

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting herewith the Budget of the United States for the fiscal year ending June 30, 1955.

The budget message is divided into two parts. The first part is a general statement summarizing the budget and a number of its most important aspects. The second part includes pertinent details of my tax and legislative programs, and of the budget. Together the two parts comprise my budget message.

When this administration took office on January 20 of last year one of its first concerns was the budget for the 1954 fiscal year, which had been sent to the Congress on January 9, 1953, by the previous administration. With the cooperation of the Congress that budget promptly was revised and reduced. This new budget is the first prepared entirely by this administration.

It provides adequately, in my judgment, for the national defense and the international responsibilities of the Nation—responsibilities which we must undertake as a leader of the free world. On the success of this leadership depends our national security and prosperity. The budget also provides adequately for the current needs of the Government and for constructive forward steps in our domestic responsibilities and programs.

The recommended budget continues the strengthening of our military posture; our progress in the development and production of atomic weapons; the expansion of our system of continental defense; assistance in the development of the military strength of friendly nations; and programs for rapid mobilization if an emergency should arise.

Authority is recommended for new and advanced work on the peacetime uses of atomic energy in the earnest hope that present international relations can be improved and the wonders of nuclear power can be turned gradually to the development of a more abundant life for ourselves and all mankind.

The budget contains provisions for legislative recommendations for expanding the coverage and increasing the benefits of our social security system; for promoting better housing conditions and more widespread home ownership in the Nation; for improving our system of education; for conserving our natural resources; for helping prevent the ravages of floods and soil erosion; for encouraging the expansion of adequate health and hospital care for our people; and for other constructive domestic purposes designed to strengthen the foundations of a stable and prosperous economy.

This budget continues the progress that has been made during the past year in reducing both requests for new appropriations and Government expenditures. The reductions in expenditures already accomplished, together with those now proposed, justify the tax reductions which took effect January 1 and the further tax revisions I am recommending. These lower taxes will encourage continued high capital investment and consumer purchases. Despite the substantial loss of revenue caused by these tax reductions, we have moved closer to a balanced budget.

One of the first problems of this administration was to bring the budget under better control. That was substantially accomplished in the revision of the original budget document for the fiscal year 1954. Now an amount approximately equal to the savings made in this new budget is being returned to the public in tax reductions and tax revisions. This amount substantially exceeds the estimated budget deficit.

In preparing this budget the administration has directed its attention to essential activities and programs rather than to those which some might consider desirable and appropriate, at this time, for the Federal Government to undertake. It assumes fairly stable conditions, internally and externally, during the period it covers. It allows for the continuing heavy demands of the national security programs on the budget. But as we continue to reduce and eliminate the less desirable or the unnecessary Government expenditures, it will become possible to turn to other purposes which are the most desirable in terms of their benefits to all of the people.

This budget marks the beginning of a movement to shift to State and local governments and to private enterprise Federal activities which can be more appropriately and more efficiently carried on in that way. The lending activities of the Reconstruction Finance Corporation; the services provided by the Inland Waterways Corporation; certain agricultural activities; and some aspects of our health, education, and welfare programs are examples of this type of action. In those cases where Federal participation is necessary, the effort of this administration is to develop partnerships rather than an exclusive and often paternalistic position for the Federal Government.

This budget also benefits from material savings from the decreased costs of Federal operations resulting from our constant effort to improve the management of Government activities and to find better and less expensive ways of doing the things which must be done by the Federal Government.

The total effect of the recommendations for the 1955 budget, under existing and proposed legislation, is shown with comparable figures for earlier years in the following table. The table also reflects certain

MESSAGE OF THE PRESIDENT

M7

technical adjustments for 1955 and prior years which do not affect the budget surplus or deficit and are described in part II of this message. Both receipts and expenditures include, insofar as can be determined, the estimated budgetary results of my recommendations for new legislation.

BUDGET TOTALS

[Fiscal years. In billions]

	1950 actual	1951 actual	1952 actual	1953 actual	1954 estimated		1955 est- imated
					Budget docu- ment	Cur- rent	
New authority to incur obligations -----	\$49.3	\$82.9	\$91.4	\$80.2	\$71.8	\$60.7	\$56.3
Receipts:							
Under existing legislation-----	36.5	47.5	61.4	64.6	68.0	67.4	61.5
Under proposed legislation-----						.2	1.2
Total receipts-----	36.5	47.5	61.4	64.6	68.0	67.6	62.7
Expenditures:							
Under existing legislation-----	39.6	44.0	65.4	74.0	75.6	70.9	64.5
Under proposed legislation-----					2.3	(?)	1.1
Total expenditures-----	39.6	44.0	65.4	74.0	77.9	70.9	65.6
Surplus (+) or deficit (-) -----	-3.1	+3.5	-4.0	-9.4	-9.9	-3.3	-2.9
Cumulative unspent balances of appropriations at end of year -----	\$14.1	\$50.3	68.8	78.7	67.4	66.5	54.1

¹ References to 1954 are to the 1954 budget document of January 9, 1953, as presented to the Congress, and to currently revised budget estimates.

² Less than 50 million dollars.

³ Estimated. Detailed accounting data are not available.

General budget policy.—This administration is dedicated to greater efficiency and economy in meeting the Nation's security requirements and the necessary and valid functions of the Government.

The current estimates of the 1954 budget show that the requests for new appropriations were reduced about 12.5 billion dollars, new obligational authority was reduced more than 11 billion dollars, and expenditures were reduced 7 billion dollars below the totals estimated in the 1954 budget document of the previous administration.

Similar reductions continue in the budget recommended for the fiscal year 1955. Recommended new obligational authority is 4.4 billion dollars less than the current estimate for the fiscal year 1954, 15.5 billion dollars less than recommended for that year in the 1954 budget document, and 23.9 billion dollars less than in 1953. Estimated expenditures for the fiscal year 1955 are 5.3 billion dollars less

than the current estimate for the fiscal year 1954, 12.3 billion dollars less than recommended in the 1954 budget document, and 8.4 billion dollars less than in 1953.

Thus, new obligational authority has been reduced 15.5 billion dollars and estimated expenditures have been reduced 12.3 billion dollars since this administration took office.

These reductions justified lower taxes. Without tax reductions, a budget surplus was in sight for the fiscal year 1955.

So that most of the new savings could be passed along to the taxpayers of the Nation as a whole, with beneficial effects on our entire economy, I believed it best to adopt a course leading toward the twin goals of a balanced budget and tax reductions.

The reductions in 1954 expenditures were devoted to reducing the large deficit forecast in the 1954 budget document. The anticipated savings in 1955 budget expenditures already have been reflected in the tax reductions of January 1 of this year and are also reflected in the tax revisions I am recommending in this message.

Together these tax reductions will total nearly 5 billion dollars.

We will still have a budgetary deficit of slightly less than 3 billion dollars for the fiscal year 1955, as now estimated. But we will continue determined efforts for economy to reduce that deficit during the 1955 fiscal year.

Furthermore, despite the loss of cash revenue from the tax reductions and revisions, the total cash transactions of the Government with the public are now estimated to show a small cash surplus for the fiscal year 1955.

Budget totals, fiscal year 1954.—The actual budget deficit for the fiscal year 1953 was 9.4 billion dollars. The budget deficit for the fiscal year 1954, indicated in the 1954 budget document, was 9.9 billion dollars. The current estimates of the budget for that year show a budgetary deficit of 3.3 billion dollars.

Total Government cash transactions with the public include the receipts and payments of the social security and other trust funds which are not considered part of the budget. In 1953 the excess of cash payments to the public over receipts from the public was 5.3 billion dollars. The 1954 budget document estimated an excess of cash payments of 6.6 billion dollars. Present estimates indicate an excess of cash payments over receipts in 1954 of more than 200 million dollars, a reduction of 6.4 billion dollars in the cash deficit originally estimated.

Budget totals, fiscal year 1955.—The budget for the fiscal year 1955 is estimated to show a deficit of 2.9 billion dollars.

MESSAGE OF THE PRESIDENT

M9

Fiscal year:	<i>Deficits (in billions)</i>
1952-----	\$4. 0
1953-----	9. 4
1954:	
As estimated, January 9, 1953-----	9. 9
Revised estimate-----	3. 3
1955 estimate-----	2. 9

The presently estimated deficit for the 1955 fiscal year is in sharp contrast to a deficit forecast made by the Bureau of the Budget prior to transmission to the Congress of the 1954 budget document. This projection of the programs in existence and contemplated in the 1954 budget document, under the tax laws as they then existed, indicated a deficit for the 1955 fiscal year about five times greater than the deficit now estimated.

Budget receipts and expenditures for the fiscal year 1955 are estimated as follows:

	<i>Receipts (in billions)</i>	<i>Expenditures (in billions)</i>
Under existing legislation-----	\$61. 5	\$64. 5
Under proposed legislation-----	1. 2	1. 1
Total-----	62. 7	65. 6

Budget receipts allow for an estimated loss of revenue, totaling nearly 5 billion dollars, from the tax reduction which took effect January 1 and from the cost of recommended tax revisions, insofar as these will apply to the 1955 fiscal year. On a full-year basis the revenue loss will approach 6 billion dollars.

The total cash transactions of the Government with the public show an estimated excess of receipts from the public over payments to the public of more than 100 million dollars in the fiscal year 1955.

This record of progress toward a balanced budget is the result of a determined and continuous effort to bring the financial affairs of the Government under control.

New obligational authority.--My recommendations for new appropriations and other new obligational authority for the fiscal year 1955 amount to 56.3 billion dollars, a further reduction from the amounts enacted during the last several years.

Fiscal year:	<i>New obligational authority (in billions)</i>
1952-----	\$91. 4
1953-----	80. 2
1954:	
As estimated, January 9, 1953-----	71. 8
Revised estimate-----	60. 7
1955, as recommended-----	56. 3

New obligational authority includes new appropriations, additions to borrowing authority, and certain adjustments to the authority of agencies to incur obligations. The above figures are on a comparable basis, reflecting certain adjustments in composition and definition made in this budget, partly to conform to congressional practices. Details are shown in the second part of this message.

The accumulated unexpended balances of prior appropriations as of June 30, 1953, of 78.7 billion dollars, will be reduced to 66.5 billion dollars by June 30, 1954, and to 54.1 billion dollars by June 30, 1955, as now projected.

The lower levels of new obligational authority and of accumulated unexpended balances for 1954 and 1955 lead to less expenditures in these and in future years. In the revision of the 1954 budget and in the 1955 budget the trend clearly is toward a balanced budget.

Budget expenditures.—Total budget expenditures in the fiscal year 1955 are estimated at 65.6 billion dollars.

Fiscal year:	<i>Expenditures (in billions)</i>
1952-----	\$65.4
1953-----	74.0
1954:	
As estimated, January 9, 1953-----	77.9
Revised estimate-----	70.9
1955 estimate-----	65.6

Proposed expenditure programs for 1955 fall in three broad categories: national security, major programs relatively uncontrollable under existing and proposed legislation, and all other Government programs.

Expenditures for major national security programs—for the military functions of the Department of Defense, the mutual military program, atomic energy, and stockpiling of strategic materials—dominate the budget and are estimated at 44.9 billion dollars in the fiscal year 1955. This compares with a presently estimated 48.7 billion dollars in 1954 and 50.3 billion dollars in 1953. These amounts are about the same percentage of total budget expenditures in each of the 3 years.

Closely related to these major security programs are other activities for national security included elsewhere in the budget. Our foreign economic assistance and information programs are particularly essential to deter aggression and strengthen the world forces for peace.

Proposed reductions in major national security expenditures in 1955 represent the largest single element of reduction from the current year's level of expenditures. I emphasize, however, that these savings result from revisions in programs, from shifts in emphasis, from better

MESSAGE OF THE PRESIDENT

m11

balanced procurement, and from improved management and operations. Our security is being strengthened—not weakened. Further, while expenditures for some programs in this category will be reduced, others will be increased.

Of the four major national security programs, proposed 1955 expenditures for the Atomic Energy Commission and for the mutual military program will be at the highest levels since the initiation of the two programs.

Within the Department of Defense the fiscal year 1955 expenditures on behalf of our airpower will be the largest since World War II. Allocations of expenditures for our continental defense program will be greater than in any previous year.

Expenditures for stockpiling—the fourth of the principal programs in the major national security category—will be less than in the fiscal year 1954, as a result of approaching fulfillment of stockpile requirements in certain categories and of lower world market prices for materials still required for the stockpile.

Budget expenditures for certain Government activities are, by law, relatively nondiscretionary, and depend largely on factors outside the annual budgetary process. While relatively few in number these represent a large amount of dollars and the budget each year has to provide funds for them. For example, once the laws are placed on the statute books, grants to States for many purposes depend upon the extent to which States take advantage of Federal grant-in-aid programs; veterans' pensions depend upon the number of qualified veteran applicants; farm price supports depend upon the size of crops and the demand for supported commodities; and interest payments on the national debt depend upon the amount of the debt and the rate of interest.

In the fiscal year 1955 it is estimated that budget expenditures of 14.1 billion dollars will be required to support these programs. This amount is about the same as presently estimated for 1954 and almost 800 million dollars less than similar expenditures in the fiscal year 1953.

Budget expenditures for other Government activities, which contain more elements controllable through the budget process, are reduced an estimated 2.2 billion dollars below the fiscal year 1953 and 1.5 billion dollars below the present estimate for 1954. This is a reduction, over the two fiscal years, of about 25 percent in the cost of these numerous day-to-day operations of the Government. These activities cover, in number, a large majority of the items in the budget, although the amount involved is about one-tenth of total budget expenditures.

Some substantial reductions in this category will result from a lessened postal deficit and management and program savings in many other departments. On the other hand, estimated expenditures for

the Tennessee Valley Authority, urban development and redevelopment, college housing loans, the National Science Foundation, fish and wildlife resources, the school lunch program, and several other programs of domestic importance will be the largest in our history.

Budget receipts and taxes.—Budget receipts under existing and proposed legislation are estimated to be 62.7 billion dollars in the fiscal year 1955. This is 4.9 billion dollars less than presently estimated 1954 receipts; 1.9 billion dollars less than 1953, and 1.3 billion dollars more than 1952.

Total Government expenditures and taxes are now so high that we must choose our path carefully between inadequate revenues on the one hand and repressive taxation on the other. I am anxious to have taxes reduced as fast as that can be done without building up inflationary deficits. It is the determined purpose of this administration to make further reductions in taxes as rapidly as justified by prospective revenues and reductions in expenditures. The objective will be to return to the people, to spend for themselves and in their own way, the largest possible share of the money that the Government has been spending for them.

The start toward tax reductions is justified only because of success in reducing expenditures and improving the budgetary outlook. That outlook permits me to make some proposals for tax reform and reductions for millions of taxpayers at this time which represent much-needed improvements in our tax system. These proposals are directed toward removing the most serious tax hardships and tax complications, and reducing the tax barriers to continued economic growth. The proposals will encourage the initiative and investment which stimulate production and productivity and create bigger payrolls and more and better jobs. The details of these proposals are many and represent much cooperative work by the House Ways and Means Committee and its staff and the Treasury Department. In part II of my budget message, I list and describe 25 important tax revisions.

I do not believe that the budgetary situation will permit further reductions of taxes at this time. Hence, I repeat my recommendations of last May that the reductions in the general corporate income tax be deferred for 1 year; that the excise tax rates, scheduled to be reduced on April 1, including those on liquor, tobacco, automobiles, and gasoline, be continued at present rates; and that any adjustments in the other excise taxes be such as to maintain the total yield which we are now receiving from this source.

Debt management.—A sound dollar is the cornerstone of financing policy under this administration. The problem of debt management

is not only one of offering securities for cash or refunding which the market will take, but of appraising the economic situation and adapting financing plans to it, so that as far as possible debt management does not contribute to either inflation or deflation.

This means close cooperation with the Federal Reserve System, whose duty it is under the law to administer the money supply, with these same objectives in view.

Nearly three-quarters of the debt we inherited a year ago matures within less than 5 years or is redeemable at the holder's option. Too large a proportion is in the hands of banks. This is the result of financing over a period of years too largely by short term issues at artificially low interest rates maintained by Federal Reserve support. These policies contributed to cheapening the dollar.

A start has been made in lengthening the maturities of the debt, as well as obtaining a wider distribution among individuals and other nonbank investors. In our 1953 debt operations, maturities were lengthened in 5 out of 9 times.

There is every reason to look forward with confidence to this country's ability to put its financial house in better order without serious disruption of credits or markets. The stream of the Nation's savings is huge, larger than ever before; the financial system is sound. With a reasonable assurance of sound money of stable buying power there is no better investment than securities of the United States Government.

The national debt is now close to the legal limit of 275 billion dollars. In view of the wide swings in receipts and expenditures and their unpredictability, it is not prudent to operate the huge business of the United States Government in such a straitjacket as the present debt limit.

These difficulties will become worse as we move forward in the year. We shall be close to the debt limit and our cash balances will be dangerously low on several occasions in the first half of the calendar year.

In the second half of the calendar year, when tax receipts are seasonally low, there will be no way of operating within the present debt limit.

For these reasons, I renew my request to the Congress to raise the debt limit.

Proposed legislation.—Legislative proposals are reflected in separate messages or are included in the appropriate sections of part II of this message.

A summary of the budgetary impact of the legislative program also is given in part II.

In summary, I emphasize that this budget carries out the policy of this administration to move toward reduced taxes and reduced Government spending as rapidly as our national security and well-being will permit.

By using necessity—rather than mere desirability—as the test for our expenditures, we will reduce the share of the national income which is spent by the Government. We are convinced that more progress and sounder progress will be made over the years as the largest possible share of our national income is left with individual citizens to make their own countless decisions as to what they will spend, what they will buy, and what they will save and invest. Government must play a vital role in maintaining economic growth and stability. But I believe that our development, since the early days of the Republic, has been based on the fact that we left a great share of our national income to be used by a provident people with a will to venture. Their actions have stimulated the American genius for creative initiative and thus multiplied our productivity.

This budget proposes that such progressive economic growth will be fostered by continuing emphasis on efficiency and economy in Government, reduced Government expenditures, reduced taxes, and a reduced deficit. The reduced request for new obligational authority promises further that, barring unforeseen circumstances, the budgets I shall recommend in the future will be directed toward the same objectives.

DWIGHT D. EISENHOWER.

JANUARY 21, 1954.

BUDGET MESSAGE OF THE PRESIDENT

PART II

To the Congress of the United States:

This, the second part of my budget message, discusses in considerable detail my recommended program for the Government for the fiscal year 1955.

I now present and describe my legislative proposals for taxes, and summarize my other legislative proposals, indicating their budgetary impact. This is followed by a presentation and discussion of the pertinent details of the budget.

TAX PROPOSALS

Our whole system of taxation needs revision and overhauling. It has grown haphazardly over many years. The tax system should be completely revised.

Revision of the tax system is needed to make tax burdens fairer for millions of individual taxpayers. It is needed to restore normal incentives for sustained production and economic growth. The country's economy has continued to grow during recent years with artificial support from recurring inflation. This is not a solid foundation for prosperity. We must restore conditions which will permit traditional American initiative and production genius to push on to ever higher standards of living and employment. Among these conditions, a fair tax system with minimum restraints on small and growing businesses is especially important.

I believe that this proposed tax revision is the next important step we should take in easing our tax burdens. After it is completed, further reductions in expenditures can be applied to our two objectives of balancing the budget and reducing tax rates.

A year ago I asked the Secretary of the Treasury to undertake a complete review of the tax system and make recommendations for changes. The Committee on Ways and Means of the House of Representatives had already started constructive examination of the tax laws with the same objectives. Extensive hearings were held by the committee during the late spring and summer.

The proposed revisions are the result of a year's intensive work. The collaboration between congressional and Treasury staffs in the development of a tax revision bill has been very close. It may, I hope, provide a precedent for similar collaboration in other fields of legislation.

I shall not list here all the detailed points developed for the revision of the tax laws. The following recommendations cover the major points.

They will substantially reduce the more glaring inequities, thereby helping vast numbers of our people in their individual tax burdens. They will reduce the more serious restraints on production and economic growth. They will promote investment, which provides new and better methods of production and creates additional payrolls and more jobs.

The revisions will also make the law simpler and surer, with benefits to both taxpayers and the Government. They will in many ways prevent abuses by which some taxpayers now avoid their rightful share of tax burdens by taking unfair advantage of technicalities.

1. *Children earning over 600 dollars.*—At present, parents cannot claim as a dependent any child who earns over 600 dollars a year. This discourages children in school or college from earning as much as they can to help in their support. I recommend that a parent should be permitted to continue to claim a child as a dependent regardless of the child's earnings if he is under 18 or away from home at school, as long as he is in fact still supported by the parent. Such dependents should, of course, continue to pay their own income tax on earnings above 600 dollars.

2. *Heads of families.*—At present, a widow or widower with dependent children is denied the full benefit of income-splitting available to married couples. It seems unfair to tax the income of a surviving parent with dependent children at higher rates than were applied to the family income before the death of one of the partners in a marriage. I recommend that widows and widowers with dependent children be allowed to split their income as is now done by married couples.

This same tax treatment should be authorized for single people supporting dependent parents. Furthermore, the present requirement that dependent parents must live with their children for the children to qualify for this tax treatment should be removed. It is often best for elderly people to be able to live in their own homes, and the tax laws should not put a penalty on family arrangements of this sort.

3. *Foster children as dependents.*—At present, foster children and children in process of adoption may not be claimed as dependents. I recommend that such children be allowed as dependents.

4. *Expenses of child care.*—Some tax allowance can properly be given for actual costs of providing care for the small children of widows or widowers who have to work outside the home. The same tax privilege should be given to working mothers who, because their

husbands are incapacitated, provide the principal support of their families.

5. *Medical expenses.*—The present tax allowances for unusual medical expenses are too limited to cover the many tragic emergencies which occur in too many families. I recommend that a tax allowance be given for medical expenses in excess of 3 percent of income instead of 5 percent as at present. I recommend further that the present ceiling of 1,250 dollars for a single person with a maximum ceiling of 5,000 dollars for a family should be doubled so that the maximum for a family will be 10,000 dollars. However, to avoid abuses in medical deductions, I recommend that the definition of medical expenses be tightened to exclude both ordinary household supplies and certain indirect travel expenses.

6. *Medical insurance and sick benefits for employees.*—Insurance and other plans adopted by employers to protect their employees against the risks of sickness should be encouraged by removing the present uncertainties in the tax law. It should be made clear that the employer's share of the costs of providing such protection on a group basis will not be treated as income on which the employee is liable for tax. This principle should be applied to medical and hospital insurance as well as to a full or partial continuation of earnings during a sickness.

There should be no tax discrimination between plans insured with an outside insurance company and those financed directly by the employer. At present, payments received by a person while sick are entirely nontaxable if made under an insured plan. This makes it possible for a person subject to high tax rates to have a much larger net income while on sick leave than while at work. To prevent abuses, I recommend that a limit of 100 dollars a week be placed on tax-free benefits, but this exemption should be extended only to plans meeting certain general standards.

7. *Pension and profit-sharing plans for employees.*—The conditions for qualification for special tax treatment of employers' pension plans are too involved. Such plans are desirable. I recommend that the rules be simplified and that greater discretion be given in establishing plans for different groups of employees, so long as there is no discrimination in favor of key executives or stockholders.

Under present law, the value of a future pension to a surviving widow or child of an employee is included in the husband's taxable estate, even though the survivors may not live to receive the full benefits and there may be no cash available to pay the tax. I recom-

mend that such value should not be included in an estate but that the survivors continue to pay tax on the pension in the same manner that it was taxed to the person first receiving it.

At the same time, to avoid unfair competition with ordinary tax-paying businesses, I recommend that pension trusts be restricted in the same manner as tax-exempt foundations. They should also be subject to rules in regard to percentage distribution of their assets comparable to those applying to regulated investment companies.

8. *Taxation of annuities.*—Under the present tax law, a person buying an annuity is taxed on a relatively large part of each payment until his cost is fully recovered, at which time the full amount becomes taxable. The tax rule is so strict that often a person is not likely to get his capital back tax free unless he lives beyond his life expectancy. I recommend that the tax treatment of annuities be determined on the basis of the life expectancy of the person receiving it. This will permit the hundreds of thousands of people who buy annuities to recover their capital free of tax over their life expectancies and will avoid any change in the tax status of an annuity during a person's lifetime.

9. *Double taxation of dividends.*—At present, business income is taxed to both the corporation as it is earned and to the millions of stockholders as it is paid out in dividends. This double taxation is bad from two standpoints. It is unfair and it discourages investment. I recommend that a start be made in the removal of this double taxation by allowing stockholders a credit against their own income taxes as a partial offset for the corporate tax previously paid. This will promote investment which in turn means business expansion and more production and jobs.

Specifically, I recommend that the credit be allowed on an increasing scale over the next 3 years. For this year, I recommend that a credit of 5 percent be allowed; for 1955, a credit of 10 percent; and, in 1956 and later years, 15 percent. To avoid shifts in the payment dates of corporation dividends, these credits should apply to dividends received after July 31 of each year. To give the full benefit immediately to small stockholders, I recommend that the first 50 dollars of dividends be completely exempted from tax in 1954 and that the first 100 dollars be exempted in 1955 and later years.

10. *Estimated returns.*—The burden on those required to file estimated tax returns should be reduced by increasing the number of optional ways in which an individual can estimate his tax without being subject to penalty for an underestimation. I recommend also that the penalties resulting from underestimates be simplified by being stated as a 6-percent interest charge on deficiencies.

11. *Filing date.*—To reduce the burdens of preparing and filing returns in the early months of the year, I recommend that the March 15 filing date for individuals be changed to April 15.

In the taxation of business the same objectives of fairness, simplicity, and reduction of tax barriers to production and normal economic growth are important. The present tax law should be revised on the basis of these standards.

Particular attention should be given in the revision of the law to the problems of small and growing business concerns. I cannot emphasize too strongly the social and economic importance of an environment which will encourage the formation, growth, and continued independent existence of new companies.

12. *Depreciation.*—A liberalization of the tax treatment of depreciation would have far-reaching effects on all business and be especially helpful in the expansion of small business whether conducted as individual proprietorships, partnerships, or corporations. At present, buildings, equipment, and machinery are usually written off uniformly over their estimated useful lives. The deductions allowed, especially in the early years, are often below the actual depreciation. This discourages long-range investment on which the risks cannot be clearly foreseen. It discourages the early replacement of old equipment with new and improved equipment. And it makes it more difficult to secure financing for capital investment, particularly for small business organizations.

I recommend that the tax treatment of depreciation be substantially changed to reduce these restrictions on new investment, which provides a basis for economic growth, increased production, and improved standards of living. It will help the manufacturer in buying new machinery and the storekeeper in expanding and modernizing his establishment. It will help the farmer get new equipment. All of this means many more jobs.

Specifically, I recommend that business be allowed more freedom in using straight-line depreciation and in selecting other methods of depreciation. Larger depreciation charges should be allowed in the early years of life of property by the use of the declining-balance method of depreciation at rates double those permitted under the straight-line method. Other methods which give larger depreciation in early years should be accepted, so long as they do not produce deductions which exceed those available under the declining-balance method.

The new methods of depreciation should be allowed for all investments in buildings, equipment, and machinery made after January 1, 1954. This would include farm buildings and equipment and new construction of commercial and industrial buildings and rental housing.

Faster depreciation, it should be noted, will merely shift the tax deductions from later to earlier years. It will not increase total deductions. The change should, in fact, increase Government revenues over the years because of the stimulation which it will give to enterprise and expansion.

In addition to the tax treatment of depreciation, which is important for all business, there are other features of the tax law which are of special importance to small business.

13. *Research and development expenses.*—At present, companies are often not permitted to deduct currently for research or development expenses. This rule is especially burdensome to small concerns because large companies with established research laboratories can usually get immediate deductions. I recommend that all companies be given an option to capitalize or to write off currently their expenses arising from research and development work. Our tradition of initiative and rapid technical improvements must not be hampered by adverse tax rules.

14. *Accumulation of earnings.*—At present, the penalty tax on excessive accumulations of corporate earnings operates to discourage the growth of small companies which are peculiarly dependent on retained earnings for expansion. The tax in some form is necessary to prevent avoidance of individual taxes by stockholders, but I recommend that the law be changed to make the Government assume the burden of proof that a retention of earnings is unreasonable.

15. *Taxation of partnerships.*—The tax law applicable to partnerships is complex and uncertain. I recommend that it be simplified and made definite. It should be possible to form partnerships and make changes in them without undue tax complications.

16. *Optional tax treatment for certain corporations and partnerships.*—Small businesses should be able to operate under whatever form of organization is desirable for their particular circumstances, without incurring unnecessary tax penalties. To secure this result, I recommend that corporations with a small number of active stockholders be given the option to be taxed as partnerships and that certain partnerships be given the option to be taxed as corporations.

17. *Corporate reorganizations.*—The tax law applicable to reorganizations and recapitalizations of corporations is also complex and uncertain. This part of the law should be simplified and made sufficiently definite to permit people to know in advance the tax consequences of their actions.

The owners of small corporations frequently find it necessary to rearrange their interests in a corporation in anticipation of estate taxes, to secure new capital, or to make stock available for a new management group. I recommend that the tax law permit tax-free rearrangements of stockholders' interests in corporations, so long as no corporate earnings are withdrawn. Such changes will remove some of the tax pressures which force the sale of independent companies to larger corporations. At the same time, the law should be tightened to prevent abuses by which corporate earnings are withdrawn through the issuance and redemption of corporate securities. It should also be amended to avoid abuses through the purchase of corporations to acquire their rights to loss carryovers.

18. *Loss carryback*.—At present, losses may be carried back and offset against prior earnings for 1 year and carried forward to be offset against future earnings for 5 years. I recommend that the carry-back be extended to 2 years. This will benefit established companies which become distressed. The 5-year carryforward should be continued to permit new businesses to offset their early losses against later profits.

19. *Soil conservation expenses*.—At present, only limited and uncertain tax deductions are allowed for soil conservation expenses on farms. I recommend that such deductions be allowed up to 25 percent of the farmer's gross income.

20. *Accounting definitions*.—Tax accounting should be brought more nearly in line with accepted business accounting by allowing prepaid income to be taxed as it is earned rather than as it is received, and by allowing reserves to be established for known future expenses.

21. *Multiple surtax exemptions, consolidated returns, and intercorporate dividends*.—I recommend that the law be tightened to remove abuses from the use of multiple corporations in a single enterprise. I also recommend that the penalty tax on consolidated returns and intercorporate dividends be removed over a 3-year period.

22. *Business income from foreign sources*.—I recommend that the taxation of income from foreign business investments be modified in several respects. The investment climate and business environment abroad are much more important than our own tax laws in influencing the international flow of capital and business. Nonetheless, our capital and management know-how can be helpful in furthering economic development in other countries, and is desired by many of them. Our tax laws should contain no penalties against United

States investment abroad, and within reasonable limits should encourage private investment which should supplant Government economic aid:

Specifically, I recommend the following new provisions in our taxation of business income from foreign sources:

(a) Business income from foreign subsidiaries or from segregated foreign branches which operate and elect to be taxed as subsidiaries should be taxed at a rate 14 percentage points lower than the regular corporate rate. This lower rate of tax should apply only to earnings after January 1, 1954.

(b) The present definition of foreign taxes which may be credited against the United States income tax should be broadened to include any tax other than an income tax which is the principal form of taxation on business in a country, except turnover, general sales or excise taxes, and social security taxes. This country, by its tax laws, should not bring indirect pressure on other countries to adapt their tax systems and rates to ours.

(c) The overall limitation on foreign tax credits should be removed. This limitation discourages companies operating profitably in one foreign country from starting business in another foreign country where operations at a loss may be expected in the first few years.

(d) Regulated investment companies concentrating on foreign investments should be permitted to pass on to their stockholders the credit for foreign taxes which would be available on direct individual investments.

23. *Payment dates of corporation income tax.*—Over the past several years, corporation income tax payments have been gradually shifted forward into the first two of the regular quarterly dates. By 1955, the entire tax will be due in two equal installments in March and June.

The irregularity of tax receipts increases the problems in managing the public debt and is an unsettling influence in the money markets. The irregularity of tax payments also may make it harder for corporations to manage their own financing.

I recommend that, beginning in the fall of 1955, a start be made in smoothing out corporation income tax payments by requiring advance payments in September and December before the end of the taxable year. Each of these payments should be made at 5 percent of the amount due for the entire year in 1955, rising to 25 percent each in 1959 and later years.

These advance payments will require estimates of income for the year somewhat comparable to those now required of individuals. Though estimates of profits are difficult to make accurately, no

MESSAGE OF THE PRESIDENT

M23

payments will be required before the middle of the ninth month of a business year.

24. *Administrative provisions.*—The administrative features of the tax laws are unnecessarily complex. Different provisions have been adopted over the years to deal with particular problems, with little regard to consistency. Specifically, I recommend that the parts of the law covering assessments, collections, interest and penalties, the statute of limitations, and other administrative provisions be simplified and brought together in one place. This will result in savings to both taxpayers and the Government.

An effective and fair administration of the tax laws is vital to every individual in the country. The Internal Revenue Service has been revitalized during the past year and is being organized and managed on a basis that will assure fair and equal treatment to all taxpayers, maximum realization of taxes from revenue laws, and the contribution by each taxpayer of the share of the cost of Government that Congress intends that he should make.

The regulations and administration of the tax laws are being tightened to prevent abuses by which a small minority of taxpayers avoid their fair share of taxes by misuse of expense accounts and other improper practices.

25. *General simplification of tax laws and other revisions.*—The revision of the tax laws should be comprehensive. Many unnecessary complications have developed over the years. The entire Internal Revenue Code needs rewriting and reorganization.

Jointly, the Treasury Department and the staff of the congressional committees have developed many recommendations for changes other than those which I have described here. Some of these relate to the estate and gift tax, and the administrative provisions of the excise taxes.

The review of the present tax system in the Treasury Department has not yet led to final conclusions in many other situations that require further study before any recommendations for change can be properly made. These subjects include the tax treatment of capital gains and losses, the special problems of the oil and mining industries, the tax treatment of cooperatives and organizations which are wholly or partially tax exempt, as well as the provision of retirement income for people not covered by pension plans.

The tax reforms and revisions covered by the foregoing 25 recommendations make the income tax system fairer to individuals and less burdensome on production and continued economic growth. After their adoption, further reductions in Government expenditures will make possible additional reductions in the deficit and tax rates.

I do not believe that the budgetary situation justifies any tax reductions beyond those involved in the proposed tax revision and in the tax changes which occurred on January 1. Accordingly, I repeat my recommendation of last May that the reduction in the general corporate income tax rate be deferred for another year.

Excise taxes provide a relatively small proportion of our total tax revenues. In the fiscal year 1955, they are estimated to produce 10 billion dollars at existing rates as compared with 20 billion dollars from corporation income taxation and 30 billion dollars from individual income taxes. Of this 10 billion dollars, more than half comes from the excise taxes on liquor, tobacco, and gasoline.

Because of the present need for revenue, I recommend that the excise taxes scheduled to be reduced on April 1, including those on liquor, tobacco, automobiles, and gasoline, be continued at present rates; and that any adjustments in the other excise taxes be such as to maintain the total yield which we are now receiving from this source.

SUMMARY OF OTHER LEGISLATIVE PROPOSALS

The administration has developed a dynamic, progressive, and at the same time wholly practical legislative program. Its major outlines are set forth in the State of the Union Message, which I delivered to the Congress on January 7. Since that date, I have forwarded to the Congress the details of my recommendations with respect to the steps which I believe should be taken: (1) To modernize and make effective our agricultural laws (January 11); (2) to bring up to date and to improve the Labor-Management Relations Act of 1947 (January 11); (3) to extend and make more equitable the old-age and survivors insurance system (January 14); (4) to chart a new course in Federal cooperation and support for putting up-to-date medical and hospital care at the disposal of our citizens (January 18). On January 25 I shall present a program which will, for the first time, bring together into a coordinated and forward-looking set of policies the housing and community development programs of the Federal Government. Within a few days thereafter, I expect to make certain recommendations with respect to amendments to the Atomic Energy Act. These are discussed in more detail in subsequent sections of this message.

These measures, together with the legislative proposals which will be presented in the course of the next several months with respect to foreign assistance and trade, are the foundation stones for the legislative program of this administration. All of them call for extensions of existing legislation or the enactment of new legislation. All of them are necessary. They will help us to protect the freedom of our people, to maintain a strong and growing economy, and to concern ourselves with the human problems of the individual citizen.

MESSAGE OF THE PRESIDENT

M25

SUMMARY OF OTHER LEGISLATIVE PROPOSALS

1955 BUDGET

[Fiscal years. In millions]

Function and program	1954-1955	
	Recom-mended new obligational authority	Estimated expenditures
EXTENSION OF PRESENT MAJOR PROGRAMS		
National security:		
Military public works, Department of Defense.....	\$1,108.0	\$100.0
Mutual military program.....	2,500.0	700.0
International affairs and finance:		
Mutual economic and technical cooperation.....	875.0	300.0
Surplus agricultural commodities disposal.....	300.0	-----
Contributions to voluntary international programs.....	135.0	70.0
Agriculture and agricultural resources: Increase in borrowing authority of the Commodity Credit Corporation.....	1,750.0	-----
Transportation and communication:		
Federal-aid highway program.....	575.0	-----
Forest highways.....	22.5	-----
Subtotal, extension of present major programs.....	7,265.5	1,170.0
NEW LEGISLATIVE PROGRAM		
Social security, welfare, and health:		
Grants to States for public assistance.....	108.0	108.0
Expansion of grants for hospital construction.....	62.6	5.6
Program to stimulate wider coverage and greater benefits from private health insurance.....	26.2	1.1
Expansion of vocational rehabilitation services for the disabled.....	8.8	7.8
Creation of a National Commission for Health Improvement.....	0.3	0.3
Housing and community development: Advance planning of local public works.....	110.0	3.0
Education and general research:		
Program to strengthen the Office of Education.....	0.3	0.3
National Conference on Education.....	12.0	21.8
Agriculture and agricultural resources: Cooperation with State and local agencies on watershed protection.....	3.0	2.4
Natural resources:		
Aid for non-Federal development of water resources.....	10.0	10.0
Federal projects.....	0.5	0.4
Transportation and communication:		
St. Lawrence Seaway.....	105.0	5.8
Proposed postal rate increases (increased revenues).....	-240.0	-240.0
Labor and manpower: Expansion of unemployment compensation coverage:		
Administrative costs.....	22.1	22.0
General government:		
Unemployment compensation for Federal civilian employees.....	25.0	25.0
Increase in Federal payment to the District of Columbia.....	10.0	10.0
District of Columbia public works program.....	7.0	5.0
Subtotal, new legislative program:		
1954.....	12.0	1.5
1955.....	148.8	-33.0
Total legislative proposals:		
Fiscal year 1954.....	12.0	1.5
Fiscal year 1955.....	7,414.3	1,137.0

¹ Recommended for the fiscal year 1954.² Includes 1.5 million dollars in the fiscal year 1954.

PROPOSED LEGISLATION AFFECTING TRUST FUNDS

1955 BUDGET

[In millions]

Function and program	1955 estimated
Social security, welfare, and health:	
Expansion and improvement of old-age and survivors insurance:	
Additional receipts.....	\$100.0
Additional disbursements.....	408.0
Net accumulation in reserve.....	-308.0
Labor and manpower:	
Extension of coverage of unemployment insurance:	
Additional deposits by States.....	145.0
Additional withdrawals by States.....	60.0
Net accumulation in reserve.....	85.0

Keyed to these foundation stones are the other individual measures which I have already recommended or which I shall recommend as soon as the necessary information upon which to base recommendations can be prepared. To some extent these other measures are basically improvements in program and are less precisely definable in terms of new costs attributed to them.

To the extent that it has been possible to assess with reasonable accuracy the cost of major measures in the legislative program, estimates have been included in this budget. These estimates are summarized above. One recommendation, the proposed increase in postal rates, would add to Federal revenues. Other minor measures, in themselves too small to be identified in summary tables, are discussed and recommended in respective summary sections and chapters of this budget. Their total cost is small and has been adequately provided for in the reserve for contingencies.

DISCUSSION OF THE BUDGET

I now present and describe pertinent details of the budget. The figures shown in the budget are careful estimates based on present and foreseeable conditions. Changes in the budget can result from congressional action. Still others can result from economic factors which change the price of goods purchased by the Government or the incomes received and taxes paid by the citizens of the Nation. Changes in international and domestic conditions could alter this budget before the end of the fiscal year 1955.

The presentation of the figures in the budget for the fiscal year 1955 reflects two significant clarifications.

MESSAGE OF THE PRESIDENT

M27

First, the appropriation to the railroad retirement trust fund equal to the taxes under the Railroad Retirement Tax Act has been excluded from the totals of budget expenditures and deducted from the total of budget receipts. This does not affect the budget surplus or deficit, and has been applied to the figures for all the years shown in this budget so that they are on a comparable basis.

This change properly presents an item which has previously overstated both budget receipts and expenditures in an equal amount. The collection of employment taxes on the railroad industry is in effect collections for a trust fund and not for Government operations. Their transfer to the trust fund should be made directly as a deduction from receipts and not shown as a budget expenditure.

The second significant clarifying change in presentation relates to the fact that the budget expenditure totals in the past have understated the scope of the Government's activities in that they included only the net basis of the spending by a number of enterprises which are engaged in business-type operations with the public. In the course of carrying out their functions, each of these public enterprises receives money from its customers or clients—interest and collections on loans or payments for goods delivered or services rendered. By law, most public enterprises may use their receipts and collections to carry on the operations for which they were created. These receipts and collections from the public in the fiscal year 1955 total 11 billion dollars.

The public enterprise activities are carried on through "revolving funds." Some of the enterprises are organized as Government corporations; others, such as the Post Office, are unincorporated.

In the summary tables of previous budgets, the receipts of such funds were subtracted from expenditures and only the difference was reported as a budget expenditure. In those cases where receipts exceeded expenditures for the year a negative figure was included in the summary expenditure tables. While the use of either the gross figures or the net figures produces an identical effect on the budget surplus or deficit, the former method of presenting only net figures in the summary tables did not reveal the full scope of the Government's financial transactions.

When Government agencies engaged in lending activities use their collections on old loans to make new loans, the net expenditure figure fails to disclose the volume of new lending and the new risks involved.

In this budget, the summary tables present the expenditures of the public enterprise funds on both a gross and net basis. The difference reveals the magnitude of receipts from the public in the "revolving funds."

BUDGET RECEIPTS

The estimates of budget receipts for the fiscal year 1955 in the following table are in accordance with my recommendations for taxes, and are based upon the continuation of business conditions, personal income, and corporation profits at substantially the present high levels.

BUDGET RECEIPTS

[Fiscal years. In millions]

Source	1953 actual	1954 estimated	1955 estimated
Individual income taxes:			
Existing legislation.....	\$32,478	\$33,433	\$30,908
Proposed legislation.....			—585
Corporation income taxes:			
Existing legislation.....	21,595	22,809	19,694
Proposed legislation.....			570
Excise taxes:			
Existing legislation.....	9,943	10,038	9,221
Proposed legislation.....		189	1,018
Employment taxes:			
Federal Insurance Contributions Act:			
Existing legislation.....	4,086	4,600	5,369
Proposed legislation.....			100
Federal Unemployment Tax Act:			
Existing legislation.....	276	290	292
Proposed legislation.....			16
Railroad Retirement Tax Act.....	626	640	640
Railroad Unemployment Insurance Act.....	10		
Estate and gift taxes.....	891	955	955
Customs.....	613	590	590
Internal revenue not otherwise classified.....	49		
Miscellaneous receipts.....	1,827	2,313	2,454
Total receipts.....	72,394	75,857	71,242
Deduct:			
Appropriation to Federal old-age and survivors insurance trust fund:			
Existing legislation.....	4,086	4,600	5,369
Proposed legislation.....			100
Appropriation to railroad retirement trust fund.....	625	640	640
Refunds of receipts:			
Existing legislation.....	3,120	2,988	2,644
Proposed legislation.....			—153
Adjustment to daily Treasury statement basis	+30		
Budget receipts.....	64,593	67,629	62,642

¹ Estimated.

Budget receipts exclude refunds of overpayments made to taxpayers and also exclude the employment taxes which are appropriated and transferred to the old-age and survivors insurance trust fund and to the railroad retirement trust fund. Since these items are also excluded from budget expenditures, the surplus or deficit is not affected.

MESSAGE OF THE PRESIDENT

M29

APPROPRIATIONS AND OTHER BUDGET AUTHORIZATIONS

New obligational authority represents the total of all new authorizations enacted by the Congress permitting Government agencies to incur financial obligations. In addition to new appropriations, it includes mainly authorizations to enter into contracts prior to the enactment of appropriations, and authorizations to make expenditures from borrowed money.

NEW OBLIGATIONAL AUTHORITY BY MAJOR PROGRAM

[Fiscal years. In billions]

Major program	1953 actual	1954 estimated		1955 recom- mended
		Budget docu- ment ¹	Current estimate	
National security.....	\$57.2	\$49.1	\$39.3	\$34.9
Veterans' services and benefits.....	4.1	4.6	4.2	4.0
International affairs and finance.....	2.2	1.9	1.2	1.5
Social security, welfare, and health.....	1.9	1.9	1.9	1.8
Housing and community development.....	1.5	.7	.6	.2
Education and general research.....	.3	.2	.2	.2
Agriculture and agricultural resources.....	1.3	1.5	2.3	2.8
Natural resources.....	1.4	1.4	1.0	1.0
Transportation and communication.....	1.9	2.1	1.8	1.5
Finance, commerce, and industry.....	.1	.1	.1	(2)
Labor and manpower.....	.3	.3	.3	.3
General government.....	1.4	1.5	1.1	1.0
Interest.....	6.6	6.4	6.6	6.9
Reserve for contingencies.....		.1	.1	.2
Total.....	80.2	71.8	60.7	56.3

¹ Adjusted for purposes of comparability.² Less than 50 million dollars.

In prior years, new obligational authority has included all reappropriations. In conformity with congressional procedures, this budget does not include as new obligational authority reappropriations for two large programs, the mutual security program, and the construction program of the Atomic Energy Commission. These are authorized annually but are in effect continuing programs. The resulting reduction in reported new obligational authority is offset by a corresponding increase in the unspent balances of appropriations brought forward from one fiscal year to the next. New obligational authority in this budget also excludes the appropriation equivalent to taxes for the railroad retirement account, which has been discussed elsewhere. These changes are set forth in the following table:

NEW OBLIGATIONAL AUTHORITY—RECONCILIATION

[Fiscal years. In millions]

Description	1953 actual	1954 estimated		1955 estimated
		Budget document	Current	
New obligational authority, midyear review basis.....	\$81,373	\$72,883	\$63,981	-----
Deduct reappropriations for:				
Mutual security program.....	447	-----	1,944	-----
Atomic Energy Commission—construction.....	65	404	679	-----
Appropriations for railroad retirement taxes.....	625	660	640	-----
New obligational authority, present basis.....	80,236	71,819	60,718	\$56,283
Deduct authorizations other than current appropriations.....	7,879	7,504	8,889	9,260
Current appropriations.....	72,357	64,315	¹ 51,829	47,023

¹ Includes supplemental appropriations estimated in this budget at about 0.5 billion dollars; hence appropriations actually enacted are 51.3 billion dollars.

The Congress enacted increasing amounts of new obligational authority after the beginning of hostilities in Korea in June 1950. This new obligational authority was much greater than the amount of budget expenditures for each year and also greater than budget receipts in each year. Thus it represented commitments for future spending in excess of the revenues then being provided by the tax system.

The estimate of total appropriations and other authorizations for the fiscal year 1954 and, likewise, the total of my recommendations for new obligational authority for the fiscal year 1955 are less than estimated budget expenditures and also less than estimated budget receipts for the corresponding years. This is in direct contrast to the substantial excess of appropriations over revenues in recent prior years. It means we now are reducing the large amount of outstanding unfinanced commitments incurred under past appropriations and are making possible lower future levels of expenditures.

The major national security programs still require the largest part of our new budgetary authorizations. Of the total new obligational authority recommended for the fiscal year 1955, 34.9 billion dollars, or about 62 percent, is for the military functions of the Department of Defense, the atomic energy program, the mutual military program with our allied nations of the free world, and the stockpiling of strategic and critical materials.

In the detailed review which the appropriations committees and the Congress make of the operations of each agency and its budget proposals before enacting new obligational authority it is necessary to have the budget proposals set forth separately for each agency. Part II

MESSAGE OF THE PRESIDENT

M31

of the 1955 budget document is organized on such a basis. It presents summary and detailed information on my recommended appropriations for each agency. The individual appropriations are supported by schedules which reconcile the amount of the appropriation recommended with the obligations which are expected to be incurred. The obligation figures are reconciled with the estimated expenditures. The activities carried on within the appropriations and the workloads involved are also described for individual appropriations.

This grouping of the budget proposals by agencies, as contrasted with grouping by program or function principally employed in the budget summaries, is not only required for congressional action but is also the essential presentation for those of our citizens who are interested in following the progress of the budget proposals in the Congress.

The following table is derived from part II of the 1955 budget document. It shows that the new obligational authority I am recommending for the fiscal year 1955 is 56.3 billion dollars. This is 35.1 billion

NEW OBLIGATIONAL AUTHORITY BY AGENCY

[Fiscal years. In millions]

Agency	1953 actual	1954 estimated		1955 recommended
		Budget document ¹	Current estimate	
Legislative branch.....	\$76	\$85	\$83	\$67
The Judiciary.....	28	29	29	30
Executive Office of the President.....	9	8	9	9
Funds appropriated to the President.....	1,908	1,532	932	1,185
Independent offices:				
Atomic Energy Commission.....	4,079	1,593	1,042	1,366
Veterans Administration.....	4,191	4,554	4,273	3,893
Other.....	1,050	1,134	665	592
General Services Administration.....	317	395	163	155
Housing and Home Finance Agency.....	1,357	506	454	85
Department of Agriculture.....	1,510	1,659	2,499	2,935
Department of Commerce.....	911	1,078	982	973
Department of Defense:				
Military functions.....	48,776	41,319	34,495	30,993
Mutual military program.....	4,236	6,119	3,800	2,500
Civil functions.....	598	688	505	580
Department of Health, Education, and Welfare.....	1,934	1,773	1,863	1,806
Department of the Interior.....	590	664	499	488
Department of Justice.....	173	187	179	178
Department of Labor.....	295	332	299	388
Post Office Department (general fund).....	660	669	439	89
Department of State.....	241	332	142	269
Treasury Department.....	7,279	7,101	7,250	7,471
District of Columbia (general fund).....	18	12	16	31
Reserve for contingencies.....		50	100	200
Total.....	80,236	71,819	60,718	56,283

¹ Adjusted for purposes of comparability except for reorganization transfers.

dollars less than the highest post-Korean amount of 91.4 billion dollars enacted for the fiscal year 1952. It is 15.5 billion dollars less than the amount recommended to Congress for the fiscal year 1954, in the budget document dated January 9, 1953, and 4.4 billion dollars less than the currently revised estimate for the fiscal year 1954.

UNEXPENDED BALANCES

In some cases, a considerable time period elapses between the enactment of an appropriation and the expenditure of all the Federal funds appropriated. For example, several years may elapse between the time a contract is negotiated pursuant to an appropriation for aircraft or other heavy military equipment and the time all the equipment ordered has been delivered and paid for by the Government. Thus many of the expenditures being made by the Government in the fiscal years 1954 and 1955 result from obligational authority enacted and from contracts negotiated in prior years.

During the fiscal year 1955, it is estimated that 45 percent of total budget expenditures will be from obligations incurred under appropriations and other authorizations enacted in years before 1955, and 55 percent will be from the new obligational authority I am recommending for 1955.

The reductions in appropriations that were made last year and the further reductions I am recommending for the fiscal year 1955 decrease the accumulated backlog of outstanding commitments which lead to later budget expenditures. Balances of appropriations unexpended at the end of the year and still available for expenditure during the next year are shown in the following table for each fiscal year since 1950. The amounts shown have been modified to reflect related technical changes in handling reappropriation items (see pp. M29-M30) and to restrict unexpended balances to items of appropriations, excluding, for example, public debt authorizations. For the most part,

UNEXPENDED BALANCES OF APPROPRIATIONS

[In billions]

Fiscal year	Amount brought forward into the year	Amount carried over to next year
1950.....	¹ \$11.5	¹ \$14.1
1951.....	¹ 14.1	¹ 50.3
1952.....	¹ 50.3	68.8
1953.....	68.8	78.7
1954 estimated.....	78.7	66.5
1955 estimated.....	66.5	54.1

¹ Estimated. Detailed accounting data not available.

MESSAGE OF THE PRESIDENT

M33

these appropriation balances have been obligated or committed, but the expenditures take place one or more fiscal years after the enactment of the appropriation.

BUDGET EXPENDITURES

Budget expenditures in the fiscal year 1955 are estimated at 65.6 billion dollars, a reduction of 5.3 billion dollars from the revised estimate of the fiscal year 1954 expenditures, a reduction of 12.3 billion dollars from the expenditures estimated in the 1954 budget document, and a reduction of 8.4 billion dollars from actual expenditures in the fiscal year 1953.

As mentioned earlier, the summary tables in the budget have been made more revealing by the presentation of expenditures of public enterprises on both a gross and a net basis. The difference between the gross and net figures reveals the magnitude of the receipts and collections of the "revolving funds" which are used for making new loans and other expenditures.

BUDGET EXPENDITURES BY MAJOR PROGRAM

[Fiscal years. In millions]

Major program	1955 estimated			1954 estimated		1953 actual	
	Gross ex-penditures	Applicable receipts of public enterprise funds	Budget expendi-tures (net)	Budget expenditures (net)			
				Budget document	Current estimate		
National security-----	\$44,860	(1)	\$44,860	\$54,700	\$48,720	\$50,274	
Veterans' services and benefits-----	4,223	\$31	4,192	4,564	4,160	4,298	
International affairs and finance-----	1,885	635	1,250	2,161	1,779	2,216	
Social security, welfare, and health-----	1,807	(1)	1,807	1,919	1,947	1,910	
Housing and community development-----	1,903	2,180	-277	509	57	549	
Education and general research-----	223	-----	223	288	278	277	
Agriculture and agricultural resources-----	6,752	4,386	2,366	1,827	2,654	2,936	
Natural resources-----	1,337	234	1,103	1,381	1,172	1,358	
Transportation and communication-----	4,277	2,859	1,418	2,111	1,856	2,077	
Finance, commerce, and industry-----	917	755	162	150	164	76	
Labor and manpower-----	282	1	281	303	265	281	
General government-----	1,164	4	1,160	1,554	1,175	1,439	
Interest-----	6,875	-----	6,875	6,420	6,600	6,583	
Reserve for contingencies-----	150	-----	150	40	75	-----	
Adjustment to daily Treasury statement basis-----	-----	-----	-----	-----	-----	-292	
Total-----	76,655	11,085	65,570	77,927	70,902	73,982	

¹ Less than 500,000 dollars.

In the summary tables of this budget, these receipts are labeled "applicable receipts of public enterprise funds." The table on the preceding page shows both gross and net figures for the fiscal year 1955, compared with net figures (on the old basis) for 1954 and 1953.

The fuller presentation in the summary tables does not have any effect on the budget surplus or deficit, or upon the changes in the public debt. Nor does it indicate any new method of financing these Government-owned enterprises. However, it does give a more complete disclosure of the Government's financial transactions with the general public.

As indicated in the preceding table, the term "budget expenditures" refers to the net expenditure figures. The term "gross expenditures" will be used wherever the activities of public enterprises are discussed on a gross basis. The table which follows shows the gross figures for all 3 years, reduced to the older net basis by a single deduction for each year at the bottom of the table.

GROSS EXPENDITURES BY MAJOR PROGRAM

[Fiscal years. In millions]

Major program	1953 actual	1954 estimated		1955 esti- mated
		Budget document	Current estimate	
National security.....	\$50,274	\$54,700	\$48,721	\$44,860
Veterans' services and benefits.....	4,327	4,590	4,190	4,223
International affairs and finance.....	2,656	2,604	2,249	1,885
Social security, welfare, and health.....	1,910	1,921	1,947	1,807
Housing and community development.....	2,118	1,696	2,357	1,903
Education and general research.....	277	288	278	223
Agriculture and agricultural resources.....	6,448	6,362	8,087	6,752
Natural resources.....	1,499	1,568	1,349	1,337
Transportation and communication.....	4,474	4,570	4,446	4,277
Finance, commerce, and industry.....	1,205	897	1,151	917
Labor and manpower.....	284	306	267	282
General government.....	1,444	1,558	1,178	1,164
Interest.....	6,583	6,420	6,600	6,875
Reserve for contingencies.....		40	75	150
Adjustment to daily Treasury statement basis.....	-292			
Subtotal.....	83,207	87,520	82,895	76,655
Deduct applicable receipts of public enterprise funds.....	9,225	9,593	11,993	11,085
Budget expenditures (net).....	73,982	77,927	70,902	65,570

The figures for gross expenditures in this and related tables are derived from the detailed accounts of each Government agency contained in part II of the 1955 budget document. On this basis, both

MESSAGE OF THE PRESIDENT

M35

the gross expenditures and the applicable receipts include some transactions relating to private bank loans guaranteed by the Commodity Credit Corporation and by the Export-Import Bank which involve no use of governmental funds. These amounts are:

GROSS EXPENDITURES AND APPLICABLE RECEIPTS, GUARANTEED LOANS
[Fiscal years. In millions]

Program and agency	1953 actual	1954 estimated		1955 esti- mated
		Budget document	Current estimate	
International affairs and finance: Export-Import Bank.....	\$4	\$5	\$82	\$188
Agriculture and agricultural resources: Commodity Credit Corporation.....	340	383	1,564	274

In the sections of this message discussing international affairs and agriculture, these figures are excluded from the totals to make them comparable to the basis used in other public enterprise accounts. This has no effect on net budget expenditures.

My recommendations for each of the major programs of Government listed in the above tables are discussed in detail later in this message. Budget expenditures by agency are described in detail in part II of the 1955 budget document, and are summarized in the table on the following page.

The analysis on page M37 shows that budget expenditures for the national security program and for those items which are relatively fixed under provisions of existing and proposed legislation amount to an estimated 59 billion dollars in the fiscal year 1955, 90 percent of all budget expenditures.

The remaining "all other," 6.6 billion dollars, or 10 percent of the total, include some items related to the first two categories. For example, those related to our national security effort are the international programs for economic development, the Selective Service System, and civil defense. Examples of programs which are partly controllable through the budgetary process are the mortgage purchases of the Federal National Mortgage Association and a few relatively small grant-in-aid programs. The bulk of this category is made up of expenditures for the day-to-day operations of the Government, such as law enforcement and administration, tax collection, the various regulatory agencies, the administration of other services rendered to the public, and the cost of direct civil public works.

BUDGET EXPENDITURES BY AGENCY

[Fiscal years. In millions]

Agency	1955 estimated			1954 estimated		1953 actual	
	Gross ex-penditures	Applicable receipts of public enterprise funds	Budget expenditures (net)	Budget expenditures (net)			
				Budget document ¹	Current estimate		
Legislative branch.....	\$66		\$66	\$70	\$63	\$61	
The Judiciary.....	30		30	28	29	27	
Executive Office of the President.....	9		9	8	10	9	
Funds appropriated to the President.....	1,622	\$242	1,380	1,956	1,702	1,828	
Independent offices:							
Atomic Energy Commission.....	2,425	(2)	2,425	2,700	2,200	1,791	
Veterans Administration.....	4,235	70	4,165	4,494	4,190	4,334	
Other.....	3,795	3,317	478	979	520	830	
General Services Administration.....	753	2	751	1,126	936	1,107	
Housing and Home Finance Agency.....	1,712	2,097	-385	380	-103	385	
Department of Agriculture.....	4,760	2,263	2,497	2,031	2,945	3,217	
Department of Commerce.....	1,028	49	979	1,031	1,080	1,063	
Department of Defense:							
Military functions.....	37,575	(2)	37,575	45,500	41,550	43,610	
Mutual military program.....	4,275		4,275	5,700	4,200	3,954	
Civil functions.....	654	114	540	640	617	813	
Department of Health, Education, and Welfare.....	1,789	2	1,787	1,904	1,949	1,920	
Department of the Interior.....	562	34	528	659	549	587	
Department of Justice.....	176		176	184	184	171	
Department of Labor.....	362	1	361	321	299	300	
Post Office Department (general fund).....	2,775	2,686	89	669	440	659	
Department of State.....	214		214	317	159	271	
Treasury Department.....	7,653	208	7,445	7,178	7,292	7,325	
District of Columbia (Federal contribution).....	35		35	12	16	12	
Reserve for contingencies.....	150		150	40	75	-----	
Adjustment to daily Treasury statement basis.....						-292	
Total.....	76,655	11,085	65,570	77,927	70,902	73,982	

¹ Adjusted for purposes of comparability except for reorganization transfers.² Less than 500,000 dollars.

The record of budget expenditures since the outbreak of aggression in Korea in June 1950 shows considerable variation in the relative changes from year to year in the three major categories shown. While expenditures for national security have risen markedly and those for uncontrollable major programs have fluctuated within rather narrow limits, Government spending in all other categories has been steadily declining.

MESSAGE OF THE PRESIDENT

M37

ANALYSIS INDICATING CONTROLLABILITY OF NET BUDGET EXPENDITURES
 [Fiscal years. In millions]

Description	1953 actual	1954 estimated		1955 esti- mated
		Budget document	Current estimate	
National security program	\$50,274	\$54,700	\$48,720	\$44,860
Relatively uncontrollable major programs under existing and proposed legislation:				
Legislative and the Judiciary.....	88	98	92	96
Interest on public debt and refunds.....	6,583	6,420	6,600	6,875
Claims and judgments.....	129	65	148	135
Veterans' compensation, pension, and benefit programs.....	3,383	3,524	3,232	3,244
Payments to employees' retirement funds.....	324	430	34	32
Payment to Railroad Retirement Fund for military service credits.....	33	35	35	-----
Grants to States for public assistance.....	1,330	1,340	1,389	1,293
Grants to States for unemployment compensation and employment service administration.....	202	208	190	205
Veterans' unemployment compensation.....	26	47	40	61
Unemployment compensation for Federal employees.....				25
Federal-aid highway grants.....	609	540	541	555
Conservation of agricultural land resources.....	273	254	225	196
Removal of surplus agricultural commodities.....	82	75	205	233
Agriculture price support.....	1,943	729	1,404	1,165
Total.....	14,905	13,765	14,135	14,115
All other	8,803	9,462	8,047	6,595
Net budget expenditures	73,982	77,927	70,902	65,570

NET BUDGET EXPENDITURES

[Fiscal years. In billions]

Description	1950 actual	1951 actual	1952 actual	1953 actual	1954 estimated	1955 estimated
National security program.....	\$13.0	\$22.3	\$43.8	\$50.3	\$48.7	\$44.9
Relatively uncontrollable major programs.....	15.6	12.1	12.3	14.9	14.1	14.1
All other.....	11.0	9.6	9.3	8.8	8.1	6.6
Total.....	39.6	44.0	65.4	74.0	70.9	65.6

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

Budget receipts, expenditures, and the budget surplus or deficit reflect transactions of funds which belong to the Federal Government. There are many other financial transactions of the Federal Government which involve funds the Government holds in trust for others, such as the social security trust funds. The transactions of these trust funds are shown separately in part III of the 1955 budget docu-

ment. They are not included in the budget totals of receipts and expenditures. As a rule, the trust funds are now building up accumulations; that is, as they build reserves for future liabilities, they are currently taking in more money than they pay out.

By consolidating the trust funds with the budget transactions, and by eliminating intragovernmental and certain noncash transactions, it is possible to obtain a measure of the flow of money between the Federal Government as a whole and the public. Such a consolidation is presented and explained in Special Analysis A, "Receipts from and payments to the public," on page 1099. It is sometimes called the "consolidated cash statement."

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC, EXCLUDING BORROWING

[Fiscal years. In millions]

	1953 actual	1954 estimated		1955 esti- mated
		Budget document	Current estimate	
Cash receipts from the public.....	\$71,282	\$75,150	\$74,932	\$70,842
Cash payments to the public.....	76,554	81,797	75,166	70,727
Excess of cash receipts.....				115
Excess of cash payments.....	5,272	6,647	234	-----

The trust funds of our social security system reflect the increase in rate provided under existing law and the expected increase in payments resulting from proposed legislation increasing the coverage and benefits.

If the automatic increase in rate had taken place with no recommendation for increased coverage and benefits, the excess of cash receipts over payments estimated for the fiscal year 1955 would have been a greater amount.

NATIONAL SECURITY

This budget is based on a new concept for planning and financing our national security program, which was partially applied in the budget revision recommended last spring for the fiscal year 1954. Our military planning in previous years had been based on several successive assumed fixed dates of maximum danger, which were extended from time to time with procurement and personnel plans focused to achieve maximum readiness by each such date. This budget is aimed instead at providing a strong military position which can be maintained over the extended period of uneasy peace.

It points toward the creation, maintenance, and full exploitation of modern airpower. Our military planners and those of the other nations of the free world agree as to the importance of airpower. But

MESSAGE OF THE PRESIDENT

M39

air forces must be complemented with land forces, amphibious forces, antisubmarine warfare forces, and fighting ships. The added emphasis on airpower complements our plans for improving continental defense against possible enemy attack. We expect to continue to improve the combat effectiveness of our forces by the application of new weapons and new techniques, and ultimately achieve far greater flexibility than heretofore attainable. The reassembly of our strategic reserve forces will be as dictated by world conditions and the forces kept in a high state of readiness to cope with any possible acts of aggression. This budget aims toward building to a maximum effectiveness all of this complex of military strength. It provides greater expenditures for airpower in the fiscal year 1955 than in any year since the close of World War II. The reorientation of our defense strategy makes this possible within a lower level of total expenditures for national security.

With the shift in emphasis to the full exploitation of airpower and modern weapons, we are in a position to support strong national security programs over an indefinite period with less of a drain on our manpower, material, and financial resources.

Today there is a truce in Korea. After 3 years of hostilities, we are now in the first year of an armed peace. But we are a long way from achieving the kind of peace that is our goal. As long as the Communist threat to the free world exists, we must plan to maintain effective military strength in close cooperation with the other nations of the free world.

Our basic security objective is to prevent another outbreak of aggression. We must create the necessary deterrent to any possible aggressor by maintaining a strong military position at home and abroad. To do this takes determination, human and material resources, and careful planning.

The national security section of the budget includes not only the military functions of the Department of Defense, but also the mutual military program, the development of atomic energy, and the stockpiling of strategic and critical materials. These four major programs are related and designed for the basic purpose of our security. They complement each other and must be assessed in conjunction with the long-range planning which underlies the fiscal and legislative programs of this administration.

The previous history of our military budgets has been one of feast or famine, depending upon the state of world affairs. In peacetime, appropriations have customarily been much reduced. In wartime, financial considerations have been largely ignored. Our present budgetary plans represent a departure from these practices. They provide for the continued maintenance of a strong military force

which is within the financial capability of a sound economy. We cannot afford to build military strength by sacrificing economic strength. We must keep strong in all respects.

It will be noted from the table on page M42 that expenditures for the Department of Defense and the stockpiling program have been reduced in the fiscal year 1954 and I am recommending a further reduction for the fiscal year 1955. The reduction in the total Department of Defense expenditures will be effected despite the fact that expenditures for aircraft, shipbuilding, electronics, guided missiles, construction, research and development, and many other defense programs will continue at close to record peacetime levels. I am also recommending some increased expenditures in the fiscal year 1955 for the mutual military program and for atomic energy which will bring expenditures for these two programs to record levels. Nevertheless total spending for national security is estimated to decline about 1.6 billion dollars from the fiscal year 1953 to 1954, and an additional 3.9 billion dollars from 1954 to 1955.

This decline in national security expenditures reflects the dynamic long-range plan recommended by the Joint Chiefs of Staff for our military forces, the savings resulting from the economies effected by this administration, the cessation of hostilities in Korea, and the decrease in procurement—particularly with respect to vehicles, ammunition, and soft goods—made possible by the improved supplies and materiel position.

The defense team, both military and civilian, is working hard toward improvement of the organization, procedures, and methods of the entire Defense Establishment. Already much progress has been made. The Office of the Secretary of Defense has been reorganized, and the administrative structures of the three military departments are under review, with the purpose of making the Secretaries of these departments truly responsible administrators and establishing clearer lines of responsibility within this concept. This will help in achieving the maximum economies that can be realized through improved management and administration.

Considerable progress has been made in standardizing military procurement, and it is planned to reduce sharply the present approximately 4 million different procurement items. This alone will ultimately save hundreds of millions of dollars in procurement, warehousing, and distribution costs. The adoption of commercial maintenance practices for aircraft, vehicles, and other equipment is currently saving millions of dollars.

Better transportation methods are being worked out which will produce additional economies. Savings are also being effected in

MESSAGE OF THE PRESIDENT

M41

personnel, procurement, and supply activities. Through these and similar economy programs, more defense for the taxpayers' dollar will be realized.

Consistent with these plans for a sustained military capability at the lowest possible cost is an integrated plan of continental and civil defense. Such planning is necessary in order to hold our civilian losses from possible enemy attack to a minimum.

Last summer I told the American people that "the Soviets now have the capability of atomic attack upon us, and such capability will increase with the passage of time." I made this statement shortly after it was established that the Soviet Union had successfully detonated a thermonuclear device which, if successfully converted into an offensive weapon and if exploded over our American cities, would be capable of effecting unprecedented destruction.

The administration has taken a number of actions to deal with this serious prospect. Funds are included in the Department of Defense budget to expand the system of continental defense which coordinates the actions of our radar outposts and our air, naval, and land forces. It will provide improved early warning of enemy attack and the men and equipment to resist any such attack. Expenditures for continental defense in the fiscal year 1955 are expected to be greater than ever before in our history.

This budget reflects a new concept of civil defense which takes account of the destructive threat of modern weapons and which emphasizes improved warning of impending attack and planning for the dispersal of populations of potential target cities in advance of enemy attack.

Much planning, organization, and training remains to be done, however, to make this strategy of civil defense fully effective at all levels of government. It will be the Federal responsibility, as reflected in this budget, to provide warning of impending attacks, and to stockpile medical supplies. The Federal Government will not assume the responsibilities which belong to local governments and volunteer forces, but will supplement State and local resources, provide necessary information on weapons effects, and advise and assist States and localities.

Many activities throughout the budget are related, directly and indirectly, to the national security. They are not all classified as national security for many reasons. Civil defense is one of these activities. The major part of continental defense is in the military budget, but, because of the community aspect of the civil defense program, funds for it are included as heretofore in the section on housing and community development.

MESSAGE OF THE PRESIDENT

NATIONAL SECURITY

[Fiscal years. In millions]

Item	Expenditures					
	1950 actual	1951 actual	1952 actual	1953 actual	1954 esti- mated	1955 esti- mated
Gross expenditures:						
Direction and coordination of defense.....	\$10	\$12	\$13	\$15	\$12	\$13
Other central defense activities.....	199	353	379	394	438	562
Army defense.....	3,983	7,469	15,635	16,242	14,200	10,198
Navy defense.....	4,100	5,582	10,162	11,874	11,300	10,493
Air Force defense.....	3,600	6,349	12,709	15,085	15,600	16,209
Proposed legislation.....						100
Subtotal—Department of Defense.....	11,892	19,765	38,898	43,610	41,550	37,575
Mutual military program:						
Present programs.....	130	991	2,442	3,954	4,200	3,575
Proposed legislation.....						700
Development and control of atomic energy.....	550	897	1,670	1,791	2,200	2,425
Stockpiling of strategic and critical materials.....	438	654	837	919	770	585
Total.....	13,010	22,307	43,847	50,274	48,720	44,860
Deduct applicable receipts	(1)	(1)	(1)	(1)	(1)	(1)
Net budget expenditures	13,010	22,307	43,847	50,274	48,720	44,860
New obligational authority						
	1950 actual	1951 actual	1952 actual	1953 actual	1954 esti- mated	1955 recom- mended
Direction and coordination of defense.....	\$11	\$12	\$14	\$15	\$13	\$13
Other central defense activities.....	180	432	419	400	762	548
Army defense.....	4,392	19,588	21,354	15,221	12,777	8,236
Navy defense.....	4,359	12,484	16,220	12,689	9,526	9,882
Air Force defense.....	5,428	15,203	22,375	20,451	11,417	11,206
Proposed legislation.....						1,108
Subtotal—Department of Defense.....	14,370	47,719	60,382	48,776	34,495	30,993
Mutual military program:						
Present programs.....	1,359	5,222	5,291	4,236	3,800	
Proposed legislation.....						2,500
Development and control of atomic energy.....	794	1,919	1,266	4,079	1,043	1,366
Stockpiling of strategic and critical materials.....	425	2,910	579	134		
Total new obligational authority.....	16,948	57,770	67,518	57,225	39,338	34,859

¹ Less than 500,000 dollars.

