As Secretary Connally brought out, we see an upturn in the amount of help-wanted advertising. We see a little bit of that in the Bureau of Labor statistics, job vacancy statistics, although that is a new statistical service that is a little bit hard to judge. And you certainly get the feel of that by talking around the country, that jobs are opening up; and at the same time, in most cases, there is a reluctance, just as you mentioned, to take a job that is a little less than you might prefer.

The CHAIRMAN. Well, now I would like to ask Secretary Connally about this gold matter. I was hopeful we are going to get some real concessions in connection with agreeing to raise the price for gold. Can you tell me, Mr. Secretary, what happened about that? What did we manage to get in a meaningful way in agreeing that we would pay more for gold?

Secretary CONNALLY. Mr. Chairman, I think we have to posture this in the right perspective, and it was not, first, a quick proposition. We got the realinement of the currency rates. That was one problem. And we got a very, very satisfactory realinement of rates.

Excluding Canada, it was an average of about 12 percent. But in addition to that, we took the position, which I still take, that the realinement in itself was not going to be enough. What we needed to do was to break down the quotas, the tariffs, the administrative barriers that impede the export of American products and commodities in the markets around the world. It was not a precise trade-off at all; it never was proposed on that basis. But we tied them together. I personally tied them together because I kept saying to the finance ministers and others that the realinement made no difference to us. It does not really, and I used as an example the relationship between the yen and the dollar.

What difference does it make? You can realine it all you want to. But if you have quotas and restrictions of whatever type to where we cannot sell American commodities in the Japanese market, then it does not make any difference what the rate is. You just can't get your products in there.

So that was the point we were trying to make. We were trying to bring about a realization of a twofold problem: One the currency rate realinement; and two, the fact that we had to have better treatment for our goods and commodities shipped in world commerce.

Now, in the case of the Japanese, I must say they were quite forthcoming. They were not as liberal as we would have liked them to be. They did not go as far as we think they should have gone, but they have gone as far as they could have gone at this time. We got a number of concessions. We would be glad to supply those for the record.[1]

In the case of the European Community, we got some. We did not get enough, but we got some.

The significance of all of these is, I think, we brought about a realization that unless we do get fair treatment for American products and commodities in the world markets, we are going to continue to have balance-of-payments problems.

In the case of Canada, unfortunately, we got none. We got nothing. Canada contributed nothing in terms of the realinement, because they said they wanted to float, which they did. And unfortunately, we have not reached any agreement with them with respect to trade matters. We will continue to pursue that as best we can.

But I think the principal thing we did accomplish— and I think we did it in an effective way—we tried to say to the industrial nations of the world and to the emerging nations of the world that we are henceforth going to insist upon fair treatment for American goods. That is the message we have to get across. Then we have to follow it up.

Now, we have done that. As a part of all these negotiations, we have an agreement with the European Community, we have an agreement with Japan and that we will begin trading negotiations in 1972 and 1973 on a broad front, looking toward material liberation of trade barriers and quotas throughout the industrial world.

The CHAIRMAN. I would like to bring up one other matter; then I am through.

Mr. Shultz, I could not be here when you testified before the committee on trade, but the deficit we have in our balance of payments to me is a far more serious matter for much more grave concern than the deficit we have in our domestic budget here.

Now, I do not think it is helping matters at all for this administration or any administration every quarter to give out what I call one of theses "good news" announcements. I used to use that comparison when President Eisenhower was President. I used it with regard to some other administration. I would say, a good-news announcement would be one to say "Hurrah, unemployment did not increase this month as rapidly as it did last month. It increased, but just not as rapidly."

Now, these quarterly announcements of our official trade statistics do not include the freight. Practically everybody else in the world does include the freight. International Monetary Fund includes the freight when it looks at the balance of payments, and it should.

Now, we carry far less than half our cargo in American ships in international trade. We put out these quarterly statistics that leave the freight off these trading figures. Why should we not put the freight in like all the other countries do, so we can see where we stand instead of having people come to my office and telling me, as a Japanese trade representative did awhile ago and others do it, "Look here, here's this article from the New York Times that you have a favorable

[1] See appendix of this volume.

balance of trade." It is no longer the case, but even so, it is a much bigger deficit than they concede. Why should we not put the freight in our trading figures the way others do?

Mr. SHULTZ. I think it would be useful to put freight into the calculations, for many purposes. Already some purposes for which it makes for difficulty, and you suggested one. That is, when we are talking about balance-of-payments statistics to the extent that U.S. firms do the freighting, then, of course, it does not make the balance of payments.

A principal reason why it is difficult to put freight in has been the lack of a reliable statistical base for doing so. And I know you will be pleased, Mr. Chairman, to know that in the President's budget, there is a proposal for collecting statistics that we would need in order to do this, and I hope very much that you will support the budget request for that.

The CHAIRMAN. There is no doubt about me supporting that, because I have been trying to get something done about it for many years. Now, it was in the Republican Party platform that we would have balance-of-trade figures that more correctly reflected our situation. That reflects what Senator Dirksen had fought for on this committee, that those balance-of-trading figures ought to include the trade, and also, they ought to have adjustment for the aid factor so you would not be counting a gift or something that you might never get paid for as though you were being paid for it.

Now, it seems to me that it has hurt our interest in these trade meetings. I know the ones that I have attended, to be reflecting a balance-of-trade figure that is far more favorable than anybody else's figures would justify.

Now, I was with the Secretary of State at a Geneva Conference, and he pointed out that those people should help us with our defense situation. Well, countries like Finland, Australia, are committed to a course of new travel. Countries like France who have asked us to get out of their country anyhow, would laugh at you when you tell them that. But you tell them, here is our big deficit—I had to explain that to the Japanese representative who was the Foreign Minister at that time, at the OECD meeting. About the second time I explained it at a meeting, he just nudged me and said, "Yes, yes, I now understand what you are talking about."

Now, after awhile, one can make someone understand that, although the point has not been made to them. But we should not be confronted with a bunch of figures that look as though our situation is better than it is. They are deceiving. And I cannot see any other purpose in having trade figures that do not show our real situation, other than to make somebody think it is better than it is. I do not think that is to our advantage, for the Secretary of the Treasury and the Secretary of State who are trying to get those people to recognize that our situation is bad and must be corrected. I do not think it helps to have them coming to me and others showing this good-news announcement which does not include the freight.

I hope we can get that corrected, and I hope we can have your cooperation on that.

Mr. SHULTZ. Well, as I have mentioned, we are trying to lay a solid statistical base on the question of insurance and freight. I think that you want different concepts for different purposes. So I do not think you necessarily want to do it all one way under all circumstances.