Department of Defense.—The total of the first six items listed in the preceding table indicates the portion of our national security expenditures which is used for the direct support of our military forces. For these items the budget recommends 31.0 billion dollars of new obliga-

MESSAGE OF THE PRESIDENT

M43

tional authority and estimates expenditures of 37.6 billion dollars in the fiscal year 1955. These expenditures are 4.0 billion dollars less than the amount now estimated for 1954. The revised estimate for 1954 is 2.1 billion dollars less than the actual spending in 1953—in marked contrast with the expectation in the budget document of January 9, 1953, that such expenditures in the fiscal year 1954 would exceed those in 1953.

The changing military situation following the sudden attack on Korea brought unbalanced programs and uncoordinated financing during the fiscal years 1951 to 1953. Steps have been, and will continue to be, taken by this administration to bring these factors into balance. One result has been the elimination of the previously forecast increase in expenditures in 1954. Because of the long lead-time needed to procure military equipment, the expenditures have not come down to the level of the new obligational authority. In 1954, with new obligational authority of 34.5 billion dollars, the expenditures are estimated to be 41.6 billion dollars. Likewise, in 1955, though I am recommending 31 billion dollars in new obligational authority, the expenditures are estimated at 37.6 billion dollars.

At the outbreak of hostilities in Korea we had about 1.5 million men under arms. The Korean fighting and general defense buildup brought this figure up to an average of 2.4 million in the fiscal year 1951; to an average of 3.5 million in fiscal year 1952 and a peak strength of 3.7 million in the last quarter of that fiscal year; and to an average of 3.6 million in fiscal year 1953.

Recently, I announced our plan to withdraw two Army divisions from Korea and return them to the United States as an initial step in the progressive reduction of United States ground forces in Korea. This withdrawal is made possible by the cessation of hostilities, the increased mobility and striking power of our air and other combat forces, and by the increasing capabilities of the Republic of Korea forces. This action does not impair our readiness and capacity to oppose any possible renewal of Communist aggression with even greater effect than heretofore if this should be necessary. United States military forces in the Far East will be maintained at appropriate levels, with emphasis on highly mobile naval, air, and amphibious units. Funds are provided to the Department of Defense in this budget for the continued support of Republic of Korea forces at a high level of effectiveness.

As the striking power of our combat forces is progressively increased by the application of technological advances and the growth of airpower, the number of military personnel is being reduced. Total military personnel is scheduled to be reduced from the present level of more than 3.4 million to approximately 3.3 million by June

30, 1954, and a little over 3 million by June 30, 1955. On this basis, this budget provides for an average of 3.2 million military personnel during the fiscal year 1955, compared with an average of 3.4 million during the fiscal year 1954.

The efficiency of our combat forces is contingent upon having experienced, well-trained career personnel. In the State of the Union Message I indicated that pay alone will not retain in the Armed Forces, in competition with industry, the necessary proportion of long-term personnel. We must provide a more generous use of other benefits important to service morale.

Under the long-range plan recommended by the Joint Chiefs of Staff, the number of Army divisions may be less than those currently organized, but increased mobility and the availability of modern weapons will provide each division with increasingly greater striking power. As part of the program to improve continental defense, the number of guided-missile antiaircraft battalions will be increased substantially.

At the present time, the Air Force, Navy, and Marine air forces have a total active inventory of approximately 33,000 aircraft, of which approximately one-third are jet aircraft. The emphasis on air-power is reflected in the objective of increasing the active aircraft inventory to more than 40,000 during the next 3 years, with more than half of these aircraft to be jets. At that time the Air Force will have 137 wings—of which 126 will be combat wings—augmented by appropriate combat support units. Naval airpower will include 16 carrier air groups and 15 antisubmarine warfare squadrons, while the Marines will maintain 3 Marine air wings. In each case, these units will be supplemented by appropriate combat support units.

The Navy, in addition to increasing its effective air strength, will continue to modernize the fleet, with emphasis on the combatant elements. The Marine Corps will maintain three combat-ready divisions.

The military plan for forces to be maintained in the fiscal year 1955 permits a reduction of approximately 600 million dollars in the expenditures required for military pay, allowances, and other direct military personnel costs. Operation and maintenance—sometimes called housekeeping—is being held to a minimum, and expenditures in this area will be reduced.

Major procurement expenditures as a whole will decline by about 15 percent from 1954 levels, but the 14.5 billion dollars expected to be spent for this purpose will still be almost four times as great as the amount spent during the fiscal year 1951—the first year of buildup following the attack in Korea. Because the capital investment will already have been made for much new equipment and for a considera-

MESSAGE OF THE PRESIDENT

M45

ble portion of the desired mobilization reserve of materiel and supplies, expenditures for vehicles, ammunition, production equipment, and some other major equipment items will be lower in 1955. The accumulation of mobilization reserves is being scheduled over an extended period of time, with a view toward keeping production facilities of key military items in continued production. Provision of capital equipment and modernization of aircraft will continue at a rapid pace in 1955, and expenditures for aircraft procurement for the Air Force and naval aviation will be at the same general level as in 1954. Aircraft procurement expenditures will account for 22 percent of total Department of Defense expenditures in 1955, compared with 20 percent in 1954, 17 percent in 1953, and 13 percent in 1952. Shipbuilding expenditures will continue at approximately the same level as in 1954, but the new obligational authority I am recommending will provide for a slightly higher level of shipbuilding in the years immediately ahead in order to meet the problem of "block obsolescence" of the fleet, a major portion of which was built during World War II.

Expenditures for military public works in the fiscal year 1955 will be maintained at the 1954 level, as work progresses on air bases, antiaircraft and radar sites, and other necessary installations. Expenditures for reserve components are expected to increase by about 20 percent as the buildup of a vigorous reserve program continues. Research and development will continue at a high level.

The following table shows, by major cost category, the elements making up the Department of Defense budget.

DEPARTMENT OF DEFENSE

[Fiscal years. In millions]

Cost category	Budget expenditures						New obligational authority
	1950 ¹ actual	1951 actual	1952 actual	1953 actual	1954 estimated	1955 estimated	
Military personnel.....	\$7,148	\$11,152	\$11,556	\$10,910	\$10,335	\$10,673	
Operation and maintenance.....	6,444	11,855	10,335	8,979	8,769	9,107	
Major procurement and production.....	(3,976)	(11,478)	(17,123)	(17,273)	(14,546)	(7,303)	
Aircraft.....	2,412	4,888	7,416	8,425	8,310	4,399	
Ships.....	381	624	1,191	1,005	990	1,150	
Other.....	1,183	5,966	8,516	7,843	5,246	1,754	
Military public works.....	439	1,819	1,913	1,687	1,650	1,109	
Reserve components.....	537	476	521	560	675	710	
Research and development.....	758	1,163	1,412	1,425	1,350	1,352	
Establishment-wide activities.....	621	656	666	735	740	739	
Working capital (revolving) funds.....	-158	299	84	-19	-490		
Total.....	\$11,892	19,765	38,898	43,610	41,550	37,575	30,993

¹ Detail not available.

Mutual military program.—Because our own national security is vitally dependent on the continued strength of our allies throughout the free world, we have undertaken over the past several years to assist them in building the military forces necessary to deter Communist aggression from without or subversion from within. Since the beginning of the mutual defense assistance program in fiscal year 1950, when the armed strength of the free world was at low ebb, 18 billion dollars have been made available to furnish military equipment and training to friendly nations. More than half of this amount will have been spent by the end of the fiscal year 1954. This assistance, combined with their own resources, enables our allies and friends to equip and train an equivalent of 175 army divisions, about 220 air force squadrons, nearly 1,500 naval aircraft, over 440 naval vessels, and related combat and logistic units to back up these forces.

These friendly forces located in key strategic areas for the defense of the free world are largely supported by the countries themselves. In addition, substantial forces are exclusively supported by our allies. Without all of these forces the United States would be faced with a potential defense burden so costly that it could well sap the economic vitality of our Nation. These forces constitute an integral part of the military strength of the free world.

Since the mutual military program is so closely integrated with our own military plans and program, it is shown this year in the defense chapter of part II of the budget, and is discussed here as part of our national security program. Because the mutual military program is also an integral part of our foreign policy, the Secretary of Defense will continue to carry out his responsibilities for the mutual military program under the foreign policy guidance of the Secretary of State and within the terms of the mutual security legislation passed by the Congress.

In this budget, mutual military program funds are shown under the new obligational authority of the Department of Defense. However, this arrangement is being reviewed and my recommendations will be set forth in connection with the authorizing legislation I shall recommend to the Congress. This authorizing legislation should permit adjustments in the composition of our aid programs to meet changing needs due to new international developments. It is therefore essential that the Congress maintain the present Presidential powers of transferability of all foreign assistance funds, whether for military, technical, or economic assistance.

The recent Paris meeting of the North Atlantic Treaty Organization set realistic force goals for the 14 member nations, which will provide for a substantial increase in the defensive strength of NATO. The mutual military program provides the bulk of the initial equipment

MESSAGE OF THE PRESIDENT

M47

and certain mobilization reserves needed to meet these new goals. Meanwhile, our allies are themselves carrying heavy burdens. Their military budgets during the period of this program exceed by many times the value of the equipment we have so far delivered. They have expressed their determination to continue their efforts at high levels.

Despite the progress which NATO has made, we are nevertheless faced with a serious need to achieve the unity in Europe which is necessary for strength and security in the North Atlantic area. As is well known, the treaty constituting the European Defense Community is not as yet in effect. It is not necessary for me to dwell on the reasons why the EDC is urgently needed. However, I am convinced that the Europeans who must decide on this essential next step toward building a European community are fully aware of what is at stake and will in the near future reach their decisions.

NATO is engaged in a reappraisal of strategy and tactics to reflect the prospective availability of atomic and other new weapons. These studies, to be meaningful, require the dissemination of certain information regarding atomic weapons to NATO commanders. This will have a significant impact on NATO planning and provide a greater measure of security for all. I shall recommend that the Congress amend the Atomic Energy Act to permit us to disseminate classified information to our allies with regard to the tactical use of atomic weapons. This, of course, would be accomplished under stringent security regulations. It is essential that action on this matter be taken by the Congress during the current session.

In Indochina, where the French Union and Associated States forces are holding back Communist efforts to expand into the free areas of Asia, the United States is making a major contribution by providing military equipment and other military support. The amount as well as the timeliness of this military assistance will be an important factor in improving the situation. Additional native forces must be trained and equipped to preserve the defensive strength of Indochina. This assistance is required to enable these gallant forces to sustain an offensive that will provide the opportunity for victory.

We have helped the Chinese Nationalist forces to strengthen the defense of the Island of Formosa. This assistance will be continued as will assistance to other countries of the free world such as the Philippines, Thailand, and some of the American Republics.

The mutual military program, like our domestic military program, is now designed to build strength for the long pull rather than meet a given target date. Accordingly, we will concentrate on helping equip forces which our allies can themselves support over a long period of time, with minimum dependence upon aid from the United States.

We have succeeded in substantially reducing the need for additional funds in fiscal year 1955 compared to previous years.

Our mutual security program continues in two related parts—the economic and technical program is much smaller in amount than the mutual military program and is discussed in a later section under international affairs. In that section is a comparative summary of the combined program.

Development and control of atomic energy.—In my speech before the United Nations on December 8, 1953, I made proposals looking toward a resolution of the atomic danger which threatens the world. My budgetary recommendations for the program of the Atomic Energy Commission for the fiscal year 1955 contemplate both new efforts to advance peacetime applications of atomic energy and also additional production of fissionable materials. All men of good will hope that these fissionable materials, which can be used both for peace and for military defense, will ultimately be used solely for peace and the benefit of all mankind.

Under the recommendations in this budget, expenditures of the Atomic Energy Commission will rise in the fiscal year 1955 to the highest point in our history. Operating costs will rise significantly as newly completed plants are brought into production. Capital expenditures will continue at a high level as construction goes forward on major new plants authorized in recent years. New obligational authority recommended in 1955 is above that provided in 1954, because of the expansion in operations. Initiation of new construction projects will be at a lower level than in recent years, and they will be limited essentially to facilities directly related to the production program and to several urgently needed research and development facilities. In all areas of activity the Commission is making strenuous efforts to effect economies; results are being accomplished in the reduction of unit costs.

The increase in expenditures for operations from 912 million dollars in the fiscal year 1954 to 1,182 million dollars in 1955 is due primarily to expanded operations at the Commission's facilities at Oak Ridge, Paducah, Portsmouth, Hanford, and Savannah River, as plants are completed and placed in operation. To meet the greater requirements for raw materials for this enlarged productive capacity, increased amounts of uranium ores and concentrates will be purchased. Due to vigorous efforts in recent years to expand our sources of supply in this country and abroad, increased amounts are now being made available to match the increase in requirements.

Atomic reactor development will be focused particularly upon the development of industrial atomic power for peacetime uses. The

MESSAGE OF THE PRESIDENT

M49

Commission will move forward on the construction of a large atomic power reactor to be initiated in the fiscal year 1954, marking a significant advance in the technology of peacetime atomic power. Research and development, including construction of experimental facilities, will continue also on several other types of reactors which show promise of ultimately producing power at economic rates.

The launching—this month—of the first atomic submarine, the U. S. S. *Nautilus*, will be followed in the fiscal year 1955 by the launching of the U. S. S. *Seawolf*, a second atomic submarine of different design. Research on the more difficult problems of aircraft propulsion by atomic energy will continue.

With the advent of various technical developments relating to atomic power and with the greater availability of raw materials and fissionable materials, the time has arrived for modification of the existing atomic energy legislation to encourage wider participation by private industry and by other public and private groups in this country in the development of this new and uniquely attractive energy source for peaceful purposes. Such widespread participation will be a stimulating and leavening force in this important field and will be consistent with the best traditions of American industrial development. The congressional Joint Committee on Atomic Energy last summer held public hearings which have served a most useful purpose of identifying and developing both the problems and the opportunities which emerge as preparations are made to depart from the Federal Government's existing monopoly in this field. Legislation is being recommended to the Congress which would encourage such participation and yet retain in the Federal Government the necessary controls over this awesome force.

Further amendment of the Atomic Energy Act is needed also to enable us to realize the full value of our atomic energy development for the defense of the free world. I shall recommend amendments which would permit, with adequate safeguards, a greater degree of exchange of classified information with our allies, in order to strengthen their military defenses—as already mentioned—and to enable them to participate more fully in the development of atomic power for peacetime purposes. I shall recommend also an amendment which would permit the transfer of fissionable material to friendly nations to assist them in peacetime atomic power development, particularly those nations which are supplying us with uranium raw materials. This proposed amendment, as well as the previously mentioned amendment, will provide adequate safeguards for the security of the United States. These legislative recommendations are independent of my recent proposal for the establishment of an international agency to advance the peacetime benefits of atomic energy, for which additional legislation would be needed.

It is now feasible to plan to terminate Federal ownership and operation of the towns of Oak Ridge, Tennessee, and Richland, Washington. To enable the citizens of these communities to manage their own affairs in a more normal fashion, legislation will be recommended which would permit them to purchase their own homes and to establish self-government in these communities.

Stockpiling of strategic and critical materials.—Considerable progress has been made in the fulfillment of the national stockpile goals, and further substantial progress is expected during the fiscal year 1955. By the end of 1955 about 50 of the 73 materials objectives will be virtually completed. Consequently, expenditures will decline sharply from 919 million dollars in 1953 to 770 million dollars in 1954 and 585 million dollars in 1955. The total value of all stockpile objectives is estimated at 7.2 billion dollars, of which about 5.5 billion will be on hand by June 30, 1955, to meet industrial and mobilization requirements in times of emergency. In addition to these direct expenditures from stockpile appropriations, the borrowing authority provided under the Defense Production Act, discussed in the finance, commerce, and industry section of this message, is used primarily for expanding the supply of critical materials. Net expenditures under this authority are estimated at 381 million dollars in the fiscal year 1954 and 308 million dollars in 1955. Therefore, a total of nearly 900 million dollars will be spent in the fiscal year 1955 to assure an adequate supply of critical materials in the event of an emergency.

VETERANS' SERVICES AND BENEFITS

Since 1940 the number of veterans has risen nearly fivefold and it is still increasing rapidly as men are discharged from the Armed Forces. There are now more than 20 million veterans, who, with their families, constitute 40 percent of our people. Over 300 laws provide a variety of special benefits and services to this large segment of our population.

It is our firm obligation to help our veterans overcome the handicaps which they incurred in the service of the Nation so they can return to their normal civilian pursuits. We must first of all do what we can to ease the burdens of veterans disabled in service and the families of those who have died from service causes. This is our primary responsibility, and generous benefits to them are the core of our veterans' programs.

Secondly, we must make available readjustment aids through well-conceived and properly administered programs for those veterans discharged after service during national emergencies.

MESSAGE OF THE PRESIDENT

M51

Finally, we must remember that the best way to help our millions of veterans is by making it possible for them to share fully in the economic and social gains of our country. This means assuring them adequate job opportunities. It also means assuring them, both during and after military service, of the same protection under the broad social-security programs that is provided for nonveterans. Progress in achieving these objectives will lessen the need for pensions and other special benefits for the vast majority of veterans who, fortunately, did not incur disabilities during their service.

The appropriations recommended in this budget will enable the Government to discharge fully our obligations to veterans in the coming fiscal year. Funds are included to provide for all essential benefits and services, in some cases exceeding the amounts spent in any previous year. At the same time allowance has been made for anticipated savings from improvements in efficiency, resulting in part from a general reorganization of the Veterans Administration.

VETERANS' SERVICES AND BENEFITS

[Fiscal years. In millions]

Program or agency	Expenditures			Recom-mended new obligational authority for 1955
	1953 actual	1954 esti-mated	1955 esti-mated	
Gross expenditures:				
Readjustment benefits:				
Education and training.....	\$659	\$473	\$554	\$350
Loan guaranty and other benefits (Veterans Admin- istration).....	112	89	37	37
Unemployment compensation (Labor Department).....	26	40	61	56
Compensation and pensions.....	2,420	2,485	2,535	2,535
Insurance and servicemen's indemnities.....	102	105	75	72
Hospitals and medical care:				
Current expenses.....	657	693	694	689
Hospital construction.....	100	84	60	44
Other services and administration (Veterans Adminis- tration and other).....	251	221	207	176
Total.....	4,327	4,190	4,223	13,959
Deduct applicable receipts:				
Insurance programs (Veterans Administration).....	1	2	3	-----
Other services and administration (Veterans Adminis- tration, primarily canteen services).....	28	28	28	-----
Net budget expenditures	4,298	4,160	4,192	-----

¹ Compares with new obligational authority of 4,132 million dollars in 1953 and 4,229 million dollars in 1954.

Readjustment benefits.—Education and training and loan guaranty benefits are provided for veterans of World War II and the current emergency. In addition, special vocational rehabilitation assistance

is provided for service-disabled veterans of both periods, and unemployment compensation is available to veterans of the Korean conflict.

Expenditures of 652 million dollars for all readjustment benefits in the fiscal year 1955 are estimated to be about 8 percent higher than in the current year. While expenditures for benefits to veterans of the Korean conflict are increasing, outlays for education and training, rehabilitation, and loan guaranty benefits to World War II veterans are declining. Thus, the proportion of total outlays for all readjustment benefits going to veterans of the Korean conflict is expected to rise from about one-half to about four-fifths in the one year.

During the fiscal year 1955 an average enrollment of 537,000 veterans—more than 30,000 above the previous year—is expected in school, job, and farm training courses. Of this number, an estimated 412,000 are veterans of the Korean conflict.

A decline in expenditures for loan guaranty and other benefits from 1953 to 1955 reflects the discontinuance of payment by the Government of a gratuity up to 160 dollars on each guaranteed loan issued after September 1, 1953.

Unemployment compensation payments to veterans will increase. This is the result of the growth in the number of eligible veterans. While existing legislation was intended to provide benefits during the transition period after discharge, it does not include a limit on the time during which veterans may apply for unemployment compensation. I recommend that the law be changed to provide for a time limit for filing claims after discharge. This should provide reasonable time for veterans to make their readjustment to civilian life and to establish benefit rights under the general unemployment compensation program. Limits are now provided in the Servicemen's Readjustment Assistance Act for other benefits.

Compensation and pensions.—The estimated expenditures of 2.5 billion dollars will provide for compensation and pension benefits to an average of 3.3 million individuals and families. This total includes nearly 1.8 billion dollars in compensation payments to service-disabled veterans and families of those veterans who have died from service-connected causes, and 700 million dollars for non-service-connected pensions. It also includes 45 million dollars for subsistence payments to an average of 20,000 disabled veterans in the vocational rehabilitation program and for 115,000 burial awards.

Expenditures for compensation and pensions have increased sharply in the last decade, and the long-run outlook on the basis of present laws and veteran population is that these expenditures will rise to double their present annual amount within several decades. At the same time, a large proportion of the present or potential recipients

MESSAGE OF THE PRESIDENT

M53

of these benefits will also qualify for payments under the Government's old-age and survivors insurance program.

While the conditions under which veterans are entitled to compensation and pension benefits are largely specified by law, the Administrator of Veterans' Affairs necessarily has important responsibilities for their administration, and the budget estimates for the fiscal year 1955 assume additional efforts to prevent unsound practices and abuses.

Insurance and servicemen's indemnities.—The Government reimburses the veterans' insurance trust funds for payments made for deaths traceable to war hazards in the case of policyholders under the national service life insurance contracts issued mostly to World War II veterans and under the United States Government life insurance policies issued to veterans of earlier periods. The Government also pays certain other insurance benefits directly to policyholders. Insurance payments are expected to decline from 84 million dollars in the fiscal year 1954 to 45 million dollars in 1955.

Since the enactment of the Servicemen's Indemnity Act of 1951 as a substitute for a Government life insurance program, the families of servicemen who die on duty or within 120 days after separation are paid benefits at the rate of \$92.90 a month for 10 years. These payments are expected to increase 41 percent from the 1954 level to 30 million dollars in 1955.

Hospital and medical care.—The estimates for current expenses of the veterans' hospital and medical programs will provide for an average of 110,200 patients in Veterans Administration and contract hospitals and 25,700 members in Veterans Administration and State domiciliary facilities during the fiscal year 1955. The cost of caring for the increase of about 2 percent in the hospital load compared to the level now estimated for 1954 is offset, however, by lower amounts for the medical and dental outpatient care programs. The lower estimates for the dental outpatient care program are based primarily upon the recommendation that the Congress extend for 1955 the language enacted for the fiscal year 1954 in Public Law 149, 83d Congress, limiting dental treatment for noncompensable disabilities to those cases for which application for treatment is made within one year of discharge.

The budget includes recommended new obligational authority of 44 million dollars for new construction and improvements, including 30 million dollars to complete new hospitals at San Francisco and Topeka, toward which the Congress made an initial appropriation for the fiscal year 1954.

I am recommending increased appropriations to provide for an average employment in the Veterans Administration medical and hospital programs of 136,000 during the fiscal year 1955, an increase of 10,500 from average employment in 1953 and 3,000 more than in the current year. This increase provides for operation of the new hospital facilities which have been constructed.

Other services and administration.—General administrative expenses of the Veterans Administration are estimated to decline further in the coming year as the result of declining workloads for readjustment of World War II veterans as well as improved performance resulting from better organization and greater efficiency. Average employment of 35,600 in Veterans Administration nonmedical programs is estimated for 1955, 11 percent below employment in the current year and 17 percent less than in 1953.

Trust funds.—Under the United States Government life insurance and national service life insurance trust funds, nearly 7 million policies continue in force, carrying 44 billion dollars of life insurance issued before enactment of the Servicemen's Indemnity Act of 1951. The receipts of these funds now roughly balance their disbursements. The transactions of these, as of other, trust funds are not included in the budget totals.

VETERANS' LIFE INSURANCE FUNDS

(Trust funds)

[Fiscal years. In millions]

Item	1953 actual	1954 estimated	1955 estimated
Receipts:			
Transfers from general and special accounts.....	\$84	\$75	\$36
Interest on investments.....	200	208	208
Premiums and other.....	427	522	485
Total.....	711	805	729
Expenditures:			
Dividends to policyholders.....	190	297	217
Benefits and other.....	470	533	524
Total.....	660	830	741
Net accumulation (+) or withdrawal (-).....	+51	-25	-12
Balance in funds at close of year.....	6,613	6,588	6,576

INTERNATIONAL AFFAIRS AND FINANCE

My budget recommendations for the international programs of the Government will enable us to hold our newly won initiative in world

MESSAGE OF THE PRESIDENT

M55

affairs and move toward a lasting peace. The budget for international affairs and finance includes funds required for the conduct of our foreign affairs, for the programs for economic and technical development abroad, and for our foreign information and exchange program.

The mutual military program, which was formerly included in the budget along with these programs under the heading "International security and foreign relations" has been discussed in this budget message as part of the national security program. At the same time, military assistance is intimately related to and must be administered in the furtherance of our foreign policy.

The extent of our assistance under both the mutual military program and mutual economic and technical program is shown in a summary table below. This table covers all components of the present mutual security program. This entire program is directed toward the establishment of conditions overseas which, in one way or another, contribute to our own security and well-being.

MUTUAL SECURITY PROGRAMS, MILITARY AND ECONOMIC

[Fiscal years. In millions]

	1953 actual	1954 estimated	1955 recommended or estimated
Expenditures:			
Mutual military program.....	\$3,954	\$4,200	\$4,275
Mutual economic and technical program.....	1,702	1,300	1,125
Total.....	5,656	5,500	5,400
New obligatory authority:			
Mutual military program ¹	4,236	3,800	2,500
Mutual economic and technical program ²	1,907	926	1,010
Total.....	6,143	4,726	3,510

¹ Does not include reappropriations of \$321 million for 1953 and \$1,763 million for 1954.

² Does not include reappropriations of \$128 million for 1953 and \$179 million for 1954.

Our national security and international programs are designed to deter would-be aggressors against the United States and other nations of the free world, and to strengthen our efforts for peace by all appropriate means including diplomatic negotiations with the Soviets. With a position of strength, an effective conduct of our foreign relations by the Department of State is the keystone of our efforts to win our way to peace. There has never been a time when the future security and welfare of our country were more dependent upon the exercise of wise leadership in the realm of world affairs. My recommendation for funds for the Department of State will enable it to meet this challenge.

Some countries are still facing such economic conditions that they are not able solely by their own efforts to support the desired military effort or to provide for the economic growth and progress essential to our mutual objectives. It is thus still necessary that supplementary goods, services, and technical skills be provided by the United States. It is for these purposes that funds for economic and technical development are requested for fiscal year 1955.

Through our information and exchange program we are attempting to achieve a clear understanding by others of our aims, objectives, and way of life and a better understanding by us of the aspirations and cultures of other countries. Such mutual understanding increases our ability to exercise strong, sympathetic, and cooperative leadership in the mutual efforts of free peoples to achieve their common goals.

INTERNATIONAL AFFAIRS AND FINANCE

[Fiscal years. In millions]

Program	Gross expenditures			Net expenditures			Recommended new obligational authority for 1955
	1953 actual	1954 esti- mated	1955 esti- mated	1953 actual	1954 esti- mated	1955 esti- mated	
Conduct of foreign affairs.....	\$150	\$129	\$125	\$150	\$129	\$125	\$116
Economic and technical development:							
Present program ¹	2,396	1,943	1,105	1,960	1,555	658	15
Proposed legislation.....			370			370	1,010
Surplus agricultural commodities disposal (proposed legislation).....							300
Foreign information and exchange activities.....	106	95	97	106	95	97	105
Total.....	2,652	2,167	1,697	2,216	1,779	1,250	1,546

¹ Gross expenditures exclude private bank loans guaranteed by the Export-Import Bank and net repayments thereof in the amounts of 4 million dollars in 1953, 82 million dollars in 1954, and 188 million dollars in 1955. Such amounts are included in table 1 and Special Analysis B.

During the past year progress has been made toward the accomplishment of the objectives of our international programs. Not only have our allies and friends grown in military strength, but also a continued high level of production and increased gold and dollar reserves have permitted European countries to become more nearly self-supporting. This improvement makes it possible for estimates of expenditures for economic and technical programs included in this budget to be significantly lower than the already reduced level of the fiscal year 1954. Significant contributory factors in this progress have been our assistance in past years and the positive and constructive fiscal and other economic measures which have been taken by the other countries themselves. As a result the fiscal year 1955 represents, in a sense, a

MESSAGE OF THE PRESIDENT

M57

period of transition from heavy dependence by a large number of countries upon massive bilateral economic assistance from the United States to the use of such assistance in more limited circumstances. Progress in such a transition will generally depend upon the extent to which our own policies, and those of our friends, contribute to increased private investment, increased exports to the United States, internal financial and economic reforms in some countries, and multi-lateral cooperation for the achievement of strong and self-supporting economies.

Conduct of foreign affairs.—The burden of the vastly enlarged responsibility involved in our international affairs falls heavily upon the Department of State since the Secretary of State is the officer responsible, under the President, for the development and control of all foreign policy and for the conduct of our relations with foreign governments and international agencies. Successful discharge of this broad responsibility calls for wise and informed diplomatic support to our national leaders in negotiations carried on at the highest levels as at Bermuda and Berlin. It requires the day-to-day representation of our national interest through some 273 diplomatic missions and consular offices abroad. We also must continue to give our firm support to the United Nations and other international organizations, and bear a part of the costs of these organizations and their programs. A successful administration of our foreign policy requires the State Department to report and appraise political, economic, and social conditions and trends abroad; to provide foreign policy guidance to all agencies carrying on programs overseas; and to coordinate in the field all foreign policy aspects of overseas programs. Finally, advice must be furnished as to the foreign policy implications of domestic programs.

Net budget expenditures for the conduct of foreign affairs in the fiscal year 1955 are estimated at 125 million dollars. This expenditure represents a decrease of 4 million dollars from 1954, resulting from reduction of personnel and other costs of the Department of State including the curtailment of civilian occupation activities in Germany.

Economic and technical development.—Net budget expenditures for economic and technical development in the fiscal year 1955 are estimated at 1,028 million dollars, compared with 1,555 million dollars in the fiscal year 1954 and 1,960 million dollars in 1953.

This budget, as did the fiscal year 1954 budget, reflects proportionately greater emphasis on programs in Asia, Africa, and Latin America. It contemplates new appropriations for aid to very few European countries.

In the Far East there is a need for contributions to provide for relief in Korea and, now that hostilities have been terminated, for an expanded reconstruction program for that war-devastated country. Funds are also recommended to maintain the strength and security of Formosa and to support further the effort of our friends combatting Communist aggression in Indochina. This budget also provides for technical assistance and economic development in India, Pakistan, the Philippines, and other nations of Asia to encourage continued progress in their efforts to improve the living conditions of their people.

With respect to the Near East the budget provides for helping relieve the plight of Arab refugees through contributions to the United Nations refugee agency, and for technical assistance and supplementary economic development in the Arab States, Israel, and Iran.

Provision is also made in the budget for continuing the technical assistance program for Latin America. This program, which has existed for a number of years, contributes to a reduction of social and economic problems upon which communism feeds and which hampers the development of stable and growing economies.

Surplus agricultural commodities.—I plan to request authority soon to use a part of our accumulated surpluses of agricultural products to assist in strengthening the economies of friendly countries, and otherwise to contribute to the accomplishment of our foreign policy objectives. Authority will be requested to use for this purpose over a 3-year period up to 1 billion dollars worth of commodities held by the Commodity Credit Corporation. This budget anticipates a request for a supplemental appropriation of 300 million dollars for the fiscal year 1955 to reimburse that Corporation for commodities used.

This program for use of agricultural surpluses is designed to complement our general program of economic and technical development and must be closely coordinated with it. The program for use of surplus agricultural commodities involves the use of stocks held by the Commodity Credit Corporation. No additional budget expenditures will be required for these commodities.

It should be emphasized in connection with this program that it is purely temporary, predicated upon adoption of our domestic agricultural program which should not involve the continued accumulation of large surpluses. Special safeguards will be provided which will require that commodities furnished must be in addition to amounts which otherwise would have been imported and must not displace the usual marketings of the United States and friendly countries.

Foreign information and exchange activities.—This budget includes expenditures of 97 million dollars for foreign information and exchange activities, including those functions conducted by the new

MESSAGE OF THE PRESIDENT

M59

United States Information Agency. This is an increase of 2 million dollars over the expenditures for foreign information and exchange programs in the fiscal year 1954.

In October, on the advice of the National Security Council, I directed the United States Information Agency to develop programs which would show the peoples of other nations that the objectives and policies of the United States will advance their legitimate aspirations for freedom, progress, and peace. I believe that if the peoples of the world know our objectives and policies, they will join with us in the common effort to resist the threat of Communist imperialism and to achieve our mutual goals. It is essential that the United States Information Agency have the tools to carry out this mission.

The United States Information Agency will reach 77 free countries through radio, press, motion pictures, or information centers and will reach 10 Iron Curtain countries through radio broadcasts.

My budget recommendations for information and exchange activities include 15 million dollars of new obligational authority for educational exchange programs. These programs are designed to promote a receptive climate of public opinion overseas through the exchange between the United States and over 70 foreign countries of students and persons who are leaders important to the present or future of their nations.

SOCIAL SECURITY, WELFARE, AND HEALTH

I believe that, along with the essentials of protecting the freedom of our people and maintaining a strong and growing economy, we must make greater and more successful efforts than we have made in the past to strengthen social security and improve the health of our citizens. In so doing, we build for the future, and we prove to the watching world that a free Nation can and will find the means, despite the tensions of these times, to progress toward a better society.

The keystone of our social security program today is the system of old-age and survivors insurance, under which nearly 70 million people are insured and 6 million people are presently receiving benefits. The economic protection afforded by this social insurance is now accepted as basic in our society. Yet there are serious defects in the system. In my recent social security message, I submitted specific recommendations to remedy these defects.

The legislation to improve old-age and survivors insurance will not directly affect the budget totals, since this program is financed through payroll taxes which go into a trust fund, and the expenditures are made from the fund rather than from the general budget accounts. However, the legislation should lessen the need for expenditures from

the general budget accounts to help the States pay public assistance to the needy aged and to dependent children, as old-age and survivors insurance takes over a larger and larger role in providing them with basic protection.

To reflect this development, legislation is being prepared to reduce Federal grants to States for old-age assistance as old-age and survivors insurance continues to take over an increasing share of the load. My social security message has set forth these recommendations in more detail.

SOCIAL SECURITY, WELFARE, AND HEALTH

[Fiscal years. In millions]

Program or agency	Expenditures			Recom-mended new obligational authority for 1955
	1953 actual	1954 esti- mated	1955 esti- mated	
Gross expenditures:				
Public assistance:				
Present program.....	\$1,332	\$1,391	\$1,187	\$1,202
Proposed legislation.....			108	108
Promotion of public health:				
Present program.....	316	289	281	234
Proposed legislation.....			7	89
Aid to special groups:				
Vocational rehabilitation:				
Present program.....	25	25	21	21
Proposed legislation.....			8	9
School lunch.....	83	83	68	68
Indian welfare and other.....	48	51	54	54
Accident compensation.....	43	42	43	43
Prisons and probation.....	29	27	28	29
Retirement and dependents insurance (Railroad Retirement Board).....	33	35	-----	-----
Defense community facilities and services.....	1	4	2	-----
Total.....	1,910	1,947	1,807	* 1,857
Deduct applicable receipts.....	(1)	(1)	(1)	-----
Net budget expenditures	1,910	1,947	1,807	-----

¹ Less than 500,000 dollars.

² Compares with new obligational authority of 1,886 million dollars in 1953 and 1,919 million dollars in 1954.

This administration flatly opposes the socialization of medicine. Under the traditional American approach, private and nonprofit medical and hospital insurance programs have grown steadily and now cover a large segment of the population. Yet there is still a long way to go. Many families are not protected; many health costs are not insured. Positive action to promote the health of all our people has been recommended in my recent message.

The budget estimates for the fiscal year 1955 provide for the costs of the proposed legislation to improve the health of the people and also for the improvements and expansion of vocational rehabilitation

MESSAGE OF THE PRESIDENT

M61

services for the disabled. Experience has proved that these efforts pay for themselves many times over.

Including the proposed legislation, net budget expenditures for social security, welfare, and health in the fiscal year 1955 are estimated at 1,807 million dollars. This is 140 million dollars less than estimated expenditures in 1954. The decline results mainly from an expected reduction in public assistance grants to the States.

Public assistance.—Under present law the Federal Government contributes, according to a statutory formula, to State expenditures for assistance payments to four groups of people in need—dependent children, the aged, the blind, and the totally disabled. With the expansion of the social security program, it is now feasible to recommend a new formula for public assistance grants which will more adequately recognize the varying financial needs of the several States and the appropriate role of the Federal Government in meeting these needs. The legislation which I am recommending would provide for a permanent formula to replace the present temporary increase in the Federal share which expires next September 30. This new formula includes specific provision for a related reduction in Federal grants to States for old-age assistance as the improved old-age and survivors insurance program takes over an increasing share of the load. A transition period for adjusting both Federal and State procedures will be necessary.

The decrease of nearly 100 million dollars in estimated expenditures for public assistance is made possible primarily by the proposed improvement in old-age and survivors insurance, which will reduce the need for supplementation by public assistance.

Promotion of public health.—The budget provides for initiating our new program to help assure adequate medical and hospital services. The main elements of this program are:

- (1) Establishment of a limited reinsurance service to encourage private and nonprofit health insurance organizations to offer broader health protection to more families on a basis which would reinsure the special additional risks through premiums modeled on sound insurance principles. The capital for this program will be provided initially by the Federal Government and repaid from fees.
- (2) A broadening of the present Federal grant-in-aid program for hospital construction to stimulate provision of diagnostic and treatment centers, rehabilitation facilities, nursing homes, and additional chronic disease hospitals, and to help finance State surveys of their needs for such facilities.

The new program is estimated to require new obligational authority of 89 million dollars for the fiscal year 1955, of which 7 million dollars would be spent in that year.

Budget expenditures for all public health programs under existing legislation, excluding medical care for military personnel and veterans, are estimated at 281 million dollars in the fiscal year 1955. About one-half of this amount will be for grants to universities and medical schools for medical research and training, for clinical and laboratory research conducted by the Federal Government, and for operation of the Public Health Service hospitals. The Public Health Service hospitals primarily furnish hospital and medical care to American merchant seamen. The budget provides funds to continue these special services while the Department of Health, Education, and Welfare has this program under review.

Other expenditures will be for grants-in-aid to State governments and local communities for hospital construction, general health services, maternal and child health, and the control of specific diseases, such as tuberculosis, cancer, mental illness, and heart ailments. With the major communicable diseases, including tuberculosis and venereal diseases, diminishing in importance as public health problems, greater emphasis is being given to the chronic diseases which are becoming more prevalent.

Vocational rehabilitation program.—The estimate for the present program of vocational rehabilitation reflects congressional action, taken in the 1954 appropriation act, to require that a larger portion of the program be financed by the States. To revitalize the vocational rehabilitation program, I have recommended that we redefine our objectives so as to make possible a substantial increase in the number of persons rehabilitated.

School lunch program.—Budget expenditures shown for the school lunch program for fiscal years prior to 1955 include funds for the purchase of commodities for distribution to the States, as well as for cash payments to the States. The amount recommended for 1955 will maintain cash payments to the States at the same level as in 1954. In addition, it is expected that larger Federal contributions of surplus agricultural commodities will be made to the program. These contributions are financed from a permanent appropriation to the Department of Agriculture. As a result, total Federal aid for the school lunch program, including cash payments and surplus foods distributed under the program for the children are estimated at 218 million dollars in the fiscal year 1955 compared with 206 million dollars in 1954.

MESSAGE OF THE PRESIDENT

M63

Railroad retirement.—As described earlier, the railroad retirement program is reported in this Budget in the same manner as the old-age and survivors insurance program and appears in the tables on that basis. The change does not affect the budget deficit.

Trust funds.—The old-age and survivors insurance system is operated through a trust fund, which receives the payroll contributions and pays the benefits and administrative expenses. The tax rate rose to 2 percent each on employers and employees, effective January 1, 1954. My proposals for expanding and improving the program will raise receipts by an estimated 100 million dollars, benefit disbursements by 400 million dollars, and administrative expense by 8 million dollars in the fiscal year 1955.

SOCIAL SECURITY, WELFARE, AND HEALTH

(Trust funds)

[Fiscal years. In millions]

Fund and item	1953 actual	1954 estimated	1955 estimated
Federal old-age and survivors insurance trust fund:			
Receipts:			
Present program:			
Appropriation from general receipts.....	\$4,086	\$4,600	\$5,369
Deposits by States.....	44	100	135
Interest and other.....	387	442	477
Proposed legislation.....			100
Payments of benefits, construction, and administrative expenses, and tax refunds:			
Present program.....	-2,748	-3,368	-3,809
Proposed legislation.....			-408
Net accumulation.....	1,769	1,774	1,864
Balance in fund at close of year.....	18,364	20,138	22,002
Railroad retirement fund:			
Receipts:			
Appropriation from general receipts.....	658	675	640
Interest on investments.....	89	98	105
Payments of benefits, salaries, and expenses.....	-465	-490	-513
Net accumulation.....	282	283	232
Balance in fund at close of year.....	3,183	3,466	3,698
Federal employees' retirement funds:			
Receipts:			
Employee contributions.....	425	427	427
Transfer from budget accounts and other.....	321	31	30
Interest.....	215	227	236
Payments of annuities and refunds, and expenses.....	-363	-421	-448
Net accumulation.....	598	264	245
Balance in funds at close of year.....	5,652	5,916	6,161

The Government also operates separate retirement programs for railroad workers, mentioned above, and for Federal civilian employees.

HOUSING AND COMMUNITY DEVELOPMENT

Good housing and the development of adequate community facilities are essential to the welfare of our people and to the stability and growth of our economy. Over the years the Federal Government has undertaken a wide variety of programs to assist our citizens in obtaining better housing. These programs, however, have been designed in the main to meet short-run emergencies or they have been developed piecemeal without a clear underlying policy. As a result, housing laws have become a patchwork which only experts can understand. Excessive reliance has been placed on direct participation by the Federal Government in areas where, properly encouraged, local governments or private enterprise could have carried a larger share of the total responsibility. Different Federal programs have too often worked at cross-purposes, resulting in heavy expense without commensurate gains. In some instances, they have aggravated inflationary price increases instead of working toward lower housing cost for the ultimate consumer. Finally, the weaknesses in the organization of Federal housing activities have prevented us from realizing the full potentialities of present programs.

At my request, the Advisory Committee on Housing Policies and Programs, under the chairmanship of the Housing Administrator, has intensively examined all Federal housing activities. After consideration of its report and the Administrator's recommendations, I am proposing a series of changes which have three important objectives: First, they would reorient existing programs to emphasize the initiative of private enterprise and the role of local governments. Second, they would fill important gaps in the present housing program and at the same time eliminate numerous unnecessary and obsolete activities. Third, they would strengthen the administration of these programs to assure the most economical and effective use of Federal funds in improving the housing conditions of the Nation.

To carry out these proposals I shall recommend major changes in legislative authority. I shall also submit a reorganization plan which will permit a more logical grouping of operating programs and give the Housing Administrator appropriate authority to supervise these programs and to determine major policies. Pending final decision on important details, estimates for these proposals are not specifically set forth in this budget. However, they will not have a significant effect on the Federal budget in the fiscal year 1955.

Most housing and community development programs involve both expenditures and receipts. In the fiscal year 1955 gross expenditures

MESSAGE OF THE PRESIDENT

M65

will total an estimated 1,903 million dollars, but receipts will exceed these expenditures by 277 million dollars. These net receipts compare with net expenditures of 549 million dollars in 1953 and the revised estimate of net expenditures of 57 million dollars in 1954. The great improvement in the fiscal outlook over the 2 years reflects mainly the fact that purchases of mortgages by the Federal National Mortgage Association are declining and sales are rising. Increased private financing for the public housing program is also reducing the need for Federal outlays.

HOUSING AND COMMUNITY DEVELOPMENT

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recom-mended new obligational authority for 1955
	1953 actual	1954 esti-mated	1955 esti-mated	1953 actual	1954 esti-mated	1955 esti-mated	
Urban development and redevelopment.	\$25	\$68	\$97	\$21	\$38	\$48	-----
Aids to private housing:							
Housing and Home Finance Agency:							
Federal Housing Administra-tion.....	124	118	94	-43	-30	-69	-----
Federal National Mortgage Association.....	645	590	488	379	62	-166	-----
Other.....	15	16	4	-25	-38	-28	\$4
Veterans' housing loans (Veterans Administration).....	92	109	84	70	78	44	-----
Treasury (Reconstruction Finance Corporation).....				-6	-50	-11	-----
Farm housing (Department of Agriculture).....	19	17	-----	19	17	-----	-----
Public housing programs.	1,027	1,222	956	1	-220	-234	77
General housing aids:							
Housing and Home Finance Agency:							
College housing loans.....	14	37	62	14	36	58	-----
Other.....	5	3	3	5	3	3	3
Provision of community facilities:							
Present programs.....	31	53	34	23	43	3	6
Proposed advances for public works planning.....				3	-----	3	-----
Defense housing.	28	31	1	28	31	1	-----
Civil defense.....	78	76	70	51	74	68	86
Disaster loans and relief.....	15	17	7	12	13	3	-----
Total.	2,118	2,357	1,903	549	57	-277	1,176

¹ Compares with new obligational authority of 1,526 million dollars in 1953 and 628 million dollars in 1954.

Urban development and redevelopment.—Too many families in our cities today are living in substandard housing in deteriorating and slum neighborhoods. Since 1949 the Federal Government has been providing loans and grants to local governments for clearance and redevelopment of slum areas. Most local projects approved for Federal assistance are still in the planning stage, but by the end of the fiscal

year 1955, clearance and redevelopment operations will be completed or underway for 180 projects, compared to 43 projects begun by June 30, 1953. Net expenditures in 1955 are estimated to rise to 48 million dollars, of which 39 million dollars represents grants to local communities to cover two-thirds of the net cost of projects which they have completed, or on which they have made substantial progress.

This acceleration is encouraging, but clearing slums provides only a partial answer. Effective progress in redeveloping our cities will require (1) enlistment of greater local and private participation, (2) slum prevention as well as elimination, and (3) rehabilitation of rundown houses and neighborhoods. To help attain these objectives, I shall recommend legislation broadening the present program to authorize loans and grants for the conservation, rehabilitation, and renewal of neighborhood areas. Important changes should also be made in mortgage insurance authority of the Federal Housing Administration and in the low-rent public housing program, so that these programs can contribute more effectively to sound redevelopment. All of these aids should be fully coordinated and should be provided only in areas where the local community has adopted and is carrying out its part of an effective program to arrest urban decay.

Federal Housing Administration.—As one of the major Federal aids to private housing, the Government insures mortgage loans made to finance housing construction or purchase. In the fiscal year 1955 under existing programs the construction of an estimated 190,000 new homes and the purchase of 126,000 existing homes will be financed with the aid of mortgages insured by the Federal Housing Administration. Receipts from premium income and other sources will exceed expenditures by an estimated 69 million dollars.

To encourage the substitution of private financing for Federal outlays in the areas of greatest housing need, I shall urge the Congress to authorize two new mortgage insurance programs, as well as to liberalize certain existing programs. Specifically, the Federal Housing Administration should now be authorized to insure private credit used for the rehabilitation of obsolete neighborhoods. It should also be given authority, on an experimental basis, to insure mortgages with small down payments and with the balance payable over a long period, to finance inexpensive homes for lower income families, particularly families displaced by rehabilitation and slum-clearance programs. Additional authority should be provided to adjust down payments and maturities for insured mortgages to the extent consistent with overall economic policy. I shall also recommend simplification of the basic housing laws by the elimination of numerous inactive or unnecessary programs and by simplification of the structure and opera-

MESSAGE OF THE PRESIDENT

M67

tions of the existing mortgage insurance funds. At the same time, measures will be recommended to strengthen the insurance funds.

Federal National Mortgage Association.—The Federal National Mortgage Association buys and sells mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Gross expenditures are estimated at 488 million dollars in the fiscal year 1955, mainly for purchase of mortgages to finance military and defense housing under commitments made in earlier years. By 1955 the supply of private funds is expected to be adequate in most areas to provide financing for most other types of mortgages without Federal support.

The policy of this administration is to sell the mortgages now held by the Association as rapidly as the mortgage market permits. Assuming satisfactory market conditions, receipts from these sales and from other sources in 1955 will exceed expenditures by an estimated 166 million dollars. This contrasts with net expenditures of 379 million dollars in 1953, and 62 million dollars estimated for 1954.

The legislation which I shall propose would provide authority to establish, from time to time, maximum interest rates and other terms on insured and guaranteed mortgages with the objective of encouraging an adequate, but not excessive, supply of private mortgage funds for all parts of the country. This proposal would make unnecessary in the future large Government purchases of mortgages such as were required in the past, whenever interest rates made such mortgages unattractive to private lenders. I shall also recommend the initiation of a new program, financed in large part from private funds, to furnish many of the secondary market facilities now provided by the Federal National Mortgage Association.

Other aids to private housing.—Net expenditures for direct housing loans to veterans are estimated at 44 million dollars in the fiscal year 1955, compared with 78 million dollars in 1954. Sales of loans to private investors are expected to rise as a result of the recent increase in the rate of interest on these loans. Under existing law, disbursements will be made during 1955 only on loans for which commitments are made prior to the expiration of lending authority on June 30, 1954.

Authority for farm housing loans under title V of the Housing Act should be permitted to expire on June 30, 1954. Most of the essential needs can be met under other authorities and funds available to the Farmers' Home Administration.

The loans of three other programs will be substantially liquidated in the fiscal year 1954. These include mortgages held by the Reconstruction Finance Corporation, loans made by the Housing Adminis-

trator to the Alaska Housing Authority, and loans to various pre-fabricated housing manufacturers.

Public housing.—As already indicated, I shall propose a new mortgage insurance program and other measures to encourage provision of private housing for low-income families. If these proposals prove effective, the need for future construction of low-rent public housing will be reduced. As an interim measure, however, the present public housing program should be continued at the level considered necessary to meet the needs of low-income families, particularly those displaced by slum-clearance and urban rehabilitation activities. Accordingly, my recommendations for the fiscal year 1955 in this budget would authorize construction of approximately 35,000 low-rent public housing units by local housing authorities, with the assistance of Federal loans and annual contributions adequate to assure the low-rent character of these units.

An estimated 956 million dollars in temporary Federal loans and other expenditures will be necessary to finance the operations of the low-rent and other public housing programs during the fiscal year 1955. Receipts from private refinancing of local housing authority obligations and other sources are estimated to exceed these expenditures by 234 million dollars. All except 8 million dollars of the 77 million dollars in new obligational authority requested is for payment of annual contributions under contracts made in prior years.

College housing.—Under the Housing Act of 1950 the Housing Administrator makes direct loans repayable over 40 years to finance student and faculty housing at colleges and universities. Net expenditures for such loans in 1955 will rise to 58 million dollars, largely under commitments made in prior years. By June 30, 1955, over 200 loans will have been approved. These will finance construction of housing accommodations for about 50,000 students and faculty members. Wherever possible, private financing of these loans will be encouraged.

Provision of community facilities.—The sharp reduction in net expenditures for provision of community facilities reflects mainly liquidation by the Treasury of loans to public agencies which were originally made by the Reconstruction Finance Corporation. No appropriations are being requested at this time for new loans to public agencies.

To encourage State and local governments to prepare for possible future expansion in public works construction, I am recommending legislation to authorize Federal advances to them for planning future construction. If the authority is granted, I shall request a supple-

MESSAGE OF THE PRESIDENT

M69

mental appropriation for the fiscal year 1954 of 10 million dollars, with estimated expenditures of 3 million dollars in 1955.

Civil defense.—Expenditures for civil defense are included in housing and community development because of their community aspects, but the program is discussed in this message under national security. Federal expenditures for civil defense are estimated at 68 million dollars in the fiscal year 1955.

EDUCATION AND GENERAL RESEARCH

The citizen in a democracy has the opportunity and the obligation to participate constructively in the affairs of his community and his Nation. To the extent that the educational system provides our citizens with the opportunity for study and learning, the wiser will their decisions be, and the more they can contribute to our way of life.

I do not underestimate the difficulties facing the States and communities in attempting to solve the problems created by the great increase in the number of children of school age, the shortage of qualified teachers, and the overcrowding of classrooms. The effort to overcome these difficulties strains the taxable resources of many communities. At the same time, I do not accept the simple remedy of Federal intervention.

It is my intention to call a national conference on education, composed of educators and interested citizens, to be held after preparatory conferences in the States. This conference will study the facts about the Nation's educational problems and recommend sensible solutions. We can then proceed with confidence on a constructive and effective long-range program. Pending the outcome of these conferences and the development of our educational program, the Federal Government is providing assistance to those communities where school needs have been greatly increased by the activities of the Federal Government.

Budget expenditures for education and general research activities in the fiscal year 1955 are estimated at 223 million dollars. This figure does not include amounts spent for education and research in connection with the military, veterans', atomic energy, and certain other programs—which are classified in other sections of the budget. A comprehensive report on Federal research activities appears in Special Analysis H, page 1157.

Sixty-two percent of the expenditures for education and general research in the fiscal year 1955 will be for grants to those local school districts that have been burdened by Federal activities. Another 13 percent will be for grants to States to help support their vocational education programs and their land-grant colleges. The Federal

Government also assists Howard University and educational institutions for the deaf and blind, and it maintains major library and museum services at the National Capital. Expenditures shown for general-purpose research are for programs of the Census Bureau, the National Bureau of Standards, and the National Science Foundation.

EDUCATION AND GENERAL RESEARCH

[Fiscal years. In millions]

Program or agency	Budget expenditures (net)			Recom-mended new obligational authority for 1955
	1953 actual	1954 esti- mated	1955 esti- mated	
Promotion of education:				
Office of Education:				
Assistance for school construction and operation in federally affected areas.....	\$201	\$199	\$139	\$99
Vocational education.....	25	26	25	25
Grants for colleges of agriculture and the mechanic arts.....	5	5	5	5
Educational conference and other proposed legislation.....		1	1	(1)
Other.....	3	3	3	3
Educational aid to special groups.....	7	7	7	9
Library and museum services.....	11	12	12	12
General-purpose research:				
National Science Foundation.....	4	7	12	14
Bureau of the Census.....	13	9	10	10
National Bureau of Standards.....	8	9	9	8
Total.....	277	278	223	² 185

¹ Less than 500,000 dollars.² Compares with new obligational authority of 328 million dollars in 1953 and 217 million dollars in 1954.

Promotion of education.—Responsibility for education in the United States belongs to the State and local governments. The Federal Government has for many years provided financial assistance for land-grant colleges and some other educational activities. The Office of Education also disseminates information on educational trends and good practices. In recent years, the problems of education have been increasing in severity while this service has been reduced. My budget recommendations provide for an expansion of this basic activity.

The proposed national conference and preparatory State conferences will be most important steps toward obtaining effective nationwide recognition of these problems and toward recommending the best solutions and remedies. I recommend immediate enactment of the authorizing legislation and appropriations so that preparations for the individual State conferences as well as the national conference can begin at once.

MESSAGE OF THE PRESIDENT

M71

Within the appropriation recommended for the Office of Education in this budget is provision to expand the studies and consultations through which it promotes better practices in education. One problem to which particular attention will be given is the meager education received by children of migrant agricultural workers. Because these children move with their parents from State to State, the problem of providing for their education can be solved only through special effort on a cooperative interstate basis.

In addition, I recommend that legislation be enacted which will enable the Office of Education to join its resources with those of State and local agencies, universities, and other educational organizations for the conduct of cooperative research, surveys, and demonstration projects. Legislation is necessary to make this cooperative effort effective.

An advisory committee on education in the Office of the Secretary of Health, Education, and Welfare should be established by law. This recommendation carries forward an objective of the reorganization plan under which the Department was created last year. This committee, composed of lay citizens, would identify educational problems of national concern to be studied by the Office of Education or by experts outside the Government, and would advise on action needed in the light of these studies.

For these new activities directed toward the improvement and strengthening of our basic educational services, I am including 300,000 dollars in the 1955 budget and recommending a 1954 supplemental appropriation of 2 million dollars.

The last session of the Congress enacted legislation to extend temporarily the laws under which assistance has been provided to local school districts burdened by Federal activities, and to improve the original laws so that they will provide the aid economically and to the areas most acutely affected. As a result of these improvements, the recommended appropriation of 59 million dollars for school-operating assistance in the fiscal year 1955 is 14 million dollars below the amount for 1954. This assistance is provided to more than 2,000 school districts, with enrollments of almost 5 million children, of whom almost 1 million qualify for assistance because their presence is related to Federal activities.

The appropriation of 40 million dollars for school construction recommended for 1955, together with the 1954 appropriation of 70 million dollars, will provide for the most urgent classroom needs of the school districts eligible for this aid under the extended program. These funds are being used to help build almost 5,000 classrooms to serve 140,000 children.

Aid to special groups.—A construction program now underway at Howard University will provide facilities for double the enrollment in the schools of medicine, dentistry, pharmacy, and related health fields. This budget includes funds for the construction of the preclinical medical building, the last unit necessary to make this expanded enrollment possible. Although the university is not limited to any group, it serves as an important center of higher education for Negroes. The expanded enrollment, therefore, will help to alleviate the shortage of doctors, particularly Negro doctors.

Enrollment at the Columbia Institution for the Deaf has been increasing in recent years. Steps now being taken to enable the college to reach an accredited status in the near future include the provision of additional teachers and funds for the construction of a library-classroom building. One-third the cost of this building is being provided by contributions, primarily from former students.

General research.—The National Science Foundation was created by the Congress in recognition of the need to formulate an adequate scientific research policy for the Nation. It is now engaged in intensive studies to that end, and is giving particular attention to the size and composition of the research activities of the Federal Government.

The Congress, at its last session, amended the basic act of the Foundation, removing the ceiling on appropriations to this agency in order to permit steps toward increasing the responsibility of the Foundation for the general-purpose basic research of the Federal Government. Approximately one-half of the 6-million-dollar increase I am recommending in the appropriation for the Foundation for the fiscal year 1955 is in reality a transfer of the responsibility and the financing for certain basic research programs from the Department of Defense to the National Science Foundation. The remainder of the increase is needed to expand basic research.

Within the appropriation for the National Bureau of Standards, there is also provision for an increase in basic research.

Additional basic research is needed to build up the fund of knowledge on which will be based the development of new crops for agriculture, new methods of safeguarding health, new tools for industry, and new weapons. A further important result is the training which basic research projects provide for graduate students in our universities. The number of trained scientists graduating each year falls short of the needs of our growing economy and is still declining. Enlargement of the research program and the related fellowship program will help counteract this trend.

Funds are requested for the fiscal year 1955 to permit the Census Bureau to conduct a sample census of agriculture. This census will provide essential data for current needs.

MESSAGE OF THE PRESIDENT

M73

AGRICULTURE AND AGRICULTURAL RESOURCES

My recommendations for Federal agricultural programs are designed to help in the solution of pressing immediate problems such as the hardships arising from severe drought in major farm areas, the squeeze on livestock producers resulting from lower cattle prices, and the disposal of excess stocks of wheat, cotton, vegetable oils, and dairy products which have been accumulated under provisions of price-support laws presently in force. They also take into account our long-run goals—promotion of a more stable and healthy farm economy, conservation and improvement of our basic agricultural resources, and provision of an adequate supply of food and fiber to match the needs of our increasing population.

AGRICULTURE AND AGRICULTURAL RESOURCES
[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recom-mended new obligational authority for 1955
	1953 actual	1954 est-i- mated	1955 est-i- mated	1953 actual	1954 est-i- mated	1955 est-i- mated	
Stabilization of farm prices and farm income:							
Price support, supply, and purchase programs (CCC):							
Existing programs ¹	\$2,874	\$2,832	\$2,951	\$1,831	\$1,152	\$1,105	-----
Proposed legislation.....							\$1,750
International Wheat Agreement.....	131	84	89	131	84	89	-----
Removal of surplus agricultural commodities.....	82	205	233	82	205	233	180
Sugar Act.....	63	65	65	63	65	65	60
Federal crop insurance.....	27	37	33	5	9	3	6
Agricultural adjustment programs.....	13	44	43	13	44	43	42
Financing farm ownership and operation:							
Farm Credit Administration.....	1,936	2,012	2,164	-83	-1	42	25
Farmers' Home Administration.....	177	193	168	177	193	168	168
Disaster loans and emergency feed.....	47	315	66	16	181	-17	-----
Financing rural electrification and rural telephones.....	239	250	232	239	250	232	137
Agricultural land and water resources:							
Agricultural conservation program.....	308	256	196	251	242	165	195
Soil Conservation Service, flood prevention and other:							
Existing programs.....	66	73	69	66	73	69	66
Proposed legislation.....			2			2	3
Research and other agricultural services.	145	157	167	145	157	167	159
Total.....	6,108	6,523	6,478	2,936	2,654	2,366	* 2,791

¹ Gross expenditures exclude private bank loans guaranteed by the Commodity Credit Corporation and net repayments thereof in the amount of 340 million dollars in 1953, 1,564 million dollars in 1954, and 274 million dollars in 1955. Such amounts are included in table I and Special Analysis B.

² Compares with new obligational authority of 1,333 million dollars in 1953 and 2,302 million dollars in 1954.

The Secretary of Agriculture has recently reorganized the Department to increase administrative efficiency and to make more effective

the various services the Department renders. Activities have been grouped into major units consisting of closely related programs, and provision has been made for greater emphasis on research and extension work directed to the improvement of farm products, reduction of production and marketing costs, and broadening of both the foreign and the domestic markets for farm products.

Gross expenditures for agricultural programs in the fiscal year 1955 are estimated at 6.5 billion dollars. Repayments of loans and the sale of commodities constitute most of the receipts of the public enterprises carrying on certain of these programs. These receipts are estimated at 4.1 billion dollars. Hence, net budget expenditures in the fiscal year 1955 are estimated at 2.4 billion dollars. This is 288 million dollars less than estimated net expenditures in 1954 and 570 million dollars less than in 1953.

Stabilization of farm prices and farm income.—Price support activities of the Commodity Credit Corporation, which account for nearly one-half of the estimated 1955 net budget expenditures for agriculture and agricultural resources, have dominated the trend of these expenditures in recent years. There is no better evidence of the tremendous budgetary significance of these activities than the increase of about 2.5 billion dollars during the past calendar year in commodities held by the Corporation and in price support loans. Furthermore, present prospects indicate that, under present law, large additional budgetary outlays will be required for these activities in the fiscal year 1955. It is clear, therefore, that a thorough reconsideration by the Congress of the provisions of existing price support laws is needed not only in the interest of farmers, but also in the national interest.

In my recent special message, I recommended improvements in the price support legislation both to deal with the immediate problems arising from our large surpluses of agricultural commodities and to chart a course for the future that will more effectively achieve the goals of farm price supports. In most instances the reduction in budget expenditures which can be expected from improved and more flexible price support provisions will begin to be effective in the fiscal year 1956.

It is impossible, because of many variable factors, to estimate with any certainty the expenditures under these programs. Based upon the best information now available, it appears that the gross price support expenditures of the Commodity Credit Corporation, which reflect mainly the loans made and commodities acquired during the year, will be 3 billion dollars in the fiscal year 1955. Anticipated receipts of 1.9 billion dollars from loan repayments and commodity sales will result in net expenditures in the fiscal year 1955 of 1.1 billion

MESSAGE OF THE PRESIDENT

M75

dollars. These net expenditures for price supports are expected to be 47 million dollars lower than in 1954, and 726 million dollars below the high level reached in 1953.

The reduction in expenditures from the 1953 level is due primarily to the application of marketing quotas on wheat and cotton and acreage allotments on corn which are intended to reduce production from the 1954 crops. The estimates for the fiscal years 1954 and 1955 also reflect greater emphasis given to private financing of price support operations. This, coupled with the customary timing for loan maturities, will result in a substantial proportion of the price supports on the 1953 and 1954 crops not becoming a Government expenditure until the loans held by private institutions mature, which will occur in 1955 and subsequent fiscal years.

All obligations of the Commodity Credit Corporation, whether in the form of borrowing from the Treasury or commodity loans held by banks and guaranteed by the Corporation, constitute a use of the statutory borrowing authority of 6.75 billion dollars. With the large volume of commodity loans and inventories now held and the increases expected in 1954 and 1955, it is estimated that the obligations of the Corporation may exceed its present borrowing limit during the annual peak, probably February 1954, and rise to a still higher level in the fiscal year 1955. I shall recommend to the Congress early in this session a supplemental 1954 estimate of 775 million dollars to restore borrowing authority to the Corporation, through cancellation of notes owed the Treasury, in an amount equal to the sum of the Corporation's capital impairment as of June 30, 1953, the advances during 1953 for control of foot-and-mouth disease, and the cost of operations under the International Wheat Agreement. This note cancellation will require immediate action by the Congress to insure that the Corporation can fulfill its statutory responsibilities under the present price support program.

I shall also recommend legislation to increase the borrowing authority of the Corporation by 1.75 billion dollars, effective July 1, 1954. This recommended increase in borrowing authority takes into account the increased commitments by the Government which would result from the proposed increase in the minimum 1954 cotton acreage allotment. While these commitments will be made in the fiscal year 1955, the cash expenditures by the Commodity Credit Corporation will not occur until 1956.

The recommended new obligational authority for the Corporation will meet the minimum foreseeable needs, provided steps are taken through new legislation to place our farm price support program on a sound basis for the future. A further request for additional borrowing authority may be necessary at a later date if conditions result

in this amount being insufficient to provide for the commitments and expenditures required during the period the presently applicable price support provisions remain in effect.

Under the revised International Wheat Agreement, which became effective in the fiscal year 1954, our export quota for wheat has been reduced because of the withdrawal of Great Britain from the Agreement. Moreover, the maximum export price has been raised from \$1.80 to \$2.05 per bushel. As a result, expenditures under this program are expected to be only about two-thirds as much as in 1953 when our guaranteed export quota was larger and the spread between the domestic price and the export price of wheat was wider. While expenditures under the Wheat Agreement will be less in 1955 than in earlier years, the loss of wheat exports may increase wheat surpluses and thus cause larger outlays by the Commodity Credit Corporation under the price support program than would otherwise occur.

The permanent appropriation for the removal of surplus agricultural commodities, enacted in 1935, is equivalent to 30 percent of the customs receipts for the preceding calendar year. In the fiscal year 1955 there will be available from this authority a carryover of 241 million dollars from prior years plus 180 million dollars of new authorization. This total of 421 million dollars compares with estimated expenditures in 1955 of 233 million dollars. Of this amount 150 million dollars of surplus commodities purchased under this program is estimated to be distributed to the national school lunch program in 1955, as compared with 123 million dollars in 1954 and 52 million dollars in 1953. This permanent appropriation will be used also to strengthen the work being done by the Foreign Agricultural Service in cooperation with the Department of State in developing new foreign markets for our agricultural products.

Financing farm ownership and operation.—The Farm Credit Act of 1953, enacted by the last session of the Congress, restored the Farm Credit Administration to an independent status under the supervision of the Federal Farm Credit Board created by that legislation. It is the policy of this administration, through the Farm Credit Administration, to strengthen cooperative credit services on the basis of sound business-credit standards, and to increase farmer participation in the ownership and control of the Federal farm credit system to the end that the investment of the United States in the federally sponsored agricultural credit institutions may be retired within a reasonable time.

The cooperative credit institutions supervised by the Farm Credit Administration make both long- and short-term loans to farmers and to farmers' cooperatives. Short-term loans by the production credit associations are financed largely through the federally owned inter-

MESSAGE OF THE PRESIDENT

M77

mediate credit banks. Gross expenditures of these banks, which reflect mainly new loans, are expected to be approximately offset by receipts from loan repayments in the fiscal year 1955.

Direct loans to farmers by the Farmers' Home Administration, primarily for farm ownership, production and subsistence, and water facilities, are intended to supplement the credit services provided by private and cooperative credit agencies. The principal purpose of these loans is to help borrowers improve their financial situation so that they can qualify for private or cooperative credit. In the fiscal year 1955, the regular loan program will be continued at about the same level as that provided in 1954. Collections of principal and interest on old loans, which approximately equal new loans made, go directly into miscellaneous receipts of the Treasury and are not deducted from budget expenditures of this program.

Existing legislation does not provide adequately for the financing of group water facilities and related small water supply projects. Proposals for legislation will be submitted at a later date to broaden the geographical area within which water facilities loans may be made, and to increase the loan limit.

The volume of special disaster loans to farmers increased sharply during the first half of the fiscal year 1954. This increase resulted mainly from loans made to stockmen and other farmers in drought-stricken areas to help them finance feed purchases and thereby avoid drastic liquidation of their livestock holdings. The Federal Government also contributed emergency feed from stocks acquired in price support operations and absorbed a part of the cost of making other feed available to farmers in these areas.

As of December 18, 1953, the Federal Government under this program had committed 52 million dollars to supply 1.4 million tons of feed concentrates and over 5 million dollars to cover the Federal Government's share of the cost of the hay program which is administered by the States. A recommendation will be made to the Congress shortly to assure a continuation of advances to States for assistance in distributing hay to farmers and ranchers in the drought areas. In addition, meat purchases of 86 million dollars by the Government up to December 16, 1953, financed from the permanent appropriation for removal of surplus agricultural commodities, have resulted in the removal of about 780,000 head of cattle from the market. The disaster loan program, along with provision of emergency feed and purchases of meat by the Department of Agriculture, supported livestock prices at a time when the market otherwise would have been more depressed by forced liquidation of livestock. The need for new loans and other emergency assistance is expected to be greatly reduced by the spring of 1954, and collections during the fiscal year 1955 on disaster loans made in prior years should exceed new loans made.

Financing rural electrification and rural telephones.—The need for rural electrification loans has become less as the proportion of our farms that are electrified has increased. About 91 percent of our farms are now electrified. Only about 42 percent of our farms, however, have telephone service. The budget recommendations for these two programs in the fiscal year 1955 provide loan funds sufficient to finance substantial further expansion of electrification and telephone services in rural areas. In order to reduce the need for future Federal aid, this administration also is exploring possible arrangements whereby more private capital can be made available to finance telephone services in rural areas.

Agricultural land and water resources.—The need for greater emphasis on conservation and development of our agricultural land and water resources was set forth in my special message to the Congress on this matter on July 31, 1953. The budget estimates provide for 66 million dollars under existing legislation to continue and improve the technical and advisory services of the Soil Conservation Service and for related activities.

Additional work should be undertaken with a view to strengthening our vital upstream conservation activities. Farmers increasingly realize that it is in their own interest to do more of this work. Because the Nation as well as farmers and local communities receive benefits, this work should be a joint responsibility. Existing law, however, does not provide an adequate basis for cooperative upstream development. The 1955 budget, therefore, includes 3 million dollars under proposed legislation to permit the Department of Agriculture to cooperate with State and local agencies in the planning and installation on small watersheds of the necessary protective facilities, and to provide for better conservation, development, utilization, and disposal of water. This will supplement the 11 million dollars to be spent under existing law for watershed protection and flood prevention projects.

In conformance with the forward authorization for the 1954 crop year enacted in the 1954 appropriation act, the budget provides 195 million dollars for the agricultural conservation payment program in the fiscal year 1955. A proposed revision of this program will be recommended to the Congress. The proposal involves no expenditures in the fiscal year 1955.

Research and other agricultural services.—To achieve a more efficient and stable agriculture and to provide for the future needs of a growing population, increased attention must be given to research and educational work on problems of agricultural production, soil conservation,

MESSAGE OF THE PRESIDENT

M79

and marketing. The 1955 budget includes 112 million dollars for research and extension work, an increase of 18 million dollars over the estimate for the fiscal year 1954. This work is done in cooperation with State and private agencies. The budget recommendations will provide for a needed expansion of research on marketing and utilization of farm products and of other scientific research conducted by Federal agencies, and increased payments to States for related co-operative research programs. This budget also will provide greater Federal contributions to the Federal-State extension program.

The recommended increase in Federal appropriations for cooperative research and extension work is accompanied by a recommended decrease in appropriations for certain regulatory activities carried on jointly with the States. The budget contemplates elimination of Federal contributions for tuberculosis and brucellosis indemnity payments and curtailment of Federal quarantine and similar operations in a number of insect and plant disease programs. The shift in responsibility for continuation of these programs is in accordance with the policy of this administration that the Federal Government should withdraw from activities which we believe can be more appropriately carried on by private enterprise or by State and local governments.