The CHAIRMAN. I do not see any purpose in keeping the f.o.b. basis. But if you must have it that way, we should at least at the same time have a c.i.f. basis so someone can judge for themselves. Thank you very much, gentlemen.

The committee will meet at 10 a.m. tomorrow, in executive session.

(Whereupon, the committee was adjourned at 1:35 p.m., to reconvene March 1, at 10 a.m.)

APPENDIX

(Trade Concessions Related to the Currency Revaluation)

THE DEPARTMENT OF THE TREASURY NEWS

[For release at 9 a.m. e.s.t., Friday, Feb. 11, 1972]

Secretary of the Treasury John B. Connally said today, "The new agreement announced this morning between the United States and the European Community is a step forward in the effort to assure fair trade practices, an effort that began with President Nixon's announcement of last Aug. 15.

"The Agreement reflects the diligence and effective effort of many in the Government, but I wish to pay special tribute to the efforts of Ambassador William D. Eberle, the President's Special Representative for Trade Negotiations, who carried the prime responsibility for the negotiation in its latter stages."

A declaration between the United States and the European Community states their agreement to initiate and support a comprehensive review of international economic relations including all elements of trade as well as a commitment to continue solving problems in 1972 in the GATT. The declaration is attached for your information.

As a beginning in solving trade problems and opening markets for expanding trade, certain short-term measures were also agreed to.

The *United States* informed the European Community that it is the intent of its domestic farm programs to add to stocks 10 percent of its production of grains in the 1971/72 crop year. For the 1972/73 crop year these programs provide measures intended to bring about the withdrawal of 18 million acres from production of feedgrains and 8 million acres from production of wheat.

The *European Community* will add 1.5 million metric tons to normal carryover stocks of wheat which had previously been estimated to total 2.4 million metric tons. For 1972/73 the *Community* is also prepared to make an effort in stocks in the area of grains. The amount of the stocks will be determined by the situation of the market, which will be the subject of discussions to take place at the appropriate time. The *Community* will until the end of the 1971/72 crop year operate its system of export payments on grain so as not to divert trade in its favor.

The *European Community* intends to insure that the eventual common market tax system for manufactured tobacco will be neutral, will enable broader competition, and will be reasonable and balanced for all interests concerned. The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products. The *Community* announced that for the coming two years the duty applicable to imports of fresh summer oranges from the United States and other non-preferential suppliers will be reduced from 15 percent to 5 percent during the major part of the U.S. export season (June 1–September 30). The duty applicable to non-preferential imports of grapefruit will be reduced from 6 percent to 4 percent for the period April 1, 1972–December 31, 1973. The accession treaty which the *European Community* recently concluded with Denmark, Ireland, Norway, and the United Kingdom is being submitted to the GATT for examination according to the procedures of that Agreement. The *Community* has stated that it plans to furnish to the GATT, in good time, the documentation required to permit the beginning of Article XXIV:6 tariff renegotiations immediately after completion of the ratification procedures which, according to the terms of the treaty, is envisaged for December 31, 1972 at the latest.

This report on the European trade settlement was referred to in the background material submitted with my letter of February 9th to the Speaker of the House on the proposed modification of the par value of the dollar.

Joint Statement on International Relations, February 9, 1972

Japan and the United States today made the following declaration and agreed to communicate the declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this declaration to the extent and at the time which they would deem appropriate.

Japan and the United States recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in it in the light of structural changes which have taken place in recent years. The review shall cover *inter alia* all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

Japan and the United States will seek to utilize every opportunity in the GATT for the settlement of trade problems, the removal of which would lessen current trade distortions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on Trade in Industrial Products and the GATT Agricultural Committee. Japan and the United States agree that progress in GATT in solving some problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems. To this end, they also agree in 1972 to analyze and evaluate in the GATT alternative techniques and modalities for multilateral negotiation of long term problems affecting all elements of world trade.

Japan and the United States undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and liberalization of world trade, improvement in the international framework for the conduct of commercial relations, and improvements in the standard of living of the people of the world. These multilateral negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

Japan

Agricultural Products

Soybeans and Soybean Products

Japan will eliminate its 2.40 yen per kilogram duty (ad valorem equivalent of 5.6 percent) on soybeans April 1, 1972. This tariff elimination is of major importance, since soybeans are the largest single U.S. export to Japan. In 1970, Japan imported $366 million of soybeans, of which the United States supplied $330 million. It is expected that the duty elimination will increase U.S. soybean exports to Japan.

Japan will reduce its duty on soybean oil by approximately 10 percent—from 28 yen per kilogram to 25 yen per kilogram for oil of an acid value not exceeding 0.6 and from 20 yen per kilogram to 17 yen per kilogram for oil of an acid value exceeding 0.6. Japan's imports of soybean oil in 1970 were valued at $1.4 million, of which $1.2 million was supplied by the United States. Japan will also eliminate its 5 percent duty on soybean meal for human consumption. These actions will have limited effect on increasing U.S. exports. The major export interest of the United States in soybean products is soybean meal for animal feed which already enters Japan free of duty.

Citrus Products

Japan will increase the size of its import quotas for fresh oranges, and orange and grapefruit juice in Japan Fiscal Year (JFY) 1972 (April 1, 1972–March 31, 1973). The orange quota will be increased from 7,800 MT* to 12,000 MT. The United States is the major supplier of Japan's fresh orange imports. In calendar year 1970 the United States shipped 4,044 metric tons worth $1.4 million out of a total of 4,313 metric tons imported by Japan. Most of the new quota is likely to be filled from U.S. sources.

---

*MT=metric ton=2,204.6 lbs.

Japan will establish a 2,500 metric ton quota for orange juice (single-strength; or 500 metric tons of concentrate on a 5 to 1 concentrate basis), a 1,500 metric ton quota for certain other juices (primarily grapefruit juice) and maintain a 500 metric ton quota for orange and pineapple juice for hotel use, in JFY 1972, for a total of 4,500 metric tons (single-strength basis). The totals were 3,000 metric tons in JFY 1970 and 1,500 metric tons in JFY 1971. The United States is the major supplier of these juicies ($543,000 or 1,870 MT out of $634,000 total imports in 1970).

Livestock and Meat

Japan will establish a 5,000 head duty-free tariff rate quota for imports of feeder cattle by producer organizations for JFY 1972. Japan had increased the duty on feeder cattle from free to about 100 percent ad valorem equivalent when the import quota was removed on October 1, 1971.

The current 500 metric tons quota for high quality beef destined for hotel use will be increased by Japan to 1,000 metric tons in JFY 1972. U.S. high quality beef exports to Japan were 435 MT worth $1.4 million in 1970.

Other Agricultural Products

Japan will eliminate its 2.5 percent duty on inedible tallow by April 1, 1972. Japan imported $53.4 million worth of inedible tallow in calendar year 1970 of which $39.3 million were supplied by the United States.

Also of benefit to U.S. exporters will be a reduction in the duty on turkey meat from 15 percent to 10 percent. Japan will implement this action on April 1, 1972. Japan imported $480,000 worth of turkey meat from the United States in 1970 out of total turkey meat imports of $500,000.

Japan will remove its import quota restriction on tomato puree and tomato paste on April 1, 1972. Of total Japanese imports of $929,000 in 1970, the United States supplied only $42,000 worth of these products.

Japan will reduce its tariffs by an average of 10 percent on approximately 10 other agricultural products of interest to the United States (Annex B). The United States exported $6 million of these products to Japan in 1970.

INDUSTRIAL PRODUCTS AND ADMINISTRATIVE NONTARIFF BARRIERS TO TRADE

Import Quotas

Japan removed on February 1, 1972, without an increase in duty, its import quota restrictions on light aircraft (under 20,000 lbs.) and parts, computer peripheral equipment except memory and terminal devices (see Annex A), radar apparatus for aircraft (for ground and airborne use), radio navigational aid apparatus for aircraft, and radio remote control apparatus for aircraft (for ground and airborne use). U.S. exports to Japan of these items in 1970 were valued at approximately $66 million. Japan will also remove on the same date its import quota restrictions on light and heavy oil and sulfur, but increase its duties on these items. Japan imported $21.7 million of light and heavy oil from the United States in 1970. In response to a U.S. request that Japan establish a plan and timetable for the elimination of its remaining quantitative import restrictions on agricultural and industrial items inconsistent with Japan's GATT obligations, Japan stated it would make its best efforts to do so.

A U.S. technical team will visit Japan later this year to discuss possible ways by which Japan could ease and eventually remove its import quota restrictions on computers, computer memory and terminal devices and computer parts.

Tariffs

Japan will reduce by 10 percent its tariffs on computers, computer peripheral equipment, machine tools, color photographic film and X-ray film. These items together accounted for about $215 million in Japan's imports from the United States in 1970. Japan also stated its intention to reduce its tariffs by an average of about 10 percent on other industrial products covering about $60 million in its 1970 imports from the United States (see Annex B). The items of significance to the United States include organic surface active agents; image projectors and parts; air conditioners; refrigerators; cosmetics; photo enlargers, reducers and apparatus for developing and printing; and gramaphones and record players. Japan will also reduce its tariff on automobiles from 10 percent to 8 percent.

Automobile Excise Tax

Japan will reduce on April 1, 1972, its internal excise tax on large-sized and medium-sized cars—now 40 percent and 30 percent, respectively—to 20 percent. This action will largely remove the de facto discrimination which subjects the larger U.S. automobiles to a disproportionately higher tax rate. The current 15 percent rate for small cars will remain. No U.S.-produced small cars fall into the 15 percent category because they do not meet the criteria, which are based on cylinder capacity, wheel base, and width limitations, for the lower rate. Japan imported $23 million of automobiles from the United States in 1970.

Automatic Import Quota System (AIQ)

Japan reduced the number of items under its AIQ system to zero in February 1972. The AIQ system required that certain products freed from import quota control (IQ system) would still undergo "automatic" government licensing. This system provided an opportunity for Japanese Government officials to use "administrative guidance" against imports. The number of items under the AIQ system had been reduced earlier from 253 in January 1969 to 11 in October 1971. Three items, including heavy hydrogen, will continue to be controlled by other means.

Importation, Wholesale and Service Facilities in Japan

Japan will approve, in principle, the establishment of wholly-owned foreign sales subsidiaries which engage in importation and wholesale activities (warehousing sales to wholesale and retail outlets) and service facilities in Japan, except for computers and related activities and petroleum distribution. Japan will also, in principle, automatically approve the receiving and remittance of funds by foreign branches engaged in these activities. The liberalization of Japanese restrictions in this area will be of considerable help in promoting the sale and distribution of American products in Japan. Japan noted that it does not consider the cutting of film and blending or mixing of cosmetics as wholesale activities but as manufacturing activities.

Standard Method of Settlement Requirement

Payments for all imports into Japan must be made within 120 days of customs clearance and cannot be prepaid, unless an exception is granted by the Japanese Ministry of International Trade and Industry (MITI). Japan will henceforth approve individual applications for consignment or prepayment contracts on a case-by-case basis. This action will enable U.S. suppliers to conclude consignment sales contracts for such purposes as floor display, stock or demonstration.

ANNEX A

COMPUTER PERIPHERAL EQUIPMENT

To be liberalized but their terminal devices will not be liberalized:

Input Machines, Output Machines and Input/Output Machines:

Card Reader
Card Punch
Line Printer
Paper Tape Reader
Paper Tape Punch
Paper Tape Reader Punch
Optical Character Reader
Optical Mark Reader
Magnetic Ink Character Reader
Character Display
Graphic Display
Audio Response Unit
Plotter
Computer Input Micro Filmer
Computer Output Micro Filmer
Etc.

Control Units:

Input-Output Control Unit
Communication Control Unit
Magnetic Disc Control Unit
Magnetic Drum Control Unit
Magnetic Tape Converter
Magnetic Tape Printer

Not to be liberalized:

Memory Equipment:

Magnetic Disc Memory Equipment
Magnetic Disc Pack Memory Equipment
Magnetic Tape Equipment
Magnetic Drum Equipment
Etc.

NOTE.—Terminal devices are such input machines, output machines, input-output machines and control units as are connected to the main body of computers by telecommunication circuits.