A strengthening of agricultural research and the wide dissemination of improved techniques through extension work will contribute to the efficiency of farm production and marketing, benefiting both producers and consumers. This will provide the solid foundation for a more prosperous and stable agriculture and ultimately for less reliance on Government price support and other financial aids.

NATURAL RESOURCES

My recommendations for the natural resources programs of the Government are based on a reappraisal of the responsibility which the Federal Government should exercise in the development of our resources. At the same time, the recommendations have been made with due regard to our overall fiscal position. To keep the Federal financial burden at a minimum while defense expenditures remain high, some improvements and program expansions which might be desirable have not been included in this budget. Emphasis has been given to careful planning to insure sound development of our natural resources. Such development should be timed, whenever possible, to assist in leveling off peaks and valleys in our economic life.

A strong program of resource conservation and development is necessary to support the progressively expanding demands of our increasing population and to contribute to the economic growth and security of the Nation. Achievement of this goal requires a combined

effort on the part of States and local communities, citizens, and the Federal Government. To the greatest extent possible, the responsibility for resource development, and its cost, should be borne by those who receive the benefits. In many instances private interests or State and local governments can best carry on the needed programs. In other instances Federal participation or initiative may be necessary to safeguard the public interest and to accomplish broad national objectives.

NATURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recommended new obligational authority for 1955
	1953 actual	1954 estimated	1955 estimated	1953 actual	1954 estimated	1955 estimated	
Land and water resources:							
Corps of Engineers: Flood control and multiple-purpose projects:							
Existing program-----	\$579	\$416	\$361	\$579	\$416	\$361	\$342
Proposed legislation: Aid for non-Federal development of water resources-----			5			5	5
Department of the Interior:							
Bureau of Reclamation: Irrigation and multiple-purpose projects:							
Existing program-----	235	182	167	231	180	164	160
Proposed legislation: Federal projects-----			(1)			(1)	(1)
Proposed legislation: Aid for non-Federal development of water resources-----			5			5	5
Power transmission agencies-----	65	64	53	65	64	53	39
Indian lands resources-----	32	36	35	29	35	34	27
Bureau of Land Management and other-----	14	16	15	14	16	15	16
Tennessee Valley Authority-----	315	366	439	184	195	212	142
Department of State-----	15	9	5	15	9	5	2
Federal Power Commission-----	4	4	4	4	4	4	4
Forest resources -----	107	116	110	107	116	110	108
Mineral resources -----	41	41	39	38	38	36	36
Fish and wildlife resources -----	34	37	38	34	37	38	36
Recreational use of resources -----	30	34	34	30	34	34	29
General resource surveys and other -----	28	28	27	28	28	27	27
Total-----	1,499	1,349	1,337	1,358	1,172	1,103	² 978

¹ Less than 500,000 dollars.² Compares with new obligational authority of 1,396 million dollars in 1953, and 1,026 million dollars in 1954.

Estimated net expenditures of 1.1 billion dollars in the fiscal year 1955 will provide for the management and protection of the resources which belong to all the people and which are under the jurisdiction of the Federal Government. About three-fourths of this total will be for flood control, irrigation, power, and multiple-purpose river basin

MESSAGE OF THE PRESIDENT

M81

development. The remainder will be spent on the management, development, and protection of our national forests, parks, and other public lands, and for mineral and fish and wildlife resources and basic surveys. Activities to advance the peacetime applications of atomic energy, which will be of increasing significance in 1955, are discussed with other activities of the Atomic Energy Commission in the national security section of this message.

Land and water resources.—Under my recommendations in this budget, the Federal Government will spend an estimated 858 million dollars for the conservation and development of land and water resources in the fiscal year 1955. A major part of this represents investment in assets which will yield benefits long into the future.

This administration is developing a sound and uniform national policy for the conservation, improvement, and use of water and related land resources, designed to assure that future programs are not only responsive to local requirements but are consistent as well with the needs of the Nation as a whole. As a step in this direction, a statement of principles has been issued on the generation, transmission, and disposal of electric power. Standards for the justification of proposed water resources projects are currently being reviewed by the executive branch. Special attention is being given to requirements for the sharing of costs among private beneficiaries, State and local groups, and the Federal Government. Also, the Congress has established commissions to examine resource programs, as well as other Federal activities, and to make recommendations with respect to them. As the various studies are completed, I shall make specific legislative recommendations to the Congress.

This administration has also taken and will continue to take steps to encourage non-Federal interests to formulate plans and undertake development of water resources, including hydroelectric power, which are consonant with the best use of the natural resources of the area. An outstanding example of cooperation between various levels of government—State, Federal, and international—in multiple-purpose development of a resource is the proposal for the development of the St. Lawrence River. It would also be in the public interest for construction to be undertaken, on a non-Federal basis, to realize the power potential of the Niagara Falls site.

Basic resource surveys and advance engineering and design activities will be carried on in 1955 at rates necessary to provide for further development of our resources. Federal activities in projects or plans will not imply any exclusive reservation of such projects to Federal construction or financing or preclude local participation in them. Needed projects to be constructed by the Federal Government may

include those which, because of size and complexity, are beyond the means of local, public or private enterprise.

My budget recommendations also provide for the continuation of river basin work now underway. Less urgent features of the projects, not required for operation of going or completed units, will be deferred. Budget expenditures of the Bureau of Reclamation and the Corps of Engineers include an estimated 443 million dollars in the fiscal year 1955 to carry on construction of about 160 river basin development projects. A substantial amount of these expenditures is for multiple-purpose development for irrigation, flood control, navigation, and hydroelectric power. During the fiscal year 1955, 20 projects will be completed or substantially completed, including 9 flood control projects, 5 irrigation projects, and 6 multiple-purpose projects with power facilities.

In furtherance of the policies of this administration, I am recommending the starting of some new projects or new units of existing projects by the Corps of Engineers and the Bureau of Reclamation, as well as the resumption of some previously deferred projects. The budget recommends commencing work on 6 irrigation and water supply projects, 8 local flood prevention projects, and 8 navigation projects, one of which I recommend starting in the fiscal year 1954 with supplemental funds. In addition, it provides for resumption of work on 2 flood control reservoirs and 2 river and harbor improvements. This work is estimated to cost a total of 184 million dollars, with expenditures of 20 million dollars scheduled for the fiscal year 1955. Together with the St. Lawrence Seaway, this totals to 23 new projects and 4 resumptions in the budget. The navigation projects, including the St. Lawrence Seaway, are discussed in this message with the transportation and communication programs. Recommendations for related watershed protection and flood prevention activities of the Department of Agriculture are discussed in the section on agriculture and agricultural resources.

The new local flood prevention works, to be constructed by the Corps of Engineers, are relatively small projects and can be completed within 3 years. The detailed plans preliminary to construction have been completed. Each of the projects has a favorable ratio of benefits to costs and provides for a reasonable degree of financial cooperation by local interests. Resumption of work is proposed on 2 flood control reservoirs, each of which is about one-third completed.

The new projects recommended for the Bureau of Reclamation include 3 projects already authorized and 2 projects under legislation I am proposing. Commencement of work is also recommended on a new pumping unit of an irrigation project now under construction. These are small or intermediate-sized developments. In their

MESSAGE OF THE PRESIDENT

M83

selection, consideration has been given to the benefits of supplemental irrigation for established farming areas, to more intensive and beneficial use of existing water supplies, and to the ability of the water users to make a reasonable repayment of the investment. In the case of one of the projects which requires authorization, I have recommended to the Congress that provision be made in the legislation for repayment within 50 years of all reimbursable costs, and that construction of the project be made contingent on the assumption by the State, together with local organizations, of financial responsibility for reimbursable costs beyond the ability of the water users to repay. This principle is in line with the policy of this administration that, to the greatest extent possible, the cost of these developments should be borne by those who receive the benefits.

In accordance with this administration's policy of encouraging State and local undertakings, there is included in the budget an initial appropriation of 10 million dollars under proposed legislation to enable the Corps of Engineers and the Bureau of Reclamation to cooperate with States, local governments, or private groups in the development of their water resources. It is thought that there are projects on which State and local interests could go forward with some Federal assistance. Such assistance should be provided on an equitable financial basis and should be limited to projects from which benefits would accrue to the general public.

The power policy of this administration recognizes the willingness of State and local groups to participate in providing additional power facilities. Where the necessary transmission facilities are not being provided on reasonable terms by other public or private agencies, the Department of the Interior will construct and operate transmission lines that are economically feasible and are necessary for proper interconnection and operation of Federal generation plants, and those that are required to carry power to load centers within economic transmission distances. As a result of this policy and the approaching completion of transmission systems required for carrying out arrangements for marketing power from Federal projects under construction, combined expenditures of the Bonneville, Southeastern, and Southwestern Power Administrations in the fiscal year 1955 will be less than in 1954.

Under the Federal Power Act, licensees of hydroelectric projects which benefit from headwater impoundments of other projects, either public or private, must make annual payments to the upstream developer in accordance with benefits received. The Federal Government is not required to make similar payments when Federal projects derive such benefits. In simple equity, this should be done. I recommend enactment of legislation which would require such Federal payments.

Although no appropriations are included in the 1955 budget for new power generation units by the Tennessee Valley Authority, expenditures will increase for continuation of construction of power plants presently underway, and for operation of power plants after they are completed. Expenses for operation of flood control, navigation, and fertilizer facilities will continue at about the 1954 level. Expenditures for power and fertilizer operations are more than offset by the income from sales. In order to provide, with appropriate operating reserves, for reasonable growth in industrial, municipal, and cooperative power loads in the area through the calendar year 1957, arrangements are being made to reduce, by the fall of 1957, existing commitments of the Tennessee Valley Authority to the Atomic Energy Commission by 500,000 to 600,000 kilowatts. This would release the equivalent amount of Tennessee Valley Authority generating capacity to meet increased load requirements of other consumers in the power system and at the same time eliminate the need for appropriating funds from the Treasury to finance additional generating units. In the event, however, that negotiations for furnishing these load requirements for the Atomic Energy Commission from other sources are not consummated as contemplated or new defense loads develop, the question of starting additional generating units by the Tennessee Valley Authority will be reconsidered.

In order to carry out the power policy of this administration which requires an interest charge on the Federal investment in power facilities to reimburse the Treasury for the cost of providing funds, a proposal is being developed for submission to the Congress to provide that an adequate rate of interest be paid to the Treasury on public funds invested in power facilities of the Tennessee Valley Authority. For this purpose, I have requested that a study be undertaken by the agency in cooperation with other executive agencies.

National forests and other public lands.—The development and use of our public lands should be on a businesslike basis with due regard for proper conservation and for the rights and interests of States and private citizens. Programs of the Forest Service and the Bureau of Land Management provide for the management, development, and increasing use of the valuable timber, forage, and mineral resources of the national forests and public lands, and also for the protection and use of these lands for their strategic watershed and other public values. Receipts from the use of these lands, estimated at 154 million dollars in the fiscal year 1955, are shared with the States and counties in which the lands are located.

The budget contemplates the withdrawal of Federal financial participation in certain phases of State and private forestry cooperation,

MESSAGE OF THE PRESIDENT

M85

with greater assumption of responsibility by local interests. At the same time, emphasis will be placed by the Forest Service on cooperative research. Increased funds are recommended to complete construction of access roads needed to salvage the timber in the beetle-infested and windblown forest areas of Washington and Oregon.

Expenditures for the management and protection of our national parks, monuments, and historic sites will be somewhat above the current-year level, so as to provide for improved services to the increasing number of visitors. This increase is largely offset by a reduction in expenditures for construction. Federal aid to States for fish and wildlife restoration, financed by special taxes on fishing and hunting goods, will increase.

As a part of the administration's objective of charging reasonable fees for services or facilities provided by the Government for private individuals or groups, consideration is being given to adjustments which would result in increased receipts to the National Park Service, thus returning to the Treasury a larger amount of the costs of maintaining and operating our national parks.

Expenditures on Indian land resources will provide for soil conservation work and further development of water supplies and timber and range resources necessary for their economic development. In the fiscal year 1955 appropriations will be reduced from their level in 1954 as a result of the slowing down or deferring of some construction projects—which will be accomplished without jeopardizing the overall objectives of the Indian programs.

Mineral resources.—I have recently appointed a Cabinet committee to establish guidelines for the prudent use and development of domestic mineral resources and to assure our growing economy of necessary mineral supplies in time of emergency. The report of this committee, expected within the next few weeks, should be helpful in resolving many of the problems facing the mineral producers of the Nation.

The Bureau of Mines will continue its basic research programs in the fiscal year 1955 for the aid of private development of resources, with emphasis on expanding the utilization of minerals in abundant supply and the development of suitable substitutes for materials in short supply. The Federal Government will also encourage private development by undertaking basic resource surveys, providing incentives for exploration of high priority minerals, and assisting in the development of oil and gas reserves of the Outer Continental Shelf.

TRANSPORTATION AND COMMUNICATION

Efficient transportation and communication services are essential to the national economy and the national security. At my request, an intensive reappraisal of Federal responsibilities is underway both by the regular departments and agencies and by special commissions. The general principles guiding this reappraisal are that the national interest will usually be served best by a privately owned and operated industry, which is supported by a minimum of Federal funds or Federal basic facilities and services operated at the lowest feasible cost and financed, where possible, by charges levied on the users of the services.

TRANSPORTATION AND COMMUNICATION

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recommended new obligational authority for 1955
	1953 actual	1954 estimated	1955 estimated	1953 actual	1954 estimated	1955 estimated	
Promotion of aviation:							
Civil Aeronautics Administration.....	\$161	\$146	\$121	\$161	\$146	\$121	\$104
Civil Aeronautics Board (subsidies to air carriers).....		54	80		54	80	73
National Advisory Committee for Aeronautics.....	78	91	77	78	91	77	58
Promotion of merchant marine:							
Maritime Administration.....	358	262	156	235	196	107	102
Inland Waterways Corporation.....	12	1	(1)		-2	-1	-----
Provision of navigation aids and facilities:							
Coast Guard.....	230	236	190	230	236	190	181
Corps of Engineers:							
Present programs.....	113	102	106	113	102	106	103
Proposed legislation (St. Lawrence Seaway).....			6			6	105
Panama Canal Company.....	106	102	99	-10	-2	-1	-----
Provision of highways:							
Bureau of Public Roads:							
Present programs.....	550	592	582	550	592	582	10
Proposed legislation.....							598
Alaska roads and other.....	22	20	17	22	20	17	13
Postal service:							
Present program.....	2,775	2,775	2,775	659	440	330	329
Proposed increase in postal rates.....						-240	-240
Regulation of transportation:							
Regulation of transportation.....	17	16	16	17	16	16	16
Other services to transportation:							
Other services to transportation.....	45	42	45	15	-40	21	22
Regulation of communication:							
Regulation of communication.....	7	7	7	7	7	7	8
Total.....	4,474	4,446	4,277	2,077	1,856	1,418	* 1,482

¹ Less than 500,000 dollars.² Compares with new obligational authority of 1,925 million dollars in 1953 and 1,756 million dollars in 1954.

In the fiscal year 1955 net budget expenditures for transportation and communication programs will decline to an estimated 1,418 mil-

MESSAGE OF THE PRESIDENT

M87

lion dollars, compared with 1,856 million dollars in 1954 and 2,077 million dollars actually expended in 1953. The largest decrease is the anticipated reduction of the postal deficit by operating savings and by increased postal rates. Sizable reductions have also been made in other large programs.

New legislative authority is required to move more rapidly toward putting the postal service on a self-supporting basis and to establish a corporation to operate the Washington National Airport. I am also recommending legislation to permit us to participate in the St. Lawrence Seaway, and to continue and strengthen the Federal-aid highway program.

Promotion of aviation.—The rapid development of aviation has been materially assisted by numerous services and by direct financial assistance provided by the Federal Government. These aids have included basic scientific research in aeronautics, establishment and operation of airways, enforcement of safety regulations, assistance in construction of airports, and direct provision of subsidies to airmail carriers. While need for some aid continues, the increasing maturity of this industry requires thorough reevaluation of the promotional responsibilities of the Federal Government. At my request, the Air Coordinating Committee is now undertaking a comprehensive review of our aviation policy.

With growing maturity, the airline and aircraft manufacturing industries should assume increased responsibility for air safety. Improved procedures of traffic control, elimination of older-type facilities, and curtailment of less essential services should permit an expanded volume of air traffic to be handled safely with reduced Federal expenditures for operating programs. Expenditures for construction programs are likewise declining.

As a result of these developments, expenditures of the Civil Aeronautics Administration can be reduced and we can still fulfill the basic Federal responsibilities for providing air-navigation aids, traffic control, and safety services. Budget expenditures in the fiscal year 1955 are estimated to be 25 million dollars less than in 1954, and 40 million dollars less than in 1953.

I am recommending appropriations for new airways facilities amounting to 5 million dollars, which will permit further progress on the modern very high frequency system of navigation aids and certain other improvements. Pending completion of current studies, no provision is made in the budget for additional appropriations for grants to State and local governmental units for airport construction.

In addition, the time has come when consideration should be given to requiring the users of the airways facilities to share the costs of providing this service.

Reorganization Plan No. 10 of 1953, transferring the subsidy portion of airmail payments from the Postmaster General to the Civil Aeronautics Board, makes it possible for the first time for Congress to consider this major aid to aviation as a separate budget item. For both 1954 and 1955, these subsidy payments are estimated at approximately 80 million dollars, based primarily on existing route patterns and mail rates. The subsidy expenditures were included in the Post Office Department through September 1953. The separation of compensatory mail payments, which remain in the Post Office, from subsidy payments is a necessary first step toward a more effective review of expenditures for civil aviation as well as for the postal service.

The scientific research in aeronautics conducted by the National Advisory Committee for Aeronautics will continue in the fiscal year 1955 to be devoted almost entirely to support of the military programs for the development of new and improved aircraft, guided missiles, and propulsion systems. The budget provides for a strong continuing program in aeronautical research and for initial operation of the three new large supersonic wind tunnels now under construction. Nevertheless, expenditures will be 14 million dollars less than in the fiscal year 1954 because of the sharp decrease in construction expenditures as projects are completed. The superior performance of our jet aircraft in Korea and the even better performance of newer types now in production has been possible because of the basic research and wind-tunnel testing done in previous years. Much of the work will also contribute eventually to improving the performance, safety, and comfort of civil aircraft. Future possibilities are hinted by the recent performance of our research airplanes, one of which attained a speed of over 1,600 miles per hour—two and one-half times the speed of sound.

Merchant marine.—Federal aid to the merchant marine consists primarily of operating and construction subsidies to offset the differences between American and foreign costs. This program is designed to promote a healthy merchant marine as a nucleus capable of rapid expansion to meet national-defense needs. The sharp reduction in expenditures will result almost entirely from virtual completion of construction of the 35 Mariner-class vessels authorized in 1951.

Expenditures for operating subsidies have been rising steadily, and in 1955 will account for 85 of the 107 million dollars in net expenditures for maritime programs. These increases reflect not only faster payment of earlier obligations but also higher levels of subsidy resulting from the increased operating costs in recent years. The size and rising trend of expenditures for these subsidies make it essential to consider legislative changes to provide for more effective

budgetary control consistent with the basic objectives of the maritime program.

Operating programs of the Maritime Administration show a downward trend. By the end of the fiscal year 1955 the emergency operation of Government-owned cargo vessels will be reduced to about 47, compared to a high of 538 in 1952. Ships withdrawn from operation are being maintained in the national-defense reserve fleet to meet future emergency needs.

The physical assets of the Inland Waterways Corporation were sold as of July 1, 1953, in accordance with this administration's policy of removing the Federal Government from an activity which is appropriately private. The terms of sale fully protect the public interest in the continuance of the common-carrier barge service along the Mississippi and Warrior Rivers.

Navigation aids and facilities.—The expanded search-and-rescue facilities of the Coast Guard established in support of Department of Defense activities are being curtailed. Moreover, the fact that our transoceanic civil aviation no longer has a requirement for ocean weather stations has made it possible to reduce the number of these stations to those required by the Department of Defense, which in the future will finance them. These and other realignments will permit Coast Guard financed expenditures to be reduced from 236 million dollars in fiscal 1954 to 190 million dollars in fiscal 1955.

The Corps of Engineers will carry forward at minimum levels the maintenance work required for continued operation of river and harbor projects. Construction will also continue in 1955 at economic rates on 13 channel, harbor, or lock and dam projects, including one project to be initiated by a proposed 1954 supplemental appropriation. Seven other projects will be initiated and 2 deferred projects resumed in 1955. These projects have been selected on the basis of assuring the expeditious movement of traffic in existing harbors or waterways serving important requirements of commerce or national security. Emphasis has been given to small- or intermediate-sized projects for which detailed engineering plans have been completed. Not only do the benefits of these projects exceed their costs, but also, except for four high-priority projects of national interest, local beneficiaries will make a reasonable financial contribution.

In my State of the Union Message I again strongly recommended enactment of legislation to create a Government corporation to work, along with Canada, on the construction and operation of the proposed St. Lawrence Seaway. This proposal, now before the Congress, represents one part of a broad development of the great potential of the St. Lawrence River for electric power and for navigation. The power

features of the International Rapids section are expected to be constructed in part by the Province of Ontario and in part by the State of New York. The seaway legislation would permit the Federal Government, in cooperation with Canada, to build the remaining navigation facilities needed for ocean-going vessels to reach the Great Lakes. The total amount to be invested by the United States in the seaway is now estimated at 105 million dollars, with first-year expenditures of 6 million dollars. As I have previously indicated, not only would the seaway make a major contribution to national security, but over a period of years the tolls received by the United States from the prospective commercial use should permit the Federal investment to be fully repaid. Joint participation with Canada in this undertaking will assure that all legitimate American interests are taken into account in the construction and operation of this vital transportation link.

Highways.—Expenditures under the Federal-aid highway program of grants to States for highway construction have been rising during the past year, and will continue to rise in the fiscal year 1955 under commitments made pursuant to the Highway Act of 1952. The 1955 expenditures will be the highest in history. Emphasis in the selection of new projects will be given to the national system of interstate highways, which comprises the most important routes for interstate commerce and national defense. Of the 555 million dollars of estimated expenditures under the Federal-aid program in the fiscal year 1955, about 150 million dollars will be spent for projects in the interstate system. Other construction programs of the Bureau of Public Roads will involve expenditures of 27 million dollars, mainly for direct construction of forest highways and defense access roads.

We should give increased attention to eliminating the existing inadequacies of the national system of interstate highways. Pending development and review of detailed proposals for extension of the Federal-aid highway program, I am including under proposed legislation the 575-million-dollar level of the existing authorization. Similarly, I am including the prevailing annual rate of 22.5 million dollars for the forest-highway program. No appreciable expenditures will be made under the proposed authorizations in the fiscal year 1955.

Postal service.—Measured both in dollars and in employees, the postal service is big business. But, in its management, the modern methods which have so greatly increased the efficiency of private business have too often been ignored.

Last February, I announced “a program directed at improving service, while at the same time reducing costs and decreasing deficits.”

MESSAGE OF THE PRESIDENT

M91

Progress is being made toward achieving these objectives and will continue.

First, we are speeding the delivery of mail by many new steps without significant change in costs of handling. Later window hours, later pickups, changes in transportation patterns and schedules, experiments in carrying first-class mail by air, and many other projects have been made effective or are now being tested. The results will become increasingly apparent in the next year.

Second, to obtain a clear-cut measure of the cost of operating the postal service, the payment of airline subsidies has been transferred by reorganization plan to the Civil Aeronautics Board, and legislation enacted to require Government agencies and the Congress to reimburse the Post Office for the cost of handling their mail.

Third, we have initiated many economies and are planning others. Reduced mail-handling costs through efficient modern techniques already have resulted in substantial savings. This program is well underway but will take a long time to complete, since the new methods will require employee training and development of new machines.

Fourth, the deficit has been further reduced by increases in rates which the Postmaster General could change. Increases in parcel-post rates, foreign-mail rates, and others subject to administrative discretion have in the main put these services on a self-supporting basis.

The results of these and other improvements are already visible in the financial operations and outlook. Despite an estimated increase in mail volume of almost 2 billion pieces, gross expenditures of 2,775 million dollars in the fiscal year 1955 will remain unchanged from 1954. With higher operating revenues, the deficit under existing postal rates will continue to decline:

	<i>Million</i>
1953 (actual)-----	\$659
1954 (estimated)-----	440
1955 (estimated)-----	330

No business, public or private, can prosper unless its management is free to use the best available methods of operation and to set prices adequate to cover the costs of an efficient operation. Legislation is already before the Congress to authorize the Post Office Department to acquire needed modern postal facilities, through long-term leases with title acquired at the end of the term. Other legislation is required to correct archaic administrative and personnel practices, and to enable expanded use of more modern transportation methods.

Most important, prompt and favorable action by the Congress is needed to increase postal rates. I am recommending increases in rates sufficient to yield as a minimum an additional 240 million

dollars in revenues in the fiscal year 1955. These revenues would reduce the 1955 postal deficit to 90 million dollars. Adequate rates, together with further major economies in postal operations, are expected to put the postal business on a self-supporting basis. This will continue to be our policy.

Regulation.—Three regulatory commissions carry out the Government's responsibility to protect the public interest in reasonable rates and adequate, safe transportation and communication: Interstate Commerce Commission, Federal Communications Commission, and Civil Aeronautics Board. Although their duties have substantially increased in recent years, anticipated improvements in management and procedures make it unnecessary to request any significant appropriation increases. For example, the centralization of administrative responsibility and the reorganization of existing activities in the Interstate Commerce Commission should make possible more effective use of available funds. By the end of the fiscal year 1954, the Federal Communications Commission should be substantially current in handling applications for television stations, so that the funds required for its activities, except for a new program of monitoring frequency usage, will be smaller in the fiscal year 1955 than in 1954.

Receipts of public enterprise funds.—Two-thirds of the gross expenditures of 4,277 million dollars for transportation and communication programs in the fiscal year 1955 will be financed from receipts of public enterprise funds. Postal receipts account for the bulk of these revenues. Substantial receipts are also anticipated from tolls and other revenues of the Panama Canal Company, and from vessel operations of the Maritime Administration.

FINANCE, COMMERCE, AND INDUSTRY

Within the limits set by requirements of national defense and the needs of the national economy, we are steadily reducing direct banking and business operations of the Federal Government. For example, the Reconstruction Finance Corporation is being liquidated, and the Government's synthetic rubber plants are being offered for sale. At the same time, the programs of the Department of Commerce to promote trade and industry are being strengthened and the Small Business Administration has been established to meet the special needs of small business. Regulatory agencies are simplifying their procedures and putting greater stress on cooperation rather than compulsion, without reducing protection to the public.

Gross expenditures for finance, commerce, and industry programs are expected to be 917 million dollars in the fiscal year 1955, a reduc-

MESSAGE OF THE PRESIDENT

M93

tion of 234 million dollars from 1954. About 60 percent of these expenditures are for financial assistance provided under the Defense Production Act. Another 30 percent are for the production programs administered by the Reconstruction Finance Corporation—primarily rubber and tin. Anticipated receipts of these enterprises as a group will decline about as much as their expenditures. Accordingly net expenditures of 162 million dollars in 1955 will be about the same as in 1954.

FINANCE, COMMERCE, AND INDUSTRY

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recom-mended new obligational authority for 1955
	1953 actual	1954 esti-mated	1955 esti-mated	1953 actual	1954 esti-mated	1955 esti-mated	
Promotion of defense production:							
Expansion of defense production.....	\$390	\$562	\$546	\$89	\$381	\$308	-----
Reconstruction Finance Corpora-tion.....	516	349	270	-98	-233	-65	-----
Other.....	121	27	16	84	-5	-4	\$4
Business loans and guarantees:							
Reconstruction Finance Corpora-tion (Treasury):							-----
Loans.....	128	44	10	7	-95	-121	-----
Other.....	18	122	5	-29	97	-19	-----
Small Business Administration.....		13	31		12	25	-----
Promotion or regulation of trade and industry:							
Department of Commerce.....	17	17	22	17	17	22	22
Other.....	9	10	11	9	10	11	11
Promotion or regulation of financial institutions							
	6	7	6	-3	-20	5	5
Total.....	1,205	1,151	917	76	164	162	142

¹ Compares with new obligational authority of 134 million dollars in 1953 and 97 million dollars in 1954.

Expansion of defense production.—The Defense Production Act authorizes extensive financial assistance to assure expansion of productive capacity and of the materials supply necessary for our defense. With the help of purchase commitments, loans, and advances already made, much of the needed expansion is now under way. As a result, the aluminum productive capacity of the United States has doubled since 1950 and supplies of machine tools, titanium, copper, nickel, and other critical items have also substantially increased.

These programs are financed under the borrowing authority of 2.1 billion dollars provided in the Defense Production Act. Gross expenditures in the fiscal year 1955 are estimated at 546 million dollars. Of this amount 296 million dollars will be spent for purchases of materials and 165 million dollars for loans and advances to producers. Most of these expenditures arise from commitments already

outstanding. Since a large part of the materials to be acquired under this authority will be sold to the military stockpile of strategic and critical materials to meet its objectives, this program is intimately related to the stockpiling program discussed in the national security section of this message. Receipts from these sales and from sales to private industry, together with repayments of loans and advances, are estimated at 238 million dollars in 1955, reducing net expenditures to 308 million dollars.

Reconstruction Finance Corporation—production programs.—Expenditures and receipts of the rubber, tin, and abaca fiber programs currently administered by the Reconstruction Finance Corporation will continue to decline sharply in 1955, primarily as a result of reduced operations anticipated in the tin program.

By the end of the present fiscal year, the Government will have completed purchases of tin for the national stockpile. World supplies are already adequate to meet current requirements. As a result, there may no longer be a need for continued operation of the Government tin smelter in 1955. Pending outcome of international negotiations, the budget assumes withdrawal of the Government smelter from operations at the end of the fiscal year 1954.

During the fiscal years 1954 and 1955, annual production of synthetic rubber is estimated at about 600,000 tons—a reduction from the 712,000 tons produced in 1953. Present experience indicates that this level of production will meet all of the anticipated national needs for synthetic rubber. Although the Rubber Facilities Disposal Act authorizes sale of Government plants to private ownership before the end of the fiscal year 1955, plans are not yet far enough advanced to include estimated receipts from such disposal in the 1955 budget.

The production programs will be transferred to another agency before June 30, 1954, as provided in the Reconstruction Finance Corporation Liquidation Act.

Business loans and guarantees.—The regular business loan program of the Reconstruction Finance Corporation is now in liquidation as a result of legislation enacted last year on the recommendation of this administration. The Treasury Department will administer the liquidation after June 30, 1954. We plan to sell a major part of the Corporation's loans to private financial institutions. To meet commitments previously made, some expenditures will continue, but repayments and sales of loans will result in estimated net receipts of 121 million dollars in 1955.

A new program of loans to small businesses has recently been established in the Small Business Administration. The 1955 budget

MESSAGE OF THE PRESIDENT

M95

assumes that about 350 loans will be authorized in the fiscal year 1954, and about 700 in 1955. This would almost exhaust the available appropriation of 55 million dollars by the end of 1955. Loans will be made where private credit on reasonable terms is unavailable, and, whenever possible, they will be made jointly with private banks. The Small Business Administration also assists small concerns in obtaining a fair share of Government contracts, and provides them with technical and financial advice.

Department of Commerce.—In accordance with this administration's declared policy, most emergency controls over business have been removed. The business programs of the Department of Commerce have been reorganized to provide a simpler and more effective basis for carrying on both regular business services and continuing responsibilities under the Defense Production Act. The Business and Defense Services Administration provides general services to business, assists in mobilization preparedness, and administers relevant current defense activities. The Bureau of Foreign Commerce assists in promoting international trade, primarily by providing American business with information on opportunities to buy and sell abroad. The Office of Business Economics provides data on the American economy and analyses of economic and business trends for a wide range of business and Government purposes. I am recommending small increases in the appropriations for these programs so that the Department can adequately carry out its responsibilities to foster and promote industry and commerce.

LABOR AND MANPOWER

My budget recommendations for the labor and manpower programs of the Federal Government are designed to help the Nation's productive system function smoothly and efficiently, by providing economic safeguards for workers, by helping bring together jobseekers and jobs, and by helping to recruit the working forces for defense and other industries. Workers will continue to be given protection against sub-standard wages and working conditions and against income losses due to unemployment. Orderly labor relations will be fostered, and the amicable settlement of disputes will be assisted by mediation.

Including proposed legislation, budget expenditures for labor and manpower programs are estimated at 281 million dollars during the fiscal year 1955, an increase of 16 million dollars from the current fiscal year. Approximately three-fourths of total budget expenditures for these programs is for administering the job placement and unemployment compensation services.

Although many of our workers benefit from the existing Federal-State unemployment compensation system, the present Federal law

does not include employees of firms with fewer than eight persons nor does it include Federal civilian employees. I recommend prompt extension of the system to these workers. Seventeen States already provide coverage of most firms with one or more employees, and most other States have legislation which will permit immediate coverage when the Congress acts. Amendments to State laws to achieve full coverage will be needed in only a dozen States. This preparedness on the part of the great majority of States will permit rapid extension of this valuable protection after the Federal law is amended. Additional revenues will more than offset the administrative costs resulting from such extension. An estimate of the benefit costs for Federal employees is included under general government.

LABOR AND MANPOWER

[Fiscal years. In millions]

Program or agency	Expenditures			Recommended new obligational authority for 1955
	1953 actual	1954 esti- mated	1955 esti- mated	
Gross expenditures:				
Placement and unemployment compensation administration:				
Department of Labor:				
Present program	\$212	\$199	\$192	\$223
Proposed legislation to broaden unemployment insurance:				
Federal civilian personnel			2	2
Other workers			20	20
Labor standards and training:				
Department of Labor	13	12	12	12
Mine safety (Department of the Interior and other)	4	5	5	5
Military manpower selection: Selective Service System and National Security Training Commission.....	33	30	31	32
Labor relations.....	13	14	13	13
Labor information, statistics, and general administration: Department of Labor.....	7	7	7	7
Defense production activities: Department of Labor	2	(1)		
Total	284	267	282	² 314
Deduct applicable receipts: Farm labor supply revolving fund.....	3	2	1	
Net budget expenditures	281	265	281	

¹ Less than 500,000 dollars.² Compares with new obligational authority of 282 million dollars in 1953 and 267 million dollars in 1954.

Placement and unemployment compensation administration.—Gross expenditures in the fiscal year 1955 for administering the Federal-State placement and unemployment compensation services under present law are estimated at 192 million dollars, 7 million dollars below the current year. A decrease of about 30 million dollars will result

MESSAGE OF THE PRESIDENT

M97

from a change in financial arrangements, by which advance payments to each State before the opening of each fiscal year will be reduced from an amount covering three months' operations to an amount for one month. Part of this reduction will be offset, however, by a higher estimated rate of expenditures for this program resulting from increases in salaries provided by State laws to employees who administer the services, some rise in the expected number of unemployment compensation claimants, and provision for weekly filing of claims and weekly payment of benefits. The weekly claims system, replacing the biweekly method currently in use in most States, will provide more satisfactory service to the claimants and, by permitting more frequent contact, should reduce the possibilities of fraudulent or erroneous payments. These factors may make necessary a request for a supplemental appropriation for the current fiscal year.

This administration has already recommended enactment of legislation to transfer annually to a special account in the unemployment trust fund, an amount equal to the difference between the receipts of the Federal unemployment tax and the administrative costs of operating our joint Federal-State unemployment security program. The initial transfer, based on receipts and expenditures in the fiscal year 1955, would be made at the beginning of the fiscal year 1956.

My recommendations in this budget provide for continued operation of the system for recruiting qualified workers from Mexico for seasonal employment on farms in the United States. These workers are needed to supplement our domestic farm-labor supply. The 1954 appropriation for this recruitment program was based on legislation which was to have expired on December 31, 1953. This authority has now been extended until December 31, 1955, and funds are included in the budget to pay for operations during the rest of the fiscal year 1954, as well as in the fiscal year 1955.

The railroad unemployment insurance taxes and expenditures which were previously included in budget accounts are now entirely included in trust accounts.

Labor standards and training.—Budget expenditures for the minimum-wage and maximum-hour regulatory programs in the fiscal year 1955 are estimated at about the 1954 level.

The social and economic plight of migratory farmworkers has been studied repeatedly. Up to now, little positive action to better these conditions has been taken by the Federal Government. This budget includes a recommended appropriation of 100 thousand dollars to enable the Department of Labor to provide leadership in establishing a cooperative Federal-State program in the fiscal year 1955.

Military manpower selection.—Although a reduction in military personnel is planned, calls by the Department of Defense in 1955 to replace men drafted in 1953 will require an increase of 676 thousand dollars in estimated expenditures of the Selective Service System. This budget provides also for continuing a small staff for the National Security Training Commission.

Labor relations.—Budget expenditures of 13 million dollars in the fiscal year 1955 are estimated for the independent labor relations agencies—the National Labor Relations Board and the mediation services. Emphasis will be placed on providing improved services to employers and employees of industries and establishments strategically situated in interstate commerce.

Unemployment trust fund.—Under present law, unemployment compensation benefit payments in the fiscal year 1955 are expected to be somewhat higher than in 1954 because of an increase in claims of short duration and liberalization of benefits by States. Receipts in 1955 are estimated somewhat lower than in the current fiscal year. The legislation I am recommending to broaden unemployment compensation coverage will increase both the receipts and the benefit payments. Trust-fund transactions are not included in the totals of budget receipts and expenditures.

UNEMPLOYMENT TRUST FUND

[Fiscal years. In millions]

Item	1953 actual	1954 estimated	1955 estimated
Receipts:			
Deposits by States and railroad unemployment taxes:			
Present programs.....	\$1,391	\$1,344	\$1,329
Proposed legislation extending coverage.....			145
Interest.....	203	222	216
Payments:			
State and railroad withdrawals for benefits:			
Present programs.....	-1,004	-1,095	-1,195
Proposed legislation extending coverage.....			-60
Net accumulation, including proposed legislation.....	590	471	435
Balance in fund at close of year.....	9,244	9,715	10,150

GENERAL GOVERNMENT

Net expenditures for general government functions are estimated at 1,160 million dollars for the fiscal year 1955, compared with 1,175 million dollars in the fiscal year 1954. These expenditures are chiefly for the traditional Government activities not specifically classified

MESSAGE OF THE PRESIDENT

M99

elsewhere—making and enforcing the laws, collection of revenues, management of the public debt, and custody and management of public buildings and records.

GENERAL GOVERNMENT

[Fiscal years. In millions]

Program or agency	Expenditures			Recommended new obligational authority for 1955
	1953 actual	1954 esti- mated	1955 esti- mated	
Gross expenditures:				
Legislative functions.....	\$48	\$46	\$47	\$46
Judicial functions.....	27	29	30	30
Executive direction.....	11	13	11	11
Federal financial management:				
Tax collection.....	269	277	265	266
Customs collection, debt management, and other.....	173	177	166	165
Other central services:				
Central property and records management.....	179	158	156	155
Civil Service Commission.....	21	16	15	16
Other.....	14	19	21	23
Unemployment compensation for Federal civilian em- ployees (proposed legislation).....			25	25
Retirement for Federal civilian employees.....	324	34	32	32
Protective services and alien control:				
Federal Bureau of Investigation.....	71	77	78	78
Immigration and Naturalization Service.....	40	41	39	39
Other.....	22	29	22	21
Territories, possessions, and District of Columbia:				
District of Columbia:				
Present programs.....	12	16	20	14
Proposed legislation.....			15	17
Territories and possessions.....	48	47	46	42
Other general government:				
Payment of claims and relief acts.....	137	149	135	.....
Weather Bureau.....	27	26	25	25
Other.....	21	24	16	14
Total.....	1,444	1,178	1,164	1,101 ¹
Deduct applicable receipts.....	5	3	4	.....
Net budget expenditures	1,439	1,175	1,160	.....

¹ Compares with new obligational authority of 1,337 million dollars in 1953 and 1,033 million dollars in 1954.

Federal financial management.—During the past year the Internal Revenue Service has improved greatly the administration of Federal revenue laws. Further economies will be made by cutting overhead expenses. These savings of several million dollars will be used to strengthen the field audit staff and to obtain more effective collection and enforcement. Auditing of tax returns and settlements are being speeded up. Tax collection has been decentralized so that most decisions in individual cases can now be made in district offices near the taxpayer. The reduced staff in Washington is concerned pri-

marily with developing overall policies and assuring uniformity in administration throughout the country. Nevertheless, serious problems remain. For example, despite the improvement in auditing, the backlog of unaudited returns and uncollected accounts has increased for several years. Strenuous efforts are being made to reverse this trend, both to increase collections and to permit a more prompt determination of taxpayers' liabilities.

Further reduction in expenditures by the Bureau of the Public Debt will be achieved in the fiscal year 1955 by revisions in the savings bond promotion program to place greater emphasis on the sale of larger denomination bonds, elimination of uneconomic sales outlets, and other economies. A large volume of savings bonds is now reaching maturity, but redemptions of these matured bonds are relatively low, since most owners are taking advantage of their right to continue to hold them at 3 percent interest.

Central property and records management.—Substantial reductions have been made in the expenditures of the General Services Administration for management of Government property and records. The fiscal year 1955 estimate of 156 million dollars is 23 million dollars below actual 1953 expenditures and 2 million dollars below the revised 1954 estimate. These savings primarily result from material reductions in building space rented for Government use, made possible in part by reductions in the scope of Government operations and accomplished through an aggressive and critical examination of requirements. In addition, numerous savings are being achieved by the General Services Administration which reduce the budget requirements of other agencies throughout the Government. Real property requirements and holdings are being reexamined and property determined to be surplus is being disposed of as rapidly as possible. Purchases of new materials have decreased as a result of elimination of unnecessary inventories by reduction in the number of separate types of items carried in inventories and by better utilization of property already on hand. Significant progress also is being made in controlling the volume of records, in their economical storage, and, when they are no longer essential, in accelerating their disposal.

Civil Service Commission.—As part of the program for strengthening the merit system of the Federal civil service, the budget provides funds to improve the standards used for the recruitment and transfer of personnel and to further the career development of Government employees. The Civil Service Commission expenditures as a whole, however, will decrease with improved management practices and with a decline in prospective workloads for the examination and placement

of applicants and for the investigation of persons employed or seeking employment in the Federal service.

I am recommending legislation to strengthen further the merit system and to provide conditions of employment for Federal personnel more nearly comparable to those in private enterprise. Certain legal restrictions initiated at the beginning of the present national emergency on the appointment and promotion of Federal workers should be removed. The present statutory limits on the number of high-level executive and scientific positions should be raised. Government agencies should be permitted to select employees from among the top five rather than the top three on Federal civil-service registers. Existing inequities in overtime-pay practices should be corrected. Building and maintenance workers should be added to the categories of employees paid at rates prevailing locally in private employment for similar occupations. The incentive-awards program should be consolidated and improved in order to eliminate costly administration and to increase employee interest in greater efficiency and economy. The cost of these changes in the main can be absorbed within the appropriations recommended for the agencies concerned.

Unemployment compensation for Federal workers.—I strongly recommend extension of the unemployment compensation system to give Federal employees the same benefits as are now provided to most workers in private employment. This will require an estimated 25 million dollars in expenditures for benefit payments in the fiscal year 1955. This program could be administered under contractual arrangements made through the Department of Labor with existing State unemployment compensation systems.

Retirement for Federal civilian personnel.—An appropriation of 30 million dollars is recommended to permit the continued payment to retired Federal workers of temporary cost-of-living increases as authorized by the Congress in 1952. The budget also includes 2 million dollars to pay annuities under special laws.

The civil-service retirement system is financed jointly by employee contributions and appropriations by the Government. The Congress, at its last session, however, did not appropriate for the Government's payments to the fund. The resumption of these payments is not included in this budget. Recommendations for financing this system as well as other retirement programs for Federal personnel will be determined after the Committee on Retirement Policy for Federal Personnel completes its study and reports to the Congress on or before June 30, 1954.

Protective services and alien control.—The Federal Bureau of Investigation, as the investigative arm of the Department of Justice, obtains evidence for use in legal actions involving violations of Federal law. The crime rate throughout the country has put an increasing burden on the Bureau. The Bureau also has primary responsibility for co-ordinating investigations in the executive branch necessary for the Nation's internal security. Such investigations continue at peak levels. It is essential, therefore, that the Bureau staff be adequate to discharge these responsibilities.

District of Columbia.—I strongly recommend enactment of legislation to finance the expanded public works construction urgently needed in the National Capital. This legislation would authorize an increase of 9 million dollars in the annual Federal payment to the general fund of the District of Columbia, and an additional 1 million dollars for full payment for all water and related services. It would authorize 107 million dollars of additional interest-bearing loans to the District over the next decade, of which an estimated 5 million dollars would be spent in the fiscal year 1955. These expenditures by the Federal Government would be accompanied by substantial increases in taxes paid by District taxpayers. This legislation would, for the first time in recent years, place Federal payments to the District government on a level commensurate with the Federal Government's position in and its demands upon the District. It would permit the District to start a long-term program of public works necessary to make the Capital City worthy of our great Nation.

Territories and possessions.—The Federal Government also has special responsibilities for administering the various Territories and possessions, including the Canal Zone and the Trust Territory of the Pacific Islands. Included in this budget are certain necessary increases in expenditures for continuing the civilian administration of the Trust Territory, except those islands in the northern Marianas returned to the jurisdiction of the Navy. I recommend that the Congress enact at an early date legislation establishing the basic form of government for the Trust Territory to replace the present temporary arrangements.

Intergovernmental relations.—A Commission on Intergovernmental Relations is now studying the proper role of the Federal Government in relation to the State and local governments. It is giving particular attention to fiscal relationships, such as Federal grants-in-aid, tax sources, and intergovernmental tax immunities, and will report shortly on certain aspects of its assignment.

MESSAGE OF THE PRESIDENT

M103

Claims and relief acts.—The payment of certified claims makes up the total expenditure figure of 135 million dollars estimated for claims, judgments, and private relief acts in the fiscal year 1955. Most of these payments are for claims resulting from activities of the Department of Defense. The apparent decline of 14 million dollars in expenditures in the fiscal year 1955 is due to the usual omission in the budget year of any specific estimate for other claims, judgments, and relief acts.

Receipts of public enterprise funds.—The operations of the Virgin Islands Corporation account for most of the 4 million dollars in receipts of public enterprise funds.

INTEREST

Primarily as a result of the large increase in the public debt during World War II, interest payments now account for about 10 percent of Federal expenditures. Interest payments are fixed primarily by the size of the public debt and by interest rates on debt already outstanding.

INTEREST

[Fiscal years. In millions]

Item	Budget expenditures (net)			Recom-mended new obligational authority for 1955
	1953 actual	1954 esti-mated	1955 esti-mated	
Interest on public debt.....	\$6,503	\$6,525	\$6,800	\$6,800
Interest on refunds of receipts.....	75	70	70	70
Interest on uninvested trust deposits.....	5	5	5	5
Total.....	6,583	6,600	6,875	¹ 6,875

¹ Compares with new obligational authority of 6,583 million dollars in 1953 and 6,600 million dollars in 1954.

Interest on the public debt.—Interest payments on the public debt in the fiscal year 1955 are estimated at 6,800 million dollars. This is an increase of 275 million dollars over estimated expenditures for the current fiscal year, and 297 million dollars above actual expenditures in 1953.

The increase in 1955 reflects both the higher average interest rates and the larger public debt. The average rate on the interest-bearing public debt rose from 2.33 percent on June 30, 1952, to 2.41 percent on December 31, 1953, primarily because of the refinancing of maturing obligations at the higher market rates prevailing. As the result of the deficit financing during the same period the public debt has increased from 259 billion dollars to 275 billion dollars (including about one-half billion dollars not subject to the statutory debt limitation).

The budget of the United States is the financial expression of the administration's program for the coming fiscal year. An understanding of its scope and content is a high challenge to every citizen.

When I took office a year ago, I promised the Congress and the people that this administration would seek to chart a fiscal and economic policy which would reduce the planned deficits and bring the budget into balance.

I warned that this would not be easy. There still are heavy national security requirements. Substantial expenditures are by law relatively nondiscretionary. The far-reaching activities of the Federal Government are extremely complex.

Despite these inherent difficulties, we have made great progress. Federal expenditures have been cut substantially, tax reductions have been made justifiable, and the budgetary deficit has been sharply reduced.

We have, furthermore, made appropriate provision for our national security and for our international obligations and we have been able to propose certain increases in Federal expenditures to advance our domestic well-being and to foster economic growth.

I firmly believe, therefore, that this budget represents a plan of government which will not only protect our way of life but will also strengthen our economic base and enhance the welfare of all our people.

DWIGHT D. EISENHOWER.

JANUARY 21, 1954.

BUDGET MESSAGE OF THE PRESIDENT

PART A

To the Congress of the United States:

I am transmitting to you today the Budget of the United States Government for the fiscal year 1956, which begins July 1, 1955.

The first part of this budget message summarizes the budget totals and highlights our policies and plans for next year, particularly as related to the fiscal situation. The second part presents summary tables and also contains my budget recommendations for each major Government activity.

The fiscal and budget story during this past year centers around the fact that we successfully made the adjustment from a wartime to a peacetime type of economy, a truly significant achievement. Aided by a proper fiscal policy, the inevitable dislocations of this adjustment, while difficult for some, have not been serious on the whole. Our present growing prosperity has solid foundations, free from the artificial stimulations of war or inflation. However, the peace in which we live is an insecure peace. We must be constantly on the alert. Along with the other free nations of the world we must continue to strengthen our defenses. At the same time to remain strong for what will apparently be a long period of uncertainty ahead, we must also progressively increase our prosperity and enhance our welfare.

The 1956 budget is based on this outlook. Total expenditures will be reduced. However, I am recommending somewhat increased expenditures in particular areas important to human well-being. Budget expenditures for the fiscal year 1956 are now estimated at 62.4 billion dollars, 1.1 billion dollars less than for the current year. All parts of the administration will continue to work toward further reductions during the year by eliminating nonessentials and by doing necessary things more efficiently.

We must maintain expenditures at the high level needed to guard our national security. Our economy is strong and prosperous but we should not dissipate our economic strength through inflationary deficits. I have therefore recommended to the Congress extension for 1 year of present excise and corporate income tax rates which are scheduled for reduction on April 1, 1955, under present law. If this is done, and employment and production increase as currently anticipated, we can expect budget receipts to rise 1 billion dollars over 1955, to a total of 60 billion dollars in the fiscal year 1956.

On the basis of these estimates of expenditures and receipts, the deficit will be reduced from the presently estimated 4.5 billion dollars in the fiscal year 1955 to an estimated 2.4 billion dollars in 1956. Thus we continue to progress toward a balanced budget.

BUDGET POLICIES

Three broad considerations of national policy have guided me in framing the budget for the fiscal year 1956.

First, we must defend our priceless heritage of political liberty and personal freedom against attack from without and undermining from within. Our efforts to date have helped bring about encouraging results—cessation of fighting, new and stronger alliances, and some lessening of tensions. The growing strength of the United States and its friends is a key factor in the improved outlook for peace. We must continue to build this strength. We must at the same time preserve our liberty at home by fostering the traditional initiative of the American people. We will increase the scope of private activity by continuing to take Government out of those things which the people can do better for themselves, and by undertaking on a partnership basis, wherever possible, those things for which Government action is necessary. Thus, people will be able to keep more of their earnings to use as they wish.

Second, the Government must do its part to advance human welfare and encourage economic growth with constructive actions, but only where our people cannot take the necessary actions for themselves. As far as possible, these steps should be taken in partnership with State and local government and private enterprise. We must do our part to provide the environment for our free enterprise system to keep employment high, to create new jobs, and to raise the standard of living. We must broaden the opportunity for individuals to contribute to the growth of our economy and enjoy the fruits of its productivity.

Third, we must maintain financial strength. Preserving the value of the dollar is a matter of vital concern to each of us. Surely no one would advocate a special tax on the widows and orphans, pensioners, and working people with fixed incomes. Yet inflation acts like a tax which hits these groups hardest. This administration has made a stable dollar and economy in Government operations positive policies from the top down. Expenditure reductions, together with a judicious tax program, effective monetary policy, and careful management of the public debt, will help to assure a stable cost-of-living—continuing our achievement of the past 2 years.

A liberal attitude toward the welfare of people and a conservative approach to the use of their money have shaped this budget. Our determination to keep working toward a balanced budget provides the discipline essential for wise and efficient management of the public business.

MESSAGE OF THE PRESIDENT

M7

NEW AUTHORITY TO INCUR OBLIGATIONS

My recommendation for appropriations and other new authority to incur obligations for the fiscal year 1956 is 1.3 billion dollars more than the amount for the fiscal year 1955, primarily because of new requirements for our military services. However, it represents a reduction of 32.8 billion dollars from 1952, 21.7 billion dollars from 1953, and 4.2 billion dollars from 1954.

Fiscal year:	<i>New authority to incur obligations (in millions)</i>
1952.....	\$91.4
1953.....	80.3
1954: As estimated, January 9, 1953.....	72.2
Actual.....	62.8
1955 estimated.....	57.3
1956 recommended.....	58.6

The new authority to incur obligations which I am recommending for our major national security programs is 2.4 billion dollars greater than in the fiscal year 1955. I am proposing a reduction in the total new authority for all other Government programs, although within this total, I am recommending selective increases.

Part of the reduction in 1955 of new authority for our major national security programs below the amount enacted for 1954 was possible because the military services improved their supply procedures, which resulted in larger use of existing stocks and reduction of the large backlog of unexpended balances. The accumulated unexpended balances of funds appropriated to all Government agencies in prior years are now on their way down to more reasonable levels and the continued downtrend in total unexpended balances will be less rapid in the future than in the fiscal year 1955.

Recommended new authority for 1956 is less than both the anticipated revenues and the estimated expenditures for that year. By holding the level of new authority lower than anticipated revenues, we can continue making progress toward balancing the budget. Likewise, as long as the amount of new authority is less than expenditures, we are continuing on the way toward lower levels of Government spending.

BUDGET EXPENDITURES

In the fiscal year 1956, net budget expenditures are estimated to be 11.9 billion dollars below actual spending in the fiscal year 1953. The record shows that this administration cut Government spending in 1954 by 6.5 billion dollars below 1953, and 10.1 billion dollars below the level estimated for 1954 on January 9, 1953. For 1955, an additional reduction of 4.3 billion dollars is now estimated and still another reduction in spending of 1.1 billion dollars is the present

estimate for 1956. The fiscal year 1955 is only half completed and the beginning of 1956 is still 5½ months away. We shall continue working to improve efficiency and to reduce still further the totals now estimated for these years.

Fiscal year:	<i>Expenditures (in billions)</i>
1952-----	\$65. 4
1953-----	74. 3
1954: As estimated, January 9, 1953-----	77. 9
Actual-----	67. 8
1955 estimated-----	63. 5
1956 estimated-----	62. 4

The stern requirements of our national defense dictate the largest part of our budget, and it is chiefly these requirements which prevent us from decreasing budget expenditures faster at this time. Further progress in reducing expenditures must result in large part from increasing efficiency and from finding better ways of doing the things that must be done. Future savings will be more difficult than those already accomplished. However, we expect to continue reducing the cost of Government.

Major national security.—Expenditures for major national security programs in the fiscal year 1956 are estimated at 40.5 billion dollars, 65 percent of total budget expenditures. This amount includes the cost of new legislation. I am proposing to establish an effective military reserve system and strengthen the career service. This budget provides for more expenditures by the Department of Defense for air power than ever before in peacetime history. New weapons for defensive and retaliatory action are being developed and produced in increasing quantities. High priority is being given to strengthening our continental defense system. Since military supplies are not being consumed in combat, the bulk of the military materiel being produced by our factories is adding to our capacity to defend ourselves. Our defense expenditures are now bringing about a steadily growing strength. Never in our peacetime history have we been as well prepared to defend ourselves as we are now.

We will deliver about the same amount of military equipment to friendly nations as in 1954 and 1955. New atomic energy plants will be placed in operation and more than in any previous year will be spent for peaceful applications of atomic energy. The dollar value of our stockpile of strategic materials is expected to reach 78 percent of the minimum objective, compared with 58 percent in 1954.

International affairs and finance.—Our international programs are closely related to national security. The conduct of our foreign affairs is crucial in preserving peace. We have materially contributed

to the strengthening of friendly nations through the economic aspects of the mutual security program. Continuation of such assistance is urgently needed for some countries. Net expenditures for international affairs and finance are estimated to be 1.3 billion dollars, 88 million dollars lower than in the fiscal year 1955.

Keeping our own defenses strong and cooperating with our allies to increase their defenses will deter outside attacks on our freedom. We must at the same time look to the abiding sources of our internal strength—our faith in the power of free men, our individual initiative, and our competitive enterprise.

Commerce and manpower.—We are moving ahead in taking the Government out of business wherever this can properly be done. In addition to selling the Inland Waterways Corporation and liquidating the Reconstruction Finance Corporation, we have already sold or shut down a number of Department of Defense plants for processing scrap and manufacturing paint, clothing, and chlorine. Private industry is performing an increasing share, which has reached almost half, of major equipment overhauls for the Air Force. Most of the synthetic rubber plants have been sold to private purchasers, subject only to congressional approval. These actions not only serve to strengthen our system of private enterprise, but also in many cases reduce Government expenditures and increase tax receipts for cities, counties, and States as well as the Federal Government.

During the past year, legislation was enacted permitting private lenders to make mortgage money available on more liberal terms so that more people can buy their own homes. Local public agencies, aided by private investors, are being encouraged to start comprehensive urban renewal programs. Provision has been made for extension of unemployment insurance to 4 million more workers.

For the coming year, I am recommending that we start a 10-year program to modernize the interstate highway system in cooperation with State and local governments. I am also proposing that we step up aeronautical research, expand air navigation facilities, and help industry build more ships. These activities are important for our national security as well as for our growing economy. I firmly believe that as large a proportion as possible of the expenditures of the Government should be borne by those directly benefiting therefrom. The user charge principle should be further extended. I have recommended to the Congress that postal rates be increased to make the postal system self-supporting in the near future. With the enactment of this legislation, total net expenditures for commerce and manpower in the fiscal year 1956 are expected to be 2.2 billion dollars, 364 million dollars below 1955.

Natural resources.—An important policy of this Government is to encourage an increased sharing by State and local governments of our long-range development projects. For example, the State of New York and the Province of Ontario are now jointly developing the power resources of the St. Lawrence River without cost to the Federal Government. Under legislation passed last year the Markham Ferry project in Oklahoma and the Priest Rapids project in the State of Washington, both with large power developments, will be built by State or local units, with modest Federal contributions only for those purposes such as flood control which involve national responsibilities. This budget proposes the start of several new construction projects under such partnership arrangements. Thus, we are continuing to develop our natural resources at less cost to the Federal Government. Net budget expenditures of 953 million dollars in 1956 are estimated for natural resources, 180 million dollars less than in 1955.

Agriculture.—Greater freedom from Government direction and control of farming operations will be made possible in future years as a result of the new farm legislation enacted last summer. The flexible supports provided for therein will stimulate the consumption of farm products at home and abroad and will reduce Government expenditures for buying and storing surplus commodities. Greater private participation in the financing of loans to farmers has also been brought about by legislation enacted last year. By increased use of fully insured private loans, the need for direct Federal loans for farm ownership and for soil and water conservation has been reduced. A sound basis has also been provided through the new watershed protection legislation for greater cooperation between the Federal Government and States and local groups in the upstream flood prevention program. In addition, through strengthened agricultural research and educational work, farmers can better work out solutions for their own problems. These steps reduce the dependence of farmers on the Government, encourage farmers to take the initiative in adjusting production to demand, and provide the conditions under which farmers can maintain their incomes with less interference by the Government. The flexible support legislation will not greatly affect expenditures for the fiscal year 1956. Estimated net expenditures for agricultural programs in 1956 will be 2.3 billion dollars, 871 million dollars less than in 1955. This reduction is principally due to the anticipated smaller outlays for farm price supports resulting from acreage restrictions and increased sales.

Welfare, health, and education.—Our policy of partnership with State and local governments and with private enterprise is also enabling

us to make significant contributions to human welfare. Our broadened programs of assistance for vocational rehabilitation and for construction of nonprofit hospitals and health centers will encourage greater State, local, and private activity in these fields. The extension of old-age and survivors insurance to 10 million more persons and the increased contribution and benefit rates enacted last year are in keeping with our tradition of self-reliance and will diminish dependence on charity. This budget includes appropriations for the health improvement program which I shall outline in a special message. Increases in some programs, principally for public health and vocational rehabilitation, will be offset by some reductions in other programs. Total expenditures for welfare, health, and education are estimated at 2.3 billion dollars in the fiscal year 1956, about the same as in 1955.

Veterans' services and benefits.—Expenditures for veterans' benefits continue to increase as a result of the growing number of veterans, now estimated at 21 million in civil life, becoming eligible for benefits. Legislation enacted last year raised compensation and pension benefits to our ex-servicemen and women. I have recently issued a proclamation ending the time period for acquiring further rights to readjustment benefits intended for veterans of the Korean conflict. Estimated net expenditures for veterans' programs will be 4.6 billion dollars, about 200 million dollars more than in 1955.

Interest and general government.—Expenditures for interest are estimated to amount to 6.4 billion dollars, 180 million dollars less than in 1955. In the field of general government, I recommend that we increase our expenditures for tax collection and management of Government property as further steps toward efficiency. I also recommend strengthening our law-enforcement agencies, particularly the Federal Bureau of Investigation. Finally, the Government should resume its payments as employer to the civil service retirement fund. As a result of these recommendations and anticipated increases in payments of certified claims, expenditures for general government purposes are expected to rise 344 million dollars to 1.6 billion dollars in the fiscal year 1956.

Special classification of expenditures.—The budget expenditures discussed above may be divided into four large groupings to show the ends for which we pay taxes and also the items which make our budgets big. These groupings are (1) the cost of civil operations and administration, (2) interest, (3) civil benefits to various parts of our society, and (4) the major cost of protection against war.

SPECIAL CLASSIFICATION OF NET BUDGET EXPENDITURES

[Fiscal years. In billions]

	1951 actual	1952 actual	1953 actual	1954 actual	1955 estimat-ed	1956 estimated	
						Amount	Percent
Current expenses for civil operations and administration.....	\$1.9	\$2.2	\$2.3	\$1.9	\$1.9	\$2.3	4
Interest.....	5.7	5.9	6.6	6.5	6.6	6.4	10
Civil benefits.....	11.5	12.2	13.4	11.6	13.3	12.0	19
Protection.....	25.6	46.0	52.0	47.9	41.7	41.5	67
Undistributed (reserves and adjustments).....	-.7	-.9	-----	-----	.1	.3	-----
Total.....	44.1	65.4	74.3	67.8	63.5	62.4	100

The expenditures for civil operations and administration of the Government have been obscured for many years by the large expenditures for defense and by the variety and complexity of the domestic and international programs. The cost of keeping the civil functions of the Government running for the fiscal year 1956 is estimated to be 2.3 billion dollars or about 4 percent of the net budget expenditures. This includes most of the expenditures classified as general government plus the expenditures for repair, maintenance, and operation of Government civilian facilities, and for regulatory activities.

The fluctuation shown in the cost of civil operations arises primarily from the contribution made by the Federal Government, as employer, to the civil service retirement fund. This contribution was 321 million dollars in the fiscal year 1953 and 216 million dollars is proposed for 1956. No contributions were made during 1954 or 1955 pending a detailed review of all Federal retirement systems by a special commission. Increased funds are also provided for several departmental operations where there has been a longstanding backlog of work.

Decreasing interest rates during the past 12 months, together with a change in the timing of interest payments, have made possible a forecast for lower expenditures for interest in the fiscal year 1956.

The various civil benefit programs of the Government are estimated to amount to 12 billion dollars in the fiscal year 1956. Expenditures for veterans' benefits represent 38 percent of all civil benefits in that year. The variations in expenditures for farm price supports and mortgage purchases account for part of the changes in total benefit expenditures between the fiscal years 1953 and 1956.

The expenditures for protection, which account for two-thirds of total expenditures, include continental defense at home and mutual defense abroad. The total amount in the fiscal year 1956 consists of the 40.5 billion dollars for major national security programs and

MESSAGE OF THE PRESIDENT

M13

1 billion dollars for economic and technical assistance under the mutual security program. In addition, many items of smaller size scattered through other parts of the budget, not included in this category, are related in varying degrees to protection. Examples are the Coast Guard and the Selective Service System.

TAX POLICY

Last year we made great progress in reducing tax burdens and improving the tax structure. Total tax reductions of 7.4 billion dollars became effective. This was the largest tax reduction in any single year in the country's history. It was made possible only by large cuts in Government expenditures. The basic tax law was revised to relieve hardships for millions of individuals and to reduce tax barriers to economic growth.

The budget would have been balanced for the current fiscal year if there had been no tax cuts. However, it was desirable to share the benefits from the large expenditure reductions. This enabled the people to have the extra money to spend for themselves which they retained because of the reduction in their taxes.

In view of the prospective deficit, we cannot afford to have any further loss of revenue this year through reductions in taxes. The corporate tax rate would be automatically reduced under existing legislation from 52 to 47 percent on April 1 with a revenue loss of about 2 billion dollars for a full year unless extended. Under existing law, the excise taxes on liquor, tobacco, gasoline, and automobiles would also be automatically reduced on April 1, with a revenue loss of 1 billion dollars unless appropriate legislation is enacted by the Congress extending them.

In the fiscal year 1956, there will be an automatic revenue reduction (as compared with 1955) of almost 2 billion dollars under existing law, wholly apart from any changes in tax rates. The principal reason is the completion of the plan adopted 5 years ago under which payments of corporate taxes have been moved forward into earlier fiscal years. Fortunately, this reduction in 1956 will be more than offset by increases in revenue due to the economic growth of the country.

Because we must keep our existing revenues intact, I have already recommended to the Congress in my State of the Union Message that existing rates on both excises and corporate incomes be extended for 1 year. Any other course of action would result in either (1) inadequate expenditures for national security, or (2) inflationary borrowing.

During the past year the Treasury Department has continued to examine possible changes in the tax laws concerning which no recommendations were made in the revision of the tax laws last year. As final conclusions are reached by the Department they will be sent to the Congress.

I have also directed the Secretary of the Treasury promptly to make recommendations for any other changes in the laws which may be found necessary to prevent anyone from avoiding his fair share of the tax burden.

The present tax take of nearly one-fourth of our national income is a serious obstacle to the long-term dynamic growth of the economy which is so necessary for the future. There must be the means for providing more and better jobs not only for those who are working today but also for the millions of young people who will come of working age in future years. The stimulus of further tax reductions is necessary just as soon as they can properly be made.

We must always make adequate provision for our security and other essential services, and further tax reductions can only be made as savings in governmental expenditures or increased revenues resulting from growth in our economy are in sight.

However, further tax reduction remains a firm goal of this administration, and our policy is directed to achieving both the savings in expenditures and the economic growth that will make such reductions possible.

I hope that tax reductions will be so justified next year. If so, I shall recommend a reduction in taxes to spread the relief fairly among all taxpayers in a way which will be the most effective to relieve individual tax burdens and to increase incentive for effort and investment.

DEBT MANAGEMENT

Debt management policy during the past year was keyed to Federal Reserve monetary policy to help assure the ready availability of money and credit needed to sustain a high level of business activity. The Treasury refrained under the special circumstances of 1954 from issuing long-term securities which would compete for long-term money available for the construction of new homes, for business expansion, or for new schools, highways, and hospitals at the State and local government level. At the same time, progress was made in improving the structure of the public debt by some extension of maturities through issuing more intermediate-term bonds. In each major Treasury financing during 1954, except for borrowing through tax anticipation securities, investors had the opportunity to buy securities longer than 1-year certificates. The result was a substantial reduction in the short-term debt.

On December 31, 1954, the public debt subject to the statutory limit was 278.3 billion dollars. We expect to be able to operate this fiscal year within the temporary debt limit of 281 billion dollars voted by the Congress last August. The increase beyond 275 billion dollars provided by this legislation is, however, temporary. The statutory limit will go back to 275 billion dollars on June 30, 1955. We antici-

pate that the heavy tax receipts during the remainder of this fiscal year will enable us to reduce the debt to within that figure by June 30, 1955.

At the start of the new fiscal year in July 1955 the debt will already be pressing against the legal limit. With the present seasonal pattern of tax collections, expenditures will exceed receipts in the first 6 months of the fiscal year 1956 by about 8 billion dollars. Thus, it will not be possible to pay the Government's bills in that period without exceeding the 275 billion dollar limit.

We recognize that the statutory debt limit is valuable as an expression of firm intent to maintain fiscal soundness. With present requirements for national security we have not yet been able to achieve a balanced budget, even though we have made substantial progress toward it. Therefore, I have no alternative but to ask the Congress to again increase the debt limit.

During the past 2 years, we have proved that a free, democratic system can make the adjustment from war to peace without serious economic disturbances. A major factor in this achievement has been the confidence of the people in the ability of the Government to bring its financial affairs under control and to conduct them in a responsible manner.

Our objective of being provident in financial matters has paid and is still paying dividends in general well-being. We have reduced expenditures and eased the crushing load of taxation. We have improved the structure of the public debt and provided a favorable environment for sound monetary policy. We have encouraged private initiative by starting to take the Government out of competition with private enterprise. We have made progress in housing and in protection against personal catastrophe. We are developing our natural resources in partnership with the State and local governments and with private initiative. These steps are designed to assure high and rising employment, a growing prosperity, and a stable dollar.

This administration will continue to exercise the utmost care in the manner in which it uses the taxpayers' money. It will continue to purchase what we must have for our security, well-being, and prosperity with the fewest possible number of dollars. And it will continue to administer the huge Government organization more efficiently. It will put first things first and restrain spending to items of high priority. Our success thus far in reducing taxes, expenditures, and the deficit is the best evidence of the earnestness of our efforts.

With an indestructible faith in the destiny of this country, a faith equal to that of the founders who held that all men are Divinely

endowed with inalienable rights; with full confidence that in the intelligent cooperation of free men is to be found the most effective way of solving group and national problems; with unshaken dedication to the pursuit of peace and justice at home and in the world, we shall continue to sustain our liberties and we shall meet and far surpass the objectives we now set for ourselves in promoting human welfare, happiness, and prosperity.

DWIGHT D. EISENHOWER.

JANUARY 17, 1955.

BUDGET MESSAGE OF THE PRESIDENT

PART B

This second part of the budget message starts with three summary tables. Following these tables is an introduction containing (1) general analyses of budget expenditures from two different viewpoints, (2) a summary of transactions of major trust funds, and (3) a summary of receipts from and payments to the public.

The remainder of the message discusses the nine major groups of Government programs.

M17

M18

MESSAGE OF THE PRESIDENT

SUMMARY OF NEW OBLIGATIONAL AUTHORITY

BY FUNCTION AND AGENCY

Based on existing and proposed legislation

[Fiscal years. In millions]

Description	1954 enacted	1955 estimated			1956 estimated		
		Enacted	Proposed for later trans- mission	Total	Recom- mended in this document	Proposed for later trans- mission	Total
BY FUNCTION							
Major national security-----	\$39,471	\$34,386	-----	\$34,386	\$33,229	\$3,513	\$36,742
International affairs and finance-----	1,268	1,582	\$2	1,585	341	1,535	1,876
Veterans' services and benefits-----	4,272	3,937	349	4,285	4,615	-----	4,615
Welfare, health, and education-----	2,190	1,981	328	2,310	2,217	72	2,289
Agriculture and agricultural resources-----	4,010	2,630	-----	2,630	1,288	-----	1,288
Natural resources-----	1,196	957	10	967	901	28	929
Commerce and manpower-----	2,846	3,181	200	3,381	2,738	108	2,846
General government-----	1,041	1,031	25	1,056	1,087	218	1,305
Interest-----	6,470	6,558	-----	6,558	6,378	-----	6,378
Reserves for proposed legislation and contingencies:							
Net cost of classified pay increase						125	125
Other-----			150	150		250	250
Total new obligational authority-----	62,765	56,244	1,064	57,308	52,794	5,848	58,642
BY AGENCY							
Legislative branch-----	84	69	-----	69	72	-----	72
The Judiciary-----	29	30	1	31	33	-----	33
Executive Office of the President-----	9	9	-----	9	9	-----	9
Funds appropriated to the President-----	4,730	2,796	2	2,797	27	3,530	3,557
Independent offices:							
Atomic Energy Commission-----	1,118	1,284	-----	1,284	1,292	-----	1,292
Veterans Administration-----	4,276	3,934	349	4,283	4,453	100	4,553
Other-----	766	1,033	16	1,048	469	284	752
General Services Administration-----	163	535	-----	535	692	-----	692
Housing and Home Finance Agency-----	433	585	105	690	114	200	314
Department of Agriculture-----	4,283	2,802	-----	2,802	1,516	-----	1,516
Department of Commerce-----	996	1,377	80	1,457	1,458	-----	1,458
Department of Defense:							
Military Functions-----	34,590	30,783	-----	30,783	31,416	1,483	32,899
Civil Functions-----	529	482	(b)	482	536	17	553
Department of Health, Education, and Welfare-----	1,916	1,704	327	2,031	1,959	72	2,031
Department of the Interior-----	596	492	9	502	473	17	490
Department of Justice-----	180	181	5	186	201	-----	201
Department of Labor-----	352	436	20	456	515	5	519
Post Office Department-----	420	312	-----	312	295	^a 270	25
Department of State-----	144	129	1	130	148	1	150
Treasury Department-----	7,134	7,240	-----	7,240	7,086	35	7,121
District of Columbia (general fund)-----	16	30	-----	30	32	-----	32
Reserves for proposed legislation and contingencies-----			150	150		375	375
Total new obligational authority-----	62,765	56,244	1,064	57,308	52,794	5,848	58,642

^a Less than one-half million dollars.^b Deduct, includes proposed postal rate increase of 400 million dollars.