74-187 O - 72 - 7

Annex B

TARIFF REDUCTION AND ELIMINATION, SCHEDULED ON APR. 1, 1972 (ILLUSTRATIVE LIST)

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
Ex 01.02	Feeder cattle	45,000 yen/head	T.Q., primary rate: free; secondary rate, 45,000 yen/head.
Ex 02.02	Turkeys, fresh, chilled or frozen	15 percent	10 percent.
Ex 07.01	Onions, fresh or chilled	10 percent	
	Value for customs duty of:		
	Not more than 51 yen/kg		10 percent.
	More than 51 yen/kg. but not more than 56.1 yen/kg		56.1 yen/kg. minus value for customs duty.
	More than 56.1 yen/kg		Free.
09.01-1-(2)	Coffee (roasted)	35 percent	30 percent.
09.02-1-(1)	Black tea: put up for sale by retail	do	Do.
09.02-1-(3)	Other black tea	20 percent	5 percent.
10.02	Rye	15 percent	Do.
12.01-1	Soybeans	2.4 yen/kg	Free.
12.01-3	Rapeseeds and mustard seeds	4 yen/kg	Do.
12.01-7	Safflower seeds	2.5 percent	Do.
12.07-2	Insect flower	20 percent	T.Q., primary rate: free; secondary rate, 20 percent.
15.02-1	Beef tallow	2.5 percent	Free.
15.02-2	Sheep tallow, goat tallow, etc	do	Do.
15.07-1-(1)	Soyabean oil of an acid value exceeding 0.6.	28 yen/kg	17 yen/kg.
15.07-1-(2)	do	do	25 yen/kg.
15.07-2-(1)	Gound-nut oil of an acid value exceeding 0.6.	20 yen/kg	17 yen/kg.
15.01-2-(2)	do	28 yen/kg	25 yen/kg.
15.07-3-(1)	Rapeseed oil and mustard seed oil of an acid value exceeding 0.6.	20 yen/kg	17 yen/kg.
15.07-3-(2)	do	28 yen/kg	25 yen/kg.
15.07-4-(1)	Sunflower seed oil of an acid value exceeding 0.6.	20 yen/kg	17 yen/kg.
15.07-4-(2)	do	28 yen/kg	25 yen/kg.
Ex 15. 07-5	Cotton seed oil of an acid value exceeding 0.6.	20 yen/kg	17 yen/kg.
15.07-14-(1)	Other mixed vegetable oils of an acid value exceeding 0.6.	do	Do.
15.07-14-(2)	do	28 yen/kg	25 yen/kg.
21.03-1	Mustard flour and prepared mustard (put up for sale by retail).	30 percent	25 percent.
21.03-2	Mustard flour and prepared mustard (other).	25 percent	20 percent.
22.03	Beer made from malt	20 percent	10 yen/l.
Ex 22.05-2	Wine of fresh grapes and grape must with fermentation arrested by the addition of alcohol (in containers of capacity more than 150 liters, excluding sparkling wines).	400 yen/l	200 yen/l.
22.09-1-(1)A	Whiskey (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters).	660 yen/l	590 yen/l.
22.09-1-(1)B	Other whisky	550 yen/l	490 yen/l.
22.09-1-(2)A	Brandy (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters).	780 yen/l	550 yen/l.
23.04-1	Oil-cake and other residues resulting from the extraction of soya bean oil.	5 percent	Free.
Ex 28.04-4	Phosphorus	7.5 percent	3.75 percent.
33.06-1	Perfumed water including eau de cologne and the like.	25 percent	15 percent.
33.06-3	Perfumed hair oil, cream, pomade, rouges and other preparations of oils, fats of waxes.	15 percent to 25 percent	Do.
Ex 33.06-5	Manicure preparations, shaving preparations, and incenses.	20 percent	Do.
Ex 33.06-5	Other perfumery, cosmetics and toilet preparations.	15 percent to 17.5 percent	Do.
34.02-1	Organic surface-active agents and surface-active preparations.	17.5 percent	10 percent.
37.01-1	X-ray plates and film in the flat	20 percent	18 percent.
Ex 37.02-1-(2)	Cinematographic film in rolls for X-ray	15 percent	13.5 percent.
37.02-2-1(1)	X-ray film in rolls	20 percent	18 percent.
37.01-2-(1)	Color plates and color film in the flat	23 percent	20 percent.
37.02-1-(1)A	Cinematographic color film in rolls, not more than 30 mm. in width, reversal.	26 percent	23 percent.
37.02-1-(1)B	Cinematographic color film in rolls, other.	23 percent	20 percent.
37.02-2-(2)	Color film in rolls, other	26 percent	23 percent.

TARIFF REDUCTION AND ELIMINATION, SCHEDULED ON APR. 1, 1972 (ILLUSTRATIVE LIST)

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
Ex 39.03-2-(4)	Hamcasings and similar products, in tubes of a flattened width not less than 90 mm.	10 percent	Free.
Ex 76.03	Wrought plates, sheets and strip of aluminum (for use as roof sheets of containers for foreign trade purposes, not less than 2.3 m. in width).	18 percent	Do.
77.01-1	Unwrought magnesium of:		
	(1) not more than 278.26 yen/kg	Not more than 286.95 yen/kg, 15 percent; more than 286.95 yen/kg but not more than 330 yen/kg.	15 percent.
	(2) More than 278.26 yen/kg but not more than 320 yen/kg.	330 yen/kg. minus value for customs duty.	32 yen minus value for customs duty.
	(3) More than 320 yen/kg	More than 330 yen/kg, free.	Free.
84-12-1	Air conditioning machines (for motor vehicles).	15 percent	10 percent.
84.12-2	Air conditioning machines (other)	do	Do.
84.15-1	Refrigerating cabinets, self-contained refrigerating units.	7.5 percent	5 percent.
84.41-1-(2)	Sewing machines, completed set or separated head (other than for domestic purposes).	7.5 to 12.5 percent	7.5 percent.
84.45-1	Machine tools whose function is to remove metal or metallic carbides.	15 percent 12.5 percent 10 percent 7.5 percent	13.5 percent. 11 percent. 9 percent. 6.5 percent.
Ex 84.52-1-(1)	Digital type electronic computers	15 percent	13.5 percent.
Ex 84.53-1, 84.51-1-(1), Ex 84.52-1-(1), Ex 84.53-1, 84.53-2, Ex 84.54-1, Ex 85.22-1.	Peripheral apparatus of digital type electronic computers.	25 percent	22.5 percent.
84.59-7-(1)	Machinery and mechanical appliances not falling within any other items thereof.	7.5 to 10 percent	7.5 percent.
Ex 84.61	Taps, cocks, valves and similar appliances for pipes, boiler, tanks, vats and the like.	7.5 to 10 percent; 15 to 20 percent.	7.5 and 15 percent.
85.01-2-(2)	Electric motors (of a weight more than 500 kg).	10 percent	7.5 percent.
85.01-4-(1)	Silicon rectifiers and silicon rectifying apparatus.	do	Do.
85.06-1	Electromechanical domestic appliances, with self-contained electric motor:		
	(1) Fans	7.5 percent	5 percent.
	(2) Vacuum cleaners, floor polishers, food mixers, etc.	do	Do.
85.06-2	Other electromechanical domestic appliances, with self-contained electric motor.	do	Do.
85.07	Shavers and hair clippers, with self-contained electric motor.	do	Do.
85.12	Electric instantaneous or storage water heaters and immersion heaters, electric hair dressing appliances, etc.	do	Do.
85.15-1	Radio-broadcast receivers (including chassis).	do	Do.
85.15-2	Television receivers (including chassis).	do	Do.
87.02-1	Motor vehicles for the transport of persons:		
	(1) Not more than 270 cm. in wheel base.	10 percent	8 percent.
	(2) More than 270 cm. but not more than 304.8 cm. in wheel base.	do	Do.
	(3) More than 304.8 cm. in wheel base.	do	Do.
90.07-1-(2)	Cameras for photoengraving, X-rays, copying documents, etc.	15 percent	7.5 percent.
90.07-1-(3)	Other cameras	do	Do.
90.07-2	Parts and accessories of cameras	do	Do.
90.07-3	Photographic flashing apparatus	do	Do.