MESSAGE OF THE PRESIDENT

M19

SUMMARY OF BUDGET EXPENDITURES

BY FUNCTION AND AGENCY

Based on existing and proposed legislation

[Fiscal years. In millions]

Description	1954 actual	1955 estimated			1956 estimated		
		Under authorizations already enacted	Proposed for later transmission	Total	Under authorizations enacted or recommended in this document	Proposed for later transmission	Total
BY FUNCTION							
Major national security	\$46,523	\$40,644	-	\$40,644	\$39,068	\$1,390	\$40,458
International affairs and finance	2,166	1,798	\$1	1,800	1,504	336	1,841
Veterans' services and benefits	4,289	4,119	349	4,468	4,684	-	4,684
Welfare, health, and education	2,248	2,057	259	2,316	2,217	95	2,312
Agriculture and agricultural resources	7,497	8,934	-	8,934	7,647	-	7,647
Natural resources	1,391	1,356	2	1,358	1,180	29	1,209
Commerce and manpower	7,355	7,608	192	7,800	7,037	^a 130	6,908
General government	1,212	1,201	24	1,225	1,350	219	1,569
Interest	6,470	6,558	-	6,558	6,378	-	6,378
Reserves for proposed legislation and contingencies:							
Net cost of classified pay increase						125	125
Other			100	100		200	200
Total budget expenditures (gross)	79,151	74,276	927	75,203	71,067	2,265	73,332
Deduct applicable receipts ¹	11,379	11,699	-	11,699	10,923	-	10,923
Net budget expenditures	67,772	62,577	927	63,504	60,144	2,265	62,408
BY AGENCY							
Legislative branch	59	71	-	71	83	-	83
The Judiciary	28	30	(b)	31	33	(b)	33
Executive Office of the President	9	9	-	9	9	-	9
Funds appropriated to the President	5,477	5,069	1	5,070	4,743	613	5,356
Independent offices:							
Atomic Energy Commission	1,895	2,050	-	2,050	1,910	90	2,000
Veterans Administration	4,316	4,148	349	4,497	4,615	90	4,705
Other	3,739	3,098	2	3,101	2,994	248	3,242
General Services Administration	808	1,174	-	1,174	969	-	969
Housing and Home Finance Agency	1,440	1,662	5	1,667	1,264	-	1,264
Department of Agriculture	5,963	7,365	-	7,365	6,013	-	6,013
Department of Commerce	1,083	995	185	1,180	1,223	(b)	1,223
Department of Defense:							
Military Functions	40,336	34,375	-	34,375	33,000	1,000	34,000
Civil Functions	708	624	(b)	624	618	14	632
Department of Health, Education, and Welfare	1,983	1,784	258	2,042	1,960	95	2,055
Department of the Interior	571	592	2	594	572	19	591
Department of Justice	183	181	4	185	201	1	202
Department of Labor	357	413	20	433	512	4	515
Post Office Department	2,686	2,741	-	2,741	2,811	^a 270	2,541
Department of State	156	138	(b)	138	148	2	150
Treasury Department	7,339	7,732	-	7,732	7,356	35	7,391
District of Columbia (general fund)	13	25	-	25	34	-	34
Reserves for proposed legislation and contingencies			100	100		325	325
Total budget expenditures (gross)	79,151	74,276	927	75,203	71,067	2,265	73,332
Deduct applicable receipts ¹	11,379	11,699	-	11,699	10,923	-	10,923
Net budget expenditures	67,772	62,577	927	63,504	60,144	2,265	62,408

¹ Receipts of public enterprise funds (Government-owned corporations, the postal service, and other revolving funds, the receipts of which come primarily from outside the Government).

^a Less than one-half million dollars.

^b Deduct, includes proposed postal rate increase of 400 million dollars.

M20

MESSAGE OF THE PRESIDENT
SUMMARY OF BUDGET RECEIPTS
Based on existing and proposed legislation
BY SOURCE

[Fiscal years. In millions]

Description	1954 actual	1955 estimated			1956 estimated		
		Under existing laws	Under proposed legislation	Total	Under existing laws	Under proposed legislation	Total
Individual income taxes-----	\$32,383	\$30,700	-----	\$30,700	\$32,500	-----	\$32,500
Corporation income taxes-----	21,523	18,466	-----	18,466	15,984	\$1,050	17,034
Excise taxes:							
Alcohol taxes-----	2,798	2,669	\$64	2,733	2,622	210	2,832
Tobacco taxes-----	1,581	1,541	49	1,590	1,443	179	1,622
Stamp taxes-----	90	97	-----	97	97	-----	97
Manufacturers' excise taxes-----	2,692	2,765	76	2,841	2,300	627	2,927
Retailers' excise taxes-----	438	307	-----	307	319	-----	319
Miscellaneous excise taxes-----	1 2,416	1,504	1	1,505	1,547	6	1,553
Employment taxes:							
Federal Insurance Contributions Act-----	4,537	5,190	-----	5,190	6,175	-----	6,175
Federal Unemployment Tax Act-----	285	290	-----	290	295	-----	295
Railroad Retirement Tax Act-----	603	600	-----	600	625	-----	625
Estate and gift taxes-----	945	930	-----	930	970	-----	970
Customs-----	562	570	-----	570	570	-----	570
Miscellaneous receipts:							
Miscellaneous taxes, seignorage, and coinage-----	77	49	-----	49	39	-----	39
Permits, fines, forfeitures, and gifts-----	59	57	-----	57	58	-----	58
Interest, dividends, and other earnings-----	819	664	-----	664	659	-----	659
Rents, royalties, sale of products, and services-----	391	573	-----	573	554	-----	554
Sale of property-----	221	268	-----	268	225	-----	225
Realization upon loans and investments-----	236	254	-----	254	273	-----	273
Recoveries and refunds-----	507	438	-----	438	678	-----	678
Other-----	2 9	-----	-----	-----	-----	-----	-----
Total receipts-----	73,173	67,931	190	68,121	67,933	2,072	70,005
Deduct-----							
Transfer to Federal old-age and survivors insurance trust fund-----	4,537	5,190	-----	5,190	6,175	-----	6,175
Transfer to railroad retirement trust fund-----	603	600	-----	600	625	-----	625
Refunds of receipts-----	3,377	3,331	-----	3,331	3,396	-191	3,205
Budget receipts-----	64,655	58,810	190	59,000	57,737	2,263	60,000

¹ Includes 479 million dollars of unclassified depositary receipts.² Internal revenue not otherwise classified.

MESSAGE OF THE PRESIDENT

M21

To the Congress of the United States:

This second part of my message contains further details regarding budget expenditures and new appropriations and my legislative recommendations. Major trust fund transactions are summarized. Expenditures are analyzed from two different points of view.

Purposes of expenditures.—From one point of view, budget expenditures serve four broad purposes. These were summarized on page M12. Four percent goes for keeping the civil functions of Government running. Another 10 percent is necessary to pay the interest charges on the Government debt. A somewhat larger proportion, 19 percent, is devoted to the costs of various programs combined under the heading of civil benefits. Some of these benefit particular groups or localities. Others are in the nature of more general benefits. Another 67 percent is for the major programs for protection against possible war.

That part of the expenditures of various agencies which is for current expenses of civil operations and administration is shown by agency in the following table:

CURRENT EXPENSES FOR CIVIL OPERATIONS AND ADMINISTRATION

[Fiscal years. In millions]

	1951 actual	1952 actual	1953 actual	1954 actual	1955 esti- mated	1956 esti- mated
Legislative branch	\$57	\$58	\$53	\$55	\$64	\$65
The Judiciary.....	25	27	27	28	30	33
Executive branch:						
Department of Agriculture.....	101	89	96	139	138	139
Department of Commerce.....	105	145	112	50	84	82
Department of Defense—Civil func- tions.....	56	58	81	52	59	60
Department of Health, Education, and Welfare.....	7	8	8	8	9	10
Department of the Interior.....	111	119	127	125	150	150
Department of Justice.....	150	194	169	181	184	200
Department of Labor.....	38	48	53	51	86	96
Post Office Department.....	74	70	35	16		
Department of State.....	193	211	221	144	131	141
Treasury Department:						
Claims and judgments.....	98	76	137	213	163	250
Other.....	434	471	478	488	480	495
Civil Service Commission.....	324	332	346	50	48	235
Economic Stabilization Agency.....		91	64	2		
General Services Administration.....	96	163	162	147	148	153
Other.....	43	13	130	135	143	144
Total.....	1,911	2,174	2,299	1,872	1,916	2,251

¹ Since August 15, 1953, the cost of Government mail has been paid by the various agencies.

Expenditures for civil benefits are shown in the following table. These expenditures are partly for the acquisition of assets, which have varying degrees of recoverable value or permanency. Other expenditures are for long-range development, and for current aids and services to various groups.

The largest amount of benefits goes to veterans for compensation and pension payments, hospital and medical care, and readjustment benefits, including vocational training. The next largest current expense for benefits is for public assistance grants to States. Current expenses for agriculture consist of losses realized in disposition of commodities acquired under price support programs, payment for the removal of surplus commodities, administrative expenses of loan programs and other aids to farmers.

EXPENDITURES FOR CIVIL BENEFITS

[Fiscal years. In millions]

	1951 actual	1952 actual	1953 actual	1954 actual	1955 estimated	1956 estimated
Federal assets (loans, construction, major equipment, and additions to commodity inventories) -----	\$1,771	\$2,905	\$4,672	\$2,840	\$3,323	\$2,013
Long-range development:						
State, local, and private assets (roads, airports, schools, and soil conservation)-----	961	1,023	1,124	1,022	1,131	1,302
Expenditures for education, training, health, and research and development-----	1,178	566	602	586	667	784
Current expenses for aids and services:						
Agriculture-----	905	463	305	540	995	750
Business:						
Post Office-----	521	670	624	307	267	1 15
Other-----	288	371	310	341	483	522
Labor-----	203	209	215	216	272	348
Home owners and tenants-----	-160	-129	-123	-116	-92	-48
Veterans-----	4,515	4,710	4,178	4,185	4,347	4,536
Public assistance-----	1,186	1,178	1,330	1,438	1,445	1,420
Other aids-----	141	186	176	209	420	371
Total -----	11,509	12,153	13,413	11,570	13,259	11,984

¹ Based on proposed increases in postal rates and postal pay.

Most of the postal deficit for 1954 and 1955 has been included among benefits to private business since the Post Office Department's analysis shows that it arises principally from inadequate second- and third-

MESSAGE OF THE PRESIDENT

M23

class mail rates. The proposed rate increase will practically absorb the postal deficit in 1956.

Expenditures for protection, as shown in the next table, likewise include the acquisition of Federal assets, of varying degrees of permanent value, from airbases to aircraft, tanks, trucks, and bombs. Such expenditures also include long-range development, and current expenses. The last mentioned is primarily the cost of military pay and operations. Protection also includes a substantial amount of military equipment and economic and technical assistance furnished under the mutual security program, of which a significant amount goes to Korea and other Far Eastern countries.

EXPENDITURES FOR PROTECTION

[Fiscal years. In millions]

	1951 actual	1952 actual	1953 actual	1954 actual	1955 estimated	1956 estimated
Federal assets (construction, plant and major equipment, and stockpiling)-----	\$6,099	\$15,059	\$21,438	\$10,914	\$16,762	\$16,934
Long-range development (research and development)-----	915	1,285	1,617	1,616	1,546	1,649
Current expenses (military pay, operations, maintenance, administration, and military aid abroad)-----	15,293	27,505	27,219	24,994	22,336	23,625
Current expenses of economic assistance abroad-----	3,320	2,154	1,705	1,339	1,029	1,017
Unallocated reduction in estimates (Department of Defense)-----						-1,750
Total-----	25,626	46,002	51,979	47,863	41,673	41,475

Further details on this classification of net budget expenditures are shown in special analysis D, page 1153.

Controllability of expenditures.—The preceding analysis has indicated the broad purposes of expenditures. It is important that we also consider our budget from another point of view. About one-fourth of the total expenditures can be classified as permitting little or no administrative discretion through the budget process. The level of these expenditures depends upon the provisions of the legislation which authorized the programs and on other factors independent of Executive control.

**SUMMARY OF NET BUDGET EXPENDITURES INDICATING
CONTROLLABILITY**

[Fiscal years. In millions]

Description	1953 actual	1954 actual	1955 estimated	1956 estimated
Major national security programs	\$50,274	\$46,522	\$40,644	\$40,458
Major programs not readily subject to administrative discretion through the budget process:				
Veterans' compensation, pensions, and selected benefit programs.....	3,383	3,297	3,512	3,680
Veterans' unemployment compensation.....	26	82	131	150
Grants to States for public assistance.....	1,330	1,438	1,445	1,420
Payment to railroad retirement fund for military service credits.....	33	35	-----	-----
Agricultural price support (Commodity Credit Corporation).....	1,943	1,526	2,159	1,142
Removal of surplus agricultural commodities.....	82	178	113	180
Conservation of agricultural land resources.....	273	171	190	212
Federal-aid highway grants.....	509	531	600	680
Grants to States for unemployment compensation and employment service administration.....	202	203	195	245
Payment to the unemployment trust fund.....	-----	-----	64	87
Claims and relief acts.....	129	213	163	250
Payments to Federal employees' retirement funds.....	321	31	30	217
Unemployment compensation for Federal employees.....	-----	-----	33	40
Legislative and the Judiciary.....	88	87	102	116
Interest.....	6,583	6,470	6,558	6,378
Total	14,902	14,262	15,295	14,797
All other	9,098	6,988	7,565	7,153
Total budget expenditures	74,274	67,772	63,504	62,408

¹ For comparability with prior years, includes expenditures (127 million dollars) from appropriations to reimburse Commodity Credit Corporation.

For example, interest depends upon the size of the public debt and the interest rates. Expenditures for veterans' benefits depend upon the benefit rates and the number of eligible veterans. Expenditures for agricultural price supports are affected by such factors as the weather, the level of world prices, and the ability of foreign purchasers to pay dollars. Grants to States are made under formulas fixed in legislation and vary with State participation and general economic conditions. Expenditures for relatively uncontrollable programs will be 14.8 billion dollars in the fiscal year 1956. This will be 498 million dollars less than in 1955. Increases for grants under the Federal-Aid Highway Act of 1954, veterans' benefits, payment of claims, and resumption of the Government's contribution to the civil service retirement and disability fund are more than offset by the decreases expected for agricultural price supports and interest on the public debt.

MESSAGE OF THE PRESIDENT

M25

Expenditures for major national security programs will decline 186 million dollars in the fiscal year 1956. All other Government expenditures are estimated to decline 412 million dollars. Although these latter expenditures are only 11 percent of the total, they include the great majority of the individual appropriation items in the budget. Between the fiscal years 1953 and 1956, these expenditures are estimated to be reduced by 1.9 billion dollars. Included in this total are expenditures for international affairs and finance, and for most of the regular operations of the Government such as enforcing laws, collecting taxes, promoting health, postal service, and civil public works.

Major trust funds.—The budget receipts and expenditures which I have so far discussed reflect only transactions of funds which belong to the Federal Government. In addition, the Federal Government engages in extensive transactions with funds which it does not own but holds in trust for others. The following table summarizes the receipts, expenditures, and balances for the major trust funds. These include the trust funds for veterans' life insurance, old-age and survivors' insurance, railroad retirement, Federal employees retirement, and unemployment compensation. The total receipts and expenditures of the many smaller trust funds which are not included in the table have amounted to about one-half billion dollars annually in recent years.

SUMMARY OF RECEIPTS, EXPENDITURES, AND BALANCES OF MAJOR TRUST FUNDS

[Fiscal years. In millions]

	1954 actual	1955 estimated	1956 estimated
Balance in funds at start of year.....	\$43,057	\$44,924	\$46,449
Receipts.....	8,698	9,343	10,882
Expenditures.....	6,832	7,819	8,245
Balance in funds at close of year.....	44,924	46,449	49,087

The accumulated balances of these funds will increase substantially from 43.1 billion dollars at the beginning of the fiscal year 1954 to an estimated 49.1 billion dollars at the close of 1956. Most of these balances are invested in special issues of United States Government securities. Receipts of these trust funds include interest on such investments, payroll taxes paid by employers and employees, and premiums paid by veterans for life insurance. Expenditures are primarily for the payment of benefits. Additional information on these funds can be found in part III of the budget document.

Receipts from and payments to the public.—Transactions of trust funds and Federal funds are consolidated to show the total of the Federal Government's receipts from and payments to the public. This statement shows the total flow of funds for the year and is one measure of the inflationary or deflationary impact of Federal fiscal transactions on the national economy; it is not a substitute for the regular budget statements. Details on receipts from and payments to the public are given in special analysis A, on page 1131.

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC, EXCLUDING BORROWING

[Fiscal years. In millions]

	1954 actual	1955 estimated	1956 estimated
Cash receipts from the public.....	\$71,636	\$66,649	\$68,793
Cash payments to the public.....	71,868	69,026	68,235
Excess of cash receipts.....			558
Excess of cash payments.....	232	2,377	-----

MAJOR NATIONAL SECURITY

The major national security category of the budget includes not only the military functions of the Department of Defense, but also the development of atomic energy, the stockpiling of strategic and critical materials, and the portions of the mutual security program which consist of military assistance and direct forces support to other free nations. These four major programs are the basic elements of our national security. Other programs with smaller totals and relating to activities which are not so exclusively defense are included under other classifications of the budget. For example, the commerce and manpower section includes the Coast Guard, merchant marine, the Selective Service System, civil defense, aeronautical research, and promotion of defense production.

Expenditures for major national security programs in the fiscal year 1956 are estimated at 40.5 billion dollars. This total is 186 million dollars below that for 1955, and 6.1 billion dollars below the actual 1954 amount. Recommended new authority to incur obligations is greater than for 1955 but less than for 1954. After the cessation of combat operations in Korea, we were able to reduce our 1955 military appropriations because the unobligated balances available were greater than required and the large stocks of supplies on hand permitted the military services to "live off the shelf" to a large degree without replacing the items consumed.

MESSAGE OF THE PRESIDENT

M27

Recommendations in this budget for our major national security programs are based on the same philosophy which I recommended and the Congress adopted for the fiscal years 1954 and 1955. I then proposed that we should plan and finance our national security program on a long-term basis that would maintain essential military strength over an indefinite period of time without impairing the basic soundness of the United States economy. This budget continues the concept of no assumed fixed date of maximum danger. Any other concept would lead to an inevitable let-down in strength and produce peaks and valleys in our defense spending and production.

It is essential that we, together with other nations of the free world, maintain a level of military strength which will effectively discourage any would-be aggressor from attacking. We cannot accept less. The effectiveness of our power to deter rests principally upon our capability to retaliate swiftly and decisively and upon our ability to defend ourselves against attack. The advent of nuclear weapons has profoundly affected our concepts of military strategy and tactics as well as our national security policies. Such weapons multiply many fold the striking power of any military force. This budget, therefore, continues the emphasis on the development and maintenance of effective nuclear-air retaliatory power of the Air Force and Naval aviation as the principal deterrent to military aggression. Such power is being supplemented by other military forces of great strength, flexibility, and mobility and by the forces of our allies.

In order to safeguard our striking power and resources, we are giving continued high priority to the accelerated development of continental defense programs.

Priority is also being given to the development and introduction into operating units of new weapons and techniques adapted to the radically changed conditions imposed by the potential of nuclear warfare. This budget also provides for continued improvement in mobilization reserve stocks and for the cost of expanding and strengthening our military manpower reserves as outlined in my special message on this subject.

The complexity of modern military equipment and the revolution in military concepts in this atomic age put an extra premium upon military leadership, skill, and training. Unfortunately, much of our investment in developing trained manpower is being lost, as too many servicemen are rejecting a military career for the attractions they expect from civilian life. My legislative proposals to meet these problems were set forth in my special message on military pay and incentives, and funds for them are provided in this budget.

MAJOR NATIONAL SECURITY

[Fiscal years. In millions]

Item	Budget expenditures (net)				
	1950 actual	1953 actual	1954 actual	1955 estimated	1956 estimated
Direction and coordination of defense.....	\$10	\$15	\$12	\$12	\$12
Other central defense activities.....	199	394	452	488	588
Army defense activities.....	3,983	16,242	12,910	8,900	8,850
Navy defense activities.....	4,100	11,874	11,293	9,775	9,700
Air Force defense activities.....	3,600	15,085	15,668	15,200	15,600
Proposed legislation.....	-----	-----	-----	-----	1,000
Unallocated reduction in estimates.....	-----	-----	-----	-----	-1,750
Subtotal, Department of Defense.....	11,892	43,610	40,336	34,375	34,000
Development and control of atomic energy, present program.....	550	1,791	1,895	2,050	1,910
Proposed legislation.....	-----	-----	-----	-----	90
Strategic and critical materials.....	438	919	651	994	783
Mutual security (military):					
Military assistance, present program.....	130	3,954	3,629	2,675	2,875
Proposed legislation.....	-----	-----	-----	-----	200
Direct forces support, present program.....	-----	-----	12	550	500
Proposed legislation.....	-----	-----	-----	-----	100
Subtotal, military assistance and support.....	130	3,954	3,641	3,225	3,675
Total budget expenditures.....	13,010	50,274	46,522	40,644	40,458

Item	New obligational authority				
	1950 actual	1953 actual	1954 actual	1955 estimat-ed	1956 recom-mended
Direction and coordination of defense.....	\$11	\$15	\$13	\$13	\$13
Other central defense activities.....	180	540	778	645	627
Army defense activities.....	4,392	15,221	12,777	7,788	7,303
Navy defense activities.....	4,359	12,689	9,612	10,272	8,937
Air Force defense activities.....	5,428	20,451	11,411	12,065	14,536
Proposed legislation.....	-----	-----	-----	-----	2,983
Reduction through transfers of prior year appropriations.....	-----	-----	-----	-----	-1,500
Subtotal, Department of Defense.....	14,370	48,916	34,590	30,783	32,899
Development and control of atomic energy.....	839	4,152	1,118	1,284	1,292
Strategic and critical materials.....	425	134	-----	380	522
Mutual security (military):					
Military assistance, present program.....	1,359	4,096	3,192	1,144	-----
Proposed legislation.....	-----	-----	-----	-----	1,400
Direct forces support, present program.....	-----	-----	570	795	630
Proposed legislation.....	-----	-----	-----	-----	-----
Subtotal, military assistance and support.....	1,359	4,096	3,763	1,939	2,030
Total new obligational authority.....	16,993	57,298	39,471	34,386	36,742

MESSAGE OF THE PRESIDENT

M29

Department of Defense.—To maintain a strong military posture and assure that our national security policy will adequately support our foreign policy, our military planning must be kept flexible and dynamic. The structure of our military forces must be subjected to continuing review and adjusted to reflect the rapid technological advances of this nuclear and electronic age. A year ago, I approved a long-range plan for our military forces upon which the fiscal year 1955 budget was based. Recent reviews of our plans and policies have resulted in reaffirmation of most of the elements of this long-range plan, but with some changes in timing. Our current military plans, in turn, will be subjected to continuing review so that they—as well as our military equipment—will be kept up-to-date. It is important that we do not attempt to fix our minds or plans upon any particular set of numbers, for today's technological changes may make yesterday's numbers and concepts obsolete.

In my judgment, the military forces and programs upon which this budget is based are accurately adjusted to the national needs.

Under our current plans, the number of military personnel is scheduled to be reduced from the present level of approximately 3.2 million to about 3 million by June 30, 1955, and to something over 2.8 million by June 30, 1956, for an average of approximately 2.9 million personnel during the fiscal year 1956, compared with an average of 3.2 million during the fiscal year 1955. Within this figure, however, the Air Force personnel strength will be somewhat increased.

The cessation of hostilities and the buildup of the Republic of Korea forces have permitted us to withdraw five United States ground divisions from the Far East. We have thus increased the number of divisions in a central reserve of forces which can be deployed where and when needed. In addition, 1½ Marine divisions will be withdrawn from the Far East in the near future, so that their capability as a highly trained, combat-ready, amphibious force may be available as part of the central reserve. United States military forces will be maintained at appropriate levels in the Far East, with emphasis on highly mobile naval and air units of unparalleled striking power.

The Army has devoted considerable effort to assessing the changes in Army organization and doctrine required to meet the conditions of the atomic battlefield. These studies are continuing, and it appears that the Army of the future will be organized into smaller, but more mobile and self-contained, units with greater fire power. The Navy will operate approximately 1,000 active ships—including 400 warships. The number of carrier air groups is to be increased from the present 16 to 17, and an additional attack carrier equipped with modern aircraft will be added to the fleet. The Navy will continue to maintain 15 antisubmarine warfare squadrons. The Marine Corps will maintain 3 combat-ready divisions and 3 air wings. The current level of approximately 10,000 Naval and Marine operating aircraft will be maintained. The Air Force is continuing its buildup toward a goal of 137 wings, and expects to have 130 wings in being by June 30, 1956—119 of which will be combat wings. The major units of all services will be supplemented by appropriate combat support units. All the services will continue their efforts to increase the proportion of military personnel assigned to combat units.

About two-thirds of the projected Department of Defense expenditures in the fiscal year 1956 will be devoted to air power and related programs—both offensive and defensive. Expenditures for these programs will be the largest in our peacetime history. The active aircraft inventory in combat and supporting units of the Air Force, Navy, and Marine air forces will increase from over 34,000 on June 30, 1954, to 36,000 on June 30, 1956, and will continue to increase in succeeding years toward the present objective of close to 40,000 aircraft. In addition, the Army will maintain 3,600 active aircraft, with more than a 20 percent increase during the next 2 years in the number of helicopters. The growth in our effective air power is far greater than these numbers indicate, for our aircraft continue to increase in size, speed, range, and striking power.

By the end of the fiscal year 1956, the total number of aircraft in combat units of the Air Force, Navy, and Marine Corps will be approximately one-fourth greater than at the beginning of the current fiscal year. The number of jet aircraft in such units will increase by more than one-third during the same period. The increasing modernization of our air power is shown by the fact that by June 30, 1956, the Air Force combat units will be almost 100 percent jet equipped. The proportion of jets in the combat units of the Marines and Navy will increase by approximately 15 percent over the beginning of the current fiscal year.

During the past year, continuing improvements have been made in the management and operations of the Department of Defense. The

MESSAGE OF THE PRESIDENT

M31

stock-fund principle, which has been applied in the Navy over a period of years, is now being broadly adopted by the Army and is being initiated in the Air Force. Stock funds have been extended to include 9.3 billion dollars in inventories. Major savings—particularly in the Army—are resulting from the extension of such property accounting and other businesslike management techniques. The Army is now beginning to account for its supplies in terms of dollar value, and is relating its needs and purchases to its inventories. Largely as a result of the Army's more efficient administration of the supplies and financial assets in its stock fund account, operating stocks are being reduced to lower but better-balanced levels. In addition, military installations with 1.6 billion dollars of annual transactions have been put on a businesslike basis through the use of industrial funds.

Military functions of the Department of Defense will require 32.9 billion dollars of new authority to incur obligations in the fiscal year 1956, including proposed legislation. The gross requirements to finance proposed legislation total 3 billion dollars, but I am recommending that 1.5 billion dollars of this be met with currently available funds which can be transferred as a result of actual and prospective savings and adjustments by the Department of Defense.

Total expenditures for military functions of the Department of Defense will be greater than the new obligational authority required. Expenditures have been estimated at 34 billion dollars despite the fact that the present estimates for the many individual Department of Defense programs add to a total of 35.75 billion dollars. The success of the Secretary of Defense to date in introducing improvements in planning and increased efficiency in operations leads him to believe that he will find more opportunities for savings and economies. It is not feasible for the Secretary to predict at this time what the possible savings, slippages, and program adjustments will be in each category of military expenditures but he expects that total expenditures will not exceed 34 billion dollars. Consequently, the anticipated savings and adjustments are shown as an unallocated reduction of 1.75 billion dollars, about 5 percent of the total estimated expenditures of the Department of Defense.

The estimated 34 billion dollars of expenditures for the fiscal year 1956 includes 1 billion dollars for proposed legislation. The total estimate is 375 million dollars lower than the current estimate of expenditures for the fiscal year 1955 and 6.3 billion dollars below expenditures in the fiscal year 1954.

DEPARTMENT OF DEFENSE COSTS BY MAJOR CATEGORIES

[Fiscal years. In millions]

Cost category	Budget expenditures				Recommended new obligational authority for 1956
	1953 actual	1954 actual	1955 estimated	1956 estimated	
Military personnel	\$11,556	\$10,961	\$10,245	\$10,295	\$10,612
Operation and maintenance.....	10,379	9,356	7,869	8,576	9,184
Major procurement and production	(17,123)	(15,958)	(12,627)	(12,718)	(9,524)
Aircraft.....	7,416	8,334	7,557	7,550	6,064
Ships.....	1,191	1,090	888	999	1,317
Other.....	8,516	6,534	4,182	4,169	2,143
Military public works	1,913	1,708	1,418	1,749	1,914
Reserve components.....	522	584	705	927	1,037
Research and development.....	1,412	1,385	1,307	1,369	1,370
Establishment-wide activities.....	759	771	719	793	758
Working capital (revolving) funds.....	-54	-384	-515	-677	-----
Unallocated reduction in estimates.....				-1,750	-----
Reduction through transfers of prior year appropriations.....					-1,500
Total	43,610	40,336	34,375	34,000	32,899

Military personnel costs, which include the compensation of military personnel, family allowances, subsistence, clothing, and permanent-change-of-station transportation, will be approximately the same in 1956 as during the current fiscal year but about 6 percent below the fiscal year 1954. Although the number of military personnel is scheduled to decrease during the fiscal year 1956, the resulting decrease in expenditures will be more than offset by the added costs of the pay increase and other benefits proposed in my special message. I am again recommending legislation to provide medical care for dependents of members of our Armed Forces in both military and civilian medical facilities. Funds are included in this budget for this proposal. I will also recommend an extension of the Dependents Assistance Act and funds are included in this budget to cover these costs.

Continuing improvements in organization and management of the Department of Defense have resulted in significant savings in the costs of operating and maintaining posts, stations, airbases, aircraft, ships, and other military equipment during the past 2 years. The planned reduction in numbers of military personnel will permit further savings through appropriate reductions in the number of supporting establishments. Nevertheless, total expenditures for operation and maintenance will be greater in the coming fiscal year than during the fiscal year 1955, since the cost reductions will be more than offset by the increasing costs of operating and maintaining the modern

MESSAGE OF THE PRESIDENT

M33

equipment being provided for our forces, and for operating our expanding system of continental defense in which all services participate.

Major strides have been made during the past year in expanding the system for defense of continental United States against possible enemy attack. NIKE guided-missile battalions are rapidly being installed for the defense of key potential targets. A separate Continental Air Defense Command, reporting directly to the Joint Chiefs of Staff, has been established. It has operational control over continental defense forces, including (1) Air Force fighter interceptors and aircraft control and warning networks, (2) Army anti-aircraft and guided missile battalions, (3) Navy radar picket ships and air units in the contiguous radar system, and (4) additional forces from other Air Force, Navy, Marine Corps, and Air National Guard fighter and radar units when made available for air defense. Our radar screen is being expanded and existing gaps in coverage are being filled. Our Air Defense forces, as well as the Strategic Air Command and Naval air power, are being kept on an alert basis. A surprise enemy attack would find us with increasing readiness to resist attack and retaliate with devastating effect. These measures inevitably lead to increased operating costs for continental defense, which are now higher than ever before in our history and are still rising.

Expenditures for procurement and production of major items of equipment will continue at approximately the same level as during the current fiscal year and will constitute more than one-third of the total projected expenditures of the Department of Defense. Procurement of aircraft and guided missiles will continue at the same level as during the current year and will account for two-thirds of total major procurement expenditures. Shipbuilding expenditures will increase over the current fiscal year. This budget provides for an increased number of new shipbuilding starts. This continues the program I recommended in the 1955 budget to cope with the problem of "block obsolescence" of the fleet, which was largely built during World War II. Included in the proposed shipbuilding program for the fiscal year 1956 is a fifth carrier of the *Forrestal* class.

Appropriations enacted in prior years have permitted us to build our mobilization stocks of key military items to greater levels than ever before accumulated except in time of war. My recommendations in this budget will permit us to continue the accumulation of reserves of selected types of materiel. They also provide for our operating needs for newer weapons and equipment. As has been the policy of this administration in the past, maximum feasible reliance will also be placed upon keeping military production facilities in operation rather than on accumulating even larger reserve stocks of end-items.

Military construction expenditures during the fiscal year 1956 are expected to increase substantially over the 1955 level, reflecting progress in all Services on construction of bases. A substantial portion of the military public works projects proposed to be undertaken during the fiscal year 1956 are related to the continental defense program. In addition, this budget provides for essential increments to overseas construction programs now nearing completion and for rounding out the facilities needed for the approved military force levels. The program includes a portion of the family housing greatly needed at military installations. Limited provision is also made for replacing a small portion of substandard World War II construction which has passed the point of economical maintenance and operation.

In my special message I recommended urgently needed legislation to create a more effective military reserve. Expenditures for the reserve components are expected to increase markedly during the fiscal year 1956 as a result of this legislation. Reservists in drill pay status are estimated to increase from 697,000 as of June 30, 1954, to about 857,000 at the end of the current fiscal year and a little over 1,000,000 at the end of the fiscal year 1956. In addition, under the terms of the proposed new program, there will be approximately 50,000 reservists in drill pay status who will have completed 6 months' active duty training by the end of the fiscal year 1956.

This budget also provides for continuation of the present high level of research and development in the Department of Defense. Major emphasis is being placed on developments which will more effectively utilize nuclear energy in military operations. New equipment and techniques are being developed to provide the mobility needed to meet the changed requirements of nuclear warfare. We shall continue to concentrate on those programs which show the greatest promise of providing reliable new weapons and significant improvements in both our offensive and defensive capabilities under the conditions of modern warfare. It is my belief that increased returns in military research and development can best come from maintaining a stable high level program. Although this level of program utilizes, either through direct employment or on a contractual basis, about one-half the research scientists and engineers in the United States, it also permits a high level of nonmilitary research and development essential to an expanding economy.

Civil defense.—Civil defense is also an integral part of the overall program for defense of the continental United States against enemy attack. Although the major part of continental defense is in the military budget, expenditures by the Federal Civil Defense Administration are classified in the commerce and manpower section together with those for dealing with peacetime disasters.

MESSAGE OF THE PRESIDENT

M35

The concept of civil defense adopted last year takes account of the destructive threat of modern weapons and places emphasis on improved warning of impending attack, to allow time for evacuation of potential target cities. Since this policy was announced, the Federal Civil Defense Administration has developed its plans more fully and individual cities have tested mass evacuation. I cannot stress too much that civil defense will succeed or fail in proportion to the willingness of American communities to meet the peril. The Federal Government is developing cooperative methods with State governors, mayors, and voluntary citizen groups, as well as among Federal agencies, in building the civil defense organization. In accordance with the Federal Civil Defense Act of 1950, the primary responsibility for civil defense rests with the States and their political subdivisions.

Development and control of atomic energy.—It is our purpose, working in concert with other nations, to banish the threat of atomic warfare which now confronts the world. Progress is being made toward establishing an international agency for cooperation in developing the peaceful uses of atomic energy, as I proposed to the United Nations on December 8, 1953. The budget of the Atomic Energy Commission for the fiscal year 1956 provides for greater expenditures than ever before on projects to develop peaceful applications of atomic energy. We shall continue unabated our efforts to assure that this great force will be used, not for war, but for the well-being of all mankind. Until such assurance can be achieved, however, we have no alternative but to strengthen further our most effective deterrent to armed aggression—the power of our nuclear weapons stockpile.

Despite a growing program, I am recommending for 1956 only a slight increase over 1955 in new authority to incur obligations because of the availability of large unobligated balances, due partly to savings in construction costs. Total expenditures in the fiscal year 1956 are estimated at 2 billion dollars, 50 million dollars less than in 1955.

Operating expenditures will rise in the fiscal year 1956 to the highest rate yet attained. They will increase from 1.2 billion dollars in 1955 to 1.5 billion dollars in 1956 principally because of an expected higher level of procurement of raw uranium ores and concentrates and because of greater production at the Commission's plants as new facilities are completed and placed in operation. The estimates assume continuing reductions in unit production costs.

Capital expenditures in the fiscal year 1956 will drop considerably as the large new production plants authorized in prior years approach completion. Recommended new construction will include: (1) plant improvements and other facilities to increase the efficiency and capacity of the production complex, (2) certain weapons research facilities,

(3) a medical research center, (4) an international training school in reactor technology, and (5) developmental atomic reactor projects.

The national effort to develop industrial atomic power for peacetime uses will go forward with increased vigor. The Atomic Energy Act of 1954 makes possible substantial private activity and investment in the constructive applications of atomic energy. Construction of one large atomic powerplant jointly financed by the Government and industry is already underway. As I stated in my message of February 17, 1954, to the Congress, "It is essential that this program so proceed that this new industry will develop self-reliance and self-sufficiency." Accordingly, it is expected that industry will finance an increasingly larger share of the total national effort in developing power reactor technology. However, to speed progress in getting the new technology established, the Atomic Energy Commission in 1956 will expand substantially its program to develop industrial power reactors. Construction of several experimental reactors will be started in 1955 and 1956. Of these, one of the most significant is a power breeder, designed to produce more fissionable material than it consumes. Nearly 15 million dollars is included in the budget for this project.

Effective progress in military propulsion reactors will continue. The launching in 1954 of the first atomic submarine, the U. S. S. *Nautilus*, will be followed by the launching in 1955 of the U. S. S. *Sea Wolf*, an atomic submarine of different design. In addition, two atomic-powered attack type submarines have been financed by Department of Defense appropriations in the fiscal year 1955. My recommendations for the Department for 1956 include additional submarines of this type. In 1956, development work will proceed on improved types of submarine reactors, and on a reactor to power larger naval vessels. The Atomic Energy Commission and the Department of Defense will expand and accelerate research on atomic powered aircraft, and will continue development work on small transportable power reactors for military use.

The basic—as distinct from applied—research which is fundamental to progress in all aspects of nuclear energy will be pursued energetically and will entail somewhat higher expenditures in 1956, both in the Commission's own laboratories and through support of research in universities and other institutions.

I again recommend that the Congress approve legislation to allow the residents of Oak Ridge, Tennessee, and Richland, Washington, to purchase their homes and establish self-government, thus taking the Federal Government out of the business of owning and governing these communities.

MESSAGE OF THE PRESIDENT

M37

Stockpiling of strategic and critical materials.—A new long-term stockpile level has been established to provide an additional measure of security over and above the minimum goals. Procurement of the additional minerals will generally be limited to instances where purchases at favorable prices will serve both to meet the long-term stockpile objectives and to maintain essential domestic production, as in the case of lead and zinc in the past 6 months.

Preliminary reviews of 50 minerals indicate that the new policy may eventually increase the inventories of materials by 3.3 billion dollars above the 6.5 billion dollars of minimum objectives. By the end of the fiscal year 1956, about 5.1 billion dollars of materials within the minimum objectives, and an additional 1.2 billion dollars toward the long-term objectives will be in inventory, compared with June 1954 levels of 3.8 billion dollars and 700 million dollars, respectively. In considerable measure, this progress is made possible under the Defense Production Act, discussed in the commerce and manpower section of this message.

Mutual security program.—Military assistance and direct forces support help other free nations to train and equip the modern armed forces which are necessary for our security as well as their own. Such assistance is an integral part of our own national security program for it helps to create, in crucial areas of the free world, essential military strength which bolsters our own forces. Because our allies generally provide the major portion of the costs of maintaining the forces, this strength is being created at a relatively low cost to the United States taxpayer.

The military assistance and direct forces support programs are two parts of an integrated mutual security program which in its entirety is designed to provide other nations with the margin of outside assistance which they need to develop and maintain their political, military, and economic strength, which is in our interest. Other parts of this program are discussed in the international affairs and finance section of this message. I shall submit to the Congress proposals for necessary changes in the Mutual Security Act. These will include my specific requests for authorization of appropriations for the fiscal year 1956. Total expenditures for mutual security are estimated at 4.7 billion dollars in the fiscal year 1956, including the provisions for a program in Asia. Recommended new authority to incur obligations is 3.5 billion dollars.

Organization for mutual security operations.—The organizational arrangements to carry on the mutual security program beyond the present fiscal year are now under careful study and I shall in the near future present to the Congress my recommendations regarding them.

MUTUAL SECURITY PROGRAM, MILITARY AND ECONOMIC

[Fiscal years. In millions]

	Expenditures			Recom-mended new obligational authority for 1956
	1954 ac-tual	1955 esti-mated	1956 esti-mated	
Military:				
Military assistance:				
Present programs-----	\$3,629	\$2,675	\$2,875	-----
Proposed legislation-----			200	\$1,400
Direct forces support:				
Present programs-----	12	550	500	-----
Proposed legislation-----			100	630
Nonmilitary:				
Present programs-----	1,241	1,075	725	-----
Proposed legislation-----			300	1,500
Total:				
Present programs-----	4,882	4,300	4,100	-----
Proposed legislation-----			600	¹ 3,530

¹ Compares with new obligational authority of 4,725 million dollars in 1954 and 2,781 million dollars in 1955.

Military assistance.—The mutual military assistance proposed for the fiscal year 1956 will further help our allies to complete equipping and training the equivalent of more than 180 divisions, 551 combat vessels, 278 air squadrons, and related supporting units. Our assistance goes only for forces determined to be essential by our Joint Chiefs of Staff. It provides only the critical margin of training and equipment which the countries cannot provide for themselves. During the past 5 years we have delivered over 6,000 airplanes, almost 900 naval vessels of all types, 36,000 tanks and combat vehicles, nearly 200,000 transport vehicles, billions of rounds of ammunition, and many other items. Furthermore, specialized training courses have been conducted for officers and technicians from 32 countries.

Expenditures for military assistance in the fiscal year 1956 are estimated at 3.1 billion dollars as compared with 3.6 billion dollars in the fiscal year 1954, and an estimated 2.7 billion dollars in 1955. The decline in estimated expenditures from 1954 to 1955, and the subsequent increase projected for 1956, do not accurately reflect the probable rates of delivery of equipment to our allies during 1956. Actual deliveries are expected to continue in the fiscal years 1955 and 1956 at around the 3-billion dollar level which was attained in the fiscal year 1954. The fluctuations in expenditure estimates are due to a change in the method of financing wherein the Department of Defense finances the production of common type materiel, pending delivery to the mutual security program and subsequent reimbursement of Department of Defense appropriations.

MESSAGE OF THE PRESIDENT

M39

Much of our mutual military assistance continues to strengthen our allies in the North Atlantic Treaty Organization, and I hope that we may soon begin furnishing certain items of military equipment which will be needed by the new German forces. To the extent that this materiel cannot be financed by the Federal Republic of Germany from its own resources, it will be financed from appropriations made for the mutual security program. The continuing growth of economic strength in Europe and completion of the financing of much of the capital equipment which was required for the initial rapid military buildup will make it possible to reduce military assistance for this area in the immediate future below the level of the last few years.

The military assistance program proposed for the fiscal year 1956 will include aid to Korea which, in previous years, was financed from regular Department of Defense appropriations. We are also proposing the continuation of assistance designed to strengthen further the defenses of Formosa, Japan, and certain other countries in Asia which are presently receiving military assistance.

Expenditures in the fiscal year 1956 will be largely from appropriations made in previous years. At the same time, however, new authority of 1.4 billion dollars, which I am recommending, is needed to incur obligations in the fiscal year 1956 to finance in advance certain new requirements such as the Korean program.

Direct forces support.—The present Mutual Security Act distinguishes between military equipment and those supporting items which are necessary to make the soldiers and weapons effective. These supporting items, commonly referred to as direct forces support, include gasoline, tires, uniforms, medicines, rations, and similar items which all military forces consume every day.

For the fiscal year 1956 I propose that direct forces support be provided to only a few selected countries. These countries, primarily in Asia, are ones where our mutual security requires the maintenance of active forces larger than those which these countries could support from their own resources. In the fiscal year 1956 direct forces support for the armed forces of the Republic of Korea, which was formerly provided for in the Department of Defense budget, will be covered for the first time by the mutual security program.

Direct forces support will continue to be a significant part of the mutual security program for so long as the security of the free world requires that large military forces be maintained in Asia and the Near East. I recommend 630 million dollars of new obligational authority under proposed legislation for this purpose. Expenditures for this program from existing appropriations and from the proposed legislation are estimated at 600 million dollars in the fiscal year 1956, as compared with 550 million dollars in the fiscal year 1955.

INTERNATIONAL AFFAIRS AND FINANCE

During the past year the free world, despite some setbacks, has made heartening progress in building the strength and unity which are so important to our security. In this hemisphere, in Europe, Asia, and Africa, the free nations acted together to strengthen their defenses against international communism, to widen economic cooperation, and to settle long standing disputes which have undermined free world unity. In these developments the United States has played a vital role.

My program for the coming year is designed to consolidate these gains and to make further progress. Particular emphasis will be laid on further strengthening the foreign service organization of the Department of State which carries the burden of foreign policy leadership and negotiations. We are likewise placing emphasis on revision of our several international programs to give appropriate attention to the important trouble spots around the world today.

My budget recommendations for international affairs and finance reflect a coordinated plan for the conduct of foreign affairs, for the expansion of trade and investment, for mutual security economic assistance, and for foreign information. Total net budget expenditures for the fiscal year 1956 are estimated at 1.3 billion dollars, as compared with 1.4 billion dollars for the current year.

Recommended new authority to incur obligations in the fiscal year 1956 amounts to 1.9 billion dollars, 291 million dollars more than for 1955. Major items of this increase in new obligational authority result from increased emphasis on defense support and development assistance in Asia and reimbursement of the Commodity Credit Corporation for emergency assistance in the form of commodities furnished in previous years.

MESSAGE OF THE PRESIDENT

M41

INTERNATIONAL AFFAIRS AND FINANCE

[Fiscal years. In millions]

Program or agency	Expenditures			Recommended new obligational authority for 1956
	1954 ac-tual	1955 esti-mated	1956 esti-mated	
Gross expenditures:				
Economic and technical development:				
International investment activities:				
International Finance Corporation (proposed legislation).....			\$35	\$35
Export-Import Bank (including Reconstruction Finance Corporation liquidation).....	\$534	\$334	335	-----
Investment guarantees.....	4	6	7	-----
Mutual security program (nonmilitary):				
Defense support and development assistance.....				
Technical cooperation.....	1,241	1,075	725	-----
Refugee and other aid (contributions to international agencies).....				
Proposed legislation.....			300	1,500
Civil assistance programs, Department of Defense.....	87	30	6	3
Emergency commodity assistance, Department of Agriculture.....	74	124	177	1 79
Other assistance.....	3	6	9	9
Other refugee activities (Department of State).....	1	9	15	16
Foreign information and exchange activities:				
United States Information Agency.....	71	77	86	88
Department of State.....	20	18	21	22
Emergency fund for international affairs.....		4	1	-----
Conduct of foreign affairs (Department of State and other).....	130	116	124	123
Total.....	2,166	1,800	1,841	* 1,876
Deduct applicable receipts:				
Export-Import Bank.....	434	376	425	-----
Reconstruction Finance Corporation.....	9	-----	-----	-----
Investment guarantees.....	2	4	4	-----
Commodity Credit Corporation.....			79	-----
Net budget expenditures	1,720	1,420	1,332	-----

¹ Appropriation to reimburse the Commodity Credit Corporation for commodity assistance provided in previous years.

² Compares with new obligational authority of \$1,268 million in 1954 and \$1,585 million in 1955.

International investment activities.—In my recent special message on foreign economic policy, I made recommendations which will enable us to expand foreign trade and investment. As a further step in providing capital to underdeveloped areas through stimulating private investment, the United States is participating with other members of the International Bank for Reconstruction and Development in working out proposals for an International Finance Corporation. Such a corporation, although it could not purchase stock, could provide venture capital by making special types of loans without government guaranties to private enterprises in less developed countries. This budget includes 35 million dollars as the United States' share of the corporation's capital of 100 million dollars.

Moreover, in keeping with legislation approved last year, the Export-Import Bank estimates an increase in direct loans and guaranties of private loans from 460 million dollars in the fiscal year 1955 to 665 million dollars in 1956. It is expected that a significant part of this increase will consist of guaranties of private loans which are not included in gross budget expenditures. New direct loans are expected to be authorized in the amount of 403 million dollars. The collections on old loans, including lend-lease and postwar reconstruction credits in Europe, will exceed disbursements against new direct loans, so that a net receipt of 90 million dollars to the Treasury is estimated in 1956.

Defense support and development assistance.—We anticipate that the trade and investment policies outlined above, and the marked advance in economic strength of many foreign countries over the past 2 years, will increasingly enable us to confine direct Government assistance for defense support and economic development abroad generally to two types of situations, both of which are related intimately to our own future security.

In the first place, we will find it necessary for some time to provide defense support to certain countries which have undertaken a military effort beyond the capacity of their own economies to support. This defense support includes consumption goods and capital equipment to support the general economy, as contrasted with direct forces support which provides assistance to the military forces of the country. In the second place, our national interest will require direct assistance to certain less developed countries where a rate of economic progress which would be impossible without such assistance is essential to their becoming and remaining strong and healthy members of the community of free nations capable of resisting Communist penetration and subversion.

MESSAGE OF THE PRESIDENT

M43

Employment, production, and foreign exchange reserves in free European countries are generally increasing. Most of these countries can now strengthen their military establishments and at the same time improve their living standards without further United States defense support. In the fiscal year 1955, defense support has been limited to very few countries, and a similar situation is expected to prevail in 1956.

Latin America, an area with which we have well-established trade and investment relations, has a great need for capital for economic development. Nevertheless, if Latin American countries follow a policy of encouraging private investment, domestic and foreign, they should be able to continue to raise the capital needed for further economic growth. In those cases in which private or International Bank resources are not available or not appropriate for financing sound projects, the Export-Import Bank will welcome applications for loans. The new International Finance Corporation, when organized, can also help provide capital. Grants in Latin America have been necessary only in special situations such as in Bolivia and Guatemala.

In Asia, active warfare has only recently ceased and the free countries of this continent continue to face the threat of Communist subversion and external aggression. We therefore have been furnishing and propose to continue to furnish defense support to several countries including Korea, Formosa, Vietnam, Laos, and Cambodia. Some assistance in economic development has been extended to India.

Unless such support is provided, we may expect economic deterioration and dangerous reductions in the military defenses of the free world. Moreover, without such assistance, these countries, most of which border on Russia and Communist China, will not achieve the economic progress which is necessary to meet the threat of Communist subversion. The loss of northern Vietnam makes this support more imperative than ever.

In the Middle East and Africa, we have provided some grant and loan assistance to promote economic development and political stability, and will request funds to continue this type of assistance in the fiscal year 1956. This assistance has gone to Iran, Israel, Lebanon, Jordan, Egypt, and Libya.

My budget proposals for the mutual security program were developed on the assumption that all requirements for that program will be met from appropriations made for that purpose. Therefore if it becomes desirable to utilize foreign currencies accruing from sales of surplus agricultural commodities made under the Agricultural Trade

Development and Assistance Act for mutual security purposes, mutual security appropriations will be used to reimburse the Commodity Credit Corporation for currencies so utilized.

Technical cooperation.—Over recent years, technical cooperation has become a continuing part of United States policy toward the rest of the world. American experts help the people in foreign countries, and foreign technicians come to the United States to observe our methods. As a result, millions of people are learning how to produce more food, to improve health and educational standards, and to operate modern industries more effectively. Agreements for technical cooperation are in effect in 68 countries and territories in Latin America, Asia, the Near East, and Africa.

In addition to these bilateral efforts, we have contributed to meeting the total cost of the United Nations technical assistance program, for which experts and financial contributions come from many nations. I am proposing new obligatory authority to cover the total proposed contributions of the United States to this program for both calendar years 1955 and 1956.

Refugee and other foreign relief.—The 1953 Refugee Relief Act provides for the admission of 214,000 people beyond regular immigration quotas before December 31, 1956. Approximately 17,000 visas have been granted to date. Sufficient progress has been made on concluding agreements with other countries, organizing staff abroad, and completing arrangements with voluntary agencies in the United States to justify the expectation that the program can be completed in accordance with the provisions of the act. To accomplish this, I recommend an increase for the Department of State appropriation for the fiscal year 1956, and a supplemental appropriation for 1955.

I am also recommending continued United States support of those programs and international agencies through which funds have been made available for relief, rehabilitation, and resettlement of escapees, refugees, and other special groups. These agencies include the Inter-governmental Committee for European Migration, and the United Nations agencies for Palestine refugees, and for emergency aid to children. In addition, this budget makes provision for a small contribution to help the United Nations High Commissioner for Refugees take refugees out of camps and make them part of the local communities.

Foreign information and exchange activities.—The United States Information Agency has done a capable job of redirecting its work and is increasingly effective. It is carrying out its mission in 79 countries through local radio, press, films, and information centers. Its worldwide radio broadcasting is increasingly directed to the coun-

MESSAGE OF THE PRESIDENT

M45

tries beyond the Iron Curtain. But the Soviet efforts to divide the United States from other nations of the free world by twisting our motives, as well as its efforts to sow fear and distrust, are mounting in tempo in many areas of the world. I believe it is of the highest importance that our program for telling the truth to peoples of other nations be stepped up to meet the needs of our foreign policy.

The Department of State's educational exchange program is primarily directed toward the exchange of educators, newsmen, labor and management officials, students and others who influence the formation of public opinion abroad. The sharing of ideas strengthens the community of interest so vital to our relations with other people. I recommend that these exchanges be increased, particularly with underdeveloped areas.

Conduct of foreign affairs.—A prerequisite to the achievement of all our international affairs and finance programs is dynamic, positive, and dedicated leadership by the Department of State.

This budget recognizes the essentiality of a stronger and better trained career corps of foreign service officers. We should also provide more adequate facilities for carrying out statutory consular functions. Finally, more comprehensive commercial, labor, and other economic data are necessary to assist American businessmen to increase their foreign investment and trade.

As a result of the recommendations of the Committee on Government Operations of the House of Representatives and a committee of distinguished citizens, we are starting a series of improvements in the foreign service. The foreign service will be expanded to cover departmental positions; officers will be rotated more regularly between United States and foreign posts; and training will be improved. Appropriations to initiate these reforms are recommended.

VETERANS' SERVICES AND BENEFITS

Expenditures for veterans' programs are now rising—reversing the decline from the peak in 1947 as World War II veterans completed their readjustment to civilian life. In the fiscal year 1956, the Federal Government will spend an estimated 4.6 billion dollars for a wide variety of aids to veterans, an increase of 9 percent over the actual outlays in 1954 and 5 percent over 1955. This increase will occur notwithstanding the savings made through improved management of the Veterans Administration, and the long-run outlook under present laws is for continued large increases in payments to veterans.

Three main factors account for this outlook. First, World War II, the Korean conflict, and large defense requirements have increased the present and potential veteran population tremendously. Twenty-one

million veterans are now in civilian life, 5 times the number before World War II. An additional 3 million men and women now in the Armed Forces have acquired rights to wartime veterans' benefits by serving during the Korean emergency.

Second, the 3 million veterans of World War I are reaching age 65 and are qualifying for pensions in large numbers. A service-incurred disability is not required for these benefits.

Third, benefits for veterans who served during wartime or an emergency have been increased in scope and liberality. Last year, laws were enacted which will add more than 170 million dollars in estimated expenditures for veterans' benefits for the fiscal year 1956, principally for increased pension and compensation payments.

These facts require sober consideration. Our Government has a responsibility to provide generous assistance to those who have special needs arising from service in the Armed Forces, particularly war service. We must make sure that benefits which are provided to veterans and their survivors are timely and reach those who need them most. At the same time, we must bear in mind that Government policies designed to assist in the maintenance of a prosperous economy and to support social security, health, and other humanitarian programs are all of value to veterans as well as to other people. Since more than two-fifths of all adult males are entitled to veterans' benefits, expenditures for veterans are a budgetary problem of major interest to the whole population.

Our veterans' pension and compensation laws, in particular, are in need of constructive reconsideration. The non-service-connected pension system dates back to the Revolutionary War, and its principles require reexamination in the light of recent developments, including the nearly universal coverage of the old-age and survivors insurance system. The overall system of statutes and regulations governing eligibility and payment rates for service-connected compensation has not had a fundamental review for many years. It also needs to be reappraised in the light of the great improvement in medical and rehabilitation techniques and the actual economic situation of the many beneficiaries.

I am therefore appointing a Commission on Veterans' Pensions to study the entire structure, scope, and philosophy of our veterans' pension and compensation laws in relation to each other and to other Government programs. This budget includes 300,000 dollars for the continuation of the work of this Commission in the fiscal year 1956.

An especially complex and difficult problem exists in the field of survivor benefits for military personnel and veterans, where 4 different agencies now provide 5 major benefits. This problem has received

MESSAGE OF THE PRESIDENT

M47

extensive attention within the executive branch and from the Select Committee on Survivor Benefits of the House of Representatives. I hope that our mutual efforts will result in enactment of adequate and improved programs which will include full coverage for military personnel under our basic old-age and survivors insurance program and will properly relate benefits provided military personnel to those for veterans.

I have recently issued a proclamation terminating accrual of eligibility after January 31, 1955, for various benefits authorized for veterans who served during the Korean conflict. Few of those discharged during the fiscal year 1956 will be materially affected by this action. Studies will be undertaken to determine the need for measures to ease the readjustment to civilian life of men required to enter the Armed Forces for 2 years of service.

VETERANS' SERVICES AND BENEFITS

[Fiscal years. In millions]

Program or agency	Expenditures			Recom-mended new obligational authority for 1956
	1954 ac-tual	1955 esti-mated	1956 esti-mated	
Gross expenditures:				
Readjustment benefits:				
Education and training.....	\$546	\$602	\$587	\$587
Loan guaranty and other benefits (Veterans Admin- istration).....	76	38	40	40
Unemployment compensation (Department of Labor).....	82	131	150	150
Compensation and pensions.....	2,482	2,679	2,800	2,800
Insurance and servicemen's indemnities.....	104	72	135	127
Hospital and medical care:				
Current expenses.....	724	688	710	716
Hospital construction.....	59	48	60	20
Other services and administration (Veterans Admin- istration and other).....	217	211	202	173
Total.....	4,289	4,468	4,684	4,616
Deduct applicable receipts:				
Insurance programs (Veterans Administration).....	4	9	16	-----
Other services and administration (Veterans Admin- istration, primarily canteen services).....	29	28	29	-----
Net budget expenditures	4,256	4,431	4,640	-----

¹ Compares with new obligational authority of 4,272 million dollars in 1954 and 4,285 million dollars in 1955.

Readjustment benefits.—The Veterans' Readjustment Assistance Act of 1952 authorizes education and training, loan guaranty, and unemployment compensation benefits for veterans who served during the Korean conflict. Many World War II veterans are still eligible for loan guaranty benefits and some are still completing their education

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and training under the original "GI bill." In addition, special vocational rehabilitation aid is provided under other laws for veterans of both conflicts who were disabled in service.

The total estimated expenditures of 777 million dollars for all readjustment benefits in the fiscal year 1956 will be at about the same level as in the current year, and 10 percent higher than in 1954. The proportion of total readjustment benefits going to veterans of the Korean conflict has been increasing, and is expected to exceed 90 percent in the fiscal year 1956.

An average of 516,000 trainees is expected in the school, job, and farm training courses during the fiscal year 1956. One out of each 4 of the 4.7 million veterans eligible for these Korean conflict benefits will have participated in education or training by the end of the fiscal year 1956. The reservoir of potential enrollees is still large, considering that 1 out of each 2 World War II veterans received such benefits.

Budget expenditures under the loan guaranty program have declined sharply since the fiscal year 1954 because payments for the first year of interest on mortgages have ceased. It is expected that 467,000 loans totaling 5 billion dollars will be insured or guaranteed during the fiscal year 1956. Almost all of these loans will be for housing. The estimated 40 million dollars of expenditures in this category for 1956 includes 25 million dollars for acquisition of properties and losses on defaulted guaranteed loans. The other 15 million dollars is for tuition and supplies in the vocational rehabilitation program and grants of up to 10,000 dollars each for special housing for certain severely disabled veterans. Expenditures for the Veterans Administration direct housing loan program under present law and its proposed extension are included among aids for private housing in the commerce and manpower section of this message.

Federal unemployment compensation benefits of 26 dollars a week for a maximum of 26 weeks are payable through State agencies to veterans of the Korean conflict. Where the veteran who is insured under a State unemployment compensation system receives lower benefits from that system, the United States Department of Labor supplements the State benefit. Expenditures for this purpose are increasing as the number of eligible veterans rises. In the fiscal year 1956 an estimated weekly average of 138,000 veterans will receive unemployment benefits, wholly or partly financed by the Federal Government.

These unemployment benefits were intended to assist veterans of the Korean conflict during their transitional period immediately following separation from military service. Possibly by inadvertence, the present provisions were so written that a veteran of the

MESSAGE OF THE PRESIDENT

M49

Korean conflict may apply for these benefits at any time up to January 31, 1960, no matter how many years have passed since his discharge. I recommend that the law be amended to limit the time for filing claims to 3 years after separation or enactment of the amendment, whichever is later.

Compensation and pensions.—The upward trend in total expenditures for veterans results mainly from the rise in compensation and pensions. Expenditures for this purpose are estimated to increase more than 300 million dollars from the fiscal year 1954 to 1956, to a total of 2.8 billion dollars. They will equal more than half of all payments from the old-age and survivors insurance system. On the basis of present laws and veteran population, the present annual rate of expenditures for veterans' pensions and compensation is expected to double in 3 or 4 decades.

The estimated expenditures of 2.8 billion dollars include 1.9 billion dollars in payments to nearly 2,486,000 families and veterans for death or disability resulting from service, and 859 million dollars for pension payments in 1,046,000 cases where death or disability was not connected with military service. During the fiscal year 1954, an average of 2,412,000 cases received about 1.7 billion dollars in death and disability compensation benefits, and 716 million dollars in pensions were paid in 902,000 cases. The expenditures for 1956 also include 17 million dollars for 110,000 burial awards and 26 million dollars in subsistence payments to disabled veterans during their vocational rehabilitation.

Insurance and servicemen's indemnities.—Payments for insurance and indemnity benefits go to families of personnel who die in military service. The increase in expenditures in the fiscal year 1956 reflects (1) a steady increase in indemnity benefits, and (2) an unusual increase in insurance expenditures resulting from recently declared deaths of servicemen who were previously reported missing during the hostilities in Korea.

Indemnity benefits of \$92.90 a month are paid for 120 months to the family of each serviceman who dies while on active military service or within 120 days after separation. The benefits are reduced proportionately if the serviceman has any Veterans Administration insurance. Payments of 42 million dollars estimated for the fiscal year 1956 are 79 percent higher than in 1954.

While no new national service life insurance or United States Government life insurance has been issued since 1951, previously issued policies continue in force. Where deaths are caused by the hazards of war, or occur during military service while premiums

have been waived, the Government reimburses the insurance trust funds for losses. The Government also pays benefits directly to certain policyholders. Budget expenditures for insurance losses are estimated at 93 million dollars in the fiscal year 1956, somewhat more than in 1954 and more than double the amount in 1955.

Hospital and medical care.—A rising patient load in the veterans' hospital and medical program will result in an increase in current expenses for the fiscal year 1956. The average number of patients in Veterans Administration and contract hospitals is expected to rise 4 percent above the 1955 level to 114,500. While the proportion of service-connected cases is slowly increasing as more veterans of the Korean conflict are treated, it is estimated that more than two-thirds of the expenditures in 1956 will still be for patients hospitalized or treated for ailments not connected with military service. The number of persons in Veterans Administration and State homes is estimated to be 25,700 in the fiscal year 1956. The workload for outpatient care to service-incurred dental and medical cases is expected to be about 14 percent below that in 1954, with a total of 2,340,000 examinations and treatments in 1956. About four-fifths of the estimated average employment of 171,000 in the Veterans Administration during the fiscal year 1956 will be in the hospital and medical programs.

The budget includes recommended new authority to incur obligations of 20 million dollars for construction and improvements at Veterans Administration facilities. Most of this is for modernization of existing structures. Expenditures for construction and improvements in the fiscal year 1956 are estimated at 60 million dollars, approximately the same amount as in 1954 and somewhat higher than in 1955. Expenditures will be greater than the recommended new appropriations because funds for three large new hospitals to be built in 1956 were appropriated in previous years.

Other services and administration.—The general operating expenses of the Veterans Administration are estimated to decline further in the fiscal year 1956, reflecting declining workloads in some parts of this agency, especially in the insurance programs, and better organization and management throughout the agency. Average employment in nonmedical activities in 1956 is estimated at 34,500, or 13 percent below the 1954 level.

Trust funds.—Nearly 6 million national service life insurance and United States Government life insurance policies, which provide more than 40 billion dollars of protection, continue in force. About 1 million of these policies are held by personnel still in the Armed Forces,

MESSAGE OF THE PRESIDENT

M51

largely on a waiver-of-premium basis. The remainder are held by veterans who pay premiums. As the special dividend payments to the policyholders declared in 1954 and earlier years are completed, the receipts of the insurance trust accounts begin to exceed their disbursements. The transactions in these, as well as other, trust funds are not included in the budget totals.

VETERANS' LIFE INSURANCE FUNDS

(Trust funds)

[Fiscal years. In millions]

Item	1954 actual	1955 estimated	1956 estimated
Balance in funds at start of year.....	\$6,613	\$6,541	\$6,574
Receipts:			
Transfers from general and special accounts.....	72	31	81
Interest on investments.....	200	208	209
Premiums and other.....	426	414	406
Total.....	697	652	696
Expenditures:			
Dividends to policyholders.....	267	174	160
Benefits and other.....	503	446	444
Total.....	769	620	604
Net accumulation (+) or withdrawal (-).....	-72	+33	+92
Balance in funds at close of year.....	6,541	6,574	6,665

WELFARE, HEALTH, AND EDUCATION

Major advances have been made in the past year in the fields of social security, health, and education, pursuant to recommendations which I made to the Congress. We have demonstrated that the well-being of our people can be strengthened without yielding to the dangers of centralized power in the Federal Government, and we shall continue firmly to resist any project which would seem to us to involve such dangers. We have found ways to provide greater human security and social opportunity, while restricting the Federal Government's role to that of assisting private action and State and local responsibility with research and technical assistance, social insurance, and grants-in-aid. We believe that these gains can be continued through cooperative action among all levels of American government together with private participation.

In the last Congress, old-age and survivors insurance was extended to 10 million more persons and benefits were improved. Vocational

rehabilitation grants to the States have been stepped up toward the objective for 1959 of helping 200,000 people a year to rehabilitate themselves. We have undertaken to aid the construction of medical diagnostic and treatment centers, rehabilitation facilities, nursing homes, and chronic disease hospitals, as well as general hospitals.

To assist in the search for solution of the Nation's serious school problems, the White House Conference on Education was authorized. The Office of Education has been strengthened. Assistance to schools especially affected by Federal activities was extended.

In this budget, I recommend increased appropriations for certain activities, including health research and the training of health personnel, and basic scientific research. I am also proposing new legislation to help fill gaps in present programs for health care, public assistance, and old-age and survivors insurance, and to obtain better coordination among them. Estimates for new legislation include 3 million dollars for grants-in-aid to enable State, local, and private agencies to deal more effectively with juvenile delinquency. I am recommending the enactment of legislation to establish an Advisory Commission on Fine Arts within the Department of Health, Education, and Welfare, to provide recognition of the importance of the further development of our cultural heritage.

WELFARE, HEALTH, AND EDUCATION

[Fiscal years. In millions]

Program or agency	Budget expenditures (net)			Recommended new obligational authority for 1956
	1954 actual	1955 esti- mated	1956 esti- mated	
Promotion of public health:				
Present programs.....	\$288	\$292	\$321	\$335
Proposed legislation.....			17	52
Public assistance:				
Present program.....	1,439	1,447	1,402	1,402
Proposed legislation.....			20	20
Other welfare aids and services:				
School lunch program.....	84	84	68	68
Vocational rehabilitation.....	24	29	43	43
Indian health, education, and welfare.....	49	59	76	80
Other.....	106	77	80	83
Promotion of education:				
Assistance for schools in federally affected areas.....	184	224	173	89
Vocational education.....	25	31	31	31
Other educational aids.....	25	30	33	30
General-purpose research:				
National Science Foundation.....	6	10	21	31
Department of Commerce.....	17	35	27	27
Total.....	2,248	2,316	2,312	¹ 2,289

¹ Compares with new obligational authority of 2,190 million dollars in 1954 and 2,310 million dollars in 1955.

MESSAGE OF THE PRESIDENT

M53

Budget expenditures for welfare, health, and education, including proposed legislation, are estimated at 2.3 billion dollars in the fiscal year 1956, a decrease of 4 million dollars from 1955. These figures do not include expenditures for health, education, and research which are classified among veterans' benefits or in the military, atomic energy, and other programs in other sections of the budget.

Promotion of public health.—This budget includes funds necessary to assist an expansion of existing services and initiate appropriate new measures which will carry out the objectives of a coordinated health program which I shall outline shortly in a special message to the Congress.

Under existing legislation, budget expenditures for public health are estimated at 321 million dollars in the fiscal year 1956. The principal expenditures are for grants to States for construction of hospitals and other health facilities, public health services, maternal and child health, and the control of various diseases; for research programs, including grants to universities and medical schools; and for operation of Public Health Service hospitals.

Significant items in the 29-million-dollar increase of expenditures over 1955 are for expansion of the research and training activities of the National Institutes of Health, including special emphasis on mental health; construction of more health facilities; an intensified attack on problems of air and water pollution; and strengthened enforcement of the food and drug laws.

I am recommending elsewhere in this message that the Atomic Energy Commission be authorized to build a new medical research center containing a nuclear reactor designed specifically for medical research and therapy. This will be a significant addition to the Nation's facilities for basic research in the field of health.

The new health legislation which I shall recommend will require budget expenditures of approximately 37 million dollars in the fiscal year 1956.

This legislation includes health reinsurance—the best method yet proposed for encouraging adequate health insurance coverage for our people. It includes also the part-year cost of a program of grants-in-aid for medical care for public assistance recipients, shown in the table under proposed legislation for public assistance. Other measures in the health program are designed to foster construction of more adequate medical facilities, training of nurses and other necessary medical personnel, and general improvement of key services in the States and local communities.

Public assistance.—The recent expansion of old-age and survivors insurance should gradually reduce the need for public assistance, with

a consequent saving to all levels of Government in budget outlays for this purpose.

Further savings will result over the long run from amendments to public assistance legislation which I am recommending. The present grant-in-aid formula requires the Federal Government to pay each State 20 dollars of the first 25 dollars of average monthly old-age assistance benefits, and half of the next 30 dollars for any recipient. One of the proposed amendments would modify the public assistance law so that Federal grants can be adjusted downward to reflect gradually, by application to new cases, the number of old-age and survivor insurance beneficiaries who also need supplementary old-age assistance. By limiting to 50 percent the Federal share of old-age assistance for these future recipients of both types of benefits, this amendment would result in a more equitable sharing of costs between the State and Federal governments. The other amendment would encourage States to help needy individuals to become self-supporting or to care for themselves at home.

Other welfare aids and services.—Expenditures of 84 million dollars from the school lunch appropriation in the fiscal years 1954 and 1955 include about 67 million dollars for cash payments to States and nearly all of the rest is for commodities. The appropriation recommended for 1956 covers only the cash payments to the States and the costs of administration. In addition, contributions of surplus commodities, financed mainly from a permanent appropriation to the Department of Agriculture for this purpose, are expected to continue at a high level, so that the combined total of Federal cash payments and food donations will remain approximately the same in 1956 as in 1955. Moreover, the new school milk program authorized by the Agricultural Act of 1954 provides 50 million dollars a year in the fiscal years 1955 and 1956 to encourage increased consumption of milk by schoolchildren. Taken together, these various aids will make Federal support of the overall school lunch program the largest in our history. The expenditures for surplus commodities and school milk are classified under agriculture and agricultural resources.

This budget fully supports the enlarged vocational rehabilitation program enacted last year and will make possible the rehabilitation of 95,000 people in the fiscal year 1956.

The Congress last year provided for the transfer of Indian health services from the Department of the Interior to the Department of Health, Education, and Welfare, where they can be administered with other health programs. The appropriations recommended for the fiscal year 1956 will provide improved medical care for our Indian population.

MESSAGE OF THE PRESIDENT

M55

Social insurance and retirement trust funds.—The Federal Government acts as trustee of three large, publicly sponsored retirement and insurance programs—old-age and survivors insurance, railroad retirement, and Federal employees' retirement. Contributions under these programs, including Federal payments, are collected in the respective trust funds and maintained separately from the budget accounts of the Government.

SOCIAL INSURANCE AND RETIREMENT FUNDS

(Trust funds)

[Fiscal years. In millions]

Fund and item	1954 actual	1955 estimated	1956 estimated
Federal old-age and survivors insurance trust fund:			
Balance in fund at start of year.....	\$18,363	\$20,040	\$21,356
Receipts:			
Appropriation from general receipts.....	4,537	5,190	6,175
Deposits by States.....	92	120	130
Interest and other.....	451	464	494
Payments of benefits, construction and administrative expenses, and tax refunds.....	-3,405	-4,459	-4,968
Net accumulation.....	1,675	1,315	1,831
Balance in fund at close of year.....	20,040	21,356	23,187
Railroad retirement fund:			
Balance in fund at start of year.....	3,183	3,418	3,538
Receipts:			
Appropriation from general receipts.....	638	600	625
Interest on investments.....	99	102	106
Payments of benefits, salaries, and expenses.....	-502	-581	-590
Net accumulation.....	235	121	141
Balance in fund at close of year.....	3,418	3,538	3,679
Federal employees' retirement funds (Civil Service and Foreign Service):			
Balance in funds at start of year.....	5,652	5,932	6,196
Receipts:			
Employee contributions.....	430	444	502
Interest.....	226	234	222
Transfer from budget accounts and other:			
Present law.....	35	34	5
Proposed legislation.....			216
Payments of annuities and refunds, and expenses.....	-411	-447	-489
Net accumulation.....	280	265	456
Balance in funds at close of year.....	5,932	6,196	6,652

In connection with old-age and survivors insurance, I am recommending two legislative measures. One is the coordination of income and old-age insurance tax collection procedures to make reporting easier for wage earners and employers and at the same time to reduce Government costs for collecting taxes and paying benefits. The second is extension of this insurance to military personnel and to those Federal civilian personnel not now covered, as the basic part of improved systems of survivorship, disability, and retirement protection, with existing staff retirement systems retained as independent and separate entities. The military retirement pay system should remain unchanged. Certain adjustments in the present civilian personnel retirement systems will be needed.

Promotion of education.—We are all aware that our schools are passing through a period of extraordinary stress. School-age population is increasing faster than classroom space has been enlarged and qualified teachers recruited. In some communities, the available fiscal resources have been strained severely by efforts to meet these needs; in too many States and school districts, the financial support given to schools has not kept pace with recent increases in taxable resources.

The national problem is to find means of overcoming these difficulties within the present framework of responsibilities. In our system of government, the States and their subdivisions have the privilege and the responsibility of providing free public education. The role of the Federal Government has wisely been confined to encouragement and special assistance. I am confident that the overwhelming majority of our people agree that there should be no dilution of that State and local responsibility.

I have called a White House conference this fall of representatives from all the States. Some local and State conferences of citizens and professional educators have already been held in preparation for this national assembly. Others will meet this spring and summer. These meetings will highlight possible long-range solutions to the problems and will place in better perspective the obligations and opportunities of the respective levels of government.

Concurrently, without impairment in any way of State, local, community, and family responsibility, the Federal Government should serve as an effective catalyst in dealing with the problem of classroom shortages. I shall send to the Congress, in February, a special message presenting an affirmative program.

The major Federal expenditure for promotion of education consists of grants to aid school construction and operation in districts where enrollment has grown significantly because of Federal operations.

MESSAGE OF THE PRESIDENT

M57

Last year, the Congress extended the temporary program of aid for construction for 2 years. To finance this extension, I am recommending an appropriation of an additional 70 million dollars for the current fiscal year and 24 million dollars for 1956.

The Congress also delayed a requirement that these school districts absorb a greater proportion of the operating costs resulting from increased enrollments. Primarily for this reason, a supplemental appropriation of 19 million dollars will be needed this year. In the fiscal year 1956, greater absorption of the increased enrollments by the local districts will reduce the assistance payments for operations 6 million dollars below 1955, to a total now estimated at 70 million dollars.

The budget recommendations provide for continuing the increase in vocational education grants which was enacted for 1955, and will permit the Office of Education to initiate a program of cooperative research as authorized by the last Congress.

General-purpose research.—Despite our tremendous technological strides in recent years, our national interest requires that we support a strong program of basic research and that we train a greater number of highly qualified scientists and engineers. Accordingly, this budget recommends increased National Science Foundation grants for basic research and for training more graduate students, college instructors, and high school science teachers. It includes also the remaining necessary financial support for United States participation in the International Geophysical Year, a worldwide scientific undertaking which will yield great long-range benefits to this country.

The budget estimates for the Department of Commerce include substantial expansion in the general scientific and technological work of the National Bureau of Standards as recommended by a committee of outstanding scientists.

Another aspect of general-purpose research is the statistical work of the Census Bureau. We do not have all the statistical information required in our dynamic economy. I am therefore recommending a governmentwide effort to improve statistics in those areas where our work has been most handicapped by incomplete information. Increases in appropriations are recommended for the Census Bureau for statistics on the labor force and for an intercensal survey on housing. At the same time, in other parts of the budget, increases are recommended for statistics on agriculture, production, construction, employment, and finance. Details on statistical programs are shown in special analysis I on page 1203.

AGRICULTURE AND AGRICULTURAL RESOURCES

The basic agricultural legislation which I recommended and which the Congress enacted last year will help to promote a stable, prosperous, and free agriculture. By helping farmers solve many of their own problems we shall make possible reduced reliance on Government intervention such as production controls, and on Government spending for support of farm income. The Agricultural Act of 1954 and the Agricultural Trade Development and Assistance Act will facilitate readjustment of farm production, expansion of agricultural exports, and stimulation of domestic consumption of farm products. The Watershed Protection and Flood Prevention Act of 1954 provides a sound basis for Federal partnership with States and local groups in upstream flood prevention and soil and water conservation. The Farmers' Home Administration was given expanded authority to make loans for soil and water conservation, and a basis was provided for greater participation of private lenders in the financing of this and other loan programs.

My recommendations for agricultural programs in this budget will carry forward the broad objectives reflected in this new legislation. They will also continue the steps taken last year to place greater emphasis on research and educational activities. I have confidence in the ability and willingness of farmers to deal with many of their economic problems if given help through expanded agricultural research and advice in making use of the research results.

Gross expenditures for agriculture and agricultural resources in the fiscal year 1956 are estimated at 7.6 billion dollars. Receipts, estimated at about 5.4 billion dollars, consist mainly of collections on loans and sales of commodities. Net budget expenditures are estimated at 2.3 billion dollars in the fiscal year 1956, which is 871 million dollars less than estimated for 1955 and 298 million dollars less than in 1954. The reduction in net budget expenditures for 1956 is primarily due to anticipated smaller outlays for farm price supports.

New authority to incur obligations recommended for the fiscal year 1956 is 1.3 billion dollars, as compared with 2.6 billion dollars in 1955 and 4 billion dollars in 1954. The reduction in 1956 is accounted for almost entirely by the Commodity Credit Corporation. The Corporation's present borrowing authority, which was increased from 6.75 billion dollars to 10 billion dollars during the fiscal years 1954 and 1955, is now expected to be adequate to finance price support activities in the fiscal year 1956.

MESSAGE OF THE PRESIDENT

M59

AGRICULTURE AND AGRICULTURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recom-mended new obligational authority for 1956
	1954 actual	1955 est-i- mated	1956 est-i- mated	1954 actual	1955 est-i- mated	1956 est-i- mated	
Stabilization of farm prices and farm income:							
Price support, supply, and purchase programs (CCC).....	\$4,220	\$5,705	\$4,176	\$1,333	\$1,934	\$968	\$2
International Wheat Agreement.....	59	106	142	59	106	84	57
Removal of surplus agricultural commodities.....	178	113	180	178	113	180	165
Sugar Act.....	66	61	61	66	61	61	62
Federal crop insurance.....	39	36	34	11	12	3	6
Agricultural adjustment programs.....	41	41	39	41	41	39	39
Financing farm ownership and operation:							
Farm Credit Administration.....	1,817	1,885	1,988	-74	22	37	28
Farmers' Home Administration ¹	191	178	172	191	178	172	172
Disaster loans and emergency feed.....	255	101	88	139	16	-39	42
Financing rural electrification and rural telephones¹:							
Rural Electrification.....	217	217	233	217	217	233	238
Agricultural land and water resources:							
Agricultural conservation program.....	201	233	255	183	173	246	216
Soil Conservation Service, flood prevention and other.....	61	76	74	61	76	74	75
Research and other agricultural services.							
Total.....	150	180	206	150	180	200	186
Total.....	7,497	8,934	7,647	2,557	3,130	2,259	² 1,288

¹ Net expenditures for the Farmers' Home Administration and for rural electrification and telephone loans do not reflect loan collections, since these collections go directly into miscellaneous receipts of the Treasury. In 1956, these collections are estimated at 152 million dollars and 112 million dollars, respectively.

² Compares with new obligational authority of 4,010 million dollars in 1954 and 2,630 million dollars in 1955.

Stabilization of farm prices and farm income.—Establishment of the principle of flexible supports and provision for a gradual shift to modernized parity for the basic agricultural commodities in the legislation enacted last year will encourage farmers to adjust their production to realistic market prices in keeping with the current needs of the economy. Since the transition to the new basis for price supports will be gradual, the benefits for the agricultural economy and for the Nation will not be fully realized for several years.

Based on the best information now available, gross price support expenditures in the fiscal year 1956 are estimated at 4.2 billion dollars, 1.5 billion dollars less than the amount estimated for 1955. These gross expenditures do not represent losses; rather they are outlays for loans and commodities to be acquired during the year, and for redemp-

tion of certificates of interest in commodity loans previously sold to private lenders. A substantial part of these outlays will be recovered from collections on loans and sales of commodities in later periods. Receipts from commodity sales and collections on loans in 1956 are estimated at 3.2 billion dollars, resulting in net budget expenditures of 968 million dollars.

The decline in net price support expenditures anticipated in the budget will be brought about by two major factors. First, continuation of acreage restrictions, particularly on 1955 crop year cotton and wheat, and lower support levels on some commodities are expected to result in a lower volume of price support loans. Second, receipts from sales of such commodities as cotton, corn, and wool are expected to increase as our efforts to find new and expanded markets for agricultural products begin to show results. These factors will be offset in part by increased Commodity Credit Corporation expenditures to retire certificates of interest in prior-year crop loans sold to banks and private lenders, because a substantially smaller volume of new commodity loans will be available in 1956 than in 1955 to serve as a basis for certificates of interest. Also, funds of the Corporation will be used to provide for increased milk consumption by schoolchildren and members of the Armed Forces during 1955 and 1956 when supplies of dairy products are expected to be plentiful.

Expenditures in 1956 under the International Wheat Agreement are estimated to be lower than in 1955, but higher than in 1954. In the fiscal year 1954 a total of 119 million bushels of wheat was exported under this program. The average amount paid by the Government to cover the difference between the domestic price and the Wheat Agreement price was 48 cents per bushel. Larger exports under this program are expected in both 1955 and 1956.

In addition to exports under the Wheat Agreement, the Commodity Credit Corporation has offered to sell wheat in limited quantities for export at competitive world prices. Net costs to the Corporation of these additional exports in 1954 were 26 million dollars and are estimated at 59 million dollars in each of the fiscal years 1955 and 1956.

The Corporation may also sell surplus agricultural commodities for foreign currencies under the Agricultural Trade Development and Assistance Act. The law provides for a 3-year program with total cost to the Corporation to be reimbursed by appropriations limited to 700 million dollars. With due regard to the impact on world markets, we are moving ahead in an orderly manner in the negotiation of agreements, and it is expected that transactions completed during the fiscal year 1955 will account for a substantial part of the costs under this Act. Except for expenditures under the International Wheat Agreement, these expenditures for export programs are included in the total shown for the Commodity Credit Corporation,

The trade development act is helpful in marketing commodity surpluses and tends to reduce current outlays under the regular price support program. However, it is unwise to rely upon this means as a final solution to our surplus problem. We must continue our efforts to restore a sound position for agriculture in world markets.

Financing farm ownership and operation.—The agricultural credit institutions supervised by the Farm Credit Administration make standard risk loans to farmers and their cooperatives on both a short-and long-term basis. Some of these loans are made with funds obtained through the federally owned intermediate credit banks. New loans of the Federal intermediate credit banks are estimated to be nearly 2 billion dollars in the fiscal year 1956, and will exceed loan collections by 40 million dollars. Receipts from other operations will reduce total net budget expenditures of the Farm Credit Administration to 37 million dollars.

The Farmers' Home Administration makes direct loans to farmers to supplement the credit services provided by private and cooperative credit agencies, and also insures loans by private lenders. By greater reliance on insured loans, the services of the Farmers' Home Administration can be increased without increasing budget expenditures. Under legislation enacted last year the interest rate on insured loans for farm ownership, farm housing, and other improvements has been set at a level that will attract a larger volume of funds from private lenders. Insured loans will also be used to finance an increase in soil and water conservation loans, which the new legislation has made available in all States. In addition, the Farmers' Home Administration can now take second mortgages as security for direct loans. This will permit private lenders to continue as first mortgage holders in the financing of farm ownership and development, thereby increasing the number of borrowers that can be served under that program.

Financing rural electrification and rural telephones.—The programs of the Rural Electrification Administration have brought about great advances for rural America, and this administration will continue to make loans available to meet all legitimate needs for rural electrification and telephones.

The need for electrification loans to provide initial connections of farm homes with central station service is much less than in earlier years. But this is more than offset by larger requirements for improvements of existing systems and for power generation. My budget recommendations, therefore, provide for a higher level of new electrification loans in 1956 than in the current fiscal year.

The rural telephone program is still in an early stage of development. Progress is being made in resolving the various problems involved in

achieving adequate telephone service in rural areas. This budget makes provision for new loan authority sufficient to raise the level of telephone loans in 1956 to 80 million dollars, which is 5 million dollars higher than in 1955.

Agricultural land and water resources.—My recommendations for agricultural land and water resources for the fiscal year 1956 recognize the great importance to the Nation of soil and water conservation activities. The new watershed protection legislation enacted last year is a vital part of our conservation program. It provides a practical basis for partnership between the Federal Government and State and local groups in the planning and carrying out of a coordinated program for upstream flood prevention and soil and water conservation. This budget recommends an increase of 4 million dollars for 1956 to provide for the necessary Federal participation in watershed protection projects.

Under the forward authorization for the 1955 crop year agricultural conservation program, contained in the 1955 appropriation act, larger expenditures will be required for payments to farmers in the fiscal year 1956 than in 1955. This program assists farmers in applying sound soil conservation practices and in putting to proper use farm land diverted from its previous use through acreage allotments. Because the problems created by diverted acreage are expected to become progressively less pressing, I am recommending a forward authorization of 175 million dollars for the 1956 crop year as compared with the 250 million dollars provided for the current crop year.

Research and other agricultural services.—Additional research and educational work on problems of agricultural production, soil and water conservation, and marketing of farm products, can make important contributions to a more efficient and stable agriculture capable of meeting the needs of a growing population. These activities not only contribute directly to the solution of immediate problems of farmers, but also benefit consumers of farm products by more efficient production and marketing. The 1956 budget provides for an increase of 9 million dollars in expenditures for research and an increase of 6 million dollars for extension work. These additional amounts are needed to expand the Federal-State cooperative research and extension programs and to strengthen the basic agricultural research program carried on by the Federal Government.

As part of the coordinated plan to improve economic statistics of the Government, this budget includes added funds to strengthen the work of the Department of Agriculture in developing adequate farm income and production statistics. Expenditures for other agricultural

MESSAGE OF THE PRESIDENT

M63

services also include 10 million dollars in 1955 and 15 million dollars in 1956 for eradication of brucellosis in cattle. The necessary funds are to be made available by transfer from the Commodity Credit Corporation. This program is designed both to assist in stabilizing the dairy industry and to give added protection to the health of our citizens.

NATURAL RESOURCES

This administration believes that achievement of the resource development basic to the economic progress and security of the Nation requires encouragement of local public and private initiative and, where Federal participation is necessary, emphasis on the partnership aspects of essential cooperative arrangements with State and local governments or with private enterprise. To the greatest extent possible, the responsibility for resource development, and its cost, should be borne by those who receive the benefits. In many instances private interests or State and local governments can best carry on the needed programs. In other instances Federal participation or initiative may be necessary to safeguard the public interest or to accomplish broad national objectives, where projects because of size or complexity are beyond the means or the needs of local public or private enterprise. The Federal Government must be willing and ready to bear the cost of improvements made for national purposes; but in all cases where the partnership principle logically applies there is automatically acquired a concern for economy and efficiency that is often lacking when no local contribution is required.

As a result of this partnership policy and the willingness of State, local, and private interests to undertake or cooperate in the development of our natural resources, it has been possible to reduce Federal expenditures for these programs since the fiscal year 1954. At the same time, we have strengthened our resource development programs.

The conservation and development of our natural resources will require estimated net Federal expenditures of 953 million dollars in the fiscal year 1956, as compared with 1.1 billion dollars in 1955 and 1.2 billion dollars in 1954. About two-thirds of the net expenditures in 1956 will be for flood control, irrigation, power and multiple-purpose river basin development. The other one-third will be largely for the management and development of the national forests, parks, and public lands, and for our fish and wildlife and mineral resources programs. Federal expenditures for natural resources, if wisely made in proper relation to local public and private efforts, are investments for the benefit of the Nation; in many cases they also result in receipts to the Treasury, thus often providing reimbursement in later years for part of the costs incurred.

NATURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recommended new obligational authority for 1956
	1954 actual	1955 estimat-	1956 estimat-	1954 actual	1955 estimat-	1956 estimat-	
Land and water resources:							
Corps of Engineers: Flood control and multiple-purpose projects:							
Present programs-----	\$416	\$366	\$363	\$416	\$366	\$363	\$371
Proposed legislation:							
Passamaquoddy Bay survey-----			1			1	1
Partnership projects-----			10			10	10
Department of the Interior:							
Bureau of Reclamation: Irrigation and multiple-purpose projects:							
Present programs-----	199	168	177	196	165	174	180
Proposed legislation:							
Federal projects-----			5			5	7
Partnership projects-----			10			10	10
Power transmission agencies-----	53	48	41	53	48	41	25
Indian lands resources-----	33	37	41	32	36	40	24
Bureau of Land Management and other-----	15	17	18	15	17	18	17
Tennessee Valley Authority-----	409	431	250	238	214	2	28
Department of State-----	7	5	4	7	5	4	2
Federal Power Commission-----	4	4	5	4	4	5	5
Forest resources:	117	121	115	117	121	115	116
Mineral resources:							
Present programs-----	41	47	46	37	43	42	40
Proposed legislation: Aid for anthracite mine drainage-----							
2	3			2	3		
Fish and wildlife resources:	38	46	43	38	46	43	41
Recreational use of resources:	33	39	50	33	39	50	25
General resource surveys and other:	27	26	26	27	26	26	26
Total-----	1,391	1,358	1,209	1,213	1,133	953	1,929

¹ Compares with new obligational authority of 1,196 million dollars in 1954 and 967 million dollars in 1955.

Land and water resources.—Under the recommendations for the fiscal year 1956, the Federal Government will spend 673 million dollars for the development of land and water resources. A large share of this total—430 million dollars—is for continuation of work on 152 river-basin development projects and units under construction by the Bureau of Reclamation and the Corps of Engineers. Much of this work is multiple-purpose development for irrigation, flood control, navigation, and hydroelectric power. Construction on 37 of these projects will be virtually completed in 1956. Funds recommended for work underway in 1956 will maintain power generation schedules and continue nonpower projects at economical rates. Maintenance and operation activities will be at a level which will provide reasonable protection of the Federal investment.

MESSAGE OF THE PRESIDENT

M65

My recommendations are intended to encourage States and local public and private groups to take the initiative in developing our valuable water resources with Federal cooperation where national interests are involved. This budget includes 20 million dollars under proposed legislation to enable the Bureau of Reclamation and the Corps of Engineers to participate, in 1956, in partnership water developments. Five million dollars of this amount is proposed for three multiple-purpose projects with power facilities in the Pacific Northwest. It is expected that local interests will install and operate the power facilities of the Cougar and Green Peter-White Bridge projects in Oregon and that the Corps of Engineers will build the flood control and other facilities in which there is a national interest. Non-Federal interests are also expected to build the Rocky Reach project in Washington, and the Corps of Engineers will assist in financing the nonpower facilities having national benefits. Assistance will be given to other partnership projects as specific proposals are developed. In addition, provision will be made for cooperation in authorized partnership projects, such as Priest Rapids in Washington and Markham Ferry in Oklahoma, when satisfactory arrangements have been completed.

I also recommend enactment of legislation authorizing the Bureau of Reclamation to undertake construction of two comprehensive river-basin improvements which are beyond the capacity of local initiative, public or private, but which are needed for irrigation, power, flood control and municipal and industrial water supply. These are the Upper Colorado River Basin development in the States of Colorado, Utah, Wyoming, Arizona, and New Mexico, and the Fryingpan-Arkansas development in Colorado. The Colorado River development will enable the Upper Basin States to conserve flood waters and to assure the availability of water and power necessary for the economic growth of the region. The total cost of these major developments is estimated at 1.1 billion dollars, with first-year expenditures of 5 million dollars. Sale of power generated at these developments will repay the power investment within 50 years and will make a contribution toward repayment of other investments.

In furtherance of the policy to move forward with needed water use and control projects, the 1956 budget provides for the starting of a number of new authorized Federal projects. For each authorized project recommended, planning has advanced to the stage where the project could be placed under construction early in 1956. Most of the projects are small or intermediate-sized developments, having a high degree of financial participation by local interests or a reasonable excess of benefits over costs. Some of them are essential to

permit full functioning of Federal works already completed or under construction.

This budget makes provision for the Bureau of Reclamation to start construction on 5 new irrigation and water supply projects, and for the Corps of Engineers to begin work on 10 local flood protection projects, 2 flood control projects of broader scope, 8 projects for beach erosion control, and 14 navigation projects. It also provides for resumption of work which was suspended a few years ago on 1 local flood protection project and 1 navigation project. These add up to 39 new projects and 2 resumptions. In addition, 2 million dollars is recommended for the construction of a number of small projects to be selected by the Secretary of the Army, none of which may cost more than 150,000 dollars. The total cost of all this new work is estimated at 347 million dollars, of which expenditures of 23 million dollars are contemplated for the fiscal year 1956. The navigation projects included in the above construction starts, at an estimated cost of 198 million dollars, are discussed in the commerce and manpower section of this message.

In the selection of reclamation projects, consideration has been given to (1) more efficient use of present water supply and correction of adverse water supply conditions, and (2) the proportion of the irrigation investment which will be repaid by the water users. The new local flood protection works will provide benefits primarily in highly urban and industrialized areas. The new flood control projects are the Eagle Gorge Reservoir in Washington, on which there will be substantial local contributions in related work and cash, and the Old River Control project in Louisiana. The latter project is essential to prevent the diversion of the Mississippi River to the Atchafalaya River channel, with resultant disruption to the economy of the lower Mississippi River area.

Adequate collection and evaluation of basic data on topography, minerals, soils, and water and weather conditions are essential to provide a sound basis for water resources projects. Current progress in collection of basic data will be continued. It is also essential to prepare adequate project designs prior to construction to assure efficient construction and to safeguard the public investment. I am recommending increased funds for general investigations by the Bureau of Reclamation to assure a proper basis for project authorization. Advance planning of authorized projects by the Corps of Engineers and the Bureau of Reclamation will proceed at a rate which will permit early initiation of construction on projects in accordance with needs and budget policy. This budget also provides 1 million dollars under proposed legislation for a survey to determine whether hydroelectric power can be economically developed from the tremendous tides at Passamaquoddy Bay.

MESSAGE OF THE PRESIDENT

M67

Expenditures of the Bonneville, Southeastern and Southwestern Power Administrations in the fiscal year 1956 are in line with the partnership policy whereby State, local, and private interests participate in power development and transmission. The expenditure estimates also reflect the approaching completion of transmission systems for marketing power from Federal projects now under construction.

In order to establish equity between the Federal Government and other interests, I recommended in my 1955 budget message enactment of legislation to provide that the Federal Government make payments to non-Federal owners of water resources projects when Federal hydroelectric power developments benefit from these projects. Payments are now required from other licensees deriving such benefits and I see no reason why the Federal Government should be exempted. I hope the Congress will amend the Federal Power Act during this session to require such Federal payments.

The Tennessee Valley Authority, in the fiscal years 1955 and 1956, will continue installation of steam electric and hydroelectric generation units started in prior years. With construction on some of the facilities nearing completion, gross expenditures of the Authority are estimated to show a very substantial decrease from 431 million dollars in 1955 to 250 million dollars in 1956. Receipts from operations, largely from the sale of power, are expected to increase from 217 million dollars to 248 million dollars. Thus, an approximate balance between expenditures and receipts is estimated for 1956, with net budget expenditures of 2 million dollars.

No appropriations have been recommended for new power generation units in the fiscal years 1955 or 1956 for the Tennessee Valley Authority. After 600,000 kilowatts contracted for by the Atomic Energy Commission with the Mississippi Valley Generating Company become available for replacing power furnished the AEC by TVA, the scheduled capacity of the TVA system will provide for a substantial increase in loads through the calendar year 1958. The Tennessee Valley Authority is giving immediate attention to the possibilities of financing further expansion of its power system by means other than Federal appropriations. The Authority has been requested to complete its studies in time to permit consideration by the Congress at this session of any legislation that may be necessary. It is expected that the power needs for the system will be reexamined after the Congress has had an opportunity to consider legislation to provide for future financing.

Legislation will also be presented to the Congress to provide that an adequate rate of interest be paid to the Treasury on appropriated funds invested in power facilities of the Tennessee Valley Authority.

National forest and other public lands.—Forest and range lands managed by the Forest Service and the Bureau of Land Management provide valuable timber, range, and mineral resources. Receipts from these lands are estimated at 165 million dollars in 1956. Part of these receipts are appropriated for payments to the States and counties in which the lands are located. Increased expenditures are recommended in 1956 for construction of forest roads and trails, supervision of timber sales, and soil and moisture conservation work. As a result of Federal cooperative assistance in the past, States are now assuming greater responsibility for forest fire control on non-Federal lands and some reduction in Federal payments is proposed for 1956. Expenditures on Indian lands and resources will provide for management of forest and range lands at the current level, but some increases are recommended for soil and moisture conservation, maintenance of buildings and utilities, and construction of roads.

In the fiscal year 1955, the submerged lands of the Outer Continental Shelf were first offered for drilling for oil and gas under Federal leases. Receipts from these leases, deposited in the Treasury, are estimated at 147 million dollars in 1955 and 100 million dollars in 1956. Leasing of these lands will continue to provide substantial receipts in later years.

Urgent needs for maintenance and for improved services to the increasing number of visitors will require some increase in expenditures for our national parks, monuments, and historic sites. Employment of additional personnel to collect admission fees, together with the increase in fees put into effect during the current year, will result in increased receipts to the Treasury. Parkways, roads, and trails will be extended in 1956, pursuant to authority provided in the Federal Aid Highway Act of 1954.

Mineral resources.—During the past year, the Cabinet Committee on Minerals Policy has recommended, and I have approved, general guidelines for developing mineral resources in accordance with our national security needs. Case by case studies of individual mineral industries will be made to determine within the framework of our overall domestic and foreign economic policies the proper level of efficient domestic production necessary for our mobilization base. Where necessary, the various means available to the Government will be used to support essential parts of the mobilization base. The factfinding and research activities of the Geological Survey and the Bureau of Mines will contribute to this end.

I recommend legislation and a supplemental appropriation in the fiscal year 1955 to enable the Federal Government to cooperate with the State of Pennsylvania in providing facilities for surface water

MESSAGE OF THE PRESIDENT

M69

drainage in the anthracite coal region. This will afford protection against the flooding of valuable resources and the decrease in employment which would result if additional mines were closed.

COMMERCE AND MANPOWER

The basic principle underlying budget recommendations for programs in the field of transportation, housing, and business is that the national interest is best served by privately owned and operated industry, which is assisted by a minimum of Federal funds and Federal basic facilities operated at the lowest feasible cost and financed, where possible, by charges levied on the users of the services. Budget recommendations for manpower programs are designed to help the Nation's productive system function smoothly and efficiently, by providing economic safeguards for workers, by helping bring together jobseekers and jobs, and by fostering orderly labor relations and the amicable settlement of disputes.

In the past 2 years, in furtherance of these principles, we have strengthened our major commerce and manpower programs by placing increased reliance on expansion of private investment, by encouraging greater participation of State and local governments, and by providing for the extension of coverage of unemployment insurance. Wherever possible, Federal programs are being placed on a self-supporting basis. As a result, a large share of the Government's operations in these areas is being financed from program receipts, rather than from tax revenues.

After 30 years of discussion, the United States is joining with Canada in constructing the Saint Lawrence Seaway. A joint program is underway with industry to modernize our merchant fleet. Federal aids to States for highway construction have been increased. Positive steps have been taken to promote an economically sound system of air transportation with reduced reliance on Federal subsidies. The Post Office Department has made major improvements in service and substantially reduced its operating deficit. Limited attacks on urban blight through slum clearance have been expanded into a comprehensive urban renewal program. More private investment in housing is being encouraged by more liberal mortgage insurance, by the voluntary home mortgage credit program, and by permitting private investors to retire gradually the Government's investment in the secondary mortgage market. Meanwhile, other housing loans and Government-owned housing are being liquidated as rapidly as feasible. Our production capacity has been expanded to make possible speedier mobilization in case of future emergencies. Provision has been made for extension of coverage of the Federal-State unemployment compensation system to 4 million more workers.

COMMERCE AND MANPOWER

[Fiscal years. In millions]

Program or agency	Gross expenditures			Net expenditures			Recommended new obligational authority for 1956
	1954 actual	1955 est-i- mated	1956 est-i- mated	1954 actual	1955 est-i- mated	1956 est-i- mated	
Provision of highways	\$586	\$659	\$725	\$586	\$659	\$725	\$919
Merchant marine.....	236	228	198	153	209	192	235
Navigation aids and facilities.....	403	409	441	313	325	353	330
Promotion of aviation.....	275	274	283	275	274	283	284
Postal service:							
Present program.....	2,686	2,741	2,811	312	268	294	295
Proposed pay and rate increases.....			-270			-270	-270
Other transportation and communication programs	62	58	60	-28	36	42	37
Urban development and redevelopment:							
Present programs.....	37	86	145	22	56	94	4
Proposed legislation.....							200
Aids to private housing:							
Federal Housing Administration.....	125	143	130	-28	-42	-67	-----
Federal National Mortgage Association.....	563	813	338	-221	243	-193	-----
Veterans Administration:							
Present programs.....	118	170	92	85	118	39	-----
Proposed legislation.....			90			90	100
Other.....	31	5	5	-16	-29	-29	-----
Public housing programs	658	570	604	-401	-85	34	96
Other housing and community facilities	93	83	52	53	54	44	19
Civil defense and disaster relief	103	80	76	61	72	70	71
Promotion of defense production:							
Present programs.....	936	1,061	626	216	76	104	6
Proposed legislation.....			12			12	-----
Business loans and guarantees:							
Present programs.....	131	50	11	-100	-38	-106	-----
Proposed legislation.....			28			28	67
Other promotion or regulation of business	33	37	37	17	21	36	36
Unemployment compensation and placement:							
Administration.....	211	204	254	209	203	253	257
Payment to Unemployment Trust Fund.....		64	87		64	87	87
Other labor and manpower programs:							
Present programs.....	67	65	66	67	65	66	66
Proposed legislation.....			4			4	5
Total	7,355	7,800	6,908	1,577	2,550	2,186	12,846

¹ Compares with new obligational authority of 2,846 million dollars in 1954 and 3,381 million dollars in 1955.

The appropriations recommended in this budget will permit even greater progress in the fiscal year 1956 and later. In addition I am recommending legislation (1) to bring the interstate highway system up to modern standards in the next decade; (2) to make the postal system self-supporting; (3) to increase authority for mortgage insurance and urban renewal grants and to authorize contracts for additional public housing units; (4) to extend the Defense Production

Act, the Small Business Act, and the veterans' housing loan program beyond their present expiration dates of June 30, 1955; and (5) to raise the minimum wage now provided under the Fair Labor Standards Act and modernize Federal workmen's compensation and other labor laws.

Gross expenditures for commerce and manpower, including proposed legislation, will be reduced from an estimated 7.8 billion dollars in the fiscal year 1955 to 6.9 billion dollars in 1956, primarily because of reduced purchases of mortgages by the Federal National Mortgage Association and lower spending for defense production activities. Assuming enactment of the recommended increase in postal rates, net budget expenditures for 1956 are estimated at less than 2.2 billion dollars, 364 million dollars below 1955.

Highways.—In the past decade and a half we have not kept pace with the rapidly growing needs for highways adequate for economic development and national security. I plan to send a special message to the Congress in the near future recommending a program of coordinated action by Federal, State, and local governments, to overcome major highway deficiencies. The additional budget expenditures, if any, required in the fiscal year 1956 would be relatively minor.

Budget expenditures for highways under present programs will continue to increase as a result of the enlarged program already provided in the Federal Aid Highway Act of 1954. Grants to States (including Federal administrative expenses) will amount to 680 million dollars, with an additional 45 million dollars of expenditures for highways in Federal forests, on public lands, and in Alaska.

Merchant marine.—To continue our program of helping to bring the merchant fleet up to date, I am recommending for the fiscal year 1956 new obligational authority for ship construction of 103 million dollars. These funds will: (1) continue the trade-in-and-build tanker program begun this year; (2) start orderly replacement of cargo ships built during or before World War II; (3) finance construction of two cargo ships and one tanker as prototypes for mass production in an emergency; (4) provide for the construction or conversion of four passenger-cargo ships; and (5) continue essential research and development work on ship design. The appropriation of 103 million dollars will be more than matched by private funds, resulting in total investment of about 225 million dollars in new ship construction. Together with the joint 400-million-dollar program now underway and with expanded naval construction in private yards, it should maintain a substantial nucleus of peacetime shipyard employment.

Payment of subsidies to American ship operators to offset lower operating costs of foreign ships will require appropriations estimated

at 115 million dollars in 1956. The rapid rise recently in expenditures for this purpose and the possibility of continued increases make it important to provide more effective budgetary control over the level of subsidized operations. I am, therefore, proposing in this budget to establish a limitation on new long-term contracts to pay operating-differential subsidies. Such a limitation will permit annual review by the President and the Congress of the extent of our future subsidy commitments.

Navigation aids and facilities.—In accordance with legislation enacted last May, the Saint Lawrence Seaway Development Corporation has been established to construct, operate, and maintain that part of the new Seaway located in United States territory. Construction is being pushed at maximum speed because of the Seaway's importance to economic development and national security. Almost one-quarter of the work is scheduled for completion by the end of the fiscal year 1956.

The Corps of Engineers program for rivers and harbors gives primary emphasis to inland waterways and to those navigation projects needed to provide reliable access to important ports or to relieve serious congestion for important established deep draft traffic. The increase in expenditures from 108 million dollars in 1955 to 135 million dollars in 1956 reflects mainly the normal rate of progress on construction of projects started in 1955 and the resumption of urgently needed maintenance of shallow draft channels.

In addition, 14 new navigation projects and the resumption of one project previously suspended are recommended in the fiscal year 1956. These are projects which promise to yield benefits relatively high in comparison to the construction costs involved or which have substantial local participation. With 2 exceptions, these are relatively small or intermediate-sized projects. Dredging of the Delaware River channel between Philadelphia and Trenton is proposed, but specific recommendations will be sent to the Congress only on the basis that provision be made for adequate cost-sharing in some form. Appropriations are recommended to widen the Calumet-Sag Waterway in Illinois to make this vital channel adequate to handle present and steadily increasing traffic needs.

Although expenditures of the Coast Guard will continue to decline from 205 million dollars in 1955 to 193 million dollars in 1956, the basic aids provided for air and water commerce will be maintained at their current strength. In addition, the Coast Guard will again operate the ocean weather-station network for the Department of Defense.

Promotion of aviation.—We have made shifts in Federal aviation programs during the past 2 years in order to reduce assistance no longer

MESSAGE OF THE PRESIDENT

M73

required and to concentrate on those Federal aids which are indispensable to the continued rapid progress of aviation.

Since October 1953, when responsibility for subsidy payments to commercial air carriers was placed in the Civil Aeronautics Board, substantial progress has been made in decreasing the level of subsidies. Expenditures by the Civil Aeronautics Board for this purpose in 1955 are now estimated at 70 million dollars compared to 80 million dollars estimated a year ago; a further decline to 63 million dollars is anticipated for 1956. This trend is consistent with the recommendations made by the Air Coordinating Committee after a comprehensive study made at my request of our basic civil aviation policies. In addition, wherever possible, military mail is being carried by commercial airlines, thus not only eliminating Government competition with private business, but also helping to reduce subsidies to the private carriers.

The continuing growth of civil and military air traffic has increased congestion on the airways system—at times restricting aircraft operations in areas of heavy traffic. As a step to maintain high standards of safety and increase the regularity of flights, I am recommending increased appropriations for the Civil Aeronautics Administration for expansion and improvement of air navigation facilities and for more radar traffic control equipment.

With the increasing maturity of civil aviation, the Federal Government soon should be able to reduce substantially its safety promotion and enforcement activities without affecting the present high level of safety. I have requested the early preparation of a plan, in cooperation with industry, to achieve this objective.

I again recommend incorporation of Washington National Airport to provide the administrative flexibility needed for efficient operation of this business-type enterprise.

The work of the National Advisory Committee for Aeronautics is of key significance in strengthening our military aircraft and guided missiles programs and in supporting our continued progress in the air. During recent years we have achieved spectacular success in flying at speeds well beyond the speed of sound. However, we have not yet overcome all problems of structural failure, engine malfunctioning, and lack of stability and control at high speeds. A more intensive effort in these fields is needed in order that the great improvements in performance now known to be possible can be realized in the actual production of military aircraft, engines, and missiles, which represent such an important and costly part of our defense program. For these reasons, I am recommending additional appropriations for both 1955 and 1956 to increase the Committee's research effort in fields of critical military importance.

Postal service.—Considerable progress is being made in providing better postal service to the American people at lower cost to the taxpayer. Movement of first-class mail has been expedited. Substantial investments have been made in capital improvements and in skilled personnel which are just beginning to pay dividends. Long-term leases are being negotiated which will permit acquisition of needed modern postal facilities. Promising experiments in new equipment are underway which, if successful, will revolutionize mail-handling techniques.

Largely because of these savings, the net expenditures of the Post Office under existing laws have been reduced to the lowest level in the last 8 years. The increased postal rates which I recommended in my special message to the Congress would add 400 million dollars to postal revenues. This would be enough to cover the recommended pay adjustments of 130 million dollars and reduce net expenditures to 24 million dollars in the fiscal year 1956. These steps, together with further major economies now in process, should cause the postal system to become self-supporting in the near future. As a long-run solution, an independent commission should be created to review future rate changes proposed by the Postmaster General in accordance with a basic formula laid down by the Congress.

Urban development and redevelopment.—Under the new urban renewal program authorized by the Housing Act of 1954, local public agencies, jointly with forward-looking private investors, are developing and executing plans to rebuild our major cities and prevent the decay which is making large urban areas unfit for sound economic investment or family life. The act strengthens the previous slum clearance program by (a) requiring localities as a condition of Federal aid to have a workable plan to eliminate substandard housing and neighborhood decay; (b) providing Federal grants and loans for neighborhood rehabilitation, as well as redevelopment projects; and (c) authorizing the Federal Housing Administration to insure mortgages on homes in blighted areas and to help finance new homes for families displaced by slum clearance.

By the end of the fiscal year 1956, an estimated 22 slum clearance projects will be completed, and 364 other slum clearance and urban renewal projects will be underway. Net expenditures will increase from 56 million dollars in 1955 to 94 million dollars in 1956, largely for capital grants to pay the Federal share of project costs. On the basis of experience thus far, private investment and local government expenditures for slum clearance and urban renewal projects will be about four to five times as great as the Federal capital grants.

Before the end of the current fiscal year, the present 500 million dollars in contract authority for capital grants will be committed.

Accordingly, to permit the program to go forward without delay, I am recommending legislation to provide an additional 100 million dollars in capital grant authority in the fiscal year 1955, and 200 million dollars in each of the two subsequent fiscal years.

Federal Housing Administration.—The Federal Housing Administration is now authorized to insure larger loans with longer maturities, as well as loans to support the urban renewal program and to help servicemen buy homes. Thus, more of our people can buy their own homes. Because of the more liberal terms provided and the increased availability of mortgage credit, applications for mortgage insurance have risen substantially in recent months. On the basis of the present outlook, construction or purchase of almost 800,000 homes and improvement or repair of 1,500,000 other homes will be financed during the fiscal year 1956 by private lenders backed by Government insurance commitments.

The total private investment in both new and existing homes by homeowners and builders, underwritten by the Federal Housing Administration, in the fiscal year 1956 will amount to an estimated 8.3 billion dollars. To meet the expanding needs for mortgage insurance for the remainder of the fiscal year 1955 and through 1956, approximately 5 billion dollars in additional insurance authority will be required.

In recent months both legislative and administrative measures have been taken to eliminate abuses in insurance programs. The budget also includes additional funds to assure more adequate supervision. The increase in premium collections and other income will, however, more than offset the increased supervisory expenditures, and receipts are estimated to exceed expenditures by 67 million dollars in the fiscal year 1956, compared with 42 million dollars in 1955.

Federal National Mortgage Association.—Under the Housing Act of 1954, the Federal National Mortgage Association was reconstituted to comprise financially separate activities for the secondary market, special assistance, and management and liquidating functions. Except for the initial transfer of the Government capital investment of 92 million dollars from the earlier association, the secondary market activity will be financed entirely from private funds and its operations are, therefore, not reflected in this budget. The purpose of this activity is to make sure that mortgage funds are available to meet normal needs in all parts of the Nation at market rates of interest. Private capital will be gradually substituted for the Government investment until the Government funds are fully repaid and the private owners take over responsibility for the program.

Expenditures and receipts for the other two activities are included in the budget totals. Under the special assistance program, the President can authorize limited purchases of mortgages (a) to meet acute housing needs of groups or areas unable to obtain private financing, or (b) to prevent a decline in housing activity. In the fiscal years 1955 and 1956, the Association expects to support the financing of about 90,000 housing units, primarily for the urban renewal program. This support will be mainly through commitments to purchase participations in private mortgages. Under the management and liquidating function, the Association will administer the 3.1 billion dollars of mortgages and undisbursed commitments outstanding at the beginning of the fiscal year 1955.

Primarily because of large purchases under previous commitments, expenditures by the Association will exceed receipts by 243 million dollars in the fiscal year 1955. In 1956, however, net receipts of 193 million dollars are anticipated.

Veterans' housing loans.—The Veterans Administration program of direct housing loans expires on June 30, 1955. These loans are made only where guaranteed private mortgages are not available or cannot be secured through the voluntary home mortgage credit program. I recommend legislation continuing this program until expiration of the veterans' loan guaranty program for World War II veterans on July 25, 1957. If permission is granted to use receipts from repayments, as well as from sales, new obligational authority of 100 million dollars should be adequate for the fiscal year 1956.

Public housing.—The aids contained in the Housing Act of 1954, and especially the aids to low-cost housing, will provide the opportunity for the private housing industry to satisfy, eventually, the housing requirements of families of all income groups. In the meantime, it is essential to continue a minimum amount of low-rent public housing construction to meet the critical needs of the lowest income families and to help provide a new place to live for families displaced by urban renewal and slum clearance operations. I recommend a 2-year authorization for contracts with local housing authorities to pay contributions for an additional 35,000 low-rent units each year. Funds necessary for this purpose have been included in this budget.

Liquidation of the emergency World War II public housing program is accelerating. By June 30, 1956, two-thirds of the 195,000 units owned by the Government at the end of 1954 will have been sold, transferred, or demolished. Meanwhile expenditures for the defense housing program started during the Korean emergency will be almost completed.

MESSAGE OF THE PRESIDENT

M77

Gross expenditures for public housing programs, chiefly temporary construction loans to local authorities and annual contributions for completed projects, are estimated at 604 million dollars in 1956. Receipts, mostly from private refinancing of these Federal loans and rental and sale of emergency housing, will total an estimated 570 million dollars, leaving net expenditures of 34 million dollars.

Other housing and community facilities.—By the end of 1956, the Housing and Home Finance Agency will have approved 297 loans to finance construction of dormitory rooms for about 63,800 students and homes for 1,500 faculty and student families at colleges and universities throughout the Nation. In the past 2 years the Agency has helped to develop a private market for long-term dormitory revenue bonds, formerly rarely bought by private investors. The increasing success in attracting private funds is a major reason for the decline in net expenditures from 41 million dollars to 28 million dollars.

Civil defense and disaster relief.—Expenditures for civil defense are classified with expenditures for dealing with peacetime disasters in the commerce and manpower section, but the program is discussed in the major national security section of this message in view of its close relation to continental defense.

Promotion of defense production.—Gross expenditures for promotion of defense production are expected to decline from 1,061 million dollars in 1955 to 638 million dollars in 1956. Most of this reduction is in the synthetic rubber and tin programs. In accordance with the terms of the Rubber Producing Facilities Disposal Act, the estimates assume that these plants will be sold or leased before June 30, 1955. Most of these facilities have already been sold, subject to congressional approval. Moreover, since purchases of tin for the national stockpile have now been completed and world supplies are ample to meet current needs, no provision is made for continued operation of the Government tin smelter.

Gross expenditures under the Defense Production Act will continue at relatively high levels, primarily to meet previous commitments made to provide guaranteed markets, loans, or grants to producers of critical defense materials. Net expenditures will amount to only a fraction of gross disbursements, since most of the materials purchased are being sold to the stockpile of strategic and critical materials to meet its objectives, and to industry. The stockpile program is discussed in the major national security section of this message.

Under present law, the Defense Production Act expires on June 30, 1955. Since important gaps in our mobilization preparedness require

continued Government encouragement, I recommend extension of the act with modifications for 2 years. No increase in the present borrowing authority of 2.1 billion dollars is anticipated at this time.

Business loans and guaranties.—Liquidation of business loans made by the Reconstruction Finance Corporation is well advanced. During the 3-year period from June 30, 1953, to June 30, 1956, business loans and commitments will have been reduced from 458 million dollars to about 53 million dollars through repayments, refinancing, and sales to private financial institutions.

Loans to small businesses by the Small Business Administration have been expanding substantially during the last year. Loans are made only if private credit on reasonable terms is not available, and more than two-thirds of the loans so far extended have been made jointly with private banks. The present authority expires on June 30, 1955, and I recommend its extension. Assuming continuance of the 1955 level of operations, about 1,200 new loans would be authorized in the fiscal year 1956, and additional appropriations of 67 million dollars would be required.

Labor placement and unemployment compensation administration.—Budget expenditures under existing law for administering the joint Federal-State program of employment services and unemployment insurance are estimated at 253 million dollars for the fiscal year 1956, 50 million dollars higher than in the current year. About ~~29~~ million dollars of this increase is nonrecurring and results from a change in the timing of funds advanced to the States; this does not affect the level of operations. The rest is largely for State-approved increases in salaries paid to the State employees who administer the program, and for improvements in the placement service.

Legislation enacted last year provides for transferring annually to the unemployment trust fund the excess of receipts from the Federal unemployment tax over operating costs of the program. The excess received during 1955, to be transferred in the fiscal year 1956, is estimated at 87 million dollars, an increase of 23 million dollars over the amount transferred this year. These funds are to be used to set up a reserve of 200 million dollars from which loans can be made to those States which deplete their own reserves for benefit payments.

The present law authorizing the recruiting of qualified workers from Mexico for seasonal farm employment in the United States expires December 31, 1955. However, the need for this service will continue and I shall recommend its extension. Accordingly, my budget recommendations, including proposed legislation, provide funds for the entire fiscal year 1956.

MESSAGE OF THE PRESIDENT

M79

Other labor and manpower programs.—Industrial injuries have been significantly reduced through the efforts of both labor and management, but these injuries still cost us 40 million man-days every year. This is a heavy tax on our economic progress, as well as on the individual employees and employers. Workmen's compensation programs—an important facet of the industrial safety problem—have lagged behind other social insurance programs in recent years. Although workmen's compensation is predominantly a State program, the Federal Government can and should stimulate improvement—especially through studies and clearing house activities. The budget for the fiscal year 1956 provides for studies which will enable the Department of Labor to promote more effective safety programs and assist States in improving their workmen's compensation standards. In addition, I shall recommend legislation which, over the next few years, should aid the States in further developing industrial safety programs. Two million dollars are included for this purpose in 1956.

At present all workmen's compensation payments to Federal employees are provided from a single appropriation. To encourage better safety practices, I shall recommend legislation to shift the financing of some of these benefit payments to the employing Federal agency. Legislation will also be recommended to liberalize workmen's compensation benefits paid to longshoremen and harbor workers under laws administered by the Federal Government.

The apprentice training program of the Department of Labor has contributed to improvement of the skill and versatility of thousands of workers. As our economy continues to expand, many more skilled workers are needed. Accordingly, the budget proposals provide for redirecting and improving Federal participation in these training activities.

As part of a governmentwide program to improve our economic statistics, this budget includes 1.5 million dollars for additional work during the fiscal year 1956 in the labor and manpower field, covering primarily statistics on employment and unemployment, and for basic data for mobilization and civil defense.

Unemployment trust fund.—The following table shows receipts and expenditures of the unemployment trust fund.

UNEMPLOYMENT TRUST FUND			
[Fiscal years. In millions]			
Item	1954 actual	1955 estimated	1956 estimated
Balance in fund at start of year.....	\$9,246	\$8,993	\$8,785
Receipts:			
Deposits by States and railroad unemployment taxes.....	1,268	1,219	1,421
Interest.....	224	220	204
Transfer from general fund.....		64	87
Payments: State and railroad withdrawals for benefits.....	-1,745	-1,712	-1,594
Net accumulation (+) or withdrawal (-).....	-253	-209	+118
Balance in fund at close of the year.....	8,993	8,785	8,903

GENERAL GOVERNMENT

Net expenditures for general government activities are estimated at 1.6 billion dollars for the fiscal year 1956, an increase of 344 million dollars from the fiscal year 1955. The higher level of expenditures in 1956 reflects primarily (a) the proposed resumption of payments to the Civil Service Retirement Fund for the Government's share of the cost of current benefits for retired Federal civilian personnel and (b) substantially higher payments arising from claims against the Government. Other expenditures for general government cover in the main the costs of such basic Government services as making and enforcing laws, collecting taxes and customs, managing the public debt, and safeguarding and maintaining public buildings and records.

Special allowances are made in the reserves for proposed legislation of this budget for adjustments in the pay and benefits of civilian employees of the Government which I recommended recently in a special message to the Congress. The proposed benefits include a new system of contributory hospitalization and health insurance.

Legislative functions.—Expenditures for legislative activities are estimated to increase from 51 million dollars in 1955 to 63 million dollars in 1956, primarily because of construction of the new Senate Office Building.

MESSAGE OF THE PRESIDENT

M81

GENERAL GOVERNMENT

[Fiscal years. In millions]

Program or agency	Expenditures			Recom-mended new obligational authority for 1956
	1954 actual	1955 esti-mated	1956 esti-mated	
Legislative functions	\$45	\$51	\$63	\$50
Judicial functions.....	29	33	34	33
Executive direction	11	13	11	11
Federal financial management:				
Tax collection.....	277	273	285	286
Customs collection, debt management and other.....	171	164	165	164
Other central services:				
Central property and records management.....	152	156	162	164
Civil Service Commission.....	16	15	17	17
Other.....	16	21	21	24
Retirement for Federal civilian employees:				
Present programs.....	34	32	2	2
Proposed legislation.....			216	216
Unemployment compensation for Federal civilian employees		33	40	40
Protective services and alien control:				
Federal Bureau of Investigation.....	75	79	91	88
Immigration and Naturalization Service.....	40	44	45	45
Other.....	31	23	25	24
Territories, possessions, and District of Columbia:				
District of Columbia.....	13	25	34	32
Territories, possessions, and other.....	43	49	48	45
Other general government:				
Payment of claims and relief acts.....	213	163	250	-----
Weather Bureau.....	26	25	29	33
Other.....	20	23	32	30
Total.....	1,212	1,225	1,569	1,1305
Deduct applicable receipts.....	4	3	3	-----
Net budget expenditures	1,209	1,222	1,566	-----

¹ Compares with new obligational authority of 1,041 million dollars in 1954 and 1,056 million dollars in 1955.

Federal financial management.—To enable the Internal Revenue Service to make still more progress in equitable and effective enforcement of the revenue laws, I am recommending increased appropriations of 12 million dollars to extend the audit of tax returns. The improved enforcement should result in increased tax receipts from those who have not been paying their fair share. In addition, I am recommending legislation to reduce the frequency of information returns submitted by employers withholding income and social security taxes and to strengthen enforcement of these taxes. These amendments will not only cut down the reporting burden on private business, but will also increase budget receipts, especially in later years. Total expenditures for collection of taxes and customs, for administration of the public debt and for other Federal financial management are estimated at 450 million dollars for the fiscal year 1956.

Central property and records management.—The General Services Administration is making substantial and continuing economies in the governmentwide management of property and records. Central motor pools are planned for 15 cities, with important savings anticipated. Substantial reductions in office and warehouse space are continuing. As a result of examination of Government real property holdings, the sales program of surplus real property will be accelerated, with the desirable result of returning this property to local tax rolls and increasing budget receipts.

In this budget, I recommend added funds for more adequate repair and improvement of public buildings to protect the Government's investment. Estimated expenditures for central property and records management will therefore rise from 156 million dollars in 1955 to 162 million dollars in 1956.

To help meet the most critical needs for office space, construction of several general-purpose buildings has already been approved under the long-term lease-purchase contract authority provided by the Eighty-third Congress, and additional buildings will be considered as quickly as determinations of need and cost can be made. These buildings will be purchased through annual appropriations for rental payments.

Civil Service Commission.—Under the recent revisions of the Federal civil service rules, a substantially higher proportion of civilian employees will be on a competitive basis. The transition to this system will require additional funds for the Civil Service Commission for administering the necessary examining program, both in the continental United States and overseas.

Retirement for Federal civilian employees.—The civil service retirement and disability system should be financed on a more satisfactory basis. Employees now contribute 6 percent of pay, covering about one-half the currently accruing cost, and the Government is responsible for the rest of the cost. In the past the Government's share of payments to this fund has not been provided on a consistent basis and in the last 2 years appropriations have been deferred pending the report of the Committee on Retirement Policy for Federal Personnel. The Committee's report to the Eighty-third Congress establishes the necessity for a sound and lasting financial basis for the civil service retirement system.

Financing of the civil service system is a problem requiring careful consideration because of its importance to the Federal career service. For 1956 I am recommending a Government contribution of 216

MESSAGE OF THE PRESIDENT

M83

million dollars which is estimated to be the difference in that year between the Government's share of current benefit disbursements and the interest earned on its part of the fund. This will serve to maintain at its present level the equity the Government already has built up in the fund through its past contributions.

Other budget expenditures for retired Federal civilian employees are estimated to decline from 32 million dollars in the fiscal year 1955 to 2 million dollars in 1956 because payments for cost-of-living increases under the act of July 16, 1952, will be made from the trust fund.

Unemployment compensation for Federal civilian employees.—Legislation enacted by the last Congress provides for the payment of unemployment compensation benefits to Federal civilian workers. These payments are similar to those available to most workers in private industry and are being paid through existing State unemployment compensation agencies. Payments reimbursing the States for the cost of this program for the fiscal year 1955 are estimated at 33 million dollars, requiring a supplemental appropriation of 20 million dollars. Expenditures are estimated to rise in 1956 to 40 million dollars because for the first time the plan will be in operation for a full fiscal year.

Protective services and alien control.—Increased expenditures for protective services and alien control are recommended to strengthen the border patrol operations of the Immigration and Naturalization Service and to maintain the Federal Bureau of Investigation at its present effectiveness in the fiscal year 1956. The Bureau's work has been increased by added responsibilities for internal security. At the same time, its costs have risen because of recently enacted legislation providing premium pay for FBI agents for overtime and holiday work.

District of Columbia.—Under the new public works program authorized by the Congress last spring, Federal expenditures for the District of Columbia will increase to 34 million dollars in the fiscal year 1956. Of this amount, 22 million dollars represents the Federal Government's share in the costs of District government and public services; loans of 12 million dollars will be made to the District for construction of highways, sewers, and waterworks.

Weather Bureau.—To increase the effectiveness of the weather service, I am recommending replacement of certain obsolete facilities with modern observational equipment. This budget provides for the Weather Bureau to take over operation of 25 upper-air stations and

perform certain other activities basic to civilian weather service which are now carried on by the Department of Defense. These proposals will carry out recommendations made by an advisory committee of eminent meteorologists. With the improved program, the expenditures of the Weather Bureau for the fiscal year 1956 are estimated at 29 million dollars, an increase of 4 million dollars over 1955.

Claims and relief acts.—Payments for claims and relief acts are estimated at 250 million dollars for the fiscal year 1956, an increase of 87 million dollars over the 1955 estimate. The increase consists entirely of higher payments for certified claims, which represent, in the main, bills presented for payment after the appropriation involved has lapsed. In the fiscal year 1955 certified claims are expected to be lower than in 1956 because claims which would otherwise have been paid from this account are being paid from certain Department of Defense appropriations which were extended by the Congress for 1 year.

INTEREST

The large interest payments by the Federal Government arise primarily from the tremendous increase in the public debt during World War II. In the fiscal year 1956 they account for about 10 percent of total budget expenditures. The size of the public debt and interest rates on the debt determine the general level of interest expenditures; variations may also occur from year to year from changes in interest payment provisions of specific securities.

INTEREST

[Fiscal years. In millions]

Item	Budget expenditures (net)			Recommended new obligational authority for 1956
	1954 actual	1955 esti-mated	1956 esti-mated	
Interest on public debt.....	\$6,382	\$6,475	\$6,300	\$6,300
Interest on refunds of receipts.....	83	78	73	73
Interest on uninvested trust deposits.....	5	5	5	5
Total.....	6,470	6,558	6,378	¹ 6,378

¹ Compares with new obligational authority of 6,470 million dollars in 1954 and 6,558 million dollars in 1955.

Interest on the public debt.—Interest payments on the public debt in the fiscal year 1956 are estimated at 6.3 billion dollars. Although the debt has increased, interest payments are estimated to be 175 million dollars less than in the current year. This decrease reflects

MESSAGE OF THE PRESIDENT

M85

primarily the reduction in the calendar year 1954 in interest rates on the outstanding debt. Another reason for the decrease is the unusual concentration in 1955 of interest payments on part of the public debt refunded this year. As an example of both reasons, in the fall of 1954, 7.5 billion dollars of 2% percent certificates were refunded into a 1½ percent certificate and a 2½ percent bond. A full year's interest was paid in the fiscal year 1955 on the maturing 2% percent certificates; in addition, the first interest payment on the new 2½ percent bond will be due in 1955. For these reasons interest payments in 1955 on this 7.5 billion dollar segment of the debt will be about 130 million dollars more than in 1956.

We have made progress in improving the structure of the public debt by lengthening the average maturity. Nevertheless, the average interest rate on the debt has declined from 2.41 percent to 2.29 percent during the last 12 months.

In this message, we have stated our objectives and our proposals for the coming year.

In preparing this budget we have weighed the requirements of each element of our strength in order that we may allocate our resources according to the requirements of the whole. To each is apportioned the full measure required by relative need and permitted by available means. At the same time our awareness of the necessity for efficient, economical, and moral Government and the development of partnerships with State and local governments and with private enterprise permit reductions in total expenditures. A growing prosperity will result in increasing revenues and should make possible both a balanced budget and lower tax rates in the near future.

DWIGHT D. EISENHOWER.

JANUARY 17, 1955.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I send you today the Budget of the United States Government for the fiscal year 1957 which begins July 1, 1956. This budget also includes the fiscal results of all Government operations for the year ended June 30, 1955, and revised estimates for the current fiscal year ending June 30, 1956.

BUDGET TOTALS

[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Budget receipts	\$60.4	\$64.5	\$66.3
Budget expenditures.....	64.6	64.3	65.9
Budget surplus (+) or deficit (-)	-4.2	.2	.4

The budget I am proposing for 1957 is a balanced budget. It is my expectation that the budget will also be in balance for the fiscal year 1956.

Although balanced, the margin of estimated surplus in each of these budgets is slim. This calls for the utmost cooperation between the executive and legislative branches to prevent increases in expenditures or reductions in receipts that would create a deficit.

The present encouraging budgetary outlook arises from a favorable combination of factors involving both receipts and expenditures. Substantial reductions in Government expenditures have been achieved in the past 3 years. A significant increase in revenues is currently anticipated as the result of our present unprecedented prosperity. In the achievement of this prosperity, the historic 7.4-billion-dollar tax reduction and reform program of 1954—so advisable during the transition to a peacetime economy then taking place—and the confidence born of prudent fiscal and credit management have been strong energizing factors.

Budget expenditures in the fiscal year 1956 are now estimated at 64.3 billion dollars. This is a reduction in Government spending for the third successive year. It is a decrease of 10 billion dollars from the amount actually spent by the Federal Government in the fiscal year which began July 1, 1952. It is a cut of 13.6 billion dollars from the amount proposed in the budget for the fiscal year beginning July 1, 1953, submitted to the Congress in January of 1953 before this administration took office.

For the fiscal year 1957, total expenditures are estimated to rise approximately 1.6 billion dollars over the anticipated level for 1956.

This increase will be more than offset by the rise in receipts estimated to result from continued growth in the national economy. Efforts to obtain additional economies in Government operations must continue, for the balance achieved in the budget for 1957 is a balance at a high level of receipts and expenditures. The search for additional savings that can be effected while strengthening our security posture and providing essential Government services must be relentless.

We will take full advantage of the proposals of the Commission on Organization of the Executive Branch of the Government, which has completed with high distinction the task of analyzing the activities of the Government. We will continue to give the taxpayer greater and greater value for each dollar spent. We will continue to foster orderly growth of our economy through sound fiscal policies. The confidence in the future among consumers and businessmen generated by those policies must be maintained.

BUDGET POLICIES

We seek, above all, the attainment of a just and durable peace. Thus, the resources of the world can be directed to building a better life for all people. The people of the Soviet Union and of the countries under its domination are undoubtedly as anxious as the people of other nations to achieve this objective. I regret that the Soviet leaders have not as yet given any tangible evidence of an intention to agree on a plan of disarmament that can be verified by adequate inspection. In the absence of such tangible evidence, we must follow the course reflected in this budget of steadily strengthening the defense of the United States and its allies, so that the free world will remain strong enough to deter possible aggressors or to retaliate immediately and effectively if attacked.

At the same time, the Government of the United States will steadfastly seek all possible ways of further progress toward our goal of peace. We will speed the development of the civilian uses of atomic energy and make the resulting benefits available, under appropriate controls, to other nations for the well-being of mankind. We will propose logical methods for advancing disarmament. We will promote international trade and investment. We will not falter in our cooperative efforts to build the economic, as well as defensive, strength of the free world through the Mutual Security Program.

At home, programs instituted by the Executive and the Congress have helped to nurture an unprecedented prosperity without inflation. Our objective is to foster and encourage conditions in which this prosperity can be sustained and can be more fully shared by agriculture and certain sectors of our industrial economy. The growth and movement of our population and the complexity of our dynamic society are continually creating needs which must be met if we are to

MESSAGE OF THE PRESIDENT

M7

build wisely for the future. For years, many activities which are desirable for fostering sound economic growth have been postponed because of the overriding needs of war and defense.

Defense needs are still overriding and must continue to be met in full measure. However, budget revenues now permit us to undertake some new and expanded programs for enhancing opportunities for human well-being and economic growth. This budget reflects that purpose.

These two national objectives of securing a lasting peace and of sustaining widespread prosperity and well-being are closely linked to our third goal of financial strength and stability.

In the words of Washington's farewell address, we must meet our defense needs by maintaining a respectable posture of defense. There is no magic number of dollars or of military units and weapons that would solve all our defense problems and guarantee our national security. Neither can total mobilization in peacetime be the answer to our defense needs. It is essential to have a stable, long-range defense program suited to our needs which avoids fluctuations in response to transitory pressures.

We are equally well aware that overenthusiastic and ill-considered Government efforts to promote economic development could lead to inflation, and could also choke off private initiative, which is the well-spring of economic development and of a better life. Inflation would bring suffering to the very groups whose well-being the Government would be trying to serve.

With a sense of proportion and with a sound progressive policy, we can continue our sure advance toward our objectives. The results to date of sound financial management so demonstrate. While continuing substantial expenditures for military defense and mutual security, with some increases where needed, we can now propose the expansion of certain domestic programs, and, at the same time, strengthen our financial position by a balanced budget. But we must make sure that we do not undermine our financial strength by laying the groundwork for future budget deficits.

BUDGET DOCUMENT

A budget is not just a book of figures describing fiscal operations—it is a comprehensive plan of action for meeting our national objectives. As such, it affects every phase of the life and activity of the Nation. It is necessarily complex. Like the plans for a building, the budget must be sketched from various points of view to give a clear idea of its content and composition. Accordingly, despite some repetition, the various items in the budget are classified and grouped in different ways to help in the analysis of their overall significance.

In this section of the budget message, I shall summarize budget expenditures in terms of a few broad purposes and also in terms of their controllability through the budget process. Following this discussion, there are two summary tables setting forth budget expenditures and new obligational authority by major programs and by Government agencies. These tables are followed in the message by a discussion of my recommendations for each of the major programs of the Government.

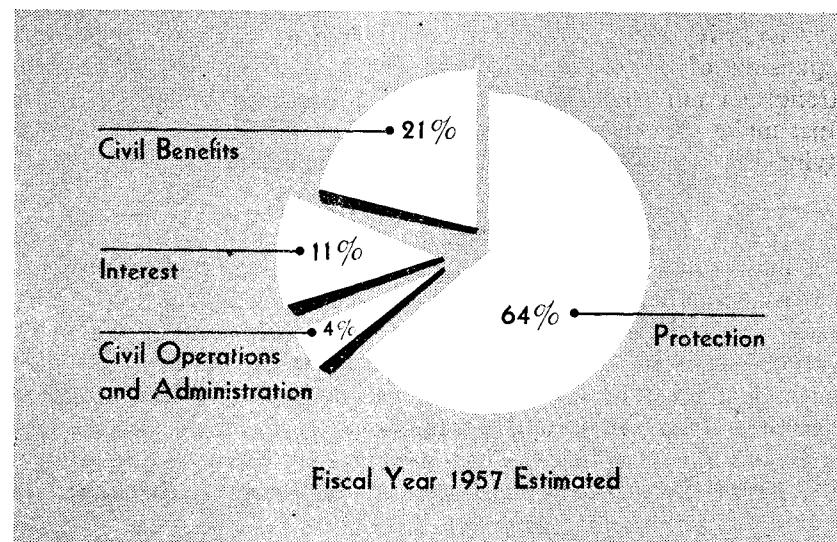
The detailed part of the budget document which follows the message contains four parts: (1) Additional summary tables; (2) detailed appropriation accounts for each agency; (3) information on trust funds and working funds; and (4) a number of special analyses which throw light on the budget from still different viewpoints. These analyses show, for example, the expenditures for Federal credit programs, public works, aid to State and local governments, research, and economic statistics, all of which are common to many programs and agencies.

The detailed schedules and statements of the budget have been simplified this year to make them more useful to the Congress in general and to the appropriations committees in particular. This simplification has also resulted in reducing the size of the budget document 50 pages and the appendix a further 175 pages.

BUDGET EXPENDITURES

Expenditures by purpose.—When we look at the budget in terms of a few broad purposes, we find that the greatest portion, 64 percent,

PURPOSE OF BUDGET EXPENDITURES



MESSAGE OF THE PRESIDENT

M9

of the expenditures in the fiscal year 1957 will be for deterring possible aggression and for strengthening the international alliances to which we belong. The next largest part, 21 percent, will be devoted to civil benefits of various kinds. Interest, largely on the public debt, will amount to nearly 11 percent. Expenditures for civil operations and administration are estimated at 4 percent of the total. Further details of expenditures by broad purposes can be found in special analysis E on pages 1119 to 1121 of the budget document.

BUDGET EXPENDITURES BY PURPOSE

[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Protection, including collective security.....	\$42.7	\$41.4	\$42.4
Civil benefits.....	13.7	13.8	13.9
Interest.....	6.4	6.9	7.1
Civil operations and administration.....	1.7	2.1	2.2
Reserve for contingencies.....		.1	.2
Total.....	64.6	64.3	65.9

Protection, including collective security.—In this summary classification of broad purposes, expenditures for protection include more than the four major national security programs. They embrace the military functions of the Department of Defense, including construction and procurement; the Mutual Security Program; the Atomic Energy Commission; and other programs such as stockpiling, expansion of defense production, civil defense, and our foreign information activities.

EXPENDITURES FOR PROTECTION, INCLUDING COLLECTIVE SECURITY

[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Major national security programs:			
Department of Defense—Military Functions.....	\$35.5	\$34.6	\$35.5
Mutual Security Program—military.....	2.3	2.5	2.5
Atomic Energy Commission.....	1.9	1.7	1.9
Stockpiling and defense production expansion.....	.9	.7	.4
Subtotal.....	40.6	39.5	40.4
Related programs.....	2.1	1.9	2.0
Total.....	42.7	41.4	42.4

In planning such great security programs, it is clear that we must never permit ourselves to be panicked by temporary crises or beguiled

by a campaign of smiles without deeds. We continue to maintain and to strengthen our national security forces.

This budget provides for increased expenditures for the military functions of the Department of Defense, emphasizing air-atomic power, guided missiles, research and development, continental defense, and the re-equipping of our forces with new types of weapons. Outlays for conventional weapons and for stockpiling will be decreased. Under the Mutual Security Program, budget expenditures in 1957 for military assistance and for economic and technical assistance are estimated at about the same level as in the fiscal years 1955 and 1956. Expenditures for atomic energy, including peaceful applications, will rise in 1957 to a somewhat higher total than for any previous year. I am also recommending an expansion of our foreign information activities so that we can more successfully advance understanding abroad of our policies and their peaceful intent.

Civil benefits.—A great variety of Government programs provide civil benefits and services for the Nation as a whole and for specific groups. They encourage the private development and growth of our economy and provide certain economic safeguards for individuals and groups in order that our dynamic system of free choice may operate effectively in the modern world.

Some of these benefits and services are in the form of public works or loans which add to Federal assets. Expenditures for long-range development, such as those for health research and for grants to States for construction, also lay the foundation for future economic progress and development. However, the bulk of the benefits and services are for current expenses, including veterans' benefits; aids to agriculture; aids and subsidies to shipping, airlines, and the postal service; and grants to States for public assistance and administration of employment offices and unemployment insurance.

EXPENDITURES FOR CIVIL BENEFITS

[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Additions to Federal assets.....	\$3.8	\$2.3	\$2.4
Long-range development.....	1.7	2.0	2.4
Current expense items.....	8.2	9.5	9.1
Total.....	13.7	13.8	13.9

My recommendations for the fiscal year 1957 under this heading of civil benefits are designed to build for the future by assisting further in the strengthening of agriculture; in the promoting of labor standards; in the building of schools; in the expansion of research and

training in science, health, and agriculture; in the modernization of our highways; in the improvement of housing and urban facilities; in the enlargement of our airway traffic capacity; in the replacement of our merchant fleet; and in the conservation of our natural resources.