TARIFF REDUCTION AND ELIMINATION, SCHEDULED ON APR. 1, 1972 (ILLUSTRATIVE LIST)

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
90.08-1-(1)	Cinematographic projectors for film of a width not more than 20 mm.	10 percent	5 percent.
	Cinematographic cameras for film of a width not more than 20 mm.	15 percent	7.5 percent.
90.08-1-(2)	Other cinematographic cameras, projectors, parts and accessories thereof.	10 percent	5 percent.
90.08-2	Cinematographic sound recorders and sound reproducers; parts and accessories thereof.	do	Do.
90.09-1	Image projectors; parts and accessories thereof.	do	Do.
90.09-2	Photographic enlargers and reducers; parts and accessories thereof.	do	Do.
90.10-1	Apparatus and equipment, photographic or cinematographic, of a kind used for developing, printing, etc.	do	Do.
90.10-2	Contact type photocopying apparatus, etc.	do	Do.
90.17	Medical, dental, surgical, and veterinary instruments and appliances.	7.5 to 10 percent	7.5 percent.
90.18	Mechanotherapy appliances; massage apparatus, psychological aptitude testing apparatus; artificial respiration, ozone therapy, etc.	do	Do.
90.28-1	Electrical measuring, checking instruments and apparatus.	7.5 to 15 percent	Do.
91.01-1	Wristwatches etc. (not more than 6,000 yen per piece in value for customs duty).	15 percent	Do.
91.01-2	Wristwatches etc. (other)	20 percent	10 percent.
92.11	Gramophones and record players	7.5 percent	5 percent.

SUMMARY—REDUCTION IN JAPAN'S IMPORT BARRIERS

	Japanese action or commitment	Japan's imports from United States 1970 (dollars)
I. IMPORT QUOTAS (IQ's)		
A. Agriculture:		
1. Fresh oranges	Increase quota from 7,800 MT [1] to 12,000 MT	1,400,000
2. Fruit juices:		
a. Orange	Quota of 500 MT 5:1 concentrate Japanese fiscal year 1972.	543,000
b. Orange and pineapple for hotel use.	Quota of 500 MT single-strength Japanese fiscal year 1972.	
c. General use (excluding orange juice).	Quota of 1,500 MT single-strength Japanese fiscal year 1972.	
3. High quality beef	Increase quota from 500 MT to 1,000 MT	1,400,000
4. Tomato paste and tomato puree.	To be eliminated Apr. 1, 1972	42,000
B. Industrial:		
1. Gas oils and heavy fuel oils	To be eliminated Apr. 1, 1972, but duty to be increased on heavy fuel oils.	21,740,000
2. Sulfur	To be eliminated Apr. 1, 1972, but duty to be increased	300
3. Computer peripheral equipment, except memory and terminal devices.	Eliminated Feb. 1, 1972 (estimated)	60,000,000
4. Light aircraft (under 20,000 pounds) and parts.	Eliminated Feb. 1, 1972 (estimated)	[2] 3,000,000
5. Radar apparatus for aircraft	Eliminated Feb. 1, 1972	1,949,000
6. Radio navigational aid apparatus for aircraft.	do	5,640,000
7. Computers, computer peripheral equipment (including memory and terminal devices), and computer parts.	United States will send a technical team spring 1972 to discuss possible timetable for elimination of Japan's quantitative import restrictions (estimated).	105,000,000
II. TARIFFS		

SUMMARY—REDUCTION IN JAPAN'S IMPORT BARRIERS—Continued

	Japanese action or commitment	Japan's imports from United States 1970 (dollars)
A. Agriculture:		
1. Turkey meat	Reduce from 15 percent to 10 percent, Apr. 1, 1972	480,000
2. Soybeans	Reduce from 5.6 percent [3] to free, Apr. 1, 1972	330,000,000
3. Inedible tallow	Reduce from 2.5 percent to free, Apr. 1, 1972	39,000,000
4. Feeder cattle	Allow 5,000 head to be imported duty free	None
5. Soybean meal for human consumption and refined soybean oil.	Reduce from 5 percent to free, Apr. 1, 1972	[4] 1,160,000
6. Some 10 other products (see annex).	Reduce, generally, by 10 to 20 percent, Apr. 1, 1972 (approximately).	6,000,000
B. Industrial:		
1. Computers	Reduce from 15 to 13.5 percent, Apr. 1, 1972	54,000,000
2. Computer peripheral equipment	Reduce from 25 to 22.5 percent, Apr. 1, 1972	103,000,000
3. Color photographic film	Reduce from 26 and 23 percent to 23 and 20 percent, Apr. 1, 1972.	13,528,000
4. X-ray film	Reduce from 15 and 20 percent to 13.5 and 18 percent, Apr. 1, 1972.	1,800,000
5. Machine tools	Reduce from 7.5 to 15 percent to 6.5 to 13.5 percent, Apr. 1, 1972.	44,923,000
6. Automobiles	Reduce from 10 to 8 percent, Apr. 1, 1972	23,187,000
7. 35 other products (see annex)	Reduce, generally, by 10 to 20 percent, Apr. 1, 1972	60,000,000
	III. OTHER NONTARIFF BARRIERS	
A. Internal commodity tax on automobiles	Reduce from 40 to 30 percent (large- and medium-sized cars) to 20 percent, Apr. 1, 1972, small-sized cars remain at 15 percent.	
B. Automatic Import Quota (AIQ) licensing system.	Reduce to 0 the number of items under this system Feb. 1, 1972.	
C. Restriction on establishment by foreigners of sales and service facilities.	Approve foreign wholly-owned importing and wholesaling companies, except computers and petroleum.	
D. Standard method of settlement for imports.	Favorably consider applications for nonstandard payment terms in consignment or prepayment cases.	
E. Buy-Japan Government procurement practices.	Will review in multilateral forum	

[1] MT=metric ton=2,204.6 pounds.
[2] Includes parts for heavier aircraft.
[3] Ad valorem equivalent. Tariff is 2.40 yen per kilogram.
[4] Soybean oil.