The estimated expenditure for each of the civil benefits and services (shown in detail on p. 1120) represents the best judgment of this administration of what is required and can be used effectively during the coming year to meet our growing needs.

In discharging the responsibility for fostering a growing prosperity that is widely shared, I have been mindful of two principles.

First, we will progress fastest by relying on private initiative as the mainspring for economic growth and a better life for all. In encouraging economic growth, the Government should act on the basis of enabling private activity to expand and not on a basis of replacing private with public activity. My recommendations, therefore, are designed to encourage private initiative and to contribute toward, or, in some cases, to undertake tasks which private enterprise cannot perform alone.

Second, the interests of our citizens are best advanced by encouraging State and local governments to strengthen themselves and thus keep as much Government responsibility as possible in the States and communities, close to the people themselves. The Federal actions which I am proposing are designed to meet real and pressing needs which most smaller governmental units cannot cope with by themselves. Our endeavor is to help fill the gap between the need for essential services, on the one hand, and the present ability of State and local governments to meet those needs, on the other. Wherever possible and logical, I propose that responsibility and costs be shared by these other governmental units.

A corollary of these two principles is that where Federal action is necessary, it should be taken, if possible, in a way that need not entail large or continuing Federal outlays. For some activities, Federal guarantees will encourage the availability of private credit. For other activities, partnership with private or State and local government interests will multiply the effectiveness of Federal expenditures.

Many services performed and privileges granted by the Government in the public interest also convey a special, added benefit to individuals or groups who can afford to pay for them. In some cases, the services are now provided without charge. In other cases, the fees are substantially below the costs of providing the services. Thus, the general taxpayer is required to subsidize operations which should be self-supporting. The scope and cost of these hidden subsidies have grown considerably during the past decades. I firmly believe in the principle that Government services which give a special benefit to users should be financed by adequate charges paid by the users.

In furtherance of this principle, I strongly recommend that the Congress enact legislation to increase postal rates so that users are no longer subsidized from general funds.

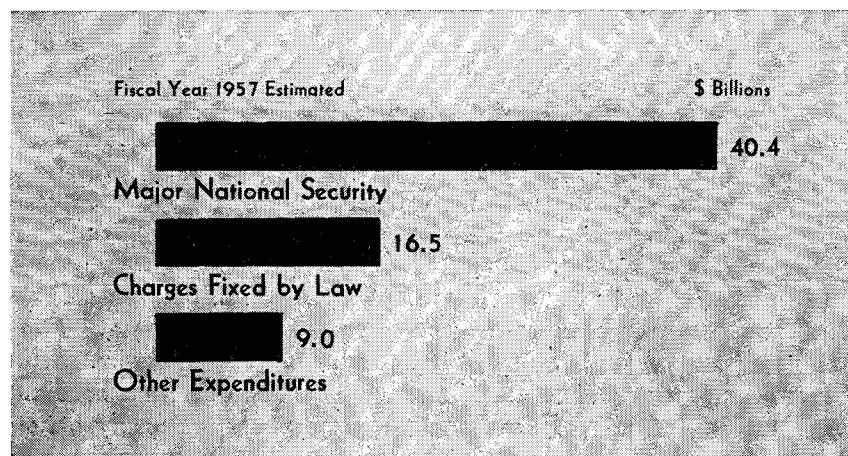
Civil operations and administration.—Budget items for civil operations and administration are predominantly the traditional expenses of the Government. They are the largest in number but not the largest in amount. They cover the bulk of the expenditures for the legislative branch, the judiciary, and various regulatory activities, as well as the administrative expenses of many cabinet departments and independent agencies. They also include expenses for tax collection and various central management services.

These programs have a greater significance than their small proportion of the total budget would indicate. I am recommending selective increases in appropriations and expenditures for a number of them.

For example, we should increase our representation abroad—particularly in a number of countries with which our relations are becoming increasingly vital. A strengthening of our foreign relations will pay dividends in terms of better mutual understanding and friendship. Likewise, my proposals for reducing the backlogs of cases pending in our Federal courts and before our regulatory commissions will bring benefits greater than their costs. Increased funds for central property and records management will enable us to achieve greater economies in carrying out the other activities of our Government.

Expenditures by controllability.—Another way of looking at and grouping budget expenditures is from the point of view of their con-

BUDGET EXPENDITURES INDICATING CONTROLLABILITY



MESSAGE OF THE PRESIDENT

M13

trollability through the budget process. Each year when a budget is being determined, a large amount cannot be substantially modified by actions of the executive branch or of the Congress through the appropriations process but only by longer term review and action. In the fiscal year 1957, about one-quarter of the estimated budget expenditures are dictated by factors not readily subject to administrative discretion through the budget process.

Interest is the largest example of such an expenditure. Most of the other relatively uncontrollable programs, such as agricultural price supports, veterans' compensation and pensions, and various grants to States, are in the field of civil benefits as classified in the previous section.

BUDGET EXPENDITURES INDICATING CONTROLLABILITY

[Fiscal years. In millions]

Description	1955 actual	1956 estimated	1957 estimated
Major national security programs	\$40,626	\$39,467	\$40,370
Major programs which are not readily controllable:			
Veterans' compensation, pensions, and selected benefit programs	3,519	3,770	3,842
Veterans' unemployment compensation	106	115	118
Grants to States for public assistance	1,427	1,488	1,478
Commodity Credit Corporation (net) ¹	3,414	2,211	1,694
Removal of surplus agricultural commodities	59	225	265
Conservation of agricultural land resources	235	220	220
Federal-aid highway grants	595	740	800
Grants to States for unemployment compensation and employment service administration	194	230	255
Payment to the unemployment trust fund	64	87	81
Claims and relief acts	142	168	185
Payments to Federal employees' retirement funds	30	234	296
Payment to railroad retirement fund for military service credits			2
Unemployment compensation for Federal employees	19	32	33
Legislative and the judiciary	96	135	164
Interest	6,438	6,875	7,066
Total	16,338	16,530	16,499
All other programs	7,606	8,273	8,996
Total	64,570	64,270	65,865

¹ For purposes of comparability, includes expenditures from appropriations to reimburse the Corporation.

NEW AUTHORITY TO INCUR OBLIGATIONS

Before any budget expenditures can be made, the Congress must first authorize Federal agencies to incur obligations. This authority, ordinarily provided in the form of appropriations, may or may not lead to the immediate expenditure of funds. In the case of salaries and the purchase of supplies, the expenditure will ordinarily follow closely the incurring of the obligation. For other items such as ships,

aircraft, and complex military equipment, the expenditure may follow the incurring of the obligation by several years.

Unexpended balances of appropriations carried over from prior years ran to nearly 80 billion dollars when this administration took office and represented an enormous backlog of commitments for which expenditures had to be made in the fiscal year 1954 and subsequent years. These balances represented, in effect, c. o. d. orders which had to be paid for in cash when the goods were delivered and constituted a heavy overhanging load for the budget on top of the appropriations being enacted currently.

By the end of fiscal year 1956 we expect to have reduced these balances by well over a third, to below 50 billion dollars, a level believed more reasonable in its relation to actual needs for current operations.

For the fiscal year 1957, requested new authority to incur obligations is about the same as estimated budget receipts and slightly greater than estimated expenditures. However, the backlog of unexpended balances of appropriations will be further reduced as some appropriations enacted in prior years will be allowed to lapse. This continues the policy of the two previous budgets I sent to the Congress, in which I emphasized the importance of actions to eliminate excessive accumulations of unexpended balances, which so frequently invite commitments leading to unnecessary future expenditures.

Of the total new authority I am recommending for the fiscal year 1957, action by this session of the Congress will be required for 58.3 billion dollars. The remainder consists of previously enacted permanent authorizations under which new authority becomes available each year without new action by the Congress. An example is interest on the public debt.

NEW AUTHORITY TO INCUR OBLIGATIONS

[Fiscal years. In billions]

	1955	1956	1957
Proposed for enactment in this session:			
Recommended at this time.....			\$40.7
Proposed for later transmission:			
Under existing legislation.....		\$0.6	.1
Under proposed legislation.....		.2	8.5
Total.....		.8	58.3
Enacted prior to this session:			
Current authorizations.....	\$49.3	52.7	
Permanent authorizations.....	7.8	8.5	8.0
Total.....	57.1	62.0	66.3

MESSAGE OF THE PRESIDENT

M15

LEGISLATIVE PROGRAM

I have outlined in my message on the State of the Union the legislative proposals which I consider vital to our continued progress. Detailed recommendations will be presented to the Congress on certain of these proposals. The budgetary estimates for the fiscal year 1957 for my legislative proposals are summarized in the table below.

These estimates cover only the proposals for which financial authorizations cannot be enacted prior to enactment of enabling legislation. Often they supplement programs for which expenditures are included elsewhere in the budget. For example, the amounts shown in the following table for my proposals for strengthening agriculture are only part of the total in the budget for agricultural programs.

Pending final determination of the amounts required for the recommended program for highways, the dollar estimates included in this budget under proposed legislation cover only the continuance of the present annual authorization. The new highway program should be soundly financed so as not to create budget deficits.

SUMMARY OF LEGISLATIVE PROPOSALS

[Fiscal year 1957. In millions]

Program	Recommended new authority to incur obligations	Estimated expenditures
NEW LEGISLATION		
Agriculture—soil bank and accompanying proposals.....	1 \$450	1 \$400
Area redevelopment.....	50	10
Atomic energy plant construction.....	144	40
Bureau of Reclamation and Corps of Engineers projects.....	46	21
Department of Defense—military public works and personnel incentives (net).....	1,117	200
Flood indemnity.....	100	25
Postal rate increases.....	-350	-350
Public health—new proposals.....	76	24
School construction—general assistance program.....	376	150
Tennessee Valley Authority steam plants (revenue bonds).....	68	24
Other proposals.....	68	47
Total, new legislation.....	2,145	591
EXTENSION OF EXISTING LEGISLATION		
College housing.....	100	
Federal-aid highways and forest highways.....	898	
Mutual Security Program.....	4,860	990
Public assistance grants.....	166	166
School construction—assistance in federally affected areas.....	88	5
Other proposals.....	6	29
Total, extension of existing legislation.....	6,118	1,190
Reserve for contingencies.....	250	225
Total, legislative proposals.....	8,512	2,006

¹ In addition, proposed refunds to farmers of Federal taxes on gasoline used in farm operations are estimated at 60 million dollars in 1957.

BUDGET RECEIPTS AND TAX POLICY

I have already indicated in my State of the Union message the broad outlines of our tax policies. I shall summarize them here.

We have noted that in 1954 reductions in spending made possible—and appropriate in the existing circumstances of transition to a peace-time economy—the largest dollar tax cut in any year in our history. Almost 7½ billion dollars were cut from the sums required of the taxpayers and every taxpayer in the country benefited. Almost two-thirds of the savings went directly to individuals. This tax cut also helped to build up the economy, to make jobs in industry, and to increase the production of the many things desired to improve the scale of living for the great majority of Americans.

The strong expansion of the economy, coupled with a constant care for efficiency in Government operations and an alert guard against controllable waste and duplication; has brought us to a prospective balance between income and expenditure. This is being achieved while we continue to strengthen the military security forces and enlarge services to the public.

To reach a balanced budget in the fiscal year 1956 and in the fiscal year 1957, it will be necessary in addition to continuing everyday efforts to keep spending under control, to continue all the present excise taxes without any reduction and the corporation income taxes at their present rates for another year beyond April 1, 1956.

Based on the extension of these tax rates, budget receipts in the fiscal year 1957 are estimated at 66.3 billion dollars, 1.8 billion dollars higher than in the current year.

BUDGET RECEIPTS

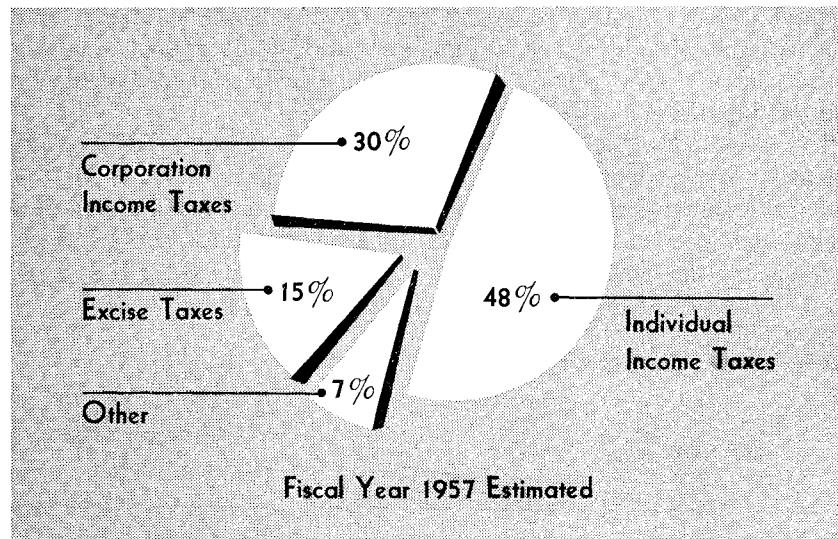
[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Individual income taxes.....	\$31.7	\$33.6	\$35.1
Corporation income taxes.....	18.3	20.3	20.3
Excise taxes.....	9.2	9.9	9.9
Other taxes (net of transfers to trust funds).....	2.1	2.0	2.1
Miscellaneous receipts.....	2.6	2.5	2.8
Refunds of receipts (-).....	-3.4	-3.8	-3.9
Total.....	60.4	64.5	66.3

It is unquestionably true that our present tax level is very burdensome and, in the interest of long term and continuous economic growth, should be reduced when we prudently can. It is essential, in the sound management of the Government's finances, that we be mindful of our enormous national debt and of the obligation we have toward future Americans to reduce that debt whenever we can appro-

MESSAGE OF THE PRESIDENT

M17

SOURCE OF BUDGET RECEIPTS

priately do so. Under conditions of high peacetime prosperity, such as now exist, we can never justify going further into debt to give ourselves a tax cut at the expense of our children. So, in the present state of our financial affairs, I earnestly believe that a tax cut can be deemed justifiable only when it will not unbalance the budget, a budget which makes provision for some reduction, even though modest, in our national debt. In this way we can best maintain fiscal integrity.

PUBLIC DEBT

On the basis of present estimates, we should be able to end the current fiscal year with a small reduction in the public debt, and a small further reduction is anticipated for the fiscal year 1957.

PUBLIC DEBT

[Fiscal years. In billions]

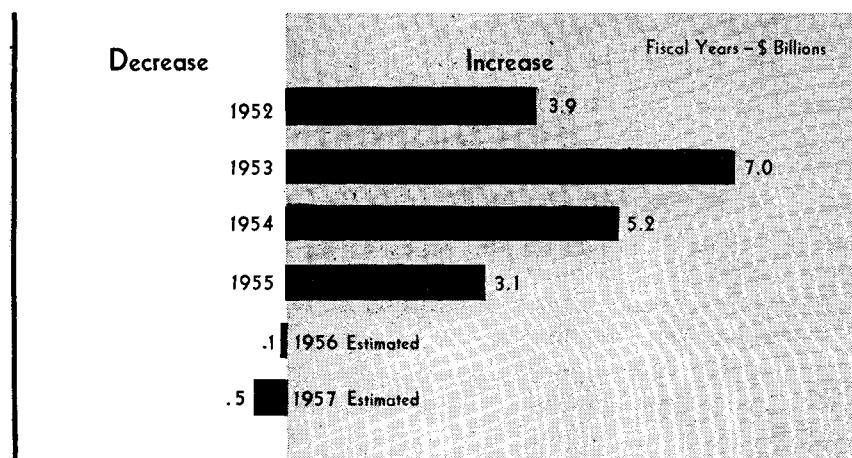
	1955 actual	1956 estimated	1957 estimated
Public debt at start of year.....	\$271.3	\$274.4	\$274.3
Change due to budget deficit (+) or surplus (-).....	+4.2	-.2	-.4
Other changes in public debt.....	-1.1	.1	-.1
Public debt at end of year.....	274.4	274.3	273.8
Public debt subject to legal limit at end of year.....	273.9	273.8	273.3

The immediate economic effects of the public debt depend partly on its management. During each year various issues of Government

securities become due and refinancing must be arranged. In the past several years, the Treasury has cooperated closely with the Federal Reserve System to assure that the management of the debt is consistent with our general monetary and credit policies. These actions have helped sustain a sound and growing business activity without inflation or deflation.

The Treasury has also taken steps toward lengthening the average maturity of the debt so as to avoid its becoming concentrated too heavily in short-term issues. Further, the number of financing operations each year has been reduced. These actions lessen the impact of Treasury financing on the market, and give the Federal Reserve System greater freedom in its operations.

CHANGE IN PUBLIC DEBT



Last year the Congress extended through June 1956 a temporary increase during the fiscal year in the statutory debt limit from 275 billion dollars to 281 billion dollars, so that the Treasury could meet its heavy temporary borrowing needs during the first half of the fiscal year 1956, when tax receipts are seasonally low. The Treasury is currently operating within 1 billion dollars of the temporary debt ceiling, and on cash balances that at some periods offer little flexibility in the management of Government finances. Even with a balanced budget in 1956 and 1957, seasonal borrowing in the first half of fiscal year 1957 will temporarily bring the debt above the 275 billion dollar limit. Therefore, a continuation of the legislation allowing a temporary increase during the year in the statutory debt limit is required.

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

The budget receipts and expenditures discussed so far reflect transactions in funds belonging to the Federal Government. The Government also collects and pays out sizable sums for the various funds which it holds in trust for others, such as old-age and survivors

MESSAGE OF THE PRESIDENT

M19

insurance, railroad retirement, unemployment compensation, veterans' life insurance, and Federal employees' retirement.

SUMMARY OF MAJOR TRUST FUNDS

[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Balance in funds at start of year.....	\$44.9	\$45.9	\$48.4
Receipts.....	9.1	11.2	11.5
Expenditures.....	8.1	8.7	9.7
Balance in funds at close of year.....	45.9	48.4	50.2

These trust funds are currently accumulating surpluses because payments into them are being made by a great many more people than are now drawing benefits. The rate of accumulation is gradually declining as more people become eligible for benefits, but will still amount to an estimated 1.8 billion dollars in the fiscal year 1957.

The flow of money between the public and the Government as a whole is shown in the table below by consolidating budget transactions with trust fund transactions and by eliminating intragovernmental payments and receipts. The relationship of receipts from and payments to the public is sometimes used to measure the inflationary or deflationary impact, if any, of Government financial operations on the economy. More detail on this consolidation can be found in special analysis A, pages 1083 to 1085 of this budget.

RECEIPTS FROM AND PAYMENTS TO THE PUBLIC, EXCLUDING BORROWING

[Fiscal years. In billions]

	1955 actual	1956 estimated	1957 estimated
Receipts from the public.....	\$67.8	\$73.5	\$75.4
Payments to the public.....	70.5	71.0	72.9
Excess of receipts from the public.....		2.4	2.4
Excess of payments to the public.....	2.7		

An excess of Federal cash receipts from the public is estimated for both the fiscal years 1956 and 1957.

SUMMARY TABLES

The following two pages present tables showing key budget figures on both new authority to incur obligations and expenditures for each major program and for each major agency. These tables are followed by a discussion of the programs covered by the budget, including the legislative recommendations.

SUMMARY OF NEW OBLIGATIONAL AUTHORITY

BY FUNCTION AND AGENCY

Based on existing and proposed legislation

[Fiscal years. In millions]

Description	1955 enacted	1956 estimated			1957 estimated		
		Enacted	Proposed for later transmission	Total	Recom- mended in this document	Proposed for later transmission	Total
BY FUNCTION							
Major national security-----	\$33, 656	\$35, 870	-----	\$35, 870	\$35, 482	\$4, 262	\$39, 743
International affairs and finance-----	2, 304	2, 110	\$8	2, 118	416	1, 916	2, 332
Veterans' services and benefits-----	4, 369	4, 597	208	4, 805	4, 847	45	4, 892
Labor and welfare-----	2, 614	2, 627	180	2, 807	2, 680	707	3, 387
Agriculture and agricultural resources-----	2, 672	3, 311	13	3, 324	2, 395	478	2, 872
Natural resources-----	966	985	60	1, 045	1, 009	112	1, 121
Commerce and housing-----	2, 919	3, 392	100	3, 492	2, 200	806	3, 006
General government-----	1, 138	1, 454	71	1, 525	1, 565	56	1, 621
Interest-----	6, 438	6, 875	-----	6, 875	7, 066	-----	7, 066
Reserve for contingencies-----	-----	-----	125	125	-----	250	250
Total new obligational authority-----	57, 076	61, 219	766	61, 984	57, 659	8, 632	66, 291
BY AGENCY							
Legislative branch-----	106	120	9	129	87	-----	87
The judiciary-----	32	36	1	37	41	-----	41
Executive Office of the President-----	9	10	(b)	10	10	-----	10
Funds appropriated to the President-----	2, 796	2, 728	25	2, 753	10	4, 860	4, 870
Independent offices:							
Atomic Energy Commission-----	1, 285	1, 179	-----	1, 179	1, 693	144	1, 837
Veterans Administration-----	4, 358	4, 555	208	4, 763	4, 805	45	4, 850
Other-----	1, 042	725	41	766	935	118	1, 052
General Services Administration-----	533	701	6	707	218	-----	218
Housing and Home Finance Agency-----	584	883	5	888	335	202	537
Department of Agriculture-----	2, 841	3, 574	26	3, 600	2, 673	478	3, 150
Department of Commerce-----	1, 438	1, 535	64	1, 600	686	950	1, 635
Department of Defense—Military Functions-----	30, 787	33, 147	-----	33, 147	33, 790	1, 117	34, 907
Department of Defense—Civil Functions-----	468	614	36	650	644	21	665
Department of Health, Education, and Welfare-----	2, 010	1, 990	144	2, 133	1, 950	705	2, 654
Department of the Interior-----	491	500	15	514	549	33	582
Department of Justice-----	189	200	12	212	236	-----	236
Department of Labor-----	447	469	15	484	500	2	502
Post Office Department (general fund)-----	363	441	-----	441	470	* 350	126
Department of State-----	131	144	6	150	183	56	239
Treasury Department-----	7, 137	7, 639	25	7, 664	7, 813	-----	7, 813
District of Columbia (general fund)-----	30	30	2	32	33	2	35
Reserve for contingencies-----	-----	-----	125	125	-----	250	250
Total new obligational authority-----	57, 076	61, 219	766	61, 984	57, 659	8, 632	66, 291

^b Less than one-half million dollars.^a Deduct, proposed postal rate increase.

MESSAGE OF THE PRESIDENT

M21

SUMMARY OF BUDGET EXPENDITURES

BY FUNCTION AND AGENCY

Based on existing and proposed legislation

[Fiscal years. In millions]

Description	1955 actual			1956 estimated			1957 estimated		
	Gross ex-penditures	Applicable receipts ¹	Net ex-penditures	Gross ex-penditures	Applicable receipts ¹	Net ex-penditures	Gross ex-penditures	Applicable receipts ¹	Net ex-penditures
BY FUNCTION									
Major national security-----	\$41,124	\$498	\$40,626	\$39,737	\$271	\$39,467	\$40,674	\$305	\$40,370
International affairs and finance-----	2,514	333	2,181	2,497	444	2,053	2,591	484	2,108
Veterans' services and benefits-----	4,496	39	4,457	4,839	46	4,793	4,934	55	4,879
Labor and welfare-----	2,554	1	2,552	2,769	2	2,767	2,997	2	2,995
Agriculture and agricultural resources-----	9,324	4,913	4,411	8,575	5,199	3,376	9,070	5,706	3,364
Natural resources-----	1,304	223	1,081	1,302	256	1,045	1,297	266	1,031
Commerce and housing-----	6,139	4,517	1,622	6,259	4,077	2,182	6,299	4,228	2,071
General government-----	1,204	3	1,201	1,614	3	1,611	1,760	3	1,757
Interest-----	6,438	-----	6,438	6,875	-----	6,875	7,066	-----	7,066
Reserve for contingencies-----	-----	-----	100	-----	100	225	-----	-----	225
Total budget expenditures-----	75,097	10,527	64,570	74,567	10,298	64,270	76,914	11,049	65,865
BY AGENCY									
Legislative branch-----	65	-----	65	98	-----	98	123	-----	123
The judiciary-----	30	-----	30	37	-----	37	41	-----	41
Executive Office of the President-----	9	-----	9	10	-----	10	10	-----	10
Funds appropriated to the President-----	4,881	501	4,381	4,736	274	4,462	4,662	309	4,353
Independent offices:									
Atomic Energy Commission-----	1,857	(b)	1,857	1,715	(b)	1,715	1,946	(b)	1,946
Veterans Administration-----	4,505	100	4,405	4,841	109	4,732	4,945	125	4,820
Other-----	3,008	2,504	504	3,301	2,630	671	3,510	2,804	706
General Services Administration-----	978	5	973	662	4	658	560	4	556
Housing and Home Finance Agency-----	1,270	1,117	153	1,118	1,099	19	1,287	1,354	* 67
Department of Agriculture-----	7,655	3,018	4,636	6,964	3,312	3,653	7,372	3,711	3,661
Department of Commerce-----	1,096	20	1,077	1,333	35	1,298	1,461	33	1,428
Department of Defense—Military Functions-----	35,533	(b)	35,532	34,575	(b)	34,575	35,547	(b)	35,547
Department of Defense—Civil Functions-----	646	97	548	693	91	602	715	86	629
Department of Health, Education, and Welfare-----	1,994	2	1,993	2,134	2	2,132	2,305	2	2,303
Department of the Interior-----	548	32	515	586	29	557	643	28	616
Department of Justice-----	182	-----	182	219	-----	219	218	-----	218
Department of Labor-----	395	1	394	460	1	459	494	2	492
Post Office Department-----	2,733	2,376	356	2,945	2,461	483	2,680	2,563	117
Department of State-----	137	-----	137	154	-----	154	167	-----	167
Treasury Department-----	7,553	753	6,800	7,861	250	7,611	7,969	27	7,942
District of Columbia (general fund)-----	22	-----	22	25	-----	25	33	-----	33
Reserve for contingencies-----	-----	-----	100	-----	100	225	-----	-----	225
Total budget expenditures-----	75,097	10,527	64,570	74,567	10,298	64,270	76,914	11,049	65,865

* Deduct, excess of repayments and collections over expenditures.

^ Less than one-half million dollars.

1 Receipts of certain Government corporations, the postal service, and other revolving funds the receipts of which come primarily from outside the Government. These funds are listed in the respective chapters of part II as "Public enterprise funds."

MESSAGE OF THE PRESIDENT

MAJOR NATIONAL SECURITY

Budget expenditures for major national security programs in the fiscal year 1957 are estimated at 40.4 billion dollars, 903 million dollars more than estimated for the fiscal year 1956.

To build our military strength effectively and efficiently, peaks and valleys in security spending and in defense production must be avoided. I want to emphasize again the importance of a sound, long-range program which does not arbitrarily assume a fixed date of maximum danger. Military planning must combine present defense with the probable needs of a long period of uncertain peace.

MAJOR NATIONAL SECURITY

[Fiscal years. In millions]

Item	New obligational authority			Expenditures		
	1955 actual	1956 esti- mated	1957 esti- mated	1955 actual	1956 esti- mated	1957 esti- mated
Gross budget expenditures:						
Department of Defense—Military Functions:						
Direction and coordination of defense.....	\$13	\$13	\$15	\$13	\$13	\$14
Air Force defense.....	12,137	15,490	15,430	16,407	15,960	16,535
Army defense.....	7,764	7,351	7,731	8,899	8,510	8,582
Navy defense.....	10,221	9,640	10,006	9,733	9,435	9,565
Other central defense activities.....	653	654	607	481	657	651
Proposed legislation.....			1,902			200
Transfer from Department of Defense revolving funds to general accounts (proposed legislation).....			-785			
Total, Department of Defense—	30,787	33,147	34,907	35,533	34,575	35,547
Development and control of atomic energy:						
Present programs.....	1,285	1,179	1,692	1,857	1,715	1,905
Proposed legislation.....			144			40
Stockpiling and defense production expansion:						
Present programs.....	380	521		1,442	963	678
Proposed legislation.....						4
Mutual Security Program—military:						
Present programs.....	1,204	1,022		2,292	2,464	2,100
Proposed legislation.....			3,000			400
Total.....	33,656	35,870	39,743	41,124	39,737	40,674
Deduct applicable receipts:						
Defense production expansion.....				497	270	304
Other.....				(b)	(b)	(b)
Net budget expenditures.....				40,626	39,467	40,370

* Less than one-half million dollars.

MESSAGE OF THE PRESIDENT

M23

Department of Defense.—During the past 3 years our defense program has been successfully reoriented to reflect the changing nature of the threat to our security, the revised requirements brought about by the end of the Korean conflict, and the increasing availability of new weapons of unprecedented strategic and tactical importance.

This reorientation has been accomplished by developing our defense program on the basis of the following policies and concepts:

1. Gearing our defense preparations to a long period of uncertainty instead of to a succession of arbitrarily assumed dates of maximum danger.

2. Maintaining the capability to deter a potential aggressor from attack and to blunt that attack if it comes—by a combination of immediate retaliatory power and a continental defense system of steadily increasing effectiveness.

3. Developing military forces which minimize numbers of men by making maximum use of science and technology.

4. Relating the number and degree of readiness of major units in the active forces to the practical limitations on the rapid deployment of major military forces from the United States immediately upon the outbreak of aggression, and relying, for the remainder, on ready reserve forces.

5. Utilizing military personnel on active duty with maximum effectiveness so as to hold to a minimum the number of men withdrawn from work in the civilian economy.

6. Concentrating our efforts on those forces which best complement the forces our allies are most capable of raising and supporting.

7. Maintaining a strong and expanding peacetime industrial structure, readily convertible to the tasks of defense and war.

The readjustment of our military forces in line with these principles is providing this Nation with the greatest military power in its peacetime history. My recommendations for the fiscal year 1957 continue the same basic policies and concepts.

This budget provides funds for an average of 2,815,700 military personnel on active duty during the fiscal year 1957. Total military personnel on active duty will increase to 2,838,400 at the end of fiscal year 1957 from the number of 2,814,100 estimated to be on active duty at the end of the current fiscal year. In order to permit flexibility in planning and operations, a military personnel ceiling has been authorized for the fiscal year 1957, totaling 2,906,000, excluding Army cadets, Navy aviation cadets, and midshipmen. However, no increase will be made above the military personnel levels provided for in this budget except upon detailed justification to, and approval by the Secretary of Defense.

During the fiscal year 1957 there will be significant increases in certain combat elements, particularly units employing new weapons

and units assigned to continental defense. These increases, together with the continued modernization of the weapons and equipment, will further enhance the combat power and effectiveness of our forces.

My recommendations for the military functions of the Department of Defense for the fiscal year 1957 will require congressional authorizations amounting in total to 35.7 billion dollars. Of this amount, it is proposed that 785 million dollars be provided by transfer of existing authority from revolving funds. Thus, the new authority proposed for 1957 is 34.9 billion dollars, which is 1.8 billion dollars more than the amount voted by the Congress for the current fiscal year. Expenditures are expected to total 35.5 billion dollars, compared with a present estimate of 34.6 billion dollars for the current fiscal year.

The increases in new authority to incur obligations and in expenditures in the fiscal year 1957 reflect, in large part, the cost of keeping our forces modern.

Continued improvements in technology and weapons can be expected and they will tend to increase costs unless offsetting savings can be found. Replacement, maintenance, and operations will require a high level of expenditures in the fiscal year 1957 and for years to come. Therefore, the management of our military programs must have continuing study and scrutiny. Constant efforts must be made to plan carefully in advance, to increase efficiency, and to reduce costs and expenditures.

DEPARTMENT OF DEFENSE COSTS BY MAJOR CATEGORIES

(Based on existing and proposed legislation)

[Fiscal years. In millions]

Cost category	Net budget expenditures			Recom-mended new obligational authority for 1957
	1955 actual	1956 esti- mated	1957 esti- mated	
Military personnel:				
Active forces.....	\$10,643	\$10,341	\$10,336	\$10,506
Retired pay.....	419	494	520	525
Operation and maintenance.....	7,905	8,351	9,100	9,603
Major procurement and production.....	(12,997)	(11,823)	(11,719)	(10,305)
Aircraft.....	8,037	6,880	6,751	5,315
Ships.....	1,009	955	1,032	1,336
Guided missiles.....	631	918	1,276	1,776
Other.....	3,319	3,070	2,659	1,878
Military public works.....	1,582	1,899	1,817	1,702
Reserve components.....	717	863	1,087	1,169
Research and development.....	1,397	1,370	1,430	1,532
Establishment-wide activities.....	235	258	263	320
Working capital (revolving) funds.....	-364	-824	-725	
Transfer from Department of Defense revolving funds to general accounts (proposed legislation).....				-785
Total.....	35,532	34,575	35,547	34,907

MESSAGE OF THE PRESIDENT

M25

Military personnel costs for the active forces, which include pay, allowances, subsistence, clothing, and related items, will be the same in the fiscal year 1957 as in 1956.

Retention of trained and experienced personnel is one of the most difficult problems confronting the armed services today. Every reasonable measure must be taken to increase the attractiveness of a service career. Therefore, I am again recommending legislation to provide added incentives for the members of our Armed Forces. My principal proposals are for the uniform provision of medical care for dependents, adequate and equitable benefits for survivors, improved career inducements for medical personnel, and reasonable rentals for those occupying substandard Government quarters. This budget also provides for a proposed increase in the proportion of career officers to total officer personnel.

The cost of operation and maintenance will rise in the fiscal year 1957, notwithstanding a decrease in the number of civilian personnel. Major reasons for the higher costs are (1) the greater number of air bases, radar sites, and other installations which must be supported in the coming fiscal year, (2) the sizable increase in the numbers of weapons and amount of equipment which must be operated and maintained, and (3) the growing complexity of new weapons and equipment.

Major procurement and production expenditures in the fiscal year 1957 will be about the same as in the current fiscal year. However, there will be a shift in emphasis within this total in line with the policy of modernizing our forces.

Approximately 6.8 billion dollars is estimated for procurement of aircraft, chiefly for the Air Force and the Navy. The accelerated production programs for the B-52 long-range jet bomber and the F-101 and F-104 supersonic interceptors will be continued in the fiscal year 1957. In addition, there will be substantial procurement of the Navy's new supersonic F-8U fighter.

Expenditures for the procurement of guided missiles will be the highest in our history, increasing by more than one-third over 1956 and about double the amount spent for this purpose during 1955.

Expenditures for electronic and communications equipment will remain high during the fiscal year 1957, to meet the needs for continental defense and our combat forces. Expenditures for ammunition, combat vehicles, trucks, and other major equipment items, will continue to decline because our requirements have now been met in large part.

This budget provides for continuation of the Navy shipbuilding program at a slightly higher level than in the fiscal year 1956 in order to carry forward the modernization of the fleet, most of which was

built during World War II. In addition to those already authorized by the Congress, there is included in the proposed shipbuilding program for 1957 the construction of a sixth carrier of the *Forrestal* class, additional nuclear-powered submarines, guided-missile destroyers and frigates, and an experimental nuclear-powered cruiser. Provision is also made for developing a practical nuclear powerplant for future installation in ships of the large carrier class. Conversion of ships now in the fleet will be undertaken to provide them with additional nuclear weapons and with guided missile capabilities, and to permit them to operate modern high-speed aircraft.

Military public works will continue slightly below the level of the current year. This budget provides for the construction in the fiscal year 1957 of facilities associated with the continental air defense system, including *Nike* sites; further additions to the aircraft warning systems, including the *Distant Early Warning Line*; guided missile facilities; and air bases for the Navy and Air Force.

Expenditures for our Reserve components in the fiscal year 1957 will be considerably greater than in 1956, reflecting an increase during the year of about 130,000 reservists in drill pay status and further expansion of facilities for the Reserve forces. The number of Reserve personnel engaged in regularly paid drills is expected to increase to 1.1 million by the end of 1957. In addition, this budget provides for 6 months' active duty training under the Reserve Forces Act of 1955 for about 80,000 Reserve forces personnel.

Research and development expenditures will be somewhat higher in the fiscal year 1957 than in the current year. Major emphasis will be placed on projects related to guided missiles, continental air defense, and to the application of nuclear energy for the propulsion of aircraft and ships. It is my belief that increased returns in military research and development can be obtained through a relatively stable program at approximately the present level which can utilize effectively our scientific and technological resources. Military research and development now engages a substantial proportion of the scientists and engineers employed in research and development in the Nation. Care must be exercised in selecting the projects to be supported, and efforts must be concentrated on those of high priority.

Continued progress has been made during the past year in improving the management of the Department of Defense. The Secretary of Defense is giving careful study to the recommendations of the Commission on Organization of the Executive Branch of the Government and its task forces on defense activities. Some of these recommendations have already been put into effect; in certain other cases, they have been adopted in modified form, consistent with the objectives of the Commission report. Responsibility for supplying all food, which

MESSAGE OF THE PRESIDENT

M27

costs 1.2 billion dollars annually, has been placed under the Secretary of the Army. A single food-supply system for bulk procurement and storage will eliminate duplicate storage facilities and costly cross-hauling. The three military departments have also been directed to undertake joint planning and utilization of all the health and medical resources of the Department of Defense.

Financial management has been made more effective by increasing the scope of stock funds. These funds currently cover inventories of over 8.2 billion dollars, and their coverage will be expanded. Stock funds are used to buy supplies and equipment, and to control inventories centrally. Each of the services then meets its needs by purchasing from this central stock. This method makes possible a better distribution of supplies and equipment with a minimum inventory. It encourages cost consciousness throughout each of the services. As a result, in the last 3 fiscal years 2.5 billion dollars have been recovered from the stock funds as inventories were reduced. Further reductions in inventories this year will make available additional surplus capital of 785 million dollars in the Army, Navy, and Marine Corps stock funds. This surplus is applied in this budget to reduce the amount of new authority to incur obligations which would otherwise be required for the fiscal year 1957.

Industrial funds are being used to serve the same kind of businesslike purpose in commercial- and industrial-type installations. During the fiscal year 1957 industrial fund financing will be extended to additional activities in each of the services. This will greatly increase the volume of business, currently amounting to about 1.8 billion dollars, conducted under such funds.

Civil defense.--The key to our civil defense is the expanded continental defense program, including the distant early warning system. Additional progress has been made in the civil defense program under the Federal Civil Defense Administration, whose expenditures are classified with those for civil disasters in the commerce and housing section of the budget. Comprehensive studies are being conducted jointly by the Federal Civil Defense Administration, the States, and critical target cities to determine the best procedures that can be adopted in case of an atomic attack. Such planning has vital national importance and parallels the necessity for maintaining a strong military establishment.

This budget provides for a strengthened effort on the part of the Federal Government to assist the States and cities in devising the most effective common defense. It includes funds to extend civil defense preparations in more metropolitan target zones in accordance with recent recommendations of a special committee on civil defense.

Funds also are included to accelerate procurement of field-type emergency hospitals and increase stockpiles of medical and radiological supplies.

Development and control of atomic energy.—We have long sought and we continue to seek, jointly with other nations, means to banish the threat of nuclear warfare which still confronts the world. Pending a trustworthy agreement, however, we must continue to increase our nuclear weapons stockpile which, together with the means of delivery, is the principal deterrent to armed aggression in the world. At the same time, we shall speed the development of the peaceful uses of atomic energy and make the resulting benefits, under appropriate controls, available to other nations for the well-being of all mankind. To this end we continue to hope that an international atomic energy agency will be established at an early date.

The United Nations Conference on the Peaceful Uses of Atomic Energy at Geneva last summer, which grew out of a proposal by the United States, not only facilitated the exchange of technical information but served to emphasize the great promise of atomic energy for peace.

So that we may further demonstrate this great promise, I recommend again that the Congress take early action to authorize the construction of a nuclear-powered ship, using an atomic propulsion plant already developed, which will carry the message of "Atoms for Peace" to the ports of the world. The Atomic Energy Commission has sufficient funds available for construction and installation of the propulsion plant and machinery, and I shall request additional funds for the fiscal year 1956 for the Department of Commerce for construction of a suitable hull.

Total expenditures for atomic energy in 1957 are estimated at 1.9 billion dollars, 230 million dollars more than in 1956.

Operating expenditures will increase from 1.4 billion dollars in the fiscal year 1956 to 1.6 billion dollars in 1957. Greater quantities of uranium ores and concentrates will be purchased. Production from the Commission's plants will increase but at reduced unit costs as the expanded facilities, soon to be completed, come into full operation. Research and development work in numerous areas, both civilian and military, will be expanded.

Capital expenditures in the fiscal year 1957 are expected to decline somewhat from 1956 levels. I shall propose to the Congress legislation to authorize new construction in 1957, principally for improve-

MESSAGE OF THE PRESIDENT

M29

ments to increase the efficiency, capacity, and safety of production plants and for research and development facilities.

The civilian applications of nuclear energy will receive even greater attention, not only in terms of Government expenditures, but also through the Commission's efforts to stimulate more participation and investment by private and public groups, particularly in the development of atomic power. As such participation increases, the share of power development costs financed by the Government should decrease. As part of its encouragement of the development of atomic power, the Commission plans in 1957 to continue specialized training of nuclear engineers and to expand its support of the training of nuclear engineers through fellowships and through provision of specialized training equipment to a number of universities. The Commission will also construct a special reactor for use by the Department of Defense in developing methods for preserving food through irradiation.

Great emphasis is being placed on the development of a larger variety of nuclear propulsion plants. To this end, funds are included under proposed legislation for additional developmental facilities at the National Reactor Testing Station in Idaho.

The Atomic Energy Commission will also step up research on controlled thermonuclear reactions as new discoveries may justify. This program, while long range, gives promise of yet greater dimensions to the potential peaceful uses of nuclear energy.

Continuing progress in basic research is fundamental to further advances in nuclear energy. The Commission will increase in the fiscal year 1957 its support of basic research in the physical and life sciences, including development and design studies of high-energy particle accelerators. The 1957 construction program will include new buildings at three of the Commission's laboratories.

Stockpiling and defense production expansion.—As a result of the financial assistance provided under the Defense Production Act, substantially increased supplies of aluminum, copper, nickel, and other strategic materials are now available both for industry and for the national stockpile. To assure continued flexible authority for mobilization preparedness to meet future emergencies, I recommend extension of the Defense Production Act for 2 years.

An increasing number of stockpile objectives are being filled. Moreover, the high level of industrial activity has reduced the availability of some materials for stockpiling and required diversion of part of the new supply of a few materials to meet shortages in key

industries. As a result, net expenditures for the stockpile and for defense production expansion are expected to decline from 713 million dollars in the fiscal year 1956 to 378 million dollars in 1957. No new authority to incur obligations is recommended for the fiscal year 1957, since sufficient authority is already available for continued rapid progress toward completion of established minimum objectives and for limited procurement to maintain essential elements of the mobilization base.

Under the administration's policy of finding constructive uses for our surplus agricultural commodities, strategic materials are being acquired by barter transactions with foreign suppliers. The Department of Agriculture plans to acquire additional strategic materials by barter during 1957. In the fiscal years 1956 and 1957, expenditures amounting to about 65 million dollars will be made under the appropriations for stockpiling to reimburse the Department of Agriculture for materials added to the national stockpile.

Mutual Security Program.—Through the Mutual Security Program we shall continue to work jointly with our friends and allies in building and maintaining the defensive and economic strength of the free world. This long-range program, which includes military, economic, and technical assistance, is essential to our national security. Our assistance supplements the major efforts of other free nations, who themselves are bearing a large proportion of the total cost of our joint efforts. I shall subsequently transmit to the Congress my specific requests for authorization of appropriations for the fiscal year 1957 Mutual Security Program. These requests will cover my recommendations for military assistance and direct forces support, discussed in this section of the message, as well as for economic, technical, and other programs which are discussed in the international affairs and finance section.

Expenditures for the total Mutual Security Program in the fiscal year 1957 are estimated at 4.3 billion dollars, about 100 million dollars more than in 1956. Recommended new authority to incur obligations is 4.9 billion dollars, an increase of 2.2 billion dollars over the 2.7 billion dollars enacted for 1956. Requested new obligatory authority for 1957 exceeds estimated expenditures for 1957 by approximately 600 million dollars reflecting the amount for additional funding of long lead-time items for delivery in future years.

Wherever possible, foreign currency proceeds from the sale of surplus agricultural products abroad under the Agriculture Trade and Development Act will be used to meet mutual security objectives.

MESSAGE OF THE PRESIDENT

M31

MUTUAL SECURITY PROGRAM

[Fiscal years. In millions]

	Net budget expenditures			Recom-mended new obligational authority for 1957
	1955 actual	1956 esti-mated	1957 esti-mated	
Military, including direct forces support:				
Present programs.....	\$2,292	\$2,464	\$2,100	.....
Proposed legislation.....			400	\$3,000
Economic, technical, and other:¹				
Present programs.....	1,927	1,726	1,202	.....
Proposed legislation.....			590	1,860
Total.....	4,219	4,190	4,292	² 4,860

¹ Discussed in the international affairs and finance section of this message.² Compares with new obligational authority of 2,781 million dollars in 1955 and 2,703 million dollars in 1956. Excludes an estimated 130 million dollars of authorizations to use existing balances.

Mutual Security Program, military.—The program of military assistance for the fiscal year 1957 is planned primarily to continue equipping and training forces which we have helped develop and strengthen over the past years. Total expenditures for military assistance and direct forces support in the fiscal year 1957 are estimated at approximately the current rate of 2.5 billion dollars annually. To carry forward these programs, I am recommending new obligational authority of 3 billion dollars. Within this amount, 445 million dollars is requested for direct forces support in the fiscal year 1957 to supply items such as petroleum, rations, uniforms, and military construction services directly to the military forces of our allies.

In the fiscal years 1955 and 1956, the backlog of unexpended balances made it possible to maintain an adequate level of expenditures and deliveries while the amount of new authority to incur obligations was reduced. The backlog of unexpended balances for military assistance (including reservations for common-item orders) is being reduced from a total of 7.7 billion dollars at the beginning of the fiscal year 1955 to an estimated 4.5 billion dollars at the end of the current fiscal year. If deliveries of military equipment are to be maintained at the current rate, as I believe they must be, this level of unexpended balances should not now be further reduced.

Our planning for the future includes helping to provide modern weapons that the forces which we help support can effectively use. In view of the long lead-time required, funds must be made available in advance so that the necessary negotiations and planning may be undertaken and procurement initiated for complex items such as jet aircraft, missiles, and electronics systems. Hence, for the fiscal year

1957, I am requesting new authority to incur obligations somewhat above the projected level of expenditures. Deliveries of equipment and the expenditure of funds will necessarily be spread over a number of years as defense plans involving modern weapons are completed and as our allies demonstrate their readiness to support a modern defense system adequately.

My recommendations will enable us to provide our NATO partners with the modern defense weapons and equipment which we are furnishing in increasing numbers to our own NATO forces in Europe. Although many European countries are now in a position to finance a greater share of the cost of maintaining their existing forces, they will require continuing help if our common defense effort is to be strengthened by modern weapons and techniques.

About one-half of the fiscal year 1957 program will be concentrated in Korea, Pakistan, Taiwan, and Turkey. The program will provide for necessary replacements and effective maintenance of materiel furnished in past years, and will also permit the further training of existing forces. In addition, we will continue to supply basic military equipment where necessary to strengthen further defensive capabilities in the Far and Middle East. Likewise, we will continue to provide moderate amounts of equipment to help maintain certain military units of our friends in Latin America who are cooperating in the development of hemispheric defenses.

INTERNATIONAL AFFAIRS AND FINANCE

The international programs which I am recommending for the fiscal year 1957 will vigorously carry forward our fundamental national policy to maintain peace and help build a strong, prosperous, and unified community of free nations.

During this past year, the United States has made positive new proposals aimed at relaxing international tensions. But it remains clear that the search for lasting peace will require patience, strength, and continued vigilance.

We will persist in exploring every possible means of solving the difficult problems which continue to divide the world. Meanwhile, we must further strengthen and improve the system of collective security. Moreover, it is of the utmost importance that, in cooperation with other free nations, we proceed steadily with long-range, positive programs to sustain and improve the conditions of human well-being which are necessary if peace with freedom is to endure.

To accomplish these objectives, I am proposing expenditures of 2.1 billion dollars in the fiscal year 1957 for our international programs.

MESSAGE OF THE PRESIDENT

M33

INTERNATIONAL AFFAIRS AND FINANCE

[Fiscal years. In millions]

Program or agency	Expenditures			Recom-mended new obligational authority for 1957
	1955 actual	1956 esti- mated	1957 esti- mated	
Gross budget expenditures:				
Economic and technical development:				
Mutual Security Program (defense support, development assistance, technical cooperation, and other):				
Present programs.....	\$1,928	\$1,725	\$1,200	-----
Proposed legislation.....			590	1 \$1,860
Investment guaranty program.....	3	4	6	-----
Export-Import Bank.....	229	276	291	-----
International Finance Corporation.....		35	-----	
Refugee relief.....	8	13	11	8
Civil assistance (Department of Defense).....	32	3	2	2
Emergency commodity assistance (Department of Agriculture).....	91	186	192	89
Other.....	3	13	33	2
Foreign information and exchange activities:				
United States Information Agency.....	84	86	104	135
Department of State.....	14	18	18	20
Emergency fund for international affairs.....	2	6	2	-----
Conduct of foreign affairs (Department of State and others).....	121	131	143	215
Total.....	2,514	2,497	2,591	2 2,332
Deduct applicable receipts:				
Export-Import Bank.....	330	361	391	-----
Investment guaranty program.....	4	4	4	-----
Department of Agriculture.....		79	89	-----
Net budget expenditures	2,181	2,053	2,108	-----

¹ Excludes 45 million dollars of authorizations to use existing balances.² Compares with new obligational authority of 2,304 million dollars in 1955 and 2,118 million dollars in 1956.

Mutual Security Program, economic.—My recommendations for continuing military assistance under the Mutual Security Program were discussed previously, and the amounts involved were included as part of our major national security activities. Some of the countries to which we provide military assistance, however, do not have the economic capacity to support effective defensive forces which are necessary to our mutual security. We must continue to provide assistance to such countries to enable them to support the greater defensive strength that is our common goal. It is particularly important that we continue to help those nations which require assistance in order to participate effectively in regional collective security arrangements, notably those in Asia. This budget, therefore, includes funds for carrying on the defense support program in critical areas in southern Europe, the Middle East, South Asia, Southeast Asia, and the Far East.

The development of military strength as a deterrent to aggression, however, meets only a part of the challenge which faces the free world. Because the conditions of poverty and unrest in less developed areas make their people a special target of international communism, there is a need to help them achieve the economic growth and stability necessary to preserve their independence against Communist threats and enticements.

For our assistance to be as effective as possible, it must be based upon a realistic appraisal of potentialities for economic development and a careful determination of priorities among the many pressing needs in the less developed areas. My recommendations for the Mutual Security Program include funds for continuing selective loans and grants to certain less developed countries following experience gained in past years.

I am also recommending continuation of the worldwide technical cooperation program at a slightly increased level. Technical cooperation is an indispensable element in the successful attack which is being made on the basic problems of hunger, disease, and illiteracy. Through the efforts of American experts working in cooperating countries and by the training of foreign technicians in the United States, the knowledge and experience of our people are being shared in a cooperative effort to solve fundamental problems in health, education, public administration, agriculture, and industry which confront less developed countries. By these means we are helping to provide the skills which are required for economic development. In addition to continuing our own technical cooperation program, my recommendations provide for our annual contribution to the expanded technical assistance program of the United Nations and to the similar work of the Organization of American States.

We shall also continue and expand in the fiscal year 1957 our international program to provide training in the peaceful uses of atomic energy. Funds for this purpose are included in this budget as part of the Mutual Security Program.

Provision should be made for further contributions for the relief and rehabilitation of refugees from Palestine. In view of the current unrest in the Near East, our continued support is essential both for humanitarian reasons and to assist in achieving peace and stability in the area.

The budget also includes amounts for the escapee program and for contributions to the Intergovernmental Committee for European Migration and the United Nations Refugee Fund, which aid in the relief and resettlement of refugees from behind the Iron Curtain and in emigration from Europe.

I shall recommend effective flexibility in the use of funds under the Mutual Security Program to enable us to respond to new situations

MESSAGE OF THE PRESIDENT

M35

which may arise. I also consider it essential that the Mutual Security Act be amended to assure greater continuity in providing economic assistance for development projects and programs which we approve and which require a period of years for planning and completion. Accordingly, I shall ask for limited authority to make longer term commitments for assistance for such projects, to be fulfilled from appropriations made in future years.

In furtherance of our basic foreign economic policy objective of stimulating international trade and investment, I am requesting a review of existing legislation to determine whether changes will be necessary to permit an expansion of the investment guaranty program. Under this program, private United States investors may be guaranteed against loss of their foreign investments or earnings through expropriation or inconvertibility of foreign currencies. The number of private investors and foreign governments participating in this program has steadily increased. We also need to encourage investment overseas by avoiding unfair tax duplications, and to foster foreign trade by further simplification and improvement of our customs legislation.

Export-Import Bank.—The Export-Import Bank is assisting in the expansion of international trade and investment through direct loans and guaranties of private loans. Its loan and guaranty commitments are estimated at 960 million dollars in the fiscal year 1957, an increase of 255 million dollars over the previous year. Because of greater participation in loans by commercial banks and other sources of private capital, direct Federal disbursements in the fiscal year 1957 are estimated at less than one-third of the total new commitments. Repayments on loans made in prior years are expected to exceed disbursements from Export-Import Bank funds, thus providing estimated net receipts of 100 million dollars. Sales of portions of the existing loan portfolio to private financial institutions may increase this return.

Foreign information and exchange activities.—The present international situation has made the work of the United States Information Agency increasingly vital to our national interest. I consider it of paramount importance that we expand our effort to bring the truth before the people of the world, explain our peaceful objectives, and show in its true light the Communist attempt to divide and destroy free world unity.

To this end, I strongly recommend that appropriations for our information program be increased by 48 million dollars from the level in the current fiscal year. This increase will provide for ex-

panded use of overseas exhibits and other techniques to emphasize such subjects as our Atoms for Peace program, our proposals for mutual aerial inspection as a first step toward disarmament, and the many scientific and cultural achievements by which progressive capitalism under free, representative government is contributing to a peaceful, prosperous world. Overseas libraries will be expanded, and increased emphasis will be given to supplying books to foreign readers at low prices. Where appropriate, the program will capitalize on the effectiveness of television.

I am recommending a modest increase in appropriations for the educational exchange programs of the Department of State which constitute a basic element of our long-term effort to attain a better mutual understanding with other peoples of the world. These programs bring to this country leaders of public opinion and facilitate the mutual exchange of students, teachers, and research scholars. In addition to appropriated funds, part of the foreign currencies received from the sale of surplus agricultural commodities abroad will be used to meet certain overseas costs of educational exchange.

With the financial support of the President's Emergency Fund for International Affairs, we have sponsored, in cooperation with private industry, agricultural and industrial exhibits at international trade fairs which have effectively demonstrated the achievements of private enterprise in a free economy. Similarly, our cultural achievements have been presented throughout the world by American actors, dancers, and musicians during the past year. These trade fair and cultural presentations have been enthusiastically received abroad and have contributed significantly to a better understanding of our values and objectives as a nation. In view of the effectiveness of these activities, legislation will be recommended to authorize them on a continuing basis.

Conduct of foreign affairs.—The Department of State is not now adequately equipped with either the staff or facilities which are required if it is to provide the timely, informed, and coordinated policy guidance which is vital to the success of our total international effort. I strongly recommend, therefore, that the Congress enact the requested increase of 89 million dollars in the appropriations for the Department of State for the fiscal year 1957.

A substantial part of this increase is for construction of an extension to the present Department of State building. This extension will permit all the Washington staff of the Department, including the International Cooperation Administration, to be accommodated in a single building rather than scattered, as at present, among 30 separate buildings. In addition, my recommendations include funds to cover costs

MESSAGE OF THE PRESIDENT

M37

in the first year of a long-range program to provide adequate physical facilities, including housing, for our diplomatic and consular establishments abroad.

Steps are already underway to strengthen the staff of the Department. This budget provides for further improvements, as well as for carrying forward the recruitment, training, employee benefit, and other programs initiated during the past 2 years. Increases are also proposed to permit the prompt and efficient discharge of our expanding consular responsibilities and to provide for the collection of more comprehensive commercial and economic data needed by American businessmen and Government agencies.

To provide for closer international economic cooperation and continued expansion of United States trade abroad, it is particularly important that our membership in the Organization for Trade Cooperation be approved. While this will not alter congressional control of our tariff, import, and customs policies, it will help us to remove discriminations against American exports and further strengthen our ties with other nations of the free world.

VETERANS' SERVICES AND BENEFITS

The greatest portion of budget expenditures for veterans is for direct benefits, such as compensation and pensions, indemnity payments, readjustment benefits, and hospital and medical care. These direct benefit costs have been increasing. At the same time overhead costs are being reduced through improved administration.

Budget expenditures for veterans' programs are estimated to total 4.9 billion dollars in the fiscal year 1957, 86 million dollars more than in 1956 and 422 million dollars more than in 1955.

We now have more than 22 million veterans. When benefits for dependents and survivors are considered, nearly one-half of our population is potentially entitled to veterans' benefits.

Therefore, continuing and careful attention must be given to veterans' services and benefits. These services and benefits will be increasingly significant as the veteran population ages, because benefit entitlement resulting from non-service-connected infirmities associated with advancing age will replace eligibility for service-connected benefits as the major factor in the cost of veterans' programs.

The Congress and the public will want to join with this administration in giving careful consideration to the findings of the Commission on Veterans' Pensions which I appointed to study this problem. This Commission, which will report later this year, is reviewing thoroughly the relation of the existing nonmedical programs for veterans to each other and to the numerous civil benefits which the Nation now provides for the aged, the needy, the infirm, and the disabled—both veterans and others.

Steps to relate military service survivor benefits to old-age and survivors insurance benefits are already underway in a bill pending before the Congress. The additional cost of this legislation for those receiving veterans' benefits is provided in this section of the budget. The estimates of military expenditures, under proposed legislation, include an amount to cover the Government's share, as employer, of the old-age and survivors insurance contribution.

VETERANS' SERVICES AND BENEFITS

[Fiscal years. In millions]

Program or agency	Expenditures			Recommended new obligational authority for 1957
	1955 actual	1956 esti- mated	1957 esti- mated	
Gross budget expenditures:				
Readjustment benefits:				
Education and training.....	\$664	\$725	\$726	\$724
Loan guaranty and other benefits (Veterans Administration).....	43	46	50	51
Unemployment compensation (Department of Labor).....	106	115	118	118
Compensation and pensions:				
Present programs.....	2,681	2,818	2,907	2,907
Proposed legislation.....			30	45
Hospital and medical care:				
Current expenses.....	692	757	758	762
Hospital construction.....	36	41	57	53
Insurance and servicemen's indemnities.....	67	127	80	57
Other services and administration (Veterans Administration and others).....	207	211	208	175
Total.....	4,496	4,839	4,934	¹ 4,892
Deduct applicable receipts:				
Insurance programs (Veterans Administration).....	10	17	25	-----
Other services and administration (Veterans Administration, primarily canteen services).....	29	29	30	-----
Net budget expenditures	4,457	4,793	4,879	-----

¹ Compares with new obligational authority of 4,369 million dollars in 1955 and 4,805 million dollars in 1956.

Readjustment benefits.—A year ago, I issued a proclamation terminating accrual of eligibility for various wartime benefits. While it is still necessary to draft individuals for service in our Armed Forces, this service at present imposes neither the hazards of conflict nor as serious a disruption of education and other preparation for civilian life as was imposed upon our combat servicemen. The forthcoming report of the Commission on Veterans' Pensions will provide a useful framework for further consideration of the needs of our servicemen for readjustment benefits under present conditions.

The program of readjustment benefits for World War II veterans is drawing to a close. World War II veterans will account for less than 7 percent of the 1957 readjustment expenditures of the Veterans

MESSAGE OF THE PRESIDENT

M39

Administration. For most of these veterans, unemployment compensation rights ended July 25, 1952, and educational programs will cease July 25, 1956. The ending of the loan guaranty program on July 25, 1957, will bring to a close a third major program. In each case, the law has set a termination date which establishes a proper balance between the nature of the benefit and a reasonable time for using it.

The timeliness and aptness of our veterans' readjustment programs are attested in many ways. Under the "GI bill," 7.8 million World War II veterans have received education and 4.5 million have acquired homes. Practically all World War II veterans have assumed their civilian status in our economy and share equitably in the general prosperity. As a group, they have made the transition from military to civilian life and do not require extension of these readjustment benefits. For those few individuals who have not completed the change to civilian life in 10 years, approaches other than veterans' readjustment benefits seem to be indicated.

The education and training of Korean veterans will account for the bulk of the readjustment benefit expenditures during 1957. The average of 540,000 veterans in training under this program during the year will be the highest for any year.

Loan guaranty expenditures are estimated to increase slightly, requiring 38 million dollars for acquisition of properties and for losses on defaulted loans. It is expected that 640,000 new loans, totaling 7.3 billion dollars, will be guaranteed or insured during the fiscal year. As in the past, nearly all will be for housing. This program will continue until 1965 for veterans of the Korean conflict.

Veterans who served in the Armed Forces during the period June 27, 1950, to January 31, 1955, are eligible for unemployment compensation under Federal law. These benefits are estimated at 118 million dollars in the fiscal year 1957.

Compensation and pensions.—The most important elements in the continuing upward trend in expenditures for veterans' programs are compensation and pensions. Under existing legislation, significant increases in the cost of these direct payments may be anticipated annually until the end of this century, when payments may be twice their present yearly total of nearly 3 billion dollars. This long-term outlook arises chiefly from the very large number of veterans who may become entitled to pension benefits not connected with disabilities arising from their service.

In the fiscal year 1957, expenditures are estimated to increase 119 million dollars as a result of three factors. The largest is the increased number of pensions paid to veterans of World War I and their depend-

ents. These pensions are non-service-connected benefits granted widows in financial need or needy veterans with disabilities which prevent them from following a substantially gainful occupation. Expenditures for these programs have doubled since 1950 and may double again in the next 5 years if the current trend continues.

Recently discharged veterans of the Korean conflict and of peace-time service who have service-connected disabilities are a second source of growth in compensation and pension expenditures. It is estimated that about 35,000 new cases will be added to the disability compensation rolls during the next fiscal year.

Third, under the pending legislation to provide old-age and survivors insurance benefits to survivors of military personnel, many widows and children now receiving veterans' benefits would be eligible for increased compensation payments. These increased benefits would be partially offset by decreased payments from the veterans' indemnity and insurance appropriations. In the fiscal year 1957, the net additional expenditures are estimated at 30 million dollars, but in subsequent years this amount is expected to be somewhat lower.

During the fiscal year 1957 almost 3 billion dollars of compensation and pensions will be paid to approximately 2.8 million veterans, plus the survivors of over 850,000 deceased veterans. More than 10 percent of the veterans of World War II will be receiving compensation payments totaling 1 billion dollars for service-connected disabilities. About 20 percent of the veterans of World War I will draw non-service-connected pensions in the fiscal year 1957. The possible trend is indicated by the fact that 85 percent of the living veterans of earlier wars will draw such pensions.

Hospitals and medical care.—Veterans' hospital and medical expenses will continue to rise through the fiscal year 1957 as the number of patients in Veterans Administration hospitals is expected to increase 1.4 percent over 1956 to a daily average of 111,500. Almost two-thirds of these hospital patients and most of the 17,000 veterans in Veterans Administration homes are receiving treatment for conditions which are not related to their military service.

Outpatient care, which is only for service-connected conditions, is expected to be somewhat below the levels of 1955 and 1956. The number of medical and dental examinations and treatments is estimated to be 2,398,000 in 1957, a decline of 20,000 from 1956.

I recommend the enactment of 53 million dollars of new authority to incur obligations for construction and improvements at Veterans Administration facilities. About one-half of this amount is for urgently needed replacement of a major part of one mental hospital and for preparation of architectural plans for replacement of four

MESSAGE OF THE PRESIDENT

M41

500-bed general medical hospitals. The other half provides for additional modernization and improvement work at existing facilities.

Insurance and servicemen's indemnities.—Budget expenditures under this heading are primarily for indemnities to survivors of servicemen who die during active duty and for reimbursements to the life insurance trust funds for claims traced to military hazards. These expenditures are estimated at 80 million dollars in the fiscal year 1957. This amount is substantially lower than in 1956, when a large number of insurance settlements were made for servicemen previously reported missing during hostilities in Korea.

VETERANS' LIFE INSURANCE TRUST FUNDS

(Based on existing legislation)

[Fiscal years. In millions]

Item	1955 actual	1956 estimated	1957 estimated
Balance in funds at start of year.....	\$6,541	\$6,587	\$6,701
Receipts:			
Transfers from general and special accounts.....	28	81	24
Interest on investments.....	200	201	205
Premiums and other.....	441	438	446
Total.....	668	721	675
Payments:			
Dividends to policyholders.....	179	183	170
Benefits and other.....	443	423	423
Total.....	622	606	593
Net accumulation.....	46	114	82
Balance in funds at close of year.....	6,587	6,701	6,783

Trust funds.—Insurance protection of over 38 billion dollars is provided through nearly 6 million national service and United States Government life insurance policies. The number of these policies in force has steadily declined, as issuance of additional insurance was ended in 1951. During the past calendar year, 25,000 policies matured and 319,000 were terminated.

Transactions of these trust funds are excluded from budget receipts and expenditures. For the fiscal year 1957, cash receipts will exceed disbursements on policies held by World War II veterans, while benefit payments will exceed premiums on insurance held by the older age groups. The net accumulation is reserved for future claims.

LABOR AND WELFARE

The labor and welfare programs of the Government contribute notably to the achievement of our objectives of greater human well-being and a growing economy. These programs are designed to promote individual opportunity and foster self-reliance by assisting in the improvement and protection of people's health, the promotion of education and research, the training and placement of workers, the rehabilitation of the disabled, and the provision of security against economic want.

Most of the labor, health, education, and welfare services are administered by the States and their subdivisions. In fact, four-fifths of the 3 billion dollars of budget expenditures estimated for labor and welfare in the fiscal year 1957 is for grants to State and local governments. Outside the regular Federal budget, substantial benefits are provided through the social insurance and retirement trust funds.

Budget expenditures for labor and welfare in the fiscal year 1957 are an estimated 228 million dollars greater than in the current fiscal year, and 442 million dollars higher than actual expenditures in 1955. The increase in 1957 stems largely from my proposals to strengthen and expand education, health, and research services substantially. These budget recommendations will contribute greatly to the well-being of all our people, both through those activities which relate directly to individuals and families and those which operate indirectly through improved community services and private enterprise.

In some instances, legislation will be required. My legislative recommendations therefore include measures to authorize assistance to States for building schools, for promoting occupational safety, and for reducing juvenile delinquency; a broad program for improvement of the Nation's health; completion of the program of poliomyelitis immunization grants to States; continuance of the present Federal formula for grants for State public assistance payments, with adjustments for old-age insurance benefits in certain cases; and further expansion of coverage of the old-age and survivors insurance system.

Under existing laws, I am recommending increased appropriations directed mainly to the expansion of medical research, greater support for basic scientific research and training, enlargement of protective and preventive services in the fields of health and welfare, improvement of our labor and manpower services, and construction of hospitals and other necessary health and research facilities.

MESSAGE OF THE PRESIDENT

M43

LABOR AND WELFARE

[Fiscal years. In millions]

Program or agency	Net budget expenditures ¹			Recommended new obligational authority for 1957
	1955 actual	1956 esti- mated	1957 esti- mated	
Labor and manpower:				
Unemployment compensation and employment service:				
Grants to States (Department of Labor).....	\$194	\$230	\$255	\$265
Payment to unemployment trust fund (Treasury Department).....	64	87	81	81
Other:				
Present programs.....	70	78	82	83
Proposed legislation.....			2	2
Public assistance:				
Present program.....	1,428	1,490	1,314	1,330
Proposed legislation.....			166	166
Promotion of public health:				
National Institutes of Health.....	79	96	120	127
Hospital construction grants.....	73	65	83	130
Poliomyelitis vaccination grants:				
Present program.....		28	2	
Proposed legislation.....		5	20	
Other:				
Present programs.....	124	187	192	187
Proposed legislation.....			24	76
Promotion of education:				
School construction—general aid (proposed legislation).....			150	376
Assistance for school construction in federally affected areas:				
Present program.....	130	95	59	
Proposed legislation.....			5	88
Assistance for maintenance and operation of schools in federally affected areas.....	85	85	78	79
Vocational education.....	31	34	34	34
Department of the Interior and others.....	76	63	68	65
General-purpose research, libraries, and museums:				
National Science Foundation:				
Regular programs.....	10	16	31	41
International Geophysical Year.....	(4)	6	18	
Department of Commerce (Census Bureau and Bureau of Standards).....	34	27	25	24
Libraries and museums.....	11	15	16	48
Correctional and penal institutions:				
Other welfare services:				
School lunch program.....	83	83	83	83
Vocational rehabilitation.....	27	37	41	41
Other.....	5	7	10	11
Total.....	2,552	2,767	2,995	* 3,387

¹ After deducting applicable receipts, primarily for the Mexican farm labor supply fund, of 1 million dollars in 1955 and 2 million dollars in 1956 and in 1957.² Compares with new obligational authority of 2,614 million dollars in 1955 and 2,807 million dollars in 1956.³ Less than one-half million dollars.

Labor and manpower.—Recently enacted legislation has resulted in substantial improvements in the economic safeguards for workers. Minimum wages set by Federal law have been raised from 75 cents to 1 dollar an hour, and coverage of the Federal-State unemployment compensation system has been extended to employees of small firms and of the Federal Government. This budget provides for the enforcement and administration of these improvements.

To improve economic safeguards further, I recommend that the Congress extend the protection of the minimum wage law to additional workers. The facilities of the executive branch will be available to assist the Congress in finding ways of achieving this goal. Legislation is also needed to raise benefits and provide more funds for rehabilitation under the federally administered Longshoremen's and Harbor Workers' Compensation Act. In addition, a system of benefits for workers who are temporarily disabled from nonoccupational causes should be established in the District of Columbia. This budget also provides for studies by the Department of Labor to assist the States in improving their workmen's compensation laws.

In addition to improved workmen's compensation, we need effective measures to advance occupational safety. Therefore, I recommend that the Congress enact a new program to provide technical aid and limited financial assistance to the States for promoting occupational safety.

The current high level of general prosperity spotlights the adverse economic plight of low-income rural areas and of urban areas with persistent unemployment. As part of governmentwide efforts to alleviate these problems, additional work will be done in the labor and manpower field. This will include the designation of areas eligible for special assistance, the provision of labor market information, and vocational advice for individuals.

The 1957 budget recommendations for grants for administration of the employment services and unemployment insurance provide for stepping up job counseling and testing in the public employment offices. For example, job counseling interviews will be increased from 1.6 million in the fiscal year 1956 to 2 million in 1957. These increased activities are aimed at better utilization of our labor force—with particular emphasis on placing the older and the handicapped workers in jobs most suitable for them. Procedures for taking and reviewing unemployment compensation claims will also be improved. In addition, the budget estimate covers increases by the State governments in salary rates for the State employees who administer this program.

MESSAGE OF THE PRESIDENT

M45

The Federal payment to the unemployment trust fund is estimated at 81 million dollars in the fiscal year 1957. This is the part of the Federal unemployment tax collections during the fiscal year 1956 which it is estimated will not be used for the unemployment insurance and employment service program. Almost 50 million dollars of this payment will be used to complete a reserve of 200 million dollars available for loans to States which deplete their own reserves for benefit payments. About 32 million dollars will be credited to the unemployment trust accounts of the States.

During the current year significant improvements were authorized in our labor and manpower statistics programs. This budget provides, at minor additional cost, for further improvements, particularly in the consumer price index and in reports on labor turnover and current employment.

Public assistance and old-age and survivors insurance.—Grants to the States for old-age assistance and aid to dependent children, the blind, and the totally disabled are estimated at 1.5 billion dollars in the fiscal year 1957, the largest expenditure item in the welfare category of the Federal budget.

Our welfare policies have a twofold emphasis: To provide basic economic protection for older people and for widowed mothers and children through self-sustaining social insurance; and, where possible, to prevent need as well as to relieve it. My budget recommendations for both existing and proposed programs reflect this emphasis.

Old-age and survivors insurance—financed through a trust fund outside the regular budget—is now providing benefits at a rate of more than 5 billion dollars a year to more than 6 million persons over age 65 and to 1½ million mothers and children. The number of beneficiaries is growing. More than nine-tenths of all employed persons in the country are now insured. Legislation should be enacted to bring in the groups still excluded—for example, employees of the Federal Government.

For a large group of needy people not receiving OASI benefits, public assistance remains the only public resource. One out of every three people over 80 years of age is on the public assistance rolls, as compared with only about 1 in every 10 in the age group 65 to 69 which, for the most part, has the insurance protection. To avoid hardship to present public assistance recipients, I propose that the present formula for determining the Federal share of assistance payments be temporarily extended. This will allow time to re-appraise the need for the present high level of the Federal contribution to public assistance as the effects of the recent strengthening of old-age and survivors insurance protection become more fully appar-

ent. Meanwhile, to reflect the fact that more and more people are becoming eligible for old-age and survivors insurance benefits, I recommend legislation to fix at 50 percent the Federal share of supplementary old-age assistance payments by the States to beneficiaries of this insurance who are added to the assistance rolls after the fiscal year 1957.

The Federal Government should also do more to assist the States to adopt preventive measures which will reduce need and increase self-help among those who depend upon public welfare. Likewise, special provision should be made for improving medical care of public assistance recipients through legislation to permit separate Federal matching of State and local expenditures for this purpose.

Promotion of public health.—One of the most important goals of this administration is to assure continued progress in research, training, and provision of health facilities so that the medical professions can help the American people to enjoy better health. To this end I am proposing a substantial, yet orderly, expansion of our existing health services and new measures necessary to fill significant gaps in the Nation's programs for promoting good health.

I again urge the Congress to act favorably and promptly on recommendations made last year to provide mortgage insurance for the construction of health facilities, to train health personnel, to expand mental health programs, to abate water pollution, and to strengthen State and local public health services.

In addition, provision should be made to assist the extension and improvement of health insurance protection for our people. The Congress has taken no action on my legislative proposals to meet these objectives. The Secretary of Health, Education, and Welfare is working on plans whereby private insurance organizations generally may pool risks to cover abnormal losses possible under broader health plans, and, if necessary, appropriate permissive legislation will be recommended. Should this approach not be successful, a Federal reinsurance service should receive renewed consideration.

I recommend also that the Congress enact legislation to authorize Federal assistance for the construction of medical and dental research and teaching facilities. Expansion of these facilities is necessary to provide for a continuing increase in the medical research program of the Nation, and will help our hard-pressed medical and dental schools to provide better training for more students.

The law providing for a poliomyelitis immunization program, which was enacted last year, should be extended beyond its present expiration date of February 15, 1956. This budget includes, under proposed legislation for the fiscal year 1956, the necessary funds to

MESSAGE OF THE PRESIDENT

M47

complete the program of grants to assist States in the immunization of children and expectant mothers.

Special services are needed to promote the health of our Indian population and to assist the Territory of Alaska in dealing with the problem of mental health. I recommend legislation to authorize construction of sanitation facilities on certain Indian reservations and tribal lands. Legislation should be enacted also to transfer to the Territorial Government of Alaska responsibility for care of the mentally ill, with temporary Federal aid for building and operating treatment centers.

I recommend the transfer of Freedmen's Hospital to Howard University, with provision for construction of a new teaching hospital.

For health legislation proposals, the total of additional expenditures in the fiscal year 1957 is estimated at 44 million dollars.

Under presently existing legislation, budget expenditures for public health programs other than the poliomyelitis vaccination grants are estimated at 395 million dollars for the fiscal year 1957. A major increase of 24 million dollars is proposed for the research and training activities of the National Institutes of Health. Grants to States for construction of hospitals and other health facilities will increase by 18 million dollars, and the recommended appropriation will result in further increases in later years. As part of our policy of strengthening enforcement of the food and drug laws I am recommending a substantial increase for the Food and Drug Administration. In addition, I am recommending increased appropriations to attack the problem of air pollution; to expand grants to States for child welfare services; and to expand health services to Indians, including construction of three hospitals. These increases are partly offset by reduced construction expenditures, primarily for the District of Columbia hospital center.

Promotion of education.—The educational problems of the Nation are acute. School enrollments are growing. Classrooms are overcrowded. We do not have enough teachers.

Americans are demonstrating their increased concern with these problems by working together now, more than ever, in parent-teacher organizations and other citizen groups. Members of these groups—many of which participated in the recent White House Conference on Education—have stressed the need for measures by all levels of Government to improve our schools.

As a principle of our governmental system, we believe in State and local responsibility for public education. This means not only local direction of public schools but also local financial support augmented by the States. States and communities have made definite progress toward meeting our educational problems. They are reducing the

classroom shortage by building an increasing number of schools each year. But we still lack more than 200,000 classrooms. In order to increase further the number of new buildings completed over the next 5 years, I propose that the Federal Government supplement the current efforts of the States and their subdivisions in financing public school construction.

In continued recognition of the special school enrollment problems created in many communities by military and civilian activities of the Federal Government, I am recommending extension for 2 years of the authority for providing assistance in paying for new school buildings in federally affected areas. Under present law no applications can be received after June 30, 1956. An additional appropriation of 88 million dollars for the fiscal year 1957 is recommended for the proposed extension. With the enactment of legislation to authorize general Federal assistance for school construction, the necessity for the further extension of special Federal aids for construction and for maintenance and operation in these school districts will require reconsideration.

The United States Office of Education, through its advisory services and its research and statistics, affords another channel whereby the Federal Government can aid in the improvement of our schools. I am recommending a substantial increase for the fiscal year 1957 in the budget of the Office, mostly for the new cooperative research program authorized by the Congress, which will assist the States in their efforts to deal effectively with educational problems.

An increase of 4 million dollars in estimated expenditures for the education and welfare of our Indian population will make it possible to complete the necessary staffing of schools and to increase the number of Indians relocated in urban areas.

General-purpose research, libraries, and museums.—Because of the direct importance of basic research to our defense program and our national welfare and economic progress, this budget proposes a substantial increase in Federal support of general-purpose research and education in the sciences. This increase is considered by our national security and scientific research agencies to be vitally necessary. Even with this added support, basic research will constitute less than 10 percent of the Government's annual investment in research and development.

MESSAGE OF THE PRESIDENT

M49

For these reasons, I recommend that the appropriation for the regular activities of the National Science Foundation be substantially increased from 16 million dollars in the current fiscal year to 41 million dollars in the fiscal year 1957. This will enable the Foundation to extend an additional 13 million dollars of support to meritorious basic research projects in colleges and universities; will provide 7 million dollars for the construction of special-purpose facilities needed for basic scientific research, including the Nation's first major radio astronomy center; and will make available an additional 5 million dollars for expanding the Foundation's experimental program designed to improve science teaching in our schools and colleges and to encourage a greater number of able students to enter careers in science.

A supplemental appropriation for the Foundation of 28 million dollars will be required in the current year to complete financing of the United States program for the International Geophysical Year. The additional amount is mainly for the earth-circling satellite project, in which the Department of Defense is also participating.

Also fundamental to science is the work of the National Bureau of Standards. Increased expenditures of 4 million dollars are recommended in the fiscal year 1957 to strengthen research in the physical sciences and to plan new buildings to replace present inadequate research facilities.

For the Bureau of the Census, I am recommending appropriations for collecting needed data on two important aspects of our national life. The census of governments will provide, for the first time since 1942, comprehensive financial information about the more than 100,000 State and local government units. The national housing inventory will measure the significant changes in the Nation's housing supply which have taken place since 1950. Expenditures for the Census Bureau as a whole will decline, however, as work on the current censuses of agriculture, business, manufactures, and mineral industries draws to a conclusion.

In addition to necessary operating funds for the Smithsonian Institution, I am recommending an appropriation of 34 million dollars for the construction of a Museum of History and Technology authorized at the last session of the Congress. This museum, the first new Smithsonian building to be federally financed in more than 40 years, will

permit for the first time an adequate permanent display of collections which now far exceed the capacity of existing buildings.

Correctional and penal institutions.—Construction of two new prison institutions is required to help ease overcrowded conditions in existing penitentiaries and to provide for youthful offenders and more adequate custody of the most dangerous and troublesome prisoners. These new facilities account for almost all of an 18-million-dollar increase over 1956 in appropriations requested for the Federal prison system.

Other welfare services.—The school lunch program is supported with surplus commodities as well as by regular appropriations. Increased efforts in the removal of agricultural surpluses are expected to result in a greater distribution of such foods to schools, reaching an estimated value of up to 130 million dollars in the current fiscal year. These increased efforts will continue in the fiscal year 1957. Additionally, the recommended direct appropriation of 83 million dollars for the school lunch program for the fiscal year 1957 will provide the same level of such expenditures as in 1955 and 1956.

This Nation still has hundreds of thousands of disabled citizens who should be restored to productive employment and thereby helped to achieve economic independence. This budget continues full support of the expanded State-Federal vocational rehabilitation program at a rate which will permit the States to continue enlarging their rehabilitation services as rapidly as their own funds permit.

Another growing social problem of concern to the entire Nation is juvenile delinquency. During the last 8 years there has been a 60-percent increase in the number of children appearing before our courts. The States and communities need technical assistance and financial aid to help them halt this trend. I therefore renew my request that Congress enact legislation promptly to authorize Federal aid to the States for strengthening their services for prevention and treatment of juvenile delinquency.

MESSAGE OF THE PRESIDENT

M51

SOCIAL INSURANCE AND RETIREMENT TRUST FUNDS

(Based on existing legislation)

[Fiscal years. In millions]

Fund and item	1955 actual	1956 estimated	1957 estimated
Federal old-age and survivors insurance trust fund:			
Balance in fund at start of year.....	\$20,043	\$21,141	\$22,707
Receipts:			
Payroll tax transferred from general receipts.....	5,040	6,475	6,635
Deposits by States.....	99	125	130
Interest and other.....	448	497	571
Payments of benefits, construction and administrative expenses, and tax refunds.....	-4,487	-5,530	-6,250
Net accumulation.....	1,098	1,566	1,086
Balance in fund at close of year.....	21,141	22,707	23,793
Railroad retirement fund:			
Balance in fund at start of year.....	3,418	3,534	3,650
Receipts:			
Payroll tax transferred from general receipts.....	599	625	660
Interest and other.....	101	105	110
Payments of benefits and administrative expenses.....	-585	-613	-650
Net accumulation.....	115	117	120
Balance in fund at close of year.....	3,534	3,650	3,770
Federal employees' retirement funds (Civil Service and Foreign Service):			
Balance in funds at start of year.....	¹ 5,931	6,210	6,727
Receipts:			
Employee contributions.....	439	555	554
Interest.....	235	214	214
Government contribution and other.....	34	238	300
Payments of annuities and refunds.....	-430	-490	-554
Net accumulation.....	278	518	513
Balance in funds at close of year.....	6,210	6,727	7,240
Unemployment trust fund:			
Balance in fund at start of year.....	8,994	8,454	8,624
Receipts:			
Deposits by States and railroad unemployment taxes.....	1,162	1,328	1,333
Interest.....	199	194	196
Transfer from general fund ²	64	87	81
Payments: State and railroad withdrawals for benefits.....	-1,965	-1,439	-1,603
Net accumulation (+) or withdrawal (-).....	-540	+170	+7
Balance in fund at close of year.....	8,454	8,624	8,631

¹ Includes 8 million dollars of unappropriated receipts.² Excess of Federal unemployment tax collections over Federal expenditures for unemployment compensation and employment service administration.

Social insurance and retirement trust funds.—Unemployment insurance, old-age and survivors insurance, railroad retirement, and Federal civilian employees' retirement are financed from trust funds, the transactions of which are not included in budgetary receipts and expenditures. The balances in the funds, now about 40 billion dollars, are invested in Government bonds.

Increased coverage in the old-age insurance program, increases in the interest paid to this trust fund, and improved coordination of income and old-age insurance tax collection procedures are recommended elsewhere in this message. The estimates of trust fund receipts and disbursements for the fiscal year 1957 do not reflect proposed legislation.

AGRICULTURE AND AGRICULTURAL RESOURCES

This budget carries forward the broad agricultural objectives that we have been striving to achieve through new legislation, redirection of emphasis, and improved administration during the past 3 years. It provides for the strengthened agricultural program which I proposed in my recent special message to the Congress.

Thus, this budget permits an intensification of our efforts to aid farmers in making the difficult readjustment from the abnormal situation of the war and postwar period to a realistic peacetime outlook for markets, so that they may share more equitably in the prosperity which other sectors of the economy are now enjoying. It also provides for continued emphasis on research and educational activities and on soil and water conservation, and for an enlarged program to help low-income farmers improve their situation.

Gross budget expenditures for agricultural programs are estimated at 9.1 billion dollars in 1957. These expenditures include loans made and commodities purchased by the public enterprise agencies in the Department of Agriculture and the Farm Credit Administration. Receipts from agricultural programs, which reflect loan repayments and commodity sales of these public enterprise agencies, are estimated at 5.7 billion dollars in 1957. The resulting estimate of net budget expenditures is 3.4 billion dollars, about the same as estimated for 1956.

New authority to incur obligations of 2.9 billion dollars is recommended for the fiscal year 1957, as compared with 3.3 billion dollars in 1956. Excluding the Commodity Credit Corporation, new authority to incur obligations for agricultural programs will be 621 million dollars higher in 1957 than in 1956.

MESSAGE OF THE PRESIDENT

M53

AGRICULTURE AND AGRICULTURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Gross budget expenditures			Net budget expenditures			Recommended new obligational authority for 1957
	1955 actual	1956 estimated	1957 estimated	1955 actual	1956 estimated	1957 estimated	
Soil bank and accompanying proposals (proposed legislation) -----			\$400			\$400	\$450
Stabilization of farm prices and farm income:							
Price support, supply and purchase programs (CCC, Wheat Agreement, and Wool Act)-----	\$6,170	\$5,110	5,077	\$3,327	\$2,076	1,591	1,123
Removal of surplus agricultural commodities-----	59	225	265	59	225	265	195
Sugar Act-----	70	60	66	70	60	66	68
Federal crop insurance-----	35	37	30	12	12	4	6
Agricultural adjustment program-----	40	39	41	40	39	41	41
Financing rural electrification and rural telephones¹ -----	204	223	239	204	223	239	204
Financing farm ownership and operation:							
Farm Credit Administration-----	1,950	2,012	2,111	56	46	27	32
Farmers' Home Administration: ¹							
Present programs-----	171	190	196	169	187	191	191
Proposed legislation-----				14		14	16
Disaster loans and emergency feed-----	100	114	55	10	-19	-19	-----
Agricultural land and water resources:							
Land conservation programs-----	274	263	263	212	231	245	225
Soil Conservation Service, flood prevention and other-----	74	83	89	74	83	89	93
Research and other agricultural services -----	177	219	224	177	212	211	229
Total -----	9,324	8,575	9,070	4,411	3,376	3,364	² 2,872

¹ Net expenditures for the Farmers' Home Administration and for rural electrification and telephone loans do not reflect loan collections, since these collections go directly into miscellaneous receipts of the Treasury. In 1957 these collections are estimated at 167 million dollars and 124 million dollars, respectively.

² Compares with new obligational authority of 2,672 million dollars in 1955 and 3,324 million dollars in 1956.

Most of the increases are for the new measures which were set forth in detail in my recent special message on agriculture. New authority to incur obligations of 450 million dollars is included under proposed legislation primarily for that part of the program dealing with the soil bank. This includes an acreage reserve to reduce current and accumulated surpluses of crops in most serious difficulty, and a conservation reserve to achieve other needed adjustments in the use of agricultural resources. In addition to reducing production of surplus crops and shifting land to more desirable uses, it will aid farmers in financing the transition to a farming pattern appropriate for today's markets.

The budget also provides funds for other measures recommended in the special message. These measures are mainly for strengthening

and redirecting existing programs. They include stepped-up purchasing and distribution of perishable commodities which are temporarily in excess supply; a strengthened program for disposal of surplus stocks of staple commodities; a strengthened rural development and credit program for low-income farm families; additional research emphasizing both lower costs of production and new products and markets; and the program for farm improvement and better land use in the Great Plains States.

I am also recommending new legislation to permit refunds to farmers of Federal taxes on gasoline used in their farm operations. It is estimated that tax refunds to farmers under this legislation will amount to 60 million dollars in 1957.

Taken together my new proposals will entail new outlays of 500 million dollars in the fiscal year 1957.

Stabilization of farm prices and farm income.—Programs to stabilize farm prices and farm income account for over 60 percent of the estimated gross budget expenditures for agriculture and agricultural resources in the fiscal year 1957. The principal part of these expenditures is for the price support operations of the Commodity Credit Corporation. Gross expenditures for these operations, reflecting new price support loans and purchases of commodities during the year, are estimated at 5.1 billion dollars. Applicable receipts from repaid loans and sales of commodities will amount to 3.5 billion dollars, leaving net expenditures of 1.6 billion dollars. In recent years receipts have been substantially less than new outlays, and inventories of the Commodity Credit Corporation have been rising steeply. On October 31, 1955, CCC loans and commodity inventories amounted to 7.7 billion dollars as compared with 6.6 billion dollars a year earlier.

Government support of farm prices above world prices under programs which were attuned to war and were too long continued has been a major cause of the present accumulation of farm surpluses. These now overhang the market and create uncertainty and great concern on the part of the producers. World War II, with its terrible losses and destruction, enabled the liquidation of our prewar surpluses, and the Korean conflict helped to liquidate those that accumulated after the end of World War II. But the sharp rise of world prices during these war periods, together with our high rigid price supports, encouraged expansion of production throughout the world.

The chief domestic beneficiaries of our price support policies in the past have been the 2 million large highly mechanized farming units representing about 35 percent of our farms but producing about 85 percent of our agricultural products. Under the price support program that has been functioning the greater proportion of the dollars go to

the largest producers; in the case of wheat, for example, approximately three-fourths of the loan dollars go to one-third of the borrowers. Individual cotton loans in excess of 1 million dollars have been made.

We should today resist new efforts to have the Government restore high rigid price supports which would aggravate the problem. The Agricultural Act of 1954 and the new programs recommended in my special agricultural message are designed to make a broad frontal attack on the surplus problem without repeating our previous mistakes of stimulating production beyond available markets and thus piling up price-depressing surpluses.

In contrast to expenditures, the price support operations of the Commodity Credit Corporation should be reviewed from the standpoint of losses actually sustained in the disposition of commodities. In the main, these losses represent the difference between commodity acquisition and storage costs on the one hand, and receipts from sale of the same commodities on the other. Since the commodities usually are not sold in the same fiscal year in which they are acquired, realized losses for a year are not the same as the net expenditures for that year. In the fiscal year 1955, realized losses amounted to approximately 800 million dollars, of which more than one-half were losses on dairy products. Estimated future losses on the loans and commodity inventories the Corporation held at the end of that year are 2.4 billion dollars, of which about two-thirds represent anticipated losses on corn and wheat.

As a nation, we have in the past and, if necessary, will in the future provide substantial sums of money as a part of our efforts to have farmers share more fully in the prosperity of the country. But farmers know that Government money alone will not do the job. Furthermore, farmers do not want to be dependent on Government assistance. They want the opportunity to obtain a better living standard for their families through their own efforts. The Government's responsibility is to help create the conditions in which farmers can have this opportunity.

We intend to continue our vigorous efforts to find markets at home and abroad for our present surpluses of farm commodities.

The Agricultural Trade Development and Assistance Act of 1954 was amended in the past session of the Congress to permit an increase from 700 million dollars to 1.5 billion dollars in the amount of loss that the Corporation might incur in sales of commodities for foreign currencies. Agreements negotiated up to December 31, 1955, under this law provide for disposition of commodities worth 504 million dollars at market value, which in many cases is substantially below amounts paid the farmers. The actual loss cannot be calculated

until the foreign currencies are used. Additional agreements which may amount to as much as 385 million dollars are under negotiation.

The International Wheat Agreement, a multilateral agreement between wheat importing and wheat exporting countries of which the United States is a member, expires on July 31, 1956. The desirability of extending this agreement is under study and a determination will be made at a later date. This budget assumes that wheat exports during the 1956-57 marketing year will total about 275 million bushels and that most of this wheat will move at world prices under federally assisted programs.

Expenditures under the permanent appropriation for the disposal of surplus agricultural commodities are expected to be substantially higher in the fiscal years 1956 and 1957 than in 1955, consistent with our determination to stand ready with purchase programs to remove temporary market gluts whenever serious ones occur, and to utilize effectively the surplus commodities acquired. Our present pork buying program, which was started in November of last year, is an example.

While our special efforts to expand exports and our increased purchases of perishable commodities have an important place in our overall agricultural program, they should not be expected to take the place of vigorous competition for markets, based on price and production adjustments. My recommendations for new legislation, increased research and education, and the further operation of the Agricultural Act of 1954 will all contribute to this first line of attack on the agricultural surplus problem.

Rural electrification, rural telephones, and farm credit.—The budget recommendations for the Rural Electrification Administration represent a continuation of our policy of making loans available to meet the farmers' needs for electrification and telephones. The budget provides for approval of loans for electrification in the amount of 185 million dollars in 1957, which is the same as that for 1956 and 20 million dollars higher than in 1955. It also provides for approval of loans for rural telephones in the amount of 80 million dollars, the same as for 1956, and 27 million dollars higher than for 1955. Disbursements on loans and expenditures for administration for both programs are estimated at 239 million dollars, 16 million more than in 1956.

The total of Farmers' Home Administration direct and insured loans is expected to approach 260 million dollars in 1957 as compared with 193 million dollars in 1955. A substantial part of this expansion is in insured private loans, which are not reflected in budget expenditures. Legislation will be proposed to broaden the authority under the Bankhead-Jones Farm Tenant Act to permit the Farmers' Home

Administration to make certain loans for farm housing previously possible only under title V of the Housing Act of 1949, as amended. With this change, further extension of the authority for farm housing loans under title V beyond its present termination date of June 30, 1956, will not be necessary.

Several agencies will increase their participation in the Rural Development Program that I recommended in my special message during the past session of the Congress. This program will be conducted broadly as well as in selected counties, and will involve special educational work by the cooperative Federal-State Extension Service, research on farming and marketing problems of low-income farmers by Federal and State agencies, and assistance in providing employment information by the Department of Labor. To assure adequate funds and to permit broader coverage in the financing of small farms, I am recommending an additional 15 million dollars of lending authority for the Farmers' Home Administration under proposed legislation.

Consistent with our policy of withdrawing the Federal Government from activities that can more properly be carried on privately, legislation was recommended and enacted last year providing for systematic retirement of the Federal investment in the banks for cooperatives which are supervised by the Farm Credit Administration. Although the effect of this legislation on the budget will be small, it is expected that farmers through their cooperatives will be able to acquire, over a period of years, the present equity of the Federal Government in these credit institutions.

Agricultural land and water resources.—My recommendations for agricultural land and water resources for the fiscal year 1957 are an integral part of a broad program designed to give additional emphasis to conservation of our natural resources. They provide for an increase in the regular services of the Soil Conservation Service and for the expected growth in the relatively new watershed protection and flood prevention program. The soil bank program proposed in my special agricultural message will contribute also to our conservation objectives.

Expenditures under the existing agricultural conservation program assist farmers in applying soil conservation practices and in making proper use of land diverted from the production of surplus crops. Payments to farmers in the fiscal year 1957 will be principally to cover the cost of the program carried out for the crop year 1956, as authorized in the 1956 appropriation act. I recommend a forward authorization of 250 million dollars for the 1957 crop year agricultural conservation program—the same level as for 1956.

Research and other agricultural services.—My budget recommendations provide for further expansion of research, mainly in cooperation with State agencies. Additional funds requested for educational activities will permit greater concentration of effort on direct counseling of individual farmers in the development of programs for their entire farms; also, on the educational phases of our Rural Development Program for low-income families.

The budget includes funds for the recommendations on research and education in my special message on agriculture. The seriousness of the production adjustment and income problems of American agriculture arising from increased production at home and abroad and from declining prices of major agricultural commodities requires that we materially strengthen selected areas of research in agriculture.

NATURAL RESOURCES

Resource development is the responsibility of everyone. In many cases State, local, and private groups can best carry out needed programs themselves. In other cases, Federal participation is the necessary element in accomplishing broad national aims, where projects are beyond the means or needs of local groups. Under the partnership policy of this administration, emphasis is placed on sharing the cost of projects with the groups which receive direct benefits from them. This approach serves to multiply the effect of Federal expenditures in the stimulation of conservation and development. The recommendations in this budget will result in further advances toward our broad goal of a steadily growing program for resource development through the cooperative efforts of States, local communities, private citizens, and the Federal Government.

The importance of the partnership policy in the development of water resources is being emphasized in a report of the Advisory Committee on Water Resources Policy. This report will also stress the need for strengthening our procedure for the formulation and review of proposed water resources projects. Some of the Advisory Committee's recommendations will require changes in existing law, and specific legislative proposals will be transmitted to the Congress.

Budget expenditures for natural resources programs in the fiscal year 1957 are estimated at 1 billion dollars, about the same level as in 1956. Programs for flood control, reclamation, and multiple-purpose water resources development will expand over the 1956 levels and will require about 60 percent of the net expenditures in 1957. The management and development of the national forests, parks, public domain lands, and Indian lands will require about 25 percent of the total. The remainder will be for minerals programs, fish and wildlife resources, and other developmental activities.

MESSAGE OF THE PRESIDENT

M59

In addition to their economic returns, many resource development programs yield financial receipts. These receipts come mostly from sale of power generated at Government facilities, sale of timber from national forests and public lands, and mineral leases on public lands including the Outer Continental Shelf. Some of the receipts are used to finance current operations and are applied against the gross expenditures of the agency; these are estimated at 266 million dollars in the fiscal year 1957. Other receipts, estimated at 544 million dollars in 1957, are deposited directly in the Treasury, and are then shared with States and counties as authorized by the Congress, appropriated for specific Federal programs, or added to the general revenues of the Government.

NATURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Expenditures			Recom-mended new obligational authority for 1957
	1955 actual	1956 esti-mated	1957 esti-mated	
Gross budget expenditures:				
Land and water resources:				
Corps of Engineers, civil functions:				
Present programs:				
Flood control and multiple-purpose projects.....	\$383	\$373	\$391	\$405
Flood disaster relief work.....		32	.....	.....
Proposed legislation:				
Passamaquoddy Bay survey.....			1	1
Partnership projects.....			5	10
Department of the Interior:				
Bureau of Reclamation:				
Irrigation and multiple-purpose projects:				
Present programs.....	163	175	193	191
Proposed legislation:				
Federal projects.....			9	20
Partnership projects.....			4	10
Power transmission agencies.....	43	42	42	35
Indian lands resources.....	35	43	42	27
Bureau of Land Management and other.....	16	20	25	25
Tennessee Valley Authority:				
Present programs.....	336	287	206	5
Proposed legislation.....			24	68
Department of State.....	3	4	4	2
Federal Power Commission.....	4	5	5	5
Forest resources.....	118	139	144	147
Mineral resources.....	41	50	57	46
Fish and wildlife resources.....	43	44	47	54
Recreational use of resources.....	35	52	59	28
General resource surveys and other.....	34	35	39	40
Total.....	1,304	1,302	1,297	1,1121
Deduct applicable receipts:¹				
Land and water resources:				
Bureau of Reclamation.....	3	3	3	.....
Indian lands resources.....	2	1	1	.....
Tennessee Valley Authority.....	214	248	257	.....
Mineral resources.....	4	5	5	.....
Net budget expenditures.....	1,081	1,045	1,031	.....

¹ Compares with new obligational authority of 966 million dollars in 1955 and 1,045 million dollars in 1956.² Does not include revenues which go into miscellaneous receipts of the Treasury.

Land and water resources.—The policies underlying recommendations for water and related land resources in this and other sections of the budget are intended to help provide an adequate water supply for our people in the years to come and to aid in checking destructive forces of water, as well as to achieve the benefits for navigation, fish and wildlife conservation, and recreation resulting from the proper development of these resources.

A large share of the net expenditures of 690 million dollars for land and water resources in 1957 will be for continuation or completion of construction on water resources projects of the Corps of Engineers and Bureau of Reclamation, and for maintenance and operation of existing facilities.

These agencies will continue construction in 1957 on 187 projects and units for flood control, beach erosion control, irrigation, and multiple-purpose developments which will provide such additional benefits as hydroelectric power, municipal water supply, or navigation. Funds recommended for these projects will maintain present construction schedules on power projects and will continue nonpower projects at economic rates of construction. Under the recommendations in this budget, 10 of these projects and units can be completed.

In accordance with the policy of encouraging non-Federal responsibility for water resources projects, with Federal cooperation where national interests are involved, I have supported legislation which would change certain presently authorized Federal projects to partnership projects. Funds for the Federal share of the Markham Ferry project in Oklahoma were appropriated for the fiscal year 1956, and construction by non-Federal interests of this project and the Priest Rapids project in Washington is expected to be underway in the fiscal year 1957. Work on the Cougar multiple-purpose project in Oregon, begun as a Federal project in the fiscal year 1956, will continue in 1957 on a basis which, under pending partnership legislation, will permit local interests to install power facilities and assure adaptation of the power features to requirements of the city of Eugene.

This budget provides for starting construction on a number of new projects which are already authorized and on which advance planning has reached the stage where the design and scope of the major structures have been clearly determined, a firm estimate of cost has been prepared, and a current analysis of economic justification shows a favorable relationship between benefits and costs.

A supplemental appropriation is recommended for 1956 to enable the Corps of Engineers to accelerate its flood-control work in the Northeastern States and to reimburse the Corps for expenditures made for relief work following the floods in August and October 1955. The supplemental appropriation will allow 5 flood-control reservoirs

MESSAGE OF THE PRESIDENT

M61

to be started in the fiscal year 1956. Additional flood-control projects for this area are included in the budget for 1957.

The Corps of Engineers is also actively engaged in emergency repair work, in cooperation with the Federal Civil Defense Administration, in the far western flood areas, and will be appraising without delay the need for additional flood-protection measures.

For the fiscal year 1957, I recommend that the Corps of Engineers start work on 18 local flood-protection projects, 11 flood-control reservoirs, 2 beach erosion projects, and a new power plant at the Fort Peck Dam in Montana, all of which are authorized. I also recommend that the Bureau of Reclamation start work on 4 authorized projects or major features to provide irrigation benefits and to utilize available power at existing dams. The total cost of these authorized projects recommended for starting in the fiscal year 1957 is estimated at 189 million dollars, with first year expenditures of 10 million dollars.

Some steps have been taken by the Congress to enact legislation authorizing the Bureau of Reclamation to construct the Upper Colorado River Basin and the Fryingpan-Arkansas developments. These comprehensive developments are needed for irrigation, power, flood control, and industrial and municipal water supply and are beyond the capacity of local initiative, public or private. I again urge their authorization and have made provision in this budget under proposed legislation for their initiation. I also recommend authorization and funds for the Bureau of Reclamation to initiate 3 other projects for further development of water resources in the West. The estimated total cost of the 5 proposed projects is 1.1 billion dollars, with 1957 expenditures estimated at 9 million dollars.

This budget includes 20 million dollars under proposed legislation to enable the Corps of Engineers and the Bureau of Reclamation to participate, in 1957, in new partnership water developments, such as the Green Peter-White Bridge Reservoir in Oregon, the Bruces Eddy Reservoir in Idaho, and the John Day Reservoir in Washington and Oregon. The proposed legislation would also authorize the Bureau of Reclamation to assist local organizations by means of loans and grants for small reclamation projects.

Budget recommendations provide for progress in the collection of basic data on hydrology, topography, and other physical factors needed in the planning and design of water development projects. Investigations of proposed projects and advance planning of authorized projects will go forward at rates which will provide for the orderly development of needed water resources.

I also hope that the Congress will complete action to authorize a new survey to determine whether hydroelectric power can be economically developed from the tides at Passamaquoddy Bay in Maine, and

have included 1 million dollars under proposed legislation to begin this survey in the fiscal year 1957.

The Bonneville Power Administration will continue construction of transmission lines based on power generation schedules for Federal dams under construction in the Pacific Northwest. Expenditures of the Southeastern and Southwestern Power Administrations will be for operation and maintenance of transmission systems and for marketing power.

The Tennessee Valley Authority will continue work in the fiscal year 1957 on steam-electric generation units started in 1955 and prior years, under previous appropriations.

Since nearly all major hydroelectric sites in the Tennessee Valley have now been developed, an additional steam-electric unit at the John Sevier plant and two additional units at the Johnsonville plant will be needed to meet currently anticipated power loads through the calendar year 1958. There is pending before the Congress legislation which the administration has proposed for financing steam-power facilities of the TVA through the sale of revenue bonds. So that the work may begin promptly, a starting supplemental appropriation for 1956 is recommended for the Sevier unit. Items are included in the budget to finance the continuation of this work and initiate construction of the Johnsonville units in 1957 with the proceeds of the revenue bonds.

When these new units are completed, the Tennessee Valley Authority will have a capacity of 6.7 million kilowatts in its steam-electric plants and 2.7 million kilowatts in its hydroelectric plants.

Construction will also begin in the fiscal year 1957 on a new navigation lock at Wilson Dam. The present locks are structurally weak and inadequate to handle growing traffic demands. The construction will be financed from appropriated funds. The TVA will also continue work in the development of the resources of the region in cooperation with State and local agencies.

Under these recommendations, gross expenditures of the Tennessee Valley Authority in the fiscal year 1957 are estimated to decline by 57 million dollars from the 1956 level, as construction nears completion on power facilities underway. Receipts from operation are expected to increase by 9 million dollars. As a result of these trends, it is estimated that the Authority will have net receipts of 27 million dollars in 1957 as compared with net expenditures of 39 million dollars in 1956. It is expected that in 1957 the TVA will return to the Treasury 75 million dollars from power revenues as repayment of

MESSAGE OF THE PRESIDENT

M63

principal only on Treasury advances made in earlier years for construction of power facilities.

National forests and other public lands.—Funds are provided in this budget to expand forestry research and soil conservation work on the lands in the national forests, public domain, national parks and wildlife refuges, and on Indian lands which are held in trust by the Government. Increases are also provided for timber sales and mineral leasing activities on Federal and Indian lands. These recommendations will result in increased receipts from management of public lands.

The recommendations for the National Park Service will provide additional facilities and services to meet more adequately the requirements of the constantly increasing number of visitors, which will approximate 54 million in 1957. These recommendations move toward realization of a comprehensive development plan to make possible the accommodation of the estimated 80 million persons who will use areas of the national park system by 1966.

Increases are recommended for more adequate operation and maintenance of fish hatcheries and wildlife refuges, and for maintenance and repair of physical facilities of the Bureau of Indian Affairs.

Mineral resources.—This budget gives recognition to the recommendations of the Cabinet Committee on Minerals Policy. The Bureau of Mines and the Geological Survey will expand investigations and research directed toward discovery of additional sources of essential minerals, improvement of mining techniques, and better utilization of mineral supplies. Funds are provided for the Office of Minerals Mobilization to continue to develop and evaluate supply data for metals and minerals so that adequate supplies and production facilities will be assured for our national security and economic growth.

COMMERCE AND HOUSING

The major role of commerce and housing programs is to encourage economic growth and the development of private enterprise and local communities.

Toward this goal, I am proposing both legislative action and increased appropriations to improve and expand our basic transportation facilities, especially the Interstate Highway System, the Federal airway system, the federally operated waterways and navigation aids, and the merchant fleet.

COMMERCE AND HOUSING

[Fiscal years. In millions]

Program or agency	Gross budget expenditures			Net budget expenditures			Recommended new obligational authority for 1957
	1955 actual	1956 estimated	1957 estimated	1955 actual	1956 estimated	1957 estimated	
Provision of highways:							
Present programs.....	\$647	\$790	\$844	\$647	\$790	\$844	\$35
Proposed legislation.....							898
Promotion of aviation:							
Department of Commerce.....	179	192	234	179	192	234	256
National Advisory Committee for Aeronautics.....	74	71	75	74	71	75	80
Promotion of water transportation:							
Department of Commerce.....	182	245	251	162	211	218	308
Department of Defense—Civil Functions:							
Present program.....	204	229	250	114	144	170	179
Proposed legislation.....			2			2	5
St. Lawrence Seaway.....	3	13	43	3	12	36	.....
Treasury Department.....	190	200	204	190	200	204	202
Postal service:							
Present program.....	2,733	2,945	3,030	356	483	467	470
Proposed legislation.....			-350			-350	-350
Community development and facilities:							
Urban Renewal Administration:							
Present programs.....	65	90	111	38	65	74	202
Proposed legislation.....			(b)			(b)	1
Other.....	24	14	25	18	-14	22	17
Public housing programs:							
Present programs.....	322	531	597	-115	53	83	107
Proposed legislation.....			1			1	1
Other aids to housing:							
Federal Housing Administration.....	142	158	136	-42	-26	-71	8
Federal National Mortgage Association.....	699	290	330	237	-114	-255	.....
College housing:							
Present program.....	34	40	65	31	36	59	.....
Proposed legislation.....							100
Veterans Administration.....	125	128	142	65	65	71	85
Other.....	8	13	15	-22	-22	-25	7
Other aids to business:							
Present programs.....	383	155	104	-404	-105	38	69
Area redevelopment (proposed legislation).....				10		10	50
Regulation of commerce and finance:							
Present programs.....	39	43	44	38	41	41	42
Proposed legislation.....			2			2	2
Disaster insurance, loans, and relief:							
Present programs.....	16	49	15	12	43	7	10
Proposed legislation.....			25			25	100
Civil defense:							
70	64	93	42	59	90	90	123
Total.....	6,139	6,259	6,299	1,622	2,182	2,071	13,006

^b Less than one-half million dollars.¹ Compares with new obligational authority of 2,919 million dollars in 1955 and 3,492 million dollars in 1956.

MESSAGE OF THE PRESIDENT

M65

Similarly, to assure continued high levels of residential construction we shall encourage private financing primarily through the use of Government guaranties, insurance and other aids. As in the past, direct Government expenditures will be confined to meeting those housing and community needs which cannot be financed by private enterprise alone. Accordingly, to stimulate balanced development of local communities, this budget makes further proposals for removal and prevention of slums, for housing for minority groups and for older people, and for other special community needs. It also provides for new measures to aid local communities with persistent unemployment in discovering a sound basis for redevelopment, and to help victims of future flood disasters rehabilitate themselves.

Gross expenditures for commerce and housing, including proposed legislation, are estimated at 6.3 billion dollars in the fiscal year 1957. Applicable receipts, chiefly for the Post Office and for various housing programs, are estimated at 4.2 billion dollars. Net budget expenditures of 2.1 billion dollars will be less than in 1956 because of the increases in postal rates which I am again proposing.

Highways.—Obviously, a greatly improved highway system is vital for both economic development and national defense, as well as to reduce traffic deaths and injuries. The Federal Government has a special interest in completing as early as possible the 40,000 miles of the Interstate Highway System, which connects major centers of population and industry. Last February in a special message to the Congress I endorsed the recommendation of an advisory committee that the Federal Government assume the principal responsibility for financing completion of this key highway network. This program is even more urgently needed today.

I consider it essential that construction of the interstate system be fully authorized now as a single integrated program in order that it may be accomplished over a period of approximately 10 years with the greatest economy. I am confident that the expanded program can be soundly financed so as not to create budget deficits.

Pending final determination of the amounts involved for the Interstate Highway System, therefore, the dollar estimates included in this budget under proposed legislation cover only the continuance of the present annual level of 875 million dollars in authorizations for Federal-aid highways including 175 million dollars exclusively for the interstate system. The budget also includes 22.5 million dollars for forest highways, continuing the present level.

Expenditures for highways by the Department of Commerce and the Department of the Interior under previous authorizations will continue to rise to an estimated 844 million dollars in 1957. These

include additional grants under a supplemental authorization of 10 million dollars which I am proposing for the fiscal year 1956 in order to rebuild Federal-aid highways damaged in last year's widespread floods.

Promotion of aviation.—During the past 5 years, the rapidly expanding use of the Federal airway system and the increasing speeds of both conventionally powered planes and military jet aircraft have produced serious traffic congestion. To maintain our high standards of safety, aircraft have had to be delayed or flights canceled, with a resulting heavy cost in time and money to both the operators and users of the planes.

As a step in meeting the immediate problem, I am recommending new authority to incur obligations of 40 million dollars in 1957. This will enable the Department of Commerce to expand further the capacity of the present airway system by installing greatly improved air navigation and traffic control facilities.

To keep pace with further advances in aviation, I shall shortly initiate a comprehensive study of the Nation's long-range needs for aviation facilities. This study will take into account both civil and military needs in order to avoid costly duplication of equipment and systems. I shall expect it to point the way to the development, installation and operation of the most efficient and economical air navigation system within the capabilities of our technology.

In addition to the expenditures to expand the capacity of the airway system, expenditures for operating the present airway system must rise substantially to handle the expanding traffic, to operate new facilities provided under earlier appropriations, and to take over from the Department of Defense the costs of operating certain radar installations serving common military-civilian needs. Federal grants to help local communities build airports are also increasing as a result of the legislation enacted last year. In total, expenditures of the Civil Aeronautics Administration will rise by an estimated 50 million dollars to 200 million dollars in the fiscal year 1957.

Subsidy payments by the Civil Aeronautics Board to commercial airlines will again be reduced in the fiscal year 1957 as a result of rising profits of the carriers and continued vigilance of the Board in keeping subsidy rates at the lowest possible level. These subsidies amounted to 58 million dollars in the fiscal year 1955 and are estimated at 34 million dollars in 1957.

The research achievements of the National Advisory Committee for Aeronautics are making possible significant advances in the capabilities of our military aircraft and guided missiles. However, increased effort is needed for timely solution of the problems of flight at faster

MESSAGE OF THE PRESIDENT

M67

speeds, higher altitudes, and longer ranges. Accordingly, I am again recommending an increase in the appropriations for this important work.

Promotion of water transportation.—The Department of Commerce and the shipping industry have begun systematic replacement of the merchant fleet built during World War II. Negotiations are now underway with the operators to advance their ship construction plans and to determine replacement schedules for the next 15 to 20 years. Three long-term contracts have already been signed. The program is designed to (1) assure a modern merchant fleet adequate for commercial and defense needs, (2) maintain the shipyard employment and facilities which are essential to our mobilization base, and (3) minimize construction costs by avoiding peak demands. As next year's installment, I am recommending the funds necessary for construction subsidies and defense allowances for 22 new ships, as well as trade-in allowances for the ships replaced. In addition, this budget proposes appropriations for the design and construction of two new types of cargo ships—types which could be produced cheaply and in quantity in event of mobilization.

I am renewing for the fiscal year 1956 my earlier recommendation for a supplemental appropriation of 13 million dollars for the Commerce Department's share of a nuclear-powered peace ship, to be built jointly with the Atomic Energy Commission. Work on this ship should go forward as rapidly as possible. Moreover, funds are included in the budget for a nuclear-powered merchant ship, to be built over a longer period, incorporating experience gained from the peace ship and from later research and development.

To finance construction of both conventional and nuclear-powered ships, I am recommending new authority to incur obligations for the Department of Commerce of 165 million dollars in the fiscal year 1957. Because of the long lead-time required for ship construction, only a small part of this new authority will be spent in 1957; the anticipated expenditures of 75 million dollars are mainly from appropriations made for ship construction in earlier years. Operating subsidy payments of 124 million dollars in 1957 are estimated to cover the differences in selected costs between operating American-flag and foreign ships.

Expenditures for navigation aids and facilities are rising as projects recently initiated reach active construction phases. In addition to providing for continuation of work by the Corps of Engineers on 61 projects started in prior years, this budget includes funds for starting 41 new authorized navigation projects including 28 small projects costing less than 150,000 dollars each.

Funds were added by the Congress to the 1956 budget to begin construction of Eufaula Reservoir and Dardanelle lock and dam. This would, in effect, commit the Federal Government to a cost of over 1 billion dollars for the development of the Arkansas River for navigation, since the major benefits from these two structures would not be realized until the entire navigation development is completed. I regard the development of the Arkansas River for navigation as not being of sufficiently high priority at this time to justify this large financial commitment. Therefore, I am not requesting funds for continuation of work on these two structures.

Postal service.—The Post Office Department is progressing steadily toward its goal of a better postal service at lower costs. Decentralization of management into 15 regions, first recommended in 1908, has finally been accomplished, permitting decisions by experienced field personnel able to understand the needs of their customers. Changes in laws and personnel policies have encouraged better use of staff and brought new incentives for employee efficiency. Overhaul of the Department's fiscal operations has eliminated nearly 5,000 needless positions, speeded up information required for good management, and reduced backlogs of all types, including a 2-year backlog in overdue railroad and airline claims. We have begun to acquire, through long-term leases and the recently enacted lease-purchase authority, modern postal buildings and other facilities long needed to speed up and reduce the cost of handling the ever-increasing volume of mail.

Despite these achievements, the Post Office Department cannot be self-sustaining if it pays salaries, transportation rates, and other costs based upon 1956 conditions, but must continue to charge rates which were largely determined before Pearl Harbor. The postal deficit of 467 million dollars estimated for the fiscal year 1957 represents a subsidy averaging more than 15 cents per dollar of postal service. Legislation is again being proposed that would initially increase postal revenues by 350 million dollars a year. Legislation is also being proposed to pay the Department for services to certain groups which it is now required to perform either free or at greatly reduced rates.

I urge prompt congressional action on this legislation, which will drastically reduce the 1957 postal deficit and will make it possible for the postal service to become self-supporting in subsequent years.

Community development and facilities.—The great population growth in the past 15 years and the accompanying shifts—from farms to cities, from rural communities to metropolitan areas, and from central

cities to suburbs—have accelerated the decay of large sections of our major cities, and caused many metropolitan areas and small towns to outgrow their basic facilities.

With the help of Federal grants and loans for slum clearance and urban renewal, major progress in removing urban blight is in sight for the first time. By the end of the fiscal year 1957, an estimated 233 communities will have workable plans providing for a wide range of local actions needed to prevent or eliminate slums. Such plans are now required as a condition of Federal assistance for urban renewal. In these and other cities 49 specific projects will have been completed by the end of 1957; 237 other redevelopment projects will be actively underway; and 112 projects will be in the planning stage. Net expenditures, chiefly for grants and loans, will increase to 74 million dollars; these include the additional grants for community planning by metropolitan areas and smaller cities under legislation that will be proposed to increase the present limited program.

Substantial increases are also expected in the fiscal year 1957 in loans to small communities for building public facilities and in advances to local governments for planning public works. Additional appropriations for planning advances are recommended for 1957.

As part of the new program to assist in the industrial redevelopment of chronic labor surplus areas, I am proposing revisions in the present urban renewal and other community facilities legislation. The main emphasis in these programs, however, should continue to be improvement of the homes and living environment of our families.

Public housing.—Continued Federal assistance for low-rent public housing will be necessary in 1957 to meet the most critical needs of low-income families. An increasing number of such families will be displaced by the clearance of slums and by the enforcement of housing codes under the growing urban renewal program. I am, consequently, recommending that the Public Housing Administration be authorized to enter into annual contributions contracts with local housing authorities for an additional 35,000 dwelling units a year for 2 years. In addition, I urge that the Congress restore the provisions of the Housing Act of 1954, repealed in 1955, which limited new public housing to communities with workable programs for the prevention and elimination of slums, or with slum clearance projects underway.

As the number of older people in our population has increased, action to meet their special housing needs has become highly important. Several administrative steps have already been taken in the public housing program. In addition, legal restrictions on admission to public housing projects should be amended to provide a limited preference to elderly low-income families, as well as to permit admission of elderly single persons.

Gross expenditures for public housing programs, chiefly for construction loans and payment of annual contributions to local housing authorities, are estimated at 598 million dollars in 1957. Receipts, mostly from private refinancing of Federal loans, are estimated at 515 million dollars, leaving net expenditures of 83 million dollars.

Other aids to housing.—Applications for insurance of mortgages and home improvement loans by the Federal Housing Administration under its regular programs are expected to continue in the fiscal years 1956 and 1957 close to the 1955 levels. In addition, applications for the special urban renewal mortgage insurance authorized by the Housing Act of 1954 are expected to rise from less than 2,000 units in 1955 to 75,000 units in 1957.

To make this full program possible, legislation will be required to increase the present mortgage insurance authority. The authority to insure home improvement loans, now scheduled to expire on September 30, 1956, should be made permanent and broadened to assure effective Federal assistance in the national campaign to rehabilitate and modernize existing housing. Amendments are also needed to encourage construction of private units for rental or sale to elderly persons.

The Department of Defense expects to arrange for financing and construction of 100,000 military housing units during 1956 and 1957 under new mortgage insurance authorized by the Housing Amendments of 1955. This insurance authority should be extended beyond the present expiration date of September 30, 1956.

The Federal National Mortgage Association will make commitments for immediate or deferred purchases of 423 million dollars in mortgages insured under the urban renewal, armed services, cooperative, and other especially urgent housing programs which I have specifically designated. Sales of mortgages together with repayments and other receipts, however, are expected to be 255 million dollars greater than expenditures.

In addition, purchases of mortgages by the Association under its secondary market program are expected to increase in 1957 to 290 million dollars. Except for temporary Treasury loans, the funds required will be obtained from sale of debentures and stock to private investors, and the purchases are shown as trust expenditures, rather than budget expenditures. By the end of the fiscal year 1957, private purchases of stock will have made an excellent start toward the goal of replacing a Government activity with a private company.

One of the most successful measures authorized by the Housing Act of 1954 is the Voluntary Home Mortgage Credit Program. Under this program, applications to the Veterans Administration for direct loans and to the Federal National Mortgage Association for

mortgage purchases are referred to private lenders. This program has already made conspicuous achievements in encouraging private financing of housing for members of minority groups and other borrowers in credit-short areas. Moreover, the rapidly increasing volume of veterans housing mortgages placed privately has made it unnecessary to use a large part of the additional authority provided for direct housing loans. Net expenditures for the veterans loan program, consequently, are expected to show only a minor increase to 71 million dollars in the fiscal year 1957.

College housing.—The Housing Amendments of 1955, which broadened and increased the authority for college housing loans, also reduced the maximum interest rate to 2½ percent and required use of private financing only if it were available at the same low interest rate. As a result, the Government is required to make long-term loans at a lower interest rate than the rate at which it can borrow for comparable maturities.

These amendments have eliminated all possibility of private financing, which cannot compete with these interest rates, save for the earliest maturities of tax-exempt issues. Many larger institutions, which previously obtained private funds at reasonable rates, have now filed applications for Government loans. Net reservations of funds are estimated to increase from 21 million dollars in 1955 to 211 million dollars in 1956 and 120 million dollars in 1957, exhausting the available lending authority. Most of the impact on expenditures will not be felt until 1958.

The Federal Government should help colleges and universities meet the urgent housing problems which rapid growth in enrollment will produce over the next decade. The program, as revised in 1955, however, does not serve the best interests of either the colleges or the taxpayers. For the sake of a modest saving in interest costs, it would destroy the promising private market for these obligations. This private market will be sorely needed, for the Government cannot be expected to supply the full or even the greater part of the estimated 2 to 4 billion dollars needed for dormitories over the next decade. The administration is accordingly recommending legislation which will increase the total authorization by 100 million dollars for 1957, but allow interest rates adequate to cover costs to the Government. I hope that this will encourage private lenders to reenter this expanding market.

Other aids to business—present programs.—In addition to other appropriations required to finance the broad range of existing aids to business, I am recommending increased appropriations for the Patent

Office in the Department of Commerce to begin a systematic 8-year program that would reduce the backlog of patent applications to a more reasonable level. I believe that the Congress should also enact legislation increasing patent fees so that the Patent Office can be more nearly self-supporting.

Through the Small Business Administration, we shall continue to help small business concerns obtain access to adequate financing, to a fair share of Government procurement, and to competent counsel on management, production, and marketing problems.

I also recommend improvements in construction statistics so that more accurate data can be supplied to business, labor, and government on major changes in this vital industry.

Area redevelopment.—All of us are greatly concerned because certain chronic labor surplus areas are not sharing in our general prosperity. The primary responsibility for promoting the economic redevelopment of these areas rests with the local community and the States. However, I believe that the Federal Government should give much broader assistance than is possible under present law. Accordingly, the administration is recommending new legislation authorizing Federal loans and grants, in cooperation with the States, to assist communities suffering from substantial and persistent unemployment. Under this program the Secretary of Commerce would take the lead for the Federal Government, utilizing also the facilities of the Department of Labor, the Housing and Home Finance Agency, and other interested agencies.

Regulation of commerce and finance.—As our economy grows and becomes more complex, the responsibilities of Federal agencies regulating business also increase. While the amount of money required to finance these agencies is relatively small, their influence on economic growth is very significant. In this budget I am recommending increased appropriations to strengthen every major regulatory program, including specific increases to (1) triple the staff of the Federal Trade Commission charged with enforcing controls over corporate mergers; (2) assure effective review by the Department of Justice of possible antitrust aspects of the newly authorized interstate compacts for the conservation of oil and gas; (3) provide for more adequate review by the Securities and Exchange Commission of the vast new capital

MESSAGE OF THE PRESIDENT

M73

offerings and the increased trading in securities; and (4) improve enforcement by the Interstate Commerce Commission of motor carrier regulations and assure better compliance with safety regulations.

To continue the export controls necessary for our national security, the existing legislation should be extended.

Disaster insurance, loans, and relief.—The flood disasters during the past year in the Northeastern States, the Far West, and other areas have shown the urgent need for increased assistance to the victims of floods. Since private insurance is not generally available, legislation should be enacted authorizing, on an experimental basis, an indemnity and reinsurance program, under which the financial burden resulting from flood damage would be carried jointly by the individuals protected, the States, and the Federal Government. The budget includes an estimate of 100 million dollars of new authority to incur obligations to initiate such a program.

I am requesting a supplemental appropriation of 25 million dollars in the current fiscal year to replenish the disaster relief fund which was depleted as a result of the recent flood disasters. It will also be necessary to amend the Small Business Act to increase the authority for disaster loans.

Civil defense.—Expenditures for civil defense are grouped with those for peacetime disasters for budget classification purposes, but the program is discussed in connection with continental defense in the major national security section of this message.

GENERAL GOVERNMENT

General government programs include many of the traditional domestic, civil activities of government, as well as certain government-wide activities, such as personnel and property management, which cannot readily be allocated to any single category. Our primary objective is to perform these central activities efficiently and thus reduce the cost of all the services provided to our citizens for their tax dollars.

Net expenditures for general government programs are expected to increase by 146 million dollars to 1.8 billion dollars, largely because of (1) increased outlays to replace or improve inadequate Government buildings and (2) a larger payment to the retirement fund for civilian employees.

GENERAL GOVERNMENT

(Fiscal years. In millions)

Program or agency	Net budget expenditures ¹			Recommended new obligational authority for 1957
	1955 actual	1956 esti- mated	1957 esti- mated	
Legislative functions.....	\$60	\$87	\$111	\$73
Judicial functions.....	31	39	42	41
Executive direction.....	12	13	13	13
Federal financial management:				
Tax collection.....	271	306	307	308
Customs collection, debt management, and other.....	160	176	172	172
General property and records management:				
General Services Administration.....	164	170	209	218
Central Intelligence Agency building.....		1	15	49
Central personnel management and employment costs:				
Civil Service Commission:				
Payment to retirement funds.....	32	235	297	297
Other.....	15	17	18	18
Labor Department:				
Unemployment compensation for Federal em- ployees.....	19	32	33	33
Accident compensation for Federal employees.....	49	50	50	50
Civilian weather services.....	25	36	36	38
Protective services and alien control:				
Federal Bureau of Investigation.....	79	99	95	96
Immigration and Naturalization Service.....	42	49	48	49
Other.....	37	42	42	42
Territories and possessions, and District of Columbia:				
Present programs.....	67	76	78	79
Proposed legislation.....			4	7
Other general government:				
Claims and relief acts.....	142	168	185	35
Other.....	-3	15	2	4
Total.....	1,201	1,611	1,757	* 1,621

¹ After deducting applicable receipts of 3 million dollars each year, mainly for Virgin Islands Corporation.² Compares with new obligational authority of 1,138 million dollars in 1955 and 1,525 million dollars in 1956.

Legislative functions.—During the fiscal year 1957 construction of the new Senate Office Building will be almost completed and a substantial start will be made on both the new House Office Building and the extension of the Capitol authorized by the Congress at its last session. These new facilities account for the increase in estimated expenditures for legislative activities from 87 million dollars in 1956 to 111 million dollars in 1957.

Federal financial management.—The reorganization of the Internal Revenue Service and the adoption of improved methods and procedures have led to a more equitable and effective enforcement of the revenue laws. The audit of tax returns has been improved and more

MESSAGE OF THE PRESIDENT

M75

delinquent taxes have been collected. It is expected that in the fiscal year 1957 the efficiency of tax collection will be improved even further, without a significant increase in expenditures for this purpose.

I urge that the Congress enact pending legislation to reduce the frequency of information returns submitted by employers withholding income and social security taxes. This legislation will simplify tax procedures for both the Government and the employers, and will also provide a basis for stronger enforcement of the tax laws.

General property and records management.—In the fiscal year 1957, major increases are planned in expenditures for construction and improvement of Government buildings to increase the efficiency of Government operations. To this end I am recommending appropriations to enlarge and remodel certain buildings and to begin the long-needed air conditioning of buildings in areas where temperature and humidity conditions are most adverse to economic operation. Additional appropriations are also recommended for the new building previously authorized for the Central Intelligence Agency, and, as noted in other sections of this message, for extension of the Department of State building and for new buildings for the National Bureau of Standards.

While these recommendations involve substantial appropriations of Federal funds, most of the Federal building improvement program will be financed with private funds under the lease-purchase authority of the General Services Administration and the Post Office Department. Already 53 projects involving private financing of construction costing 105 million dollars have been approved, and additional projects involving about 250 million dollars are under consideration. Additional appropriations of 5 million dollars are requested to purchase sites and prepare plans for future projects.

This program as a whole will make a substantial start toward nationwide improvement in working conditions of Federal employees. In the Washington area alone, buildings already approved or under consideration for approval will permit relocation of about one-third of the 60,000 employees now working in temporary and other substandard buildings.

Central personnel management and employment costs.—The Government's payments to the retirement funds for civilian employees are estimated at 297 million dollars in 1957, of which 295 million dollars will be for the civil service retirement trust fund and 2 million dollars for special annuitants. The proposed contribution to the retirement

fund will be equivalent to the Government's share of benefit payments to be made from the fund during the fiscal year 1957. This contribution constitutes 35 percent of the sum estimated to be required to fund (1) the Government's part of the normal cost for current service of Federal employees, and (2) annual interest on the existing accrued liability of the Government to the fund.

Unemployment compensation payments to individuals who become eligible through Federal employment are estimated at 33 million dollars, about the same amount as in the fiscal year 1956. As the current 1956 appropriation provides only 20 million dollars, a supplemental appropriation will be requested.

Accident compensation payments to Federal employees and the related administrative expenses of the Department of Labor are estimated to continue at 50 million dollars in both 1956 and 1957. To encourage precautionary safety measures, the administration will propose legislation which will provide, in conformity with the best business practices, that employing agencies shall bear the cost of benefits paid for their employees.

Civilian weather services.—I am recommending for the fiscal year 1957 additional appropriations for the Weather Bureau to strengthen further its hurricane and tornado research program and to provide more storm detection radar. The budget also provides for additional equipment to measure visibility on airport runways and for needed improvements in housing at remote weather stations.

Protective services and alien control.—Increased appropriations are recommended to strengthen the border patrol operations of the Immigration and Naturalization Service, primarily on our southern border. The Federal Bureau of Investigation will continue at its present employment level.

I shall recommend a supplemental appropriation for the Commission on Government Security which has recently been established to study the entire Government security program.

Territories and possessions and District of Columbia.—I am recommending legislation to authorize an increase of 2 million dollars in the Federal payment to the District of Columbia. This represents a reasonable Federal share of the increased cost of operating the government of our Capital City.

Legislation will also be proposed to carry out a treaty and agreement recently negotiated with the Republic of Panama. Following

MESSAGE OF THE PRESIDENT

M77

its enactment, the Canal Zone Government will make expenditures to replace schools and other civic improvements being transferred to Panama under the legislation.

Other general government.—Again I recommend legislation by which wider appreciation of the arts and encouragement of creative artistic endeavors may be promoted and national recognition for distinguished civilian contributions to the advancement of the arts and the welfare of mankind may be given.

INTEREST

Interest payments now account for about 11 percent of net budget expenditures. They are determined by the size of the public debt and by interest rates on that debt. They are included in budget expenditures as they accrue. Interest is paid from permanent appropriations.

INTEREST

[Fiscal years. In millions]

Item	Net budget expenditures and new obligational authority		
	1955 actual	1956 esti- mated	1957 esti- mated
Interest on public debt.....	\$6,370	\$6,800	\$7,000
Interest on refunds of receipts.....	62	69	60
Interest on uninvested funds.....	5	6	6
Total.....	6,438	6,875	7,066

Interest on the public debt.—Interest payments on the public debt in the fiscal year 1957 are estimated at 7 billion dollars. This is an increase of 200 million dollars over estimated expenditures for the current fiscal year and 630 million dollars above actual expenditures in 1955.

The high level of prosperity has created a heavy demand for credit by private enterprises. As a result the average rate payable on the interest-bearing public debt has risen during the last 12 months from 2.29 percent to 2.49 percent at present, and maturing obligations are being refinanced at the higher rates prevailing in the money market.

The administration is recommending legislation so that the interest paid to the Federal old-age and survivors insurance trust fund will reflect more closely the long-term character of investments by that fund.

CONCLUSION

This is the third budget I have transmitted to the Congress.

As a result of the substantial reductions in Government expenditures made by the administration subsequent to assuming office, I noted in the first of these three budgets—for the fiscal year 1955—that a budget surplus was actually in sight. However, so that part of our savings through economies during that transitional period could be passed along to the taxpayers of the Nation as a whole, with beneficial effects for the growth of our economy, I stated that I believed it best “to adopt a course leading toward the twin goals of a balanced budget and tax reductions.”

Tax reduction was thus achieved with the administration’s first budget, which made possible a 7.4-billion-dollar tax reduction program, enabling us to make progress of historic dimensions in reducing tax burdens and improving the tax structure.

A balanced budget is now being achieved in the administration’s second and third budgets, both of which we now estimate will be brought into balance.

This course of Government policy has helped to lay a sound basis for the greatest volume of business, the highest employment, and the highest national income in the history of this country. As an essential element in this prosperity, private spending has more than replaced reductions in Federal spending. Federal expenditures have declined from 20.6 percent of total national production in the fiscal year 1953 to 17.3 percent in 1955. This budget is designed to continue that trend.

We have freed the economy from needless controls and from inflationary deficits, and have reduced the tax burdens which threatened to destroy the incentives to work and save and invest. State and local governments are now in an excellent position to obtain revenues and meet their responsibilities.

This budget carries forward the policies this administration has been following in the interest of all our 167 million Americans. The success of our country depends not upon centralized Government control, but upon the efforts of all our people to do more for themselves, to better themselves, their families, and communities. The role of Government is to encourage these efforts.

Some parts of our society, however, have not shared fully in the present prosperity of America. This budget provides for new steps to help create the conditions under which all Americans may share in the abundance we as a nation are enjoying.

There has also been developed an armed strength more efficient and better organized than ever before, and we shall continue building our defenses. We have started a worldwide, cooperative effort for peaceful uses of atomic energy which is already beginning to show

MESSAGE OF THE PRESIDENT

M79

results. We have worked with other free countries on a mutual basis to increase their economic and military strength and will continue to work with them. Our future prosperity, perhaps our very survival, will be linked with the strength of our allies and in the development of good will rather than fear and distrust among the nations.

This Nation has reached a new high of material prosperity. The rest of the free world has come to expect our leadership in cooperative efforts for peace and in defense of our common liberties. We should be very thankful for the resources of this country, for the efforts and accomplishments of our forebears. We should also be very humble. America must continue to be the land of faith, of promise, and of unbounded opportunity. There is much yet to do. With God's help, we will all go forward.

DWIGHT D. EISENHOWER.

JANUARY 16, 1956.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am presenting with this message my recommended budget for the United States Government for the fiscal year 1958, which begins next July 1.

This is the fourth budget which I have transmitted to the Congress.

In my first budget message—that for the fiscal year 1955—I emphasized the administration's determination to chart a course toward two important fiscal goals—balanced budgets and tax reductions.

Reductions in spending evidenced in the 1955 budget made possible a large tax reduction and tax reform program.

The 1956 budget was balanced.

The 1957 budget will be balanced.

A balanced budget is proposed for 1958.

I believe this policy of fiscal integrity has contributed significantly to the soundness of our Nation's economic growth and that it will continue to do so during the coming fiscal year.

BUDGET TOTALS			
[Fiscal years. In billions]			
	1956 actual	1957 estimate ¹	1958 estimate ¹
Budget receipts-----	\$68. 1	\$70. 6	\$73. 6
Budget expenditures-----	66. 5	68. 9	71. 8
Budget surplus-----	1. 6	1. 7	1. 8

¹ See footnote to table on preceding page. Includes proposed legislation.

This budget is for the first fiscal year of my second term in office. In making plans for the coming year, I have been guided by the following national objectives:

1. Peace, justice, and freedom for our own and other peoples;
2. Powerful armed forces to deter and, if need be, to defeat aggression;
3. A healthy and growing economy with prosperity widely shared;
4. Enhancement of individual opportunity and the well-being of all our people;
5. Wise conservation, development, and use of our great natural resources;
6. Fiscal integrity;
7. A well-balanced choice of programs at home and abroad; and
8. Increasing international trade and investment essential to the growth of the economies of the United States and the rest of the free world.

We have made considerable progress toward these goals. We will continue this progress in the years ahead.

BUDGET POLICY

Today, almost 12 years after World War II, the United States has demonstrated that it is possible to sustain a high employment economy independent of war and continually unbalanced Federal budgets. Adjustments to changing economic circumstances have been and are being made successfully. Productivity and living conditions have improved. With sound public and private policies, the prospect for continued economic growth is bright.

Attainment of that goal is possible only with prudent management of the Government's fiscal affairs. Our Federal budget must contribute to the Nation's financial stability and to the preservation of the purchasing power of the dollar. Maintaining a sound dollar requires of us both self-discipline and courage. At a time like the present when the economy is operating at a very high rate and is subject to inflationary pressures, Government clearly should seek to alleviate rather than aggravate those pressures. Government can do its part. But business and labor leadership must earnestly cooperate—or what Government can do in a free society at a time like this will *not* prevent inflation.

For the Government to do its part in the coming year, taxes must be retained at the present rates so that receipts will exceed budget expenditures and the public debt can be further reduced. The prospective budget surplus in the fiscal year 1958 will reinforce the restraining effect of present credit and monetary policies. The present situation also requires that less pressing expenditure programs must be held back and some meritorious proposals postponed.

Expenditure and appropriation policy.—While taking present economic conditions into consideration, the budget must also reflect the general responsibilities of a Government which will be serving 172 million people in the fiscal year 1958. In the face of continuing threats to world peace, our collective security must be strengthened through alert international policies and a strong defense. Progress toward greater equality of opportunity for all of our people as well as toward a balanced development and conservation of our national resources must go forward. Emphasis must continue upon promoting, through private enterprise, the development and productivity of our economy.

We must move forward in some areas of investment while we hold back in others. For example, the needs for schools, highways, and homes are so urgent that I am proposing to move ahead with programs to help our States, cities, and people undertake such construction at a prudent rate. However, in view of the present active competition for labor, materials, and equipment, I am not recommending some other desirable construction projects, and I have asked the head of each

MESSAGE OF THE PRESIDENT

M7

Federal agency to watch closely the timing of construction and to postpone work which can be appropriately put off until a later date.

It is also important to hold to a minimum any increase in Government personnel in the coming period. I have directed the heads of the Federal agencies to give renewed emphasis to their efforts in this regard—efforts which have resulted in a net reduction of approximately 240,000 in the civilian work force during the past 4 years. Vacant positions are to be filled by new employment only if careful review by each agency has demonstrated that the positions cannot be abolished or filled by transfer. All proposals which might produce higher Federal payrolls in the future will be critically examined and evaluated.

Continuation of balanced budgets into the future requires that the total of new authority to incur obligations, as well as the budget expenditures for the year, should be less than the total of realistically anticipated budget receipts. This policy of controlling budget authorizations, which has been followed since the beginning of this administration, has helped us move from a budget deficit of 9.4 billion dollars in the fiscal year 1953 to balanced budgets in 1956, 1957, and 1958.

In this budget the total of new authority proposed for 1958 is 73.3 billion dollars, 279 million dollars less than estimated budget receipts. Of the total recommended new authority, specific action by this session of the Congress will be necessary for 65.3 billion dollars. Other new authority, such as that for paying interest on the public

NEW AUTHORITY TO INCUR OBLIGATIONS¹

[Fiscal years. In billions]

	1956	1957	1958
Proposed for enactment in this session:			
Recommended at this time-----			\$56.7
Proposed for later transmission:			
Under existing legislation-----	\$0.8	(²)	
Under proposed legislation-----	0.8	8.6	
Total-----	1.6	65.3	
Enacted prior to this session:			
Current authorizations-----	\$53.3	60.7	
Permanent authorizations-----	9.9	8.2	8.0
Total-----	63.2	70.5	73.3

¹ For details see table 5 in part I of this budget document.² Less than 50 million dollars.

debt, will become available under previously enacted permanent authorizations.

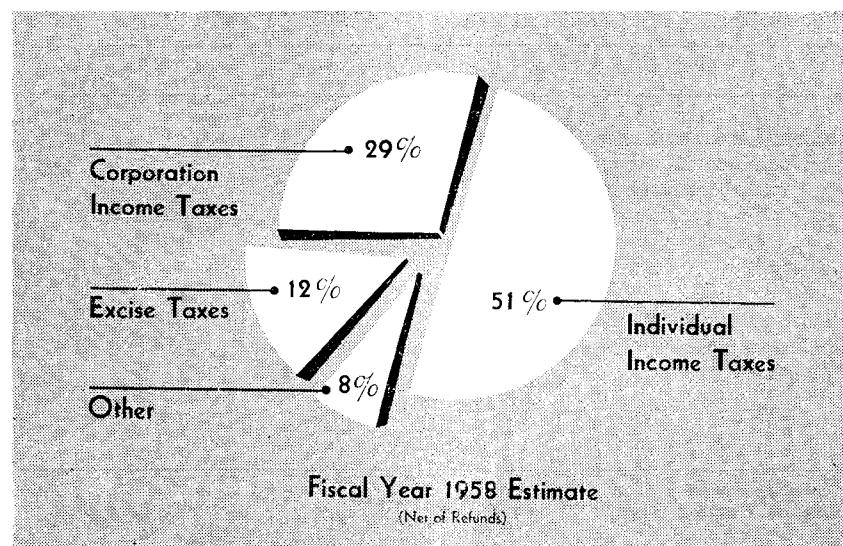
The total amount of new obligational authority recommended for the fiscal year 1958 is 2.8 billion dollars greater than the present estimates for 1957. Budget expenditures are estimated to increase by 2.9 billion dollars to a total of 71.8 billion dollars in 1958. These estimates include my proposals for new legislation as well as present programs.

For both new obligational authority and expenditures, about seven-tenths of the estimated increase between 1957 and 1958 is for the military functions of the Department of Defense, reflecting the higher costs of producing, operating, and maintaining the complex new weapons and equipment being delivered in growing quantities to our defense establishment. Other major increases are for the Department of Health, Education, and Welfare, including my proposal for aiding school construction, and for the Atomic Energy Commission.

The figures contained in this budget for the fiscal years 1957 and 1958 are not precisely comparable to the actual figures for prior years. Under the provisions of legislation enacted last year, the financial transactions for the greatly expanded Federal-aid highway program are included in a self-liquidating trust fund and are not in the budget totals.

Revenue policy.—It is my firm belief that tax rates are still too high and that we should look forward to further tax reductions as soon as

SOURCE OF BUDGET RECEIPTS



MESSAGE OF THE PRESIDENT

M9

they can be accomplished within a sound budget policy. Reductions in tax rates would give relief to taxpayers and would also release funds for the activity and investment necessary for sustained economic growth through private initiative. However, the reduction of tax rates must give way under present circumstances to the cost of meeting our urgent national responsibilities.

For the present, therefore, I ask for continuation for another year of the existing excise tax rates on tobacco, liquor, and automobiles, which, under present law, would be reduced next April 1. I must also recommend that the present corporate tax rates be continued for another year. It would be neither fair nor appropriate to allow excise and corporate tax reductions to be made at a time when a general tax reduction cannot be undertaken.

In the area of taxation, I am especially interested in the problems of small business. Last August the Cabinet Committee on Small Business made a series of carefully considered recommendations in this field. Some relief in the tax burden affecting small business, as recommended by that Committee, which will give help with a minimum loss of revenue should have early consideration by the Congress. Any changes involving substantial loss of revenue should be considered at a later time when a general tax reduction is possible.

The present estimates of budget receipts for 1958 are based on the assumption that the Nation will continue to have a high level of business activity with increasing national income, and that the present tax rates will be continued. They are the best estimates we can make at this time, but, since they relate to a period 6 to 18 months away, significant changes may take place before the fiscal year 1958 is ended.

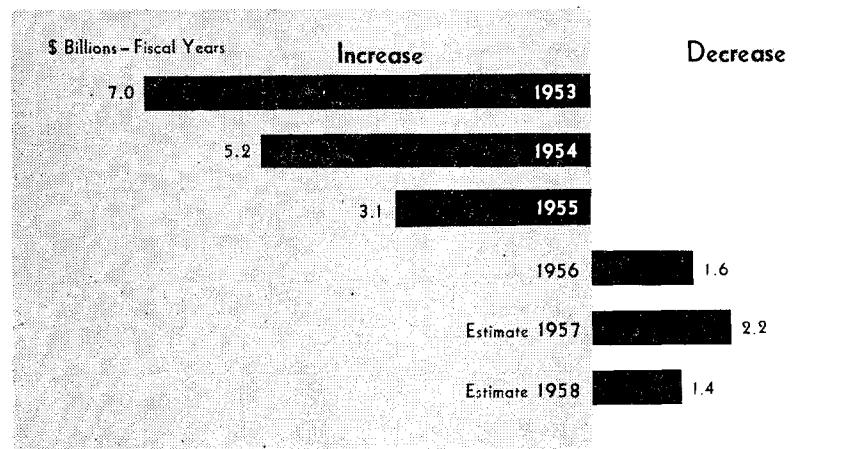
BUDGET RECEIPTS¹

[Fiscal years. In billions]

	1956 actual	1957 estimate	1958 estimate
Individual income taxes-----	\$35. 3	\$38. 5	\$41. 0
Corporation income taxes-----	21. 3	21. 4	22. 0
Excise taxes ² -----	10. 0	9. 2	8. 9
Other taxes ² -----	2. 2	2. 5	2. 6
Miscellaneous receipts-----	3. 0	3. 0	3. 3
Refunds of receipts (-)-----	-3. 7	-3. 9	-4. 2
Total-----	68. 1	70. 6	73. 6

¹ For details, see special analysis B in part IV of this budget document.

² Net of transfers to trust funds.

CHANGE IN PUBLIC DEBT

Debt policy.—The budget surplus for the fiscal year 1956 of 1.6 billion dollars was used to reduce the public debt. This budget provides for further reductions in the public debt for the current fiscal year and for the fiscal year 1958.

The successive reductions in the debt from 1956 through 1958 are modest in relation to its total size. Nevertheless, I hope that these reductions, plus the collection of corporation tax payments on a more nearly current basis (as provided by the Internal Revenue Code of 1954), will make it unnecessary to ask the Congress again for a temporary increase in the legal limit of 275 billion dollars to cover seasonal borrowing during the coming fiscal year.

PUBLIC DEBT¹
[Fiscal years. In billions]

	1956 actual	1957 estimate	1958 estimate
Public debt at start of year	\$274.4	\$272.8	\$270.6
Change due to budget surplus (—)	—1.6	—1.7	—1.8
Change due to other factors ²	(?)	—.5	+.4
Public debt at close of year	272.8	270.6	269.2

¹ For details, see table 4 in part I of this budget document.

² Less than 50 million dollars.

The reduction in the public debt in the fiscal year 1957 is estimated to be larger than the budget surplus for that year, mainly because it is anticipated that some expenditures during the year can be

MESSAGE OF THE PRESIDENT

M11

financed by drawing down the amount of cash the Government has on hand.

For the fiscal year 1958, the reduction in the public debt will not be as much as the budget surplus. This situation results primarily from the fact that, in the aggregate, the trust funds are expected to draw down the amount of uninvested cash held for them by the Treasury.

Receipts from and payments to the public.—The restraint on inflationary pressures which will be exerted by the budget surplus in the fiscal year 1958 will be reinforced by net accumulations in the trust funds which the Government administers. These trust fund accumulations, such as those for highways and for old-age and survivors and disability insurance, are the excess of current receipts over current payments. They constitute reserves for future use which are invested in Government securities.

When the Government's budget transactions are consolidated with trust fund and other transactions to give a picture of the flow of money between the public and the Government as a whole, the receipts from the public are estimated to exceed payments to the public by 3 billion dollars in the fiscal year 1958.

FEDERAL GOVERNMENT RECEIPTS FROM AND PAYMENTS TO THE PUBLIC¹

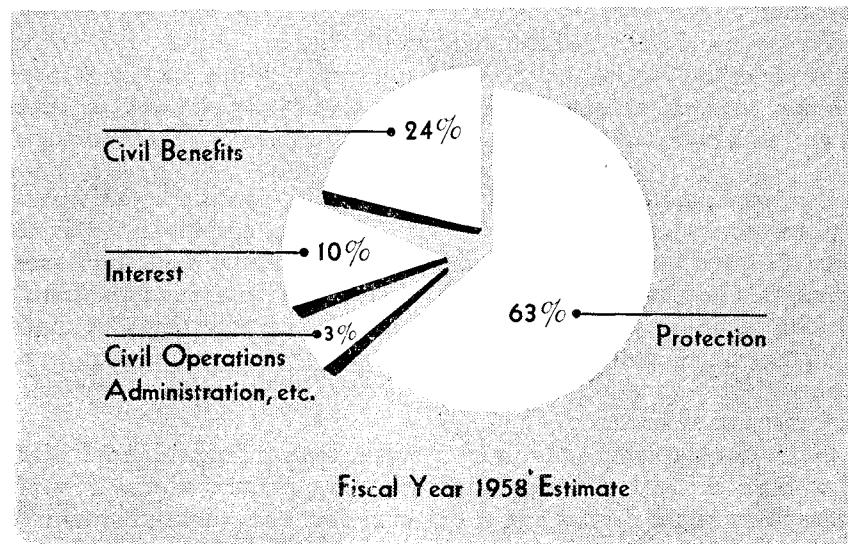
[Fiscal years. In billions]

	1956 actual	1957 estimate	1958 estimate
Receipts from the public-----	\$77.1	\$81.7	\$85.9
Payments to the public-----	72.6	78.2	82.9
Excess of receipts from the public----	4.5	3.5	3.0

¹ For details, see special analysis A in part IV of this budget document.

The decline between the fiscal years 1956 and 1957 in the excess of receipts from the public results mainly from the estimated withdrawal of cash from the Treasury by the International Monetary Fund in 1957. The cash payments are made as the Treasury redeems the notes which were part of the United States subscription to the Fund. This subscription was made in the fiscal year 1947 and is therefore not part of current budget expenditures.

The excess of receipts from the public is estimated to be still lower in 1958 mainly because of higher net payments from trust funds.

PURPOSE OF BUDGET EXPENDITURES**BUDGET PROGRAMS AND PERFORMANCE**

By far the largest part of the budget for the coming fiscal year, 63 percent, will be devoted to maintaining and improving our own defenses and to strengthening the defenses and economies of other nations in the interest of collective security and world peace. Civil benefits will account for 24 percent of budget expenditures; interest, 10 percent; and all other operations, administration, and contingencies, 3 percent.

BUDGET EXPENDITURES BY PURPOSE¹

[Fiscal years. In billions]

	1956 actual	1957 estimate	1958 estimate
Protection, including collective security	\$42.4	\$42.7	\$45.3
Civil benefits	15.3	16.5	16.9
Interest	6.8	7.3	7.4
Civil operations and administration	2.0	2.3	1.8
Allowance for contingencies		.2	.4
Total	66.5	68.9	71.8

¹ For details, see special analysis E in part IV of this budget document.

Protection, including collective security.—As a simple matter of self-preservation, we must maintain our own strength and promote world

MESSAGE OF THE PRESIDENT

M13

stability by helping to build up the strength of friendly nations. At the same time, we must actively advance our other efforts for lasting peace and inform the world in all appropriate ways of our peaceful aims.

The new and more powerful weapons which are being delivered to our Armed Forces in increasing quantities and varieties are much more costly to produce, operate, and maintain than the weapons they are replacing. Furthermore, we are now engaged in the development of a whole new family of even more advanced weapons for all the services. Large expenditures will be required to bring these weapons into use. During the transition, we must continue to purchase enough of the current types to preserve our readiness until the effectiveness of the advanced weapons is demonstrated in tests. Despite these upward pressures on expenditures, future defense costs must be held to tolerable levels. Effective action must be taken to improve efficiency and to maintain a proper balance between expenditures for future military strength and expenditures for current readiness.

EXPENDITURES FOR PROTECTION, INCLUDING COLLECTIVE SECURITY

[Fiscal years. In billions]

	1956 actual	1957 estimate	1958 estimate
Major national security programs:			
Department of Defense—military functions-----	\$35. 8	\$36. 0	\$38. 0
Mutual security program—military-----	2. 6	2. 6	2. 6
Atomic Energy Commission-----	1. 7	1. 9	2. 3
Stockpiling and defense production expansion-----	. 6	. 4	. 4
Subtotal -----	40. 6	41. 0	43. 3
Related programs:			
Mutual security program—economic, technical, and other-----	1. 6	1. 5	1. 8
United States Information Agency-----	. 1	. 1	. 1
Federal Civil Defense Administration-----	. 1	. 1	. 1
Selective Service System-----	(1)	(1)	(1)
Subtotal -----	1. 8	1. 7	2. 0
Total -----	42. 4	42. 7	45. 3

¹ Less than 50 million dollars.

The introduction of new equipment and weapons with vastly greater combat capability is also having a powerful impact on concepts of military strategy, tactics, and organization. The combat power of our divisions, wings, and warships has increased to such an extent that it is no longer valid to measure military power in terms of the number of such units.

I have given careful consideration to the many complex factors which enter into the development of a well-balanced military structure. I am convinced that the defense programs and funds for their support as recommended in this budget provide a wise and reasonable degree of protection for the Nation.

Our nuclear weapons and our ability to employ them constitute the most effective deterrent to an attack on the free nations. We shall continue to expand our nuclear arsenal until an agreement has been reached for reduction and regulation of armaments under safeguarded inspection guaranties.

At the same time, we are increasing the portion of the production of fissionable materials allocated to peaceful uses at home and abroad and we look forward to the day when all production may be used for peaceful purposes. This budget provides for increased effort on power reactor development and on new uses of atomic energy in biology, medicine, agriculture, and industry. It will also make possible greater sharing of our peaceful atomic energy developments with other nations through the atoms-for-peace program.

World events continue to demonstrate the value of our programs of mutual assistance. Continued assistance, both military and economic, to friendly nations will provide the essential margin beyond their own resources needed to support and strengthen their defenses and their economies. The intensified worldwide conflict of ideas also requires a further increase in our programs of international information.

Civil benefits.—During the past 4 years, the Government has acted affirmatively to advance the everyday well-being of our people by

EXPENDITURES FOR CIVIL BENEFITS

[Fiscal years. In billions]

	1956 actual	1957 estimate	1958 estimate
Additions to Federal assets-----	\$3. 5	\$3. 0	\$3. 4
Long-range development-----	2. 0	1. 8	2. 3
Current expense items-----	9. 7	11. 7	11. 1
Total-----	15. 3	16. 5	16. 9

helping to improve their economic opportunities, helping to provide safeguards against economic and physical hazards, and helping to build needed public assets. The Government's leadership in assisting the people to satisfy their own needs has been so exercised that steady progress has taken place without paternalistic interference.

In the fiscal year 1958 we shall continue to move forward with many civil benefit programs already established by law.

To aid agriculture in its adjustments to new technologies and to changed world production and consumption patterns, the soil bank program will help reduce the production of surplus crops. Additional marketing research and service activities will develop new markets and new uses for our farm products. Watershed protection, aid to low-income farmers, and assistance in overcoming the problems of drought, wind erosion, and floods will be expanded.

The Federal Government is assisting the States and private enterprise to make major advances in our transportation system. Traffic control on our airways is being continually improved as new equipment is developed and becomes available. Orderly replacement by private shipping lines of the merchant ships built during World War II is underway. Through grants paid from the highway trust fund, the States, in partnership with the Federal Government, are beginning a 13-year program to complete construction of the Interstate Highway System.

Under the urban renewal program, which combines Federal, local, and private efforts, 41 urban renewal projects will have been completed by the close of the fiscal year 1958, and 531 more will be in various stages of planning or construction. Private financing of housing for military families, elderly families, cooperatives, and other groups having special difficulties in obtaining homes will be encouraged by special mortgage insurance and mortgage purchase programs.

Over the 3-year period, 1955 through 1957, nearly 400 new water-resource projects for flood control, navigation, irrigation, power, and water supply will have been started and about one-half of these projects will still be under construction in 1958. Because of the need for continued and orderly development of our resources, I recommend that construction be started at a modest rate in 1958 on some new projects for which planning is well advanced. Funds for initiating immediately the planning of new public works projects which the Congress is expected to authorize are also included in this budget.

Increased expenditures will be made for sound programs of health research and grants for hospitals, clinics, and diagnostic and rehabilitation centers.

Legislative recommendations for new civil benefits involving major expenditures are being confined to needs of the highest priority and will be discussed later in this message.

Interest.—Expenditures for interest are estimated to rise 100 million dollars to 7.4 billion dollars in the fiscal year 1958, despite reductions in the public debt in 1956, 1957, and 1958. The increase in interest charges is due to refinancing securities maturing during the coming year at the higher rates of interest which reflect the heavy demand for credit and capital throughout our prosperous economy.

Civil operations and administration.—Expenditures for the remaining operations of the Government are estimated to be 1.8 billion dollars in the fiscal year 1958, an amount 425 million dollars less than in 1957 and 185 million dollars less than in 1956. The decreases occur primarily because certain payments heretofore made by the Civil Service Commission and the Treasury Department will be charged to the appropriations of the several agencies in accordance with legislation enacted last year. These are the payments which the Government, as employer, makes to the civil service retirement fund and those which it makes for certified bills presented too late for payment in the regular way. This improved accounting procedure shows with greater accuracy the total cost of various agency programs and is responsible for part of the increase shown in the expenditures for protection and civil benefits.

Allowance for contingencies.—Sound budgeting requires that some general provision be made for contingencies which may arise in the coming period. This is especially important today, in view of uncertain world conditions. The Congress is not being asked to appropriate for purposes not known. This item makes allowance in the budget totals for probable future requests, including those to cover the cost of some legislative proposals for which the timing of expenditures is uncertain. As the needs arise, and as new legislation is passed, a specific request for funds will be made in each case. The amount allowed for expenditures is 400 million dollars, slightly over one-half of 1 percent of total budget expenditures estimated for 1958.

Management improvement.—The administration is constantly striving to improve the management of Government. Vigorous measures to increase efficiency have shown results in many Government operations.

In the Veterans Administration, for example, the staff in nonmedical activities has been reduced by 10,000 in the past 4 years. Some of

MESSAGE OF THE PRESIDENT

M17

this reduction was made possible because of smaller numbers of insurance and readjustment payments, but most of the reduction in staff reflects better procedures, including extensive mechanization of operations.

In the overseas supply activities of the Department of Defense, new procedures employing faster communications and better transportation service have been established. These improved methods of supplying overseas units substantially reduce inventory requirements and thus save both capital investment and costs of handling.

In the Post Office Department, despite an 11 percent rise in the volume of mail in the 4 fiscal years 1954 through 1957, the average employment will have increased only a little more than 3 percent. This is concrete evidence of the value of new methods, organization, and equipment.

After intensive reviews of their real property holdings, Government agencies over the past 3 fiscal years have transferred excess property costing over 131 million dollars to other agencies, thus reducing the volume of purchases needed by those agencies to meet new requirements. In addition, surplus real property worth 366 million dollars, including almost all of the Government-owned synthetic rubber plants, has been sold, thus putting most of this property on the tax rolls.

In accordance with the recommendations of the second Hoover Commission, an Office of Accounting has been established in the Bureau of the Budget to help the Federal agencies to improve further their financial management and, in that connection, to put into effect the principles of accrual accounting and cost-based budgeting approved in legislation enacted last year. Modern accrual accounting will make possible better management through improved information needed to control costs.

LEGISLATIVE PROGRAM

This year I discussed only a few of the administration's legislative recommendations in the State of the Union message. Therefore, this part of the budget message is devoted to a discussion of other major proposals for legislation on which I recommend that the Congress take action during the present session. The legislative program is one on which the Congress and the executive agencies should be able to work together successfully.

In the course of the next few months the administration will recommend to the Congress a number of important legislative proposals.

In the immediate future, I shall forward a message emphasizing the urgency of enactment of an adequate program of Federal aid for school construction, and a message on my proposals for amendment of our immigration laws. In connection with the administration's proposals on education, this budget provides for the start of a 4-year program of aid for school construction.

Two areas need earnest and prompt attention with a view to determining whether new national policies should be adopted in the light of reports and recommendations now pending in the Congress. These are numerous detailed recommendations of the second Hoover Commission which the committees were unable to consider prior to adjournment of the 84th Congress and the proposals made by the Advisory Committee on Transport Policy and Organization. Legislation to carry out the recommendations of the Committee was the subject of hearings during the last Congress. Because of the importance of strengthening our transportation system, these hearings should be completed in the present session. Proposals for legislation will again be submitted by the Secretary of Commerce.

Substantial budget increases are recommended for existing activities which will improve the health of the American people. The Congress is also urged to enact legislation under which the Federal Government can help the medical and dental schools to build more and better teaching, as well as research, facilities to prevent the already acute shortage of trained medical manpower from becoming critical. It is also time to enact the necessary statutory basis for expansion and improvement of voluntary health insurance plans under which smaller insurance companies and nonprofit associations could pool their resources and experience.

In the welfare field, additional funds are likewise provided in the budget, and the Congress is urged to enact a new program of grants to the States to help fight juvenile delinquency.

In recent years, a succession of legislative enactments has moved a long way toward the goal of universal social security coverage, but there are a number of collateral steps which will add much to the meaning of our social security system as a whole. In part, these steps can be taken by budgetary action, for example, by giving particular attention to the needs of the rapidly increasing number of older persons in our society. Other steps will require legislation. First, the unemployment insurance system should be extended and improved. Similarly, congressional action is recommended to extend the Fair Labor Standards Act to additional workers. The Secretary of Labor will make recommendations on this act when hearings are held by the committees of the Congress. The Federal 8-hour laws

should be revised and brought up to date and legislation should be enacted to assure equal pay for equal work. A modest program of grants under which the States can increase their efforts to improve occupational safety should be initiated. Likewise, legislation should be enacted to require the registration of employee pension and welfare funds to protect the interests of beneficiaries.

Of particular importance are recommendations to protect and foster the initiative of the small businessman. The Small Business Act should be extended. In order that small business may have better opportunity to secure adequate financing, issues of securities up to 500 thousand dollars should be exempted from the regular registration provisions of the Securities Act of 1933. Similarly, the Congress should enact legislation providing for notification to the Federal Government of proposed business mergers, and should amend the procedural provisions of the antitrust laws to facilitate their enforcement. Wage reporting for income tax and social security purposes should be consolidated and simplified. Other means of assisting small business will be discussed in the Economic Report.

I repeat my recommendation of last year for the prompt enactment of appropriate authority under which communities can be assisted in solving basic problems of persistent unemployment.

At the present time, I do not contemplate proposing an extensive program of personnel legislation comparable to the numerous constructive measures enacted in the last several years. Certain needed improvements in central personnel management are discussed in the general government section of my budget analysis. All of these measures deserve early attention and enactment by the Congress. In addition, the Secretary of Defense is now studying recommendations of his Advisory Committee on Professional and Technical Compensation. Any legislative recommendations growing out of the work of this committee respecting personnel policies and compensation systems of the military services will be presented at a later time.

We should not let another year go by without taking the necessary action to place the Post Office on a pay-as-you-go fiscal basis. The case for adjusting postal rates needs no further justification. It is supported by a vast majority of the general public as well as by most of the business community. The administration has demonstrated its capacity for improving the postal service, installing new and more efficient methods and equipment, and cutting costs in accordance with good business practice. The Congress should take the further action needed to reduce the huge postal deficit. Then the

further improvements needed in equipment and facilities can be made so that the American people may receive the mail service they deserve and have the right to expect.

Various agencies are being asked to review with the Congress the interest rates charged by the Government in connection with different kinds of loans, several of which have a fixed statutory maximum established when interest costs were much lower than today. It is desirable that there be more consistency and that more discretion be allowed in determining what going rates should be, dependent on the period of the loans and their conditions.

Recommendations concerned with proposed legislative changes in our housing laws will be found in the section of my budget analysis carrying the heading "Commerce and housing."

With respect to farm legislation, certain changes are being recommended in the corn program. Farmers who use all the wheat grown on their own farms for seed, feed, or food should be exempt from marketing quotas and penalties. The basic authority for disposal of surplus farm commodities for foreign currencies, title I of Public Law 480 of the 83d Congress, should be extended for 1 year and an additional 1 billion dollars of authorization for losses under this title should be provided. Legislation should also be enacted authorizing the barter of nonstrategic Government-owned agricultural surpluses to the nations of Eastern Europe.

The program of the administration in the field of natural resources is fully set forth in that section of the budget analysis. It will not be repeated here, except to indicate my continuing firm support of the necessary legislative action to enable Federal agencies to participate more fully with States, local governments, and private groups in the development of partnership resources projects. I urge once again the prompt enactment of legislation which will enable the Fryingpan-Arkansas multiple-purpose project to get underway in the fiscal year 1958.

I also recommend prompt action by the Congress to decide how the Niagara power project can best be developed.

In returning the Harris-Fulbright natural gas bill to the 84th Congress without my approval, I stated that legislation conforming to the basic objectives of that bill was needed. I am still of that opinion. It is essential that consumers of natural gas be protected. We must endeavor to make sure that there will be continued exploration and development of adequate field supplies of gas, and that producers' sales prices are arrived at fairly and competitively. In this way, and with authority vested in the Federal Power Commission to regulate interstate pipelines as to the price at which gas may be charged as an item of cost in fixing their rates, the price to the public will be fair. Legislation freeing gas producers from public utility-type regulation

is essential if the incentives to find and develop new supplies of gas are to be preserved and sales of gas to interstate markets are not to be discouraged to the detriment of both consumers and producers, as well as the national interest.

The Congress is urged to carry out the proposals of the Judicial Conference for additional Federal judges. Also, when a district or circuit court judge who is the senior judge of the district or circuit becomes 70 and chooses not to retire, he should be relieved of his administrative duties. Furthermore, whenever a district court judge reaches 70 and chooses not to retire, the Congress should provide that upon certification by the Judicial Conference of the need therefor, the President would be authorized to appoint an additional judge. When the judge who had reached 70 dies or retires, the vacancy thus created would not be filled.

Although it is not within my province to make any recommendation, I am deeply interested in the suggestion which has been made that the Congress should consider inviting the Chief Justice of the United States to address the Congress annually on the work of the judiciary and to present the recommendations of the Judicial Conference.

I recommend again that the Congress enact suitable legislation providing for home rule in the District of Columbia. Under any such system the citizens of the District should be authorized to elect local officials, to vote in Federal elections, and to have a delegate in the House of Representatives.

I also recommend the enactment of legislation admitting Hawaii into the Union as a State, and that, subject to area limitations and other safeguards for the conduct of defense activities so vitally necessary to our national security, statehood also be conferred upon Alaska.

The platforms of both major parties have advocated an amendment of the Constitution to insure equal rights for women. I believe that the Congress should make certain that women are not denied equal rights with men. Similarly, I believe that the Congress should propose a constitutional amendment lowering the voting age in Federal elections.

As has already been indicated in the State of the Union message, continuation of military and economic assistance to the free nations of the world is a keystone of the administration's efforts to promote peace, collective security, and well-being for all peoples. Essential complements of these assistance programs are steps to increase international trade and investment. Both can be materially advanced by taking the actions necessary to avoid unfair tax duplications on business conducted overseas and by the prompt enactment of legislation approving United States membership in the proposed Organization for Trade Cooperation. This administrative agency will greatly aid the orderly operation of existing arrangements governing multilateral

trade to help prevent discrimination and restrictions against our foreign commerce.

Although necessity forces us to keep ever in mind the destructive power of nuclear weapons, it is equally essential that we keep in mind the firm determination of the United States to share the fruits of its efforts to develop the peaceful uses for atomic energy. Seventy-two nations have now signed the charter of the International Atomic Energy Agency, which was established under the auspices of the United Nations. Prompt action by the Congress is needed to authorize full participation by the United States in the work of this Agency. The United States has offered for distribution through this Agency 5,000 kilograms of fissionable uranium 235 out of the 20,000 kilograms previously offered for atomic research and power uses in other nations, as part of our atoms-for-peace program.

The analysis of the budget discusses present programs for veterans. A special message recommending changes needed in these programs will be transmitted to the Congress.

The remaining items to which special attention should be directed are (1) authorization to the President to make awards for distinguished civilian achievement, (2) establishment of a Federal Advisory Commission on the Arts, (3) acquisition and maintenance of an official residence for the Vice President, and (4) amendment of the Government Corporation Control Act to provide for budget and audit control over Government corporations which are authorized, directly or indirectly, to obtain or utilize Federal funds. It is also recommended that the Congress give further consideration to legislation which would place Government appropriations on an accrued expenditure basis.

The other proposals which are parts of the administration's legislative program are discussed in my analysis of the budget. The fact that they are not included in this summary presentation in no way detracts from their importance or the strength of my recommendation that they be considered and enacted by the Congress in its present session.

MESSAGE OF THE PRESIDENT

M23

ANALYSIS OF THE BUDGET

I am presenting my budgetary recommendations in greater detail under nine major program headings in the analysis of the budget which follows this message. The Economic Report will contain a further discussion of some of these proposals.

It is always difficult to make plans and forecast expenditures a year or more in advance. This is particularly true when historic events are taking place in Eastern Europe, when United Nations forces are deployed in the Middle East, when uncertainties abound in other parts of the world, and when in our own land economic change is continuous. This budget has taken into account present conditions and developments which today appear most likely at home and abroad. It provides funds for all necessary Government activities on a reasonable scale, and efforts will continue to be made by every executive department and agency to improve efficiency and to maintain expenditures well within the budget estimates. It is a carefully balanced budget—balanced in its receipts and expenditures, balanced in its choice of programs. I consider it well adapted to the needs of the present and the future.

DWIGHT D. EISENHOWER.

JANUARY 16, 1957.

SUMMARY OF NEW OBLIGATIONAL AUTHORITY

BY FUNCTION AND AGENCY

Based on existing and proposed legislation

{Fiscal years. In millions}

Description	1956 enacted	1957 estimate			1958 estimate		
		Enacted	Proposed for later transmission	Total	Recommended in this document	Proposed for later transmission	Total
BY FUNCTION							
Major national security-----	\$35,903	\$40,166	\$200	\$40,366	\$38,772	\$4,828	\$43,600
International affairs and finance-----	2,123	2,231	2	2,233	510	1,950	2,460
Veterans' services and benefits-----	4,823	4,807	82	4,890	4,942	100	5,042
Labor and welfare-----	2,860	2,913	283	3,196	3,318	481	3,799
Agriculture and agricultural resources-----	3,310	5,069	27	5,096	4,767	25	4,792
Natural resources-----	1,213	1,351	40	1,391	1,476	83	1,559
Commerce and housing-----	4,526	3,329	662	3,992	2,165	626	2,791
General government-----	1,595	1,826	25	1,851	1,430	8	1,438
Interest-----	6,846	7,260	-	7,260	7,360	-	7,360
Allowance for contingencies-----	-	-	250	250	-	500	500
Total new obligational authority-----	63,198	68,952	1,572	70,524	64,741	8,600	73,341
BY AGENCY							
Legislative branch-----	199	90	-	90	95	-	95
The judiciary-----	37	39	(1)	40	45	-	45
Executive Office of the President-----	10	11	-	11	12	-	12
Funds appropriated to the President:							
Mutual security-----	2,703	3,804	-	3,804	-	4,400	4,400
Other-----	50	26	-	26	35	-	35
Independent offices:							
Atomic Energy Commission-----	1,179	1,961	-	1,961	2,400	120	2,520
Veterans Administration-----	4,800	4,878	82	4,960	4,890	100	4,990
Other-----	768	1,148	51	1,198	651	192	844
General Services Administration-----	709	236	24	259	447	-	447
Housing and Home Finance Agency-----	888	1,116	551	1,666	164	1,030	1,194
Department of Agriculture-----	3,598	5,853	33	5,886	5,133	25	5,158
Department of Commerce-----	2,736	703	61	764	891	53	944
Department of Defense—Military Functions-----	33,187	36,187	200	36,387	36,242	2,258	38,500
Department of Defense—Civil Functions-----	666	664	1	665	685	19	703
Department of Health, Education, and Welfare-----	2,107	2,224	282	2,506	2,593	478	3,071
Department of the Interior-----	516	623	34	657	711	7	718
Department of Justice-----	211	216	(1)	216	235	-	235
Department of Labor-----	470	431	(1)	431	435	3	438
Post Office Department-----	470	483	-	483	651	2,584	67
Department of State-----	149	224	2	226	230	-	230
Treasury Department-----	7,716	8,003	1	8,003	8,154	-	8,154
District of Columbia-----	30	33	-	33	42	-	42
Allowance for contingencies-----	-	-	250	250	-	500	500
Total new obligational authority-----	63,198	68,952	1,572	70,524	64,741	8,600	73,341

¹ Less than one-half million dollars.² Deduct, made up of 654 million dollars proposed postal rate adjustment offset in part by a 70-million-dollar supplemental appropriation for capital outlay.

MESSAGE OF THE PRESIDENT

M25

SUMMARY OF BUDGET EXPENDITURES

BY FUNCTION AND AGENCY

Based on existing and proposed legislation

[Fiscal years. In millions]

Description	1956 actual			1957 estimate			1958 estimate		
	Gross ex-penditures	Applicable receipts ¹	Net ex-penditures	Gross ex-penditures	Applicable receipts ¹	Net ex-penditures	Gross ex-penditures	Applicable receipts ¹	Net ex-penditures
BY FUNCTION									
Major national security-----	\$40,845	\$204	\$40,641	\$41,303	\$338	\$40,965	\$43,621	\$286	\$43,335
International affairs and finance-----	2,151	305	1,846	2,767	384	2,382	2,878	434	2,444
Veterans' services and benefits-----	4,804	48	4,756	4,906	55	4,851	5,085	57	5,027
Labor and welfare-----	2,778	2	2,776	3,035	3	3,032	3,542	4	3,538
Agriculture and agricultural resources-----	9,060	4,146	4,913	9,560	4,859	4,701	8,123	3,159	4,965
Natural resources-----	1,361	257	1,104	1,649	278	1,371	1,836	298	1,538
Commerce and housing-----	5,958	3,931	2,028	6,574	4,305	2,269	6,904	5,156	1,748
General government-----	1,633	4	1,629	1,873	3	1,870	1,455	3	1,451
Interest-----	6,846	-----	6,846	7,260	-----	7,260	7,360	-----	7,360
Allowance for contingencies-----	-----	-----	200	-----	200	400	-----	400	-----
Total budget expenditures-----	75,436	8,896	66,540	79,127	10,227	68,900	81,203	9,396	71,807
BY AGENCY									
Legislative branch-----	85	-----	85	109	-----	109	122	-----	122
The judiciary-----	37	-----	37	40	-----	40	44	-----	44
Executive Office of the President-----	10	-----	10	11	-----	11	12	-----	12
Funds appropriated to the President:									
Mutual security-----	4,204	3	4,201	4,107	5	4,102	4,363	6	4,356
Other-----	475	203	272	369	334	35	344	255	89
Independent offices:									
Atomic Energy Commission-----	1,651	(2)	1,651	1,940	(2)	1,940	2,340	(2)	2,340
Veterans Administration-----	4,828	98	4,731	4,965	108	4,857	5,186	118	5,068
Other-----	3,147	2,547	601	3,323	1,867	1,456	1,708	822	886
General Services Administration-----	529	5	523	692	2	690	657	3	654
Housing and Home Finance Agency-----	1,043	1,004	39	2,087	1,368	719	1,937	1,546	391
Department of Agriculture-----	7,376	2,199	5,177	8,865	3,714	5,152	8,481	3,151	5,330
Department of Commerce-----	1,321	28	1,293	672	28	644	801	29	772
Department of Defense—Military Functions-----	35,791	(2)	35,791	36,005	5	36,000	38,031	31	38,000
Department of Defense—Civil Functions-----	672	99	573	742	93	649	784	85	700
Department of Health, Education, and Welfare-----	2,073	2	2,071	2,364	2	2,361	2,834	3	2,831
Department of the Interior-----	546	35	512	681	29	652	737	32	704
Department of Justice-----	216	-----	216	214	-----	214	226	-----	226
Department of Labor-----	414	2	412	412	3	409	422	4	418
Post Office Department-----	2,913	2,450	463	3,015	2,556	459	3,354	3,296	58
Department of State-----	142	-----	142	184	-----	184	230	-----	230
Treasury Department-----	7,941	221	7,719	8,102	110	7,992	8,149	16	8,132
District of Columbia-----	22	-----	22	27	-----	27	43	-----	43
Allowance for contingencies-----	-----	-----	200	-----	200	400	-----	400	-----
Total budget expenditures-----	75,436	8,896	66,540	79,127	10,227	68,900	81,203	9,396	71,807

¹ Receipts of certain Government corporations, the postal service, and other revolving funds the receipts of which come primarily from outside the Government. These funds are listed in the respective chapters of part II as "Public enterprise funds."

* Less than one-half million dollars.

THE PRESIDENT'S ANALYSIS OF THE BUDGET

The budget recommendations for the fiscal year 1958 are accompanied by revised estimates for the current fiscal year, 1957, and by reports on the results of Government operations for the year ended June 30, 1956.

The final results for the fiscal year 1956 show a budget surplus of 1,626 million dollars, a net decrease of 128 million dollars from the preliminary figures reported in August in the midyear review of the budget. The decline is due to the inclusion of transactions which were not fully reported by August.

The current estimate of budget receipts for the fiscal year 1957 exceeds the estimate of 69.8 billion dollars made last August by 828 million dollars. This increase is due mainly to greater indicated receipts from the individual income tax.

Budget expenditures for 1957 are now estimated to be 193 million dollars less than the 69.1 billion dollars anticipated in the midyear review. The principal changes in the estimated expenditures are:

- (1) A downward revision of 1 billion dollars for the Department of Agriculture, mainly because of reduced estimates of price support disbursements and higher estimates of commodity sales.
- (2) A decline of 248 million dollars for the economic portion of the mutual security program, partly because certain country programs have been revised to place greater emphasis on long-range development projects.
- (3) An increase of 586 million dollars for the Housing and Home Finance Agency, mainly for advances to the Federal National Mortgage Association for its secondary market operations.
- (4) An increase of 497 million dollars in the estimated net expenditures of the Export-Import Bank, due to a larger volume of loans and to lowered estimates of private participation in the Bank's loans.

Discussion of each of the major programs of the Government follows, with emphasis on recommendations for the fiscal year 1958.

MAJOR NATIONAL SECURITY

Events in recent months have dramatized the need for strong collective security. The military strength of the United States is a bulwark for world peace and freedom. A large share of the budget must go to maintain the Nation's military forces in their present high state of readiness and to introduce new weapons. Also, effective support must be given to the defense forces of other nations. Advances in

MESSAGE OF THE PRESIDENT

M27

nuclear technology must be applied to improving national defense and, in increasing degree, to peacetime uses in the United States and the rest of the free world.

MAJOR NATIONAL SECURITY

[Fiscal years. In millions]

Program or agency	New obligational authority			Expenditures		
	1956 actual	1957 estimate	1958 estimate	1956 actual	1957 estimate	1958 estimate
Gross budget expenditures:						
Department of Defense—military functions:						
Direction and coordination of defense.....	\$13	\$15	\$17	\$14	\$14	\$17
Air Force defense.....	15,517	17,690	16,481	16,749	16,890	17,472
Army defense.....	7,354	7,645	8,539	8,702	8,581	9,131
Navy defense.....	9,648	10,200	10,517	9,745	9,732	10,349
Other central defense activities.....	654	637	688	582	637	714
Proposed for later transmission.....	200	2,258	-----	150	-----	347
Total, Department of Defense.....	33,187	36,387	38,500	35,791	36,005	38,031
Development and control of atomic energy:						
Present program.....	1,179	1,961	2,400	1,651	1,940	2,310
Proposed legislation.....	-----	-----	120	-----	-----	30
Stockpiling and defense production expansion.....	521	-----	130	791	759	650
Mutual security program—military:						
Present program.....	1,016	2,018	-----	2,611	2,600	2,100
Proposed legislation.....	-----	-----	2,450	-----	-----	500
Total.....	35,903	40,366	43,600	40,845	41,303	43,621
Deduct applicable receipts:						
Department of Defense—military functions.....				(1)	5	31
Defense production expansion.....	-----	-----	-----	203	334	255
Net budget expenditures.....	-----	-----	-----	40,641	40,965	43,335

¹ Less than one-half million dollars.

Department of Defense, military functions.—The defense program involves four basic military missions in which each of the military services has an active role. New and vastly superior weapons have a profound impact on each mission and on the size and composition of the military budget. The budget recommendations for the fiscal year 1958 reflect adjustments that have been made in the contributions of the individual military departments to the four basic military missions.

One mission is to maintain ready nuclear-air-retaliatory forces so strong that they will deter a potential aggressor from initiating an attack. Procurement in the fiscal year 1958 will provide for equipping the heavy bomber wings of the Strategic Air Command with 45 all-jet B-52 aircraft in place of the present smaller number of 30 B-36's.

The gradual elimination of strategic fighter wings, which are no longer considered necessary, will be completed. The striking power of the Navy will be enhanced by the addition of new and modernized attack carriers, jet aircraft capable of higher speeds and higher altitudes, atomic submarines, and guided missile ships.

A second mission is to build a defense system which will minimize the chances of a successful attack on this continent. The Continental Air Defense Command has been assigned operational control over all forces and weapons made available for the air defense mission. The Command's radar warning network, extending from the central Pacific around the northern perimeter of North America and across the Atlantic approaches, will be largely in operation during the fiscal year 1958. The interceptor squadrons of the Air Force will be further strengthened with the delivery of still better aircraft, and the anti-aircraft missile capabilities of the Army will be expanded. The Navy's antisubmarine warfare capability is being improved to meet the threat of missiles launched from submarines.

A third mission is to maintain mobile and versatile forces suitably deployed and ready for immediate action in case of aggression. Army divisions are being reorganized into more flexible units supported with the latest atomic weapons and with aviation units. In addition, the Army will increase the number of atomic support commands which are particularly suitable as back-up for the ground forces of allied countries. Taking advantage of the greater firepower and mobility gained from the new units and equipment, the number of Army divisions will be reduced by one during the fiscal year 1958. The greater mobility and effectiveness of tactical aircraft coupled with the growing guided missile capabilities of the Army, permit a reduction in the number of Air Force tactical wings. The three Marine divisions and air wings are now equipped with a variety of atomic weapons and are continually improving their capability for amphibious assault operations.

A fourth mission, to maintain control of the essential sea areas and lines of communication in case of war, is primarily the task of the Navy, although the Air Force and elements of the other services have an important part. The modern ships, aircraft, and weapons being added to the Armed Forces are improving capabilities for performing this mission as well as the first three missions. As new ships are added to the fleet, older ships will be retired and the number of active ships in the fiscal year 1958 will remain about the same.

The means of accomplishing these basic military missions constantly change as new weapons are introduced. The Secretary of Defense recently issued a clarification of the basic roles and missions of the military services. It covered the use of aircraft by the Army; the adequacy of airlift; the development, procurement, and operation of

MESSAGE OF THE PRESIDENT

M29

surface-to-air guided missiles; the operational deployment of intermediate range ballistic missiles; and the tactical air support of the Army.

New authority to incur obligations totaling 38.5 billion dollars for the fiscal year 1958 is recommended for the military functions of the Department of Defense. Expenditures are estimated to increase from 36 billion dollars in 1957 to 38 billion dollars in 1958.

DEPARTMENT OF DEFENSE—MILITARY FUNCTIONS COSTS BY MAJOR CATEGORIES

(Based on existing and proposed legislation)

[Fiscal years. In millions]

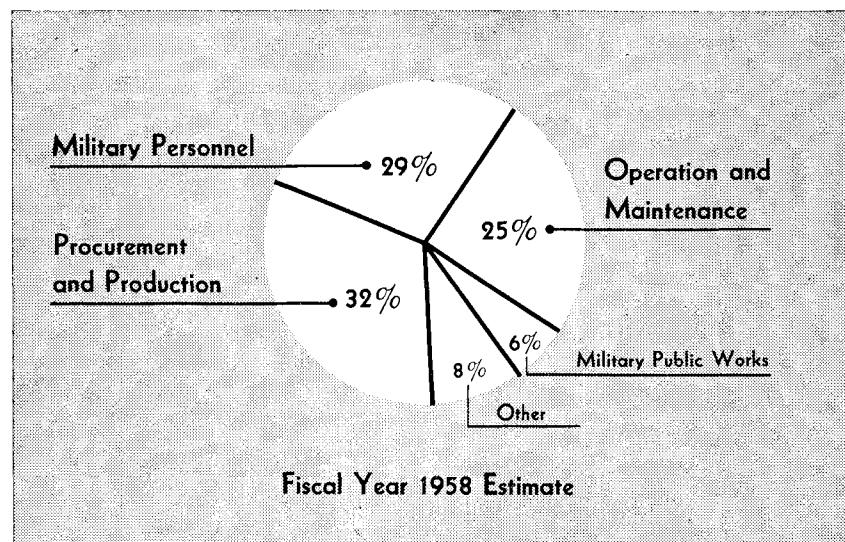
Cost category	Budget expenditures			Recom-mended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	
Military personnel:				
Active forces.....	\$10,666	\$10,321	\$10,524	\$10,664
Retired pay.....	477	515	543	555
Operation and maintenance.....	8,519	9,100	9,598	9,847
Major procurement and production.....	(12,204)	(11,731)	(12,273)	(12,030)
Aircraft.....	7,146	6,786	6,737	6,232
Ships.....	917	928	1,040	1,555
Guided missiles.....	1,168	1,506	2,039	2,646
Other.....	2,973	2,511	2,457	1,597
Military public works.....	2,008	1,973	2,242	2,122
Reserve components.....	854	1,055	1,237	1,237
Research and development.....	1,495	1,540	1,580	1,651
Establishmentwide activities.....	211	354	401	394
Working capital (revolving) funds.....	—643	—589	—398	—
Total.....	35,791	36,000	38,000	¹ 38,500

¹ Compares with new obligational authority of 33,187 million dollars in 1956 and 36,387 million dollars in 1957.

This budget provides for an average active duty military personnel strength for the fiscal year 1958 of approximately 2.8 million. The Army, Navy, and Marine Corps will hold to about their current numbers while the Air Force will be increased by several thousand men.

Operation and maintenance costs will rise in the fiscal year 1958. The larger number of bases and other installations and the growing complexity of new weapons systems, particularly guided missiles and aircraft, are the primary reasons for this increase.

Major procurement and production expenditures in the fiscal year 1958 are estimated to be 542 million dollars more than in the current year. Expenditures for guided missiles will be up 35 percent; for ship construction, up about 12 percent; and for aircraft procurement will remain at about the same level. Expenditures for all other types of major procurement are estimated to be about 2 percent less than in the current fiscal year.

EXPENDITURES FOR DEPARTMENT OF DEFENSE—MILITARY

The new obligational authority needed for the Air Force procurement program for the fiscal year 1958 is less than it otherwise would have been because of the additional appropriations for this purpose voted by the Congress last year. Together, these appropriations will provide sufficient funds for Air Force aircraft and related procurement in the current year and in the fiscal year 1958.

Expenditures for military public works in the United States and overseas will be about 14 percent above the current year. This budget provides for proposed legislation to authorize new bases and facilities for continental air defense, for further work on dispersing and improving heavy bomber bases, and for essential facilities for naval operating forces.

Research and development will continue at the same high level as in the current fiscal year. When the portions of appropriations for procurement, military personnel, and public works which contribute to research and development, testing and evaluation are also considered, the total devoted to these purposes will be somewhat more than the 5.2 billion dollars programmed for the current fiscal year. A steady military research and development effort must be maintained over the years to assure a constant flow of new and more effective weapons for the future.

Expenditures for the reserve components will increase in the fiscal year 1958. Major emphasis will be placed on improving the quality and combat readiness of the Reserve Forces through modernization of equipment and better selection and training of reserve personnel.

MESSAGE OF THE PRESIDENT

M31

The overall quality and readiness of the Reserve Forces, already higher than ever before in the peacetime history of the Nation, will be even more effective by the end of the coming fiscal year.

Civil defense.—All levels of government have made encouraging progress in preparing for civil defense since the Federal Civil Defense Act was approved in 1951. These gains have been partly offset by the increasingly destructive capabilities of nuclear weapons. In the light of these developments, the administration will transmit to the Congress recommendations for amendment of the Federal Civil Defense Act which will enable the Federal Government better to meet its responsibilities. To achieve maximum results, civil defense must continue to be a cooperative effort with State and local governments. Individual and local initiative and resourcefulness must be our ultimate reliance during an initial recovery period.

This budget provides under existing legislation for extending civil defense programs for public education, information, and training, and for a larger Federal staff to give assistance to the States and cities. Appropriations are included for an attack warning system which will quickly transmit warnings from the Air Force to certain key areas. Stockpiling of emergency hospital equipment and radiological detection equipment will be continued; and a substantial program of research on radiological defense, on shelter design, and on bomb-damage assessment will be carried forward.

Funds for civil defense activities are included in the commerce and housing section of this analysis.

Development and control of atomic energy.—Until an agreement for limitation of armaments is negotiated and an effective inspection system is functioning, this Nation will continue to increase the number and variety of nuclear weapons. In the fiscal year 1958, emphasis will be placed on weapons for tactical purposes and weapons with reduced radioactive fallout. The substantial present effort to develop military propulsion reactors will be continued.

Efforts to develop the peaceful uses of atomic energy will be greatly increased, particularly the development of reactors to produce atomic power at competitive prices.

This budget provides for increased effort by the Atomic Energy Commission to explore new power reactor concepts, to fabricate and operate reactor experiments, and to develop the basic reactor technology essential to the Nation's progress and leadership in the field. Increased support will also be given to the growing activities by private industry and public power bodies in power reactor development.

In the belief that basic responsibility for construction of large-scale commercial power reactors should not have to be assumed by the

Federal Government, no funds for construction of new large-scale reactors are proposed in this budget. A number of new proposals from non-Federal interests are now being developed. However, if acceptable proposals for non-Federal construction of promising reactor types do not materialize within a reasonable time, a request will be made to the Congress for funds for direct construction by the Federal Government.

As a further and necessary step to facilitate industry's investment in atomic powerplants, legislation will again be proposed to authorize the Government to supplement commercially available insurance against liability arising from possible nuclear accidents.

More resources will be applied to the longer term effort to develop thermonuclear power reactors. Increased research is planned for 1958 on the problems arising from the numerous and extensive applications of atomic energy, such as reactor safety, radioactive waste disposal, and the biological effects of radiation. At the same time, support of research in nuclear physics and in new uses of atomic energy in biology, medicine, agriculture, and industry will be strengthened. Also, the budget provides for increases in equipment grants and in teacher training to improve education in nuclear technology and to help alleviate the shortage of nuclear scientists and engineers.

In order to help other nations develop their own atomic energy programs, the 1958 budget provides for training centers in the United States and abroad, equipment grants, and other technical assistance from appropriations for the Atomic Energy Commission and the mutual security program. Four nations have already accepted and many others are expected to accept the United States offer to share the costs of building research reactors. A number of nations have indicated interest in procuring power reactors in this country, and the Export-Import Bank will consider applications for loans to finance such procurement. The budget also includes funds for United States participation in a second world conference on the peaceful uses of atomic energy to be held in calendar year 1958.

Stockpiling and defense production.—By the end of the current fiscal year, the stockpile of strategic and critical materials, such as rubber, aluminum, copper, and nickel, will have reached a value greater than 6 billion dollars. Further acquisitions toward the stockpile objectives will be limited in most instances to (1) materials for which contracts have already been made; (2) materials which can be procured at favorable prices and which will serve to maintain the mobilization base; and (3) materials obtained in exchange for surplus agricultural products.

Mutual security program, military.—The armed forces of 38 countries receive military equipment and training through the military

MESSAGE OF THE PRESIDENT

M33

assistance portion of the mutual security program. This assistance bolsters the military forces of countries faced with a threat of external aggression or internal subversion.

Military assistance plans for the fiscal year 1958 have been related to the plans for this Nation's military establishment. As in the case of United States forces, a large part of the funds will be used for new types of weapons for air defense.

In the fiscal years 1957 and 1958, an increasing amount of military assistance equipment is to be furnished on a reimbursable rather than a grant basis. Changes in legislation will be recommended to facilitate these sales.

The level of unexpended balances for military assistance will have been reduced for 5 successive years. The Department of Defense has made significant improvements in the operation of this program in this fiscal year, especially in the timing of orders and the utilization of funds.

The new obligational authority of 2,450 million dollars recommended in this budget for military assistance has been included as an appropriation to the President, as in previous years. Consideration is being given as to what pattern of appropriations will best serve the aims of the Government in providing military assistance.

MUTUAL SECURITY PROGRAM

[Fiscal years. In millions]

	Budget expenditures			Recom-mended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	
Military: ¹				
Present program.....	\$2,611	\$2,600	\$2,100	-----
Proposed legislation.....			500	\$2,450
Economic, technical, and other: ²				
Present program.....	1,587	1,500	1,150	-----
Proposed legislation.....			600	1,950
Total.....	4,198	4,100	4,350	* 4,400

¹ Budget expenditures for military assistance do not reflect proceeds from sale of military equipment previously procured with military assistance funds, since these proceeds go directly into miscellaneous receipts of the Treasury.

² Discussed in the international affairs and finance section of this analysis. Excludes investment guaranty program.

³ Compares with new obligational authority of 2,703 million dollars in 1956 and 3,767 million dollars in 1957, excluding investment guaranty program.

INTERNATIONAL AFFAIRS AND FINANCE

The United States can work toward its goal of lasting peace by continuing to help its friends overseas protect their freedom from foreign domination and better their economic conditions. This budget is designed to do that. It also provides funds to promote

international understanding through a wider exchange of ideas and persons, and to extend a helping hand to refugees from tyranny and victims of famine.

In the conduct of our international affairs it is necessary to allow for appropriate flexibility in choosing the proper channel to meet each particular situation. In many instances the most effective way to achieve United States objectives, particularly in the political area, is to work through the United Nations. In other instances it may be more effective to utilize regional organizations such as the North Atlantic Treaty Organization and the Organization of American States. The Government will, of course, continue to conduct a major part of its economic and military assistance bilaterally, by dealing directly with other governments through conventional channels, including the Export-Import Bank. In addition, the International Bank for Reconstruction and Development and the International Monetary Fund will undoubtedly continue their active and sound programs of lending for economic development and of strengthening the exchange systems of their members, relying in part on the capital subscriptions and guaranties of the United States Government. The United States Government will also work through the many private welfare organizations operating abroad.

INTERNATIONAL AFFAIRS AND FINANCE

[Fiscal years. In millions]

Program or agency	Budget expenditures			Recom-mended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	
Gross budget expenditures:				
Economic and technical development:				
Mutual security program—economic, technical, and other:				
Present program.....	\$1,587	\$1,500	\$1,150	
Proposed legislation.....			600	\$1,950
Investment guaranty program.....	6	7	13	
Export-Import Bank.....	212	776	670	
Emergency commodity assistance (Department of Agriculture).....	94	127	45	94
Other.....	22	69	32	27
Foreign information and exchange activities:				
United States Information Agency.....	86	103	128	144
Department of State.....	20	21	29	35
President's Special International Program.....	5	9	18	20
Conduct of foreign affairs (Department of State and other).....	120	155	194	189
Total.....	2,151	2,767	2,878	1,2,460
Deduct applicable receipts:				
Investment guaranty program.....	3	5	6	
Export-Import Bank.....	302	379	427	
Net budget expenditures	1,846	2,382	2,444	

¹ Compares with new obligational authority of 2,123 million dollars in 1956 and 2,233 million dollars in 1957.

The Government's varied overseas activities have been, and are being, regularly reviewed. For example, recommendations to improve our mutual security operations are being developed by the President's Citizen Advisers on the Mutual Security Program. Special studies are also being conducted by the Senate Foreign Relations and House Foreign Affairs Committees. A special message on the mutual security program will be sent to the Congress after due consideration has been given to the recommendations and studies that have been completed.

Mutual security program, economic, technical, and other.—In order that the United States may continue to help cooperating countries to develop their economies and to meet the burdens of maintaining military strength, the budget provides for an appropriation of 1,950 million dollars for the fiscal year 1958 for the nonmilitary portion of the mutual security program. The military assistance portion of the mutual security program was discussed in the major national security section of this analysis. Total appropriations recommended for the two portions together in 1958 are 4,400 million dollars, compared with 3,804 million dollars enacted for 1957 and 4,860 million dollars recommended for 1957 one year ago in the 1957 budget.

Expenditures for economic assistance are estimated at a moderately higher level in the fiscal year 1958 than in the current fiscal year, carrying on our help in the development of the economic potential of less developed countries. Many of these countries have recently won their independence. Such development should add to the stability of their institutions, and tend to remove long-run causes of international friction. A significant part of the expenditures for economic development will be in the form of loans.

When the special message on mutual security is presented to the Congress, the mutual security appropriations recommended in this budget will be identified with specific activities, insofar as the kinds and amounts of assistance can be reasonably forecast. However, there are many changing situations in the world today and it is necessary to be able to meet these situations quickly and flexibly. The amount recommended for the economic portion of the Mutual Security Program includes certain funds to be appropriated on this basis.

Middle East.—An important example of this type of changing situation was discussed in the recent message on the Middle East. The message emphasized the importance of that area of the world and recommended policies designed to strengthen the countries of that area. Currently available funds can be used to meet 1957 requirements. The recommended 1958 appropriations of 4,400 million

dollars for the total mutual security program include 200 million dollars to be available for discretionary use in the Middle East, in addition to the specific country programs for the area. In order to make most effective use of these funds, especially in relation to solving some of the current problems, it is essential that adequate flexibility be permitted in their use.

International investments and loans.—Loans by the Export-Import Bank for development projects and for assisting the export of United States goods are expected to continue at a high level in the coming fiscal year.

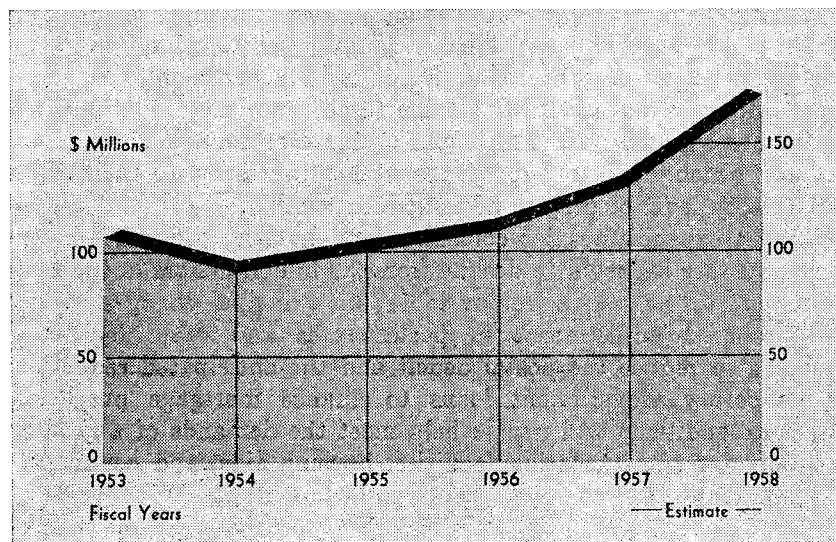
The estimated increase since 1956 in expenditures of the Bank results both from the current rate of loans and from reduced estimates of private participation in the Bank's loans because of attractive alternative private investment opportunities in the United States. Despite rising collections of the Export-Import Bank from loan repayments, the increase in expenditures is estimated to result in a change from net receipts of 90 million dollars in the fiscal year 1956 to net expenditures of 243 million dollars in 1958. While this budget proposes no increase in the Bank's presently available borrowing authority, it may later become necessary to request some increase in borrowing authority to meet future needs.

The International Monetary Fund will be the major source of funds to strengthen the reserve position of the United Kingdom at the present time. The Fund is an international organization to which the United States has made substantial amounts of capital available in the past. Therefore, a drawing on these funds does not appear as an expenditure in the budget now.

The Export-Import Bank recently announced a line of credit against securities to the United Kingdom for the purchase of United States products.

The Government of the United Kingdom has also sought a waiver of the 81 million dollar interest payment that was due last month under the terms of the Anglo-American Financial Agreement of 1945 and the related lend-lease and surplus property settlement. The exact applicability of the waiver provisions is now not clear. Since there have been changes in the conditions envisaged at the time the agreement was signed, recommendations will shortly be made to the Congress for appropriate modification of the present language of the Agreement so as to carry out the spirit of the original intention. This interest payment has been excluded from the estimates of receipts for the fiscal year 1957.

Foreign information and exchange activities.—The intensified worldwide ideological conflict emphasizes the importance of the role of both the Government and private organizations in exchanging information, persons, and ideas abroad. Overseas information services

EXPENDITURES FOR FOREIGN INFORMATION AND EXCHANGE

and cultural exchanges are designed to facilitate sympathetic understanding of American life, culture, and institutions by other peoples. Another major role of these programs is to demonstrate to the people of other nations the way in which American policies and objectives are in keeping with their own aspirations.

This budget recommends that expenditures in the fiscal year 1958 for the entire range of foreign information and exchange activities—including exchanges under the Fulbright and Smith-Mundt legislation, and cultural and trade fair programs abroad—be increased by 42 million dollars over the 1957 estimate. This will permit extension of this work within the free world, especially in Asia and Africa, as well as providing more information to those peoples not yet free. Emphasis will be placed on person-to-person contacts on both official and unofficial levels.

Conduct of foreign affairs.—The tasks of the Department of State have been steadily extended, both in Washington and in a growing number of overseas posts. The budget recommendations continue to strengthen the staff and facilities of the Department. Estimated expenditures in 1958 for the conduct of foreign affairs, including buildings, are 194 million dollars, 40 million dollars more than in 1957.

COMMERCE AND HOUSING

The capital investment in several Federal programs for commerce and housing plays an important role in the continued growth of our economy. In the fiscal year 1958, the Government will (1) carry

forward improvements in transportation services, (2) acquire facilities and equipment essential to provide better and more economical postal service, and (3) assist local communities to complete an increasing number of projects to foster orderly community development and to remove slums. At the same time, the Government is taking steps to aid buyers of homes obtain a reasonable share of the savings which help to supply the credit necessary to maintain a satisfactory level of private housing construction.

Budget expenditures for commerce and housing programs, in the aggregate, are expected to decline from 2.3 billion dollars in the fiscal year 1957 to 1.7 billion dollars in 1958. Principal changes include the proposed adjustments in postal rates and other legislation designed to reduce the postal deficit and the anticipated reductions in temporary Government loans to finance mortgage purchases. Other expenditures will rise to help meet the demands of a growing economy for transportation facilities, housing aids, and community development.

Promotion of aviation.—Civil and military use of the Federal airways system continues to grow rapidly. The increasing number of commercial, private, and military aircraft must be able to fly safely and on schedule. The military jet aircraft already in use and the jet airliners that will be operating by 1960 create a whole new range of problems. The capacity of the air traffic control system must keep pace.

The comprehensive appraisal of emerging needs for aviation facilities announced in the budget message last year will be completed soon. This will set the broad outline for the Federal airways system of the future. In the meantime, we must install now the best available traffic control equipment and techniques to keep abreast of the growing demand.

The 413 million dollars of new obligational authority recommended for the Civil Aeronautics Administration for 1958 include 150 million dollars to procure and install airways facilities. These include radar installations, better communications, and airport approach lights. In addition, a supplemental appropriation of 26 million dollars will be requested in 1957 to cover the initial cost of integrating two existing short-range air navigational systems into a single system capable of meeting the navigational needs of all users of the airspace.

The recommended 1958 appropriations for the Civil Aeronautics Administration include 195 million dollars to operate the Federal airways system and to maintain high safety standards in aircraft design and operation. The 1958 estimate is about 40 percent above the 1957 amount.

MESSAGE OF THE PRESIDENT

M39

COMMERCE AND HOUSING

[Fiscal years. In millions]

Program or agency	Gross budget expenditures			Net budget expenditures			Recommended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	1956 actual	1957 estimate	1958 estimate	
Promotion of aviation:							
Civil Aeronautics Administration.....	\$148	\$225	\$333	\$148	\$225	\$333	\$413
Civil Aeronautics Board.....	33	39	45	33	39	45	52
National Advisory Committee for Aeronautics.....	71	75	86	71	75	86	118
Provision of highways¹	783	44	42	783	44	42	32
Promotion of water transportation:							
Department of Commerce.....	247	232	222	219	204	194	259
Treasury Department.....	189	213	222	189	213	222	230
Panama Canal Company.....	105	89	83	12	2	5	-----
Postal Service:							
Present program.....	2,913	3,015	3,284	463	459	642	651
Proposed legislation.....			70			² -584	² -584
Community development and facilities:							
Urban Renewal Administration:							
Present program.....	35	86	118	17	49	47	2
Proposed legislation.....							250
Other.....	15	17	33	-13	14	29	12
Public housing programs.....	347	590	474	31	71	54	112
Other aids to housing:							
Federal Housing Administration.....	165	145	131	-25	-43	-83	36
Federal National Mortgage Association:							
Present program.....	452	1,052	968	-20	437	140	-----
Proposed legislation.....		100			100		600
College housing:							
Present program.....	37	91	157	32	85	147	-----
Proposed legislation.....							175
Veterans Administration.....	103	127	152	54	73	91	-----
Department of Agriculture.....	1	28	43	1	28	43	-----
Other.....	11	13	17	-22	-29	-30	10
Other aids to business:							
Small Business Administration:							
Present program.....	36	84	10	26	68	-8	-----
Proposed legislation.....		24	87		19	65	66
Area redevelopment (proposed legislation).....			10			10	53
Other.....	119	112	79	-109	-21	38	47
Regulation of commerce and finance	43	47	55	41	45	52	52
Disaster insurance, loans, and relief:							
Present program.....	48	48	72	43	39	63	14
Proposed legislation.....		2	11		1	10	12
Civil defense:							
Present program.....	57	76	91	56	71	85	130
Proposed legislation.....			10			10	50
Total	5,958	6,574	6,904	2,028	2,269	1,748	³ 2,791

¹ In 1957 and 1958, Federal-aid highway expenditures are carried as trust fund transactions.² Reflects proposed postal rate adjustment of 654 million dollars offset in part by 70-million-dollar supplemental appropriation for capital outlay.³ Compares with new obligational authority of 4,526 million dollars in 1956 and 3,992 million dollars in 1957

Grants to communities for airport construction and improvement will increase. To meet the need for an additional airport for the District of Columbia, a supplemental appropriation of 35 million dollars will be requested for the fiscal year 1957. Although the Congress has been studying alternative solutions, the proposal for a new airport at the Burke, Virginia, site still appears to be the best long-term solution to Washington's airport needs.

The success of this country in military and civil aeronautics depends heavily on the research and development programs of the National Advisory Committee for Aeronautics. The recommended appropriations of 118 million dollars will enable the Committee to give further emphasis to basic research upon which the development of the aircraft of the future must depend. This amount will also permit the acquisition of new, highly specialized facilities for investigation of problems encountered under widely varying conditions of flight.

Estimated budget expenditures in the fiscal year 1958 for all Federal aids to aviation, including the continuing subsidy payments by the Civil Aeronautics Board to certain airlines, will total 464 million dollars, 85 percent more than the amount spent in 1956.

Government aids to aviation confer substantial special benefits upon the users of the airspace. As the cost of providing these benefits rises, it becomes increasingly appropriate for the users to share with the general taxpayers in paying for them.

Highways.—Legislation enacted last year authorized the largest roadbuilding program in history. In accordance with this legislation, expenditures for the Federal-aid highway programs of the Department of Commerce in 1957 and later years will be made from a separately financed highway trust fund. The receipts and expenditures of the trust fund are discussed later in this section.

Budget expenditures for highways are now limited to forest highways and other direct Federal construction. They are estimated at 42 million dollars in the fiscal year 1958.

Promotion of water transportation.—The worldwide shortage of modern oceangoing ships emphasizes the importance of the ship replacement program begun 2 years ago by the Department of Commerce. Most of the United States merchant fleet was built during World War II and should be replaced over the next 15 to 20 years. In order that construction may be scheduled on an orderly basis, the Department is entering into long-term contracts with subsidized ship operators for the replacement of their ships. It is also guaranteeing ship mortgages and using other incentives which do not require substantial expenditures of Federal funds to encourage construction of other new ships.

MESSAGE OF THE PRESIDENT

M41

As the next installment in the replacement program, the budget includes 120 million dollars in 1958 appropriations for ship construction and for maritime research. The 1958 program would permit construction of a new sister ship for the superliner *United States* and several smaller ships. Construction will be well underway in 1958 on the nuclear-powered merchant ship being built jointly by the Department of Commerce and the Atomic Energy Commission under previous appropriations.

Expenditures for ship construction will not increase substantially until the fiscal year 1959, primarily because of the long period required to get work underway. Other expenditures for water transportation are primarily for the Coast Guard and for ship operating subsidies.

Postal service.—Over the past few years the Post Office Department has introduced major economies in the processing and handling of mail. These economies, however, have only partially offset the rising costs resulting from a larger mail volume, higher salaries, increased prices for supplies and equipment, and especially the extension of city delivery service to unprecedented numbers of new suburban residential developments. As a result, if present postal rates are not adjusted to cover costs, net expenditures of 642 million dollars will be required in the fiscal year 1958 to make up for insufficient postal receipts.

The adjustments in rates recommended in this budget are designed to increase postal revenues by 654 million dollars in the fiscal year 1958. If this recommendation is approved by the Congress, a supplemental appropriation, tentatively estimated at 70 million dollars, will be proposed to permit investment in equipment and facilities necessary for more efficient handling of the ever-increasing volume of mail. The budget figures reflect these recommendations. Also, the Post Office Department should be specifically reimbursed for the cost—estimated at 28 million dollars in 1958—of services it is required by law or international agreement to perform free or at reduced rates for nonprofit associations and other special groups.

Community development and facilities.—The first slum clearance project under legislation enacted in 1949 was brought to a close last spring, and an estimated 40 more projects will be completed by the end of 1958. More important, by that time 285 projects will be in process of actual clearance and redevelopment, and plans will be underway for 246 more—many of these in smaller cities. In addition to the extensive private investment in redeveloped areas, these 572 projects will ultimately involve total costs of more than 2.5 billion dollars, of which Federal capital grants will provide an estimated 1.2 billion dollars.

To underwrite the Federal share of the cost of this program, legislation is recommended to provide new obligational authority of 250

million dollars a year for 2 years. Budget expenditures in 1958 are estimated at 47 million dollars and will gradually increase in later years.

Public housing programs.—The Housing Act of 1956 authorized the Public Housing Administration to contract with local public agencies for construction and operation of 70,000 additional units of low-rent public housing, at the rate of 35,000 new units a year. These units will be particularly helpful in meeting the needs of low-income families displaced as more urban renewal sites are cleared.

Many small communities which need low-rent public housing units have unnecessary difficulty in qualifying for Federal aid because of the requirement for a workable program to eliminate or prevent slum conditions in their areas. Since the benefits to be obtained in small communities from this requirement do not justify the burdens and expense involved, such communities should be exempted from it.

By the end of the fiscal year 1958, the Public Housing Administration expects to dispose of all remaining war and emergency housing units from an inventory that originally exceeded 900,000 such units. In addition, a substantial start will have been made in sales of housing units and commercial properties in the Government-owned communities of Oak Ridge, Tennessee, and Richland, Washington.

College housing.—Rising college enrollments, plus the attractiveness of a very low statutory interest rate on Federal loans, have caused sharp increases in applications for loans for college dormitories and related facilities. To continue the present commitment level of 250 million dollars a year, additional borrowing authority of 175 million dollars is requested for the fiscal year 1958. Also, a more realistic formula for interest rates on these loans should be provided in legislation. This formula should be based on current Treasury borrowing costs for comparable maturities.

Aids to private housing.—The Government encourages private housing primarily through insurance of mortgages by the Federal Housing Administration and guaranties of loans by the Veterans Administration. Increased demands for credit for other purposes last year made these insured and guaranteed mortgages unattractive to many private lenders at the maximum interest rates then permitted. As a result, many potential buyers were unable to borrow for the purchase of homes, and as the demand fell off, builders curtailed the number of new homes begun. To bring interest rates on insured mortgages into line with market rates of interest, the Federal Housing Administration has permitted adjustments in all rates which were not already at their

MESSAGE OF THE PRESIDENT

M43

statutory ceilings. Legislation is recommended to permit similar interest rates on loans guaranteed by the Veterans Administration, so that more veterans may obtain these loans.

Private lenders cooperating with the Housing and Home Finance Agency under the voluntary home mortgage credit program have provided insured or guaranteed loans for many veterans and other home buyers living in remote areas as well as for members of minority groups otherwise unable to obtain private credit. This program should be extended for 3 years beyond the present expiration date of June 30, 1957.

The Veterans Administration makes direct housing loans to veterans in areas where credit is hard to obtain. Adjustment of interest rates on guaranteed loans and extension of the voluntary home mortgage credit program should make the funds now available adequate for the direct loan program. Legislation is also proposed to adjust the interest rate on direct loans so as to keep it the same as on guaranteed loans, in conformity with past practice.

The direct loan program for all veterans and the guaranty program for World War II veterans expire in July 1958. To help make adequate mortgage funds available at that time, additional authority may be needed to permit the Federal Housing Administration to liberalize the terms under which it insures mortgages for veterans and nonveterans alike.

Federal National Mortgage Association.—Under its secondary market functions, the Federal National Mortgage Association purchases both insured and guaranteed mortgages at prevailing market prices. Adjustments in interest rates on these mortgages should encourage private lenders to reenter this market, thus reducing the volume of mortgages offered to the Association. However, as a result of the substantial purchases made over the past several months, the effective borrowing authority of the Association will be fully committed before the close of the fiscal year 1957.

To enable the Association to continue making available a reasonable minimum of mortgage funds, new obligational authority in two forms should be provided by legislation early in the present session of the Congress. First, the Government should be authorized to buy an additional 100 million dollars of preferred stock of the Association. This will allow the Association to obtain up to an additional 1 billion dollars privately, through the sale of nonguaranteed debentures to private investors. Second, the Association should be authorized to borrow an additional 700 million dollars from the Treasury. One-half of this borrowing authority should be made available in the fiscal year 1957, and the remaining half in 1958. If the Congress provides adequate authority to draw temporarily on the Treasury when necessary, it should be possible to finance privately the bulk of the secondary

market operations in 1958. Budget expenditures for such temporary Treasury loans are estimated at 203 million dollars in the fiscal year 1958.

In other operations of the Association, substantial commitments are anticipated in both 1957 and 1958 to purchase mortgages insured under the urban renewal, military family, elderly family, and other specially designated housing programs. Additional legislation to authorize new purchases amounting to 250 million dollars, including 50 million dollars for cooperative housing, is recommended for the fiscal year 1958.

Other aids to business.—The Small Business Administration has been providing effective assistance to help small concerns obtain adequate financing and a fair share of Government contracts. Because of the difficulties many small businesses encounter in obtaining adequate bank credit in a money market subject to heavy competing demands, applications for loans have been increasing. Available funds will shortly be exhausted, and additional appropriations of 45 million dollars in 1957 and 66 million dollars in 1958 are requested. These figures assume extension of the basic legislation for the Small Business Administration which expires on June 30, 1957.

The fees of the Patent Office in the Department of Commerce should be adjusted to make the Office more nearly self-supporting. Under an 8-year program initiated last year, substantial progress is now being made to reduce the backlog of pending patent applications.

Area redevelopment—proposed legislation.—Despite continuing high levels of employment and income, pockets of unemployment persist in several areas. Legislation is again recommended to authorize the Secretary of Commerce, with the assistance of other appropriate agencies, to