Draft Letter From EC Representative to U.S. Representative

Mr. Chairman, I herewith wish to confirm that in the course of the negotiations between the European Community and the United States, the European Community stated its intention to take the following measures:

1. Stockpiling of Grains

During the crop year 1971/72, the Community will add 1.5 million tons to its normal carryover stocks of wheat hitherto anticipated to be 2.4 million tons.

For the crop year 1972/73, the Community is equally ready to make a stockpiling effort in the area of grains.

The amount of the stockpiling will be determined by the situation of the market, which will be the subject of discussions to take place at an opportune time.

2. Export Restitutions

In the practical implementation of its export restitutions systems for grains until the end of the 1971/72 crop year, while conforming to the rules of the common agricultural policy, the Community will take care that the system does not result in trade diversions in favor of the Community.

3. Oranges and Grapefruit

The duty applicable to Community imports of sweet oranges (ex 08.02 A) from the United States and other MFN suppliers in the periods June 1 to September 30, 1972 and June 1 to September 30, 1973 will be 5 percent *ad valorem*.

The duty applicable to Community imports of fresh grapefruit (08.02 D) from the United States and other MFN suppliers during the period from April 1, 1972 through December 31, 1973 will be 4 percent *ad valorem.*

4. TOBACCO

The Community declares that in establishing the fiscal system necessary for the institution of a common market for manufactured tobacco it is its intention to ensure that the fiscal imposition to be introduced be neutral, that it conform with the necessity of broader competition and that it be reasonable and balanced for all interests concerned.

The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products.

5. ACCESSION TREATY

The Accession Treaty will be notified to GATT immediately upon signature. Examination of the Accession Treaty will be undertaken in the GATT according to Article XXIV procedure as soon as the texts have been transmitted to the CONTRACTING PARTIES. This examination will, as is the custom, involve all provisions of these agreements which are relevant to the competence of the GATT. The Community plans to furnish to the GATT, in good time, the documentation required to permit the beginning of Article XXIV :6 tariff renegotiations immediately after completion of the ratification procedures which, according to the provisions of the Treaty, is envisaged for the 31st December 1972 at the latest.

The European Community recognizes that the United States accepts the principle of reciprocity and mutual advantage as a basis for solving pending issues in their economic relations and will approach problems raised by the United States in this spirit.

[Complimentary close]

Draft Letter From U.S. Representative to EC Representative

Mr. Chairman, I herewith wish to confirm that in the course of the negotiations between the United States and the European Community the United States made known that it is the intent of is domestic farm programs to add to stocks 10 percent of its production of grains (estimated to be 231 million metric tons) in the crop year 1971/72. Moreover the United States made known that it is the intent of its farm programs to bring about the additional withdrawal of 18 million acres from the production of feedgrains and of 8 million acres from the production of wheat for the 1972/73 crop year.

The United States takes note of the Community's statement regarding the fiscal harmonization for manufactured tobacco and declares its intention to avail itself, as appropriate, of the opportunity offered by the Community to discuss this subject, without prejudice to other avenues of pursuing its interests.

The United States recognizes that the European Community accepts the principle of reciprocity and mutual advantage as a basis for solving pending issues in their economic relations and will approach problems raised by the European Community in this spirit.

[Complimentary Close]

European Community Concessions

GRAIN STORAGE

The European Community will add 1.5 million metric tons of wheat to its normal carryover stocks. This is in addition to 2.4 million tons already earmarked for storage. For the crop year 1972/73, the Community will make a further stockpiling effort in the area of grains. The amount of the stockpiling will be determined by the situation of the market at the time, and will be the subject of discussions as needed.

In 1971, European grain crops were exceptionally heavy. European grain supplies would have a depressing impact upon the international market situation if entirely moved into use or exports during the remaining months of the current season. The Community decision to add to stocks will help to balance supply and demand. Also, in view of the actions already being taken by other major grain trading countries to prevent market instability both in the current season and for the year ahead, the Community undertakings are consistent with its responsibilities in the international grain trade. Since surplus amounts of EC wheat are regularly used for animal feed in replacement of feed grains, the Community storage measures can affect the trade situation for both wheat and feed grains.

In the 1970/71 season, the Community imported almost 9.0 million metric tons of wheat and feed grains from the U.S., valued at approximately $500,000,000. The EC normally takes 15 to 20 percent of total world grain exports and, in addition, is itself a major exporter of soft wheat, wheat flour, and feed grains.

GRAIN PRICES

The Community has agreed that in the practical implementation of its export restitution systems for grains for the balance of the current 1971/72 crop year, it will take care that the system does not result in trade diversion in favor of the Community.

This undertaking recognizes that excessively high restitutions can disrupt trade patterns and cause grain exporting countries such as the United States to lose traditional market outlets. EC corn and barley exports compete with corn and barley from the U.S. mainly in other markets of Western Europe, such as Spain and the United Kingdom. They are also a potential source of competition in Eastern Europe and developing markets elsewhere. Community wheat exports also compete in Western European markets such as the United Kingdom and are a potential source of competition in a large number of other traditional U.S. markets outside of Western Europe as well. The EC general export restitutions as of February 1972, are $46.00 per metric ton for wheat, $37.00 for barley, and $22.00 for corn.

TOBACCO

The European Community declares that in establishing the fiscal system necessary for the institution of a common market for manufactured tobacco products, it is its intent to ensure that the fiscal imposition to be introduced be neutral, that it conform with the necessity of broader competition, and that it will be reasonable and balanced for all interests concerned. The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products.

The EC common tax system is still in the initial stages of formulation. It is to be implemented in stages and be in effect by 1980, and will consist of some combination of specific and ad valorem elements, for example, the first stage formula adopted by Germany last July contains a 25 percent ad valorem element and a 75 percent specific element. To the extent that there is an ad valorem element in the final formula, the retail price of cigarettes manufactured from high quality U.S. type tobacco will be increased relative to the retail price of cigarettes manufactured from less expensive tobaccos available from EC member states and associates. Therefore, the higher the ad valorem element, the greater the manufacturer's incentive to shift away from using high quality U.S. leaf and toward cheaper tobaccos grown elsewhere in the world.

Nearly one-third of U.S. tobacco exports now goes to the EC. This proportion would approach 60 percent in an enlarged Community since it would then include both our best customers, the UK and Germany. U.S. tobacco exports to the EC plus the four applicants were valued at $328 million in FY 1970 and $327 million in FY 1971.

CITRUS FRUIT

The European Community has agreed that it will reduce the common external tariff on fresh oranges from 15 percent ad valorem to 5 percent during the months of June through September in 1972 and again in 1973. The common external tariff is the schedule of customs duties on imports from the United States and other countries that do not benefit from special preferential rates of duty. Preferential rates apply to oranges imported from Mediterranean countries such as Spain, Israel, Morocco, and Tunisia.

The European Community also agreed that beginning April 1, 1972, and continuing until the end of 1973, the common external tariff on grapefruit will be reduced from 6 percent ad valorem to 4 percent. A preferential rate applies to grapefruit imported from Israel.

The effect of these changes is to reduce the trade advantage that lower preferential duties give to imports from the Mediterranean area and to expand the market for oranges and grapefruit in the EC. Exports of U.S. oranges to the EC in FY 1971 totalled over $8 million. Exports of grapefruit to the EC totalled over $2 million in FY 1971.

DECLARATION

Within the framework of their negotiations, the United States and the European Community have agreed to communicate the following Declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this Declaration to the extent and at the moment they would deem appropriate.

The United States and the Community recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in the light of structural changes which have taken place in recent years. The review shall cover *inter alia* all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

The United States and the Community undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and the ever greater liberalization of world trade and improvement in the standard of living of the people of the world, aims which can be achieved *inter alia* through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade. The Community states that in appropriate cases the conclusion of international commodity agreements are also one of the means to achieve these aims. The United States states that such agreements do not offer a useful approach to the achievement of these aims.

The negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

The United States and the Community agree to initiate and support in 1972 an analysis and evaluation in the GATT of alternative techniques and modalities for multilateral negotiation of long term problems affecting all elements of world trade.

The United States and the Community will seek to utilize every opportunity in the GATT for the settlement of particular trade problems, the removal of which would lessen current frictions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on trade in Industrial Products and the GATT Agricultural Committee. They agree that progress in GATT in solving specific problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems.

PROPOSED MODIFICATION OF PAR VALUE OF DOLLAR, BACKGROUND MATERIAL, DEPARTMENT OF THE TREASURY, FEBRUARY 1972

CONTENTS

ANNEXES

II. THE SMITHSONIAN AGREEMENT AND RELATED NEGOTIATIONS ON TRADE AND DEFENSE

The Smithsonian Agreement of the Group of Ten followed a period of international monetary adjustment, involving a generalized system of floating (but not freely floating) exchange rates, during 1971. The Agreement consisted of a series of interrelated measures designed to help resolve balance of payments problems, to restore more settled conditions to the exchange markets, and to provide a framework from which longer-term reform could evolve. It was also agreed that discussions should be promptly undertaken on measures for reform of the monetary system over the longer term, and several areas of reform to which attention should be directed were identified.[1]

The agreement on "near-term" issues comprised:

a new pattern of basic exchange rate relationships among the countries concerned;

provisional arrangements to permit up to 2¼ percent margins of exchange rate fluctuation above and below the new exchange rates;

recognition that trade arrangements are a relevant factor in assuring lasting equilibrium in the international economy;

agreement by the United States to propose to the Congress a suitable means for devaluing the dollar in terms of gold as soon as a related set of short-term trade expansion measures were available for Congressional scrutiny; and

agreement by the United States to suppress immediately the 10 percent import surcharge and related provisions of the Job Development Credit.

A. Exchange Rate Realignment

During the week following the Agreement, the Group of Ten participants individually announced the exchange rates and exchange rate policies to which they had agreed. The Government of Canada announced that it would not immediately set a new fixed rate for the Canadian dollar, but instead would maintain temporarily a floating exchange rate and would permit fundamental market forces to establish the exchange rate without intervention except as required to maintain orderly conditions. Wider margins were adopted by the other foreign members of the group. The changes, and the new pattern of exchange rates for the U.S. dollar, are summarized in the table below. Annex 3 provides calculations of the average appreciation of certain foreign currencies vis a vis the dollar.

---

[1] The text of the Communique issued at the conclusion of the Smithsonian Agreement appears at Annex 2.

TABLE 1

Country	Type of rate	Percent change from IMF parity of Apr. 30, 1971 [1]	Percent appreciation against U.S. dollar [2] [3]	Countries' currency units, per dollar	
				Old	New
Belgium	Central [4]	+2.76	+11.57	50 francs	44.8 francs.
Canada	Float	([5])	([5])	([5])	([5]).
France	Par	0	+8.57	5.55 francs	5.12 francs.
Germany	Central	+4.61	+13.57	3.66 Deutsche marks	3.22 Deutsche marks.
Italy	do	−1.00	+7.48	625 lire	581.5 lire.
Japan	do	+7.66	+16.88	360 yen	308 yen.
Netherlands	do	+2.76	+11.57	3.62 guilders	3.24 guilders.
Sweden	do	−1.00	+7.49	5.17 kronor	4.81 kronor.
Switzerland	Par [6]	+4.89	+13.88	4.37 francs	3.84 francs.
United Kingdom	do	0	+8.57	0.42 pound	.38 pound.
United States	do	[7] −7.89	0	([5])	([5]).

[1] Expressed as percent change in grams of gold per currency unit.
[2] Expressed as percent change in U.S. cents per foreign currency unit.
[3] All changes are computed on the basis of par values of Apr. 30, 1971.
[4] "Central rates" have been established in some cases, in lieu of new par values, as the effective rates around which currency values will be maintained within certain margins pending formal par value changes.
[5] Not applicable.
[6] Switzerland is not a member of the IMF.
[7] If approved by the Congress.

The Group of Ten participants recognized that their agreement would trigger decisions on exchange rates by most other countries and indicates their view that it was particularly important that no country seek improper competitive advantage through its exchange rate policies. Changes in parities could be justified only on the basis of an objective appraisal which established a position of disequilibrium.

As of January 20, the International Monetary Fund had received indications from all but five of its members of their decisions on their exchange rate systems.[1] All proposed exchange rate changes have been examined by the IMF in accordance with the Fund's own Articles of Agreement, and the Fund has taken such formal action as was appropriate in each case to enable the rates concerned to be implemented.

B. Negotiations on Trade Expansion Measures

The Smithsonian Agreement noted that urgent negotiations were under way between the United States and the Commission of the European Communities, Japan and Canada "to resolve pending short-term issues at the earliest possible date" . . . and "to establish an approprirate agenda for considering more basic issues in a framework of mutual cooperation in the course of 1972 and beyond." These negotiations addressed themselves both to a framework for negotiation of major trade issues, including issues which the United States considers of critical importance, and to a series of short-term questions.

One outcome of the negotiations was agreement between the United States and Japan to initiate and actively support in the GATT during 1973 (subject to such internal authorization as may be required) multilateral and comprehensive negotiations with a view to the exchange and greater liberalization of world trade. A similar agreement has been reached with the European Communities subject to approval by its Council.

The talks also resulted in a series of practical steps to remove trade obstacles that have become an irritant in trade relations. These issues have by no means been fully resolved, but a beginning has been made. The Japanese Government has decided to undertake a series of trade liberalization steps of immediate value to the United States. Both countries have agreed to join in efforts during 1972 within GATT toward the removal of some trade barriers leading to comprehen-

[1] Exchange rate changes and the new dollar rate for each IMF member country are listed in Annex 4.

sive trade negotiations in 1973. An agreement in substance with the European Communities subject to approval by its Council covers similar issues.

In short, a broad understanding has been reached for future negotiations in a time frame that takes into account the fact that international trade is undergoing an adjustment process initiated by recent comprehensive and substantial currency realignments. In the case of Canada, the parallel short-term negotiations, dealing mainly with certain bilateral agreements and understandings that no longer fit the facts of our economic relationship, have not been brought to a successful conclusion.

The immediate reduction of some tariff and non-tariff barriers by our trading partners, apart from their immediate value, is evidence of their intent to minimize economic friction and expand trade in reciprocal negotiations. These unilateral steps do not completely fulfill U.S. desires, but together with the commitment to negotiate reductions in trade barriers over the longer term they do constitute recognition that improvements must be made in the trading system.

Short-Term Measures

The greatest progress toward liberalization in the immediate future with tangible benefits for the United States will be made by Japan. For several years there has been a large and growing deficit in our trade with Japan, partially aggravated by the maintenance of trade barriers initiated during an earlier relative weakness in the Japanese external position. While many important restrictions remain, the actions, supplementing the yen appreciation of 16.9 percent relative to the dollar, represent a useful contribution towards bringing the United States-Japan trade imbalance into reasonable adjustment. They are also a welcome sign that Japan wishes to participate more fully in international efforts to reduce barriers.

With respect to agricultural products, Japan will increase the quantity of imports permitted under quota of fresh oranges, orange and grapefruit juice, high quality beef; eliminate the duty on soybeans and tallow; and reduce the duties on turkey meat, soybean meal, vegetable oils and some 10 other products. A duty free tariff quota will be established for feeder cattle. The effective date for these changes will be April 1, 1972, the beginning of the Japanese fiscal year.

On industrial products, Japan will reduce tariffs on April 1, 1972, on automobiles, computers, computer peripheral equipment, machine tools, color film, X-ray film and some 30 other industrial products. Japan will also reduce the internal excise tax on large and medium sized automobiles. Effective February 1st, Japan removed import quota restrictions on light aircraft and light aircraft parts, computer peripheral equipment (not including memory or terminal devices), radar and radio navigational equipment for aircraft; light and heavy oil. A U.S. technical team will visit Japan this spring to discuss liberalization of restrictions on imports of computers and computer equipment in addition, Japan will grant more liberal treatment to the establishment in Japan by U.S. firms of wholly-owned subsidiaries for importation, wholesaling and servicing. Some actions are also being taken to reduce other Japanese non-tariff barriers.

The European Communities have also agreed in principle on some short-term measures that are pending approval of the Council of the European Communities.

The U.S. has agreed to participate in bilateral antidumping discussions with the Japanese at the technical level. The United States has agreed to consider proposing the elimination of the "Final List" (Section 402 (a) of the Tariff Act) method of customs valuation, contingent upon reciprocal actions by other countries. The United States may moderate its inspection measures of Japanese canned tuna as determined by the effectiveness of Japanese measures in meeting U.S. laws and regulations concerning decomposed canned tuna.

The U.S. has been concerned that certain trading arrangements with Canada no longer fairly reflect the economic circumstances surrounding economic relationships between our two countries. While it has not yet been possible to achieve appropriate balance in these arrangements, the United States will seek appropriate means of reducing imbalances in trade agreements with that country.

Conclusion

These negotiations have by no means settled the major issues outstanding in the field of international trade. Nevertheless, a beginning has been made. Certainly, there is greater recognition today of both the need for further progress and the dangers implicit in failure to achieve that progress. We look forward to major trading nations joining with us in seeking future steps to revitalize the world trading system.

C. Defense Financing Arrangements

The President's announcement of August 15, 1971, included the statement:

"Now that other nations are economically strong, the time has come for them to bear their fair share of the burden of defending freedom around the world."

The implication was that the persistent U.S. payments problems were caused partly by the high level of U.S. defense expenditures abroad. If some of those defense burdens could be borne by other countries, the shift required in other U.S. accounts, including trade, would be smaller.

Some reduction of defense expenditures overseas could be expected as we withdrew from Vietnam. However, these savings could be dissipated by rising prices and the increased cost of foreign currencies. Important imbalances have remained within Europe. Thus we felt justified in proposing that Europe carry a larger share of the common defense burden, which would mean some increase in their defense responsibilities, greater contributions to the cost of maintaining U.S. forces in their areas, or a combination of both.

The U.S. wants to maintain fully the strength of the alliance. Unilateral reductions in U.S. forces might be followed by reductions in the forces of our allies rather than a compensating increase. Reductions should be the subject of negotiations with Warsaw Pact powers, not the result of unilateral action. The U.S. view was that forces of our European allies needed to be strengthened. Thus, a number of conflicting objectives had to be reconciled.

The result so far has been the signing of a new agreement for partially offsetting the cost of U.S. forces in Germany and announcement by our European allies that they intend to increase expenditures on their own defense forces by more than $1 billion in 1972. These agreements are steps toward maintaining the strength of our common defense with a smaller proportionate burden on the United States. However, the increased expenditure by our European allies on their own defense forces, except as it may involve procurement from the U.S., will not directly reduce our payments deficit. Nor will the share of European gross national products spent on defense be larger than in previous years.

Consequently, this area will need further examination and action in the year ahead. The alternative would be to achieve the adjustment needed in our international payments balance almost entirely in the trade sector of the balance of payments. Our trading partners may find preferable new arrangements enabling the U.S. to maintain its forces in Europe without imposing strain on the international payments balance, that is, with consequences for the payments balance no different from those of maintaining the same forces in the United States.

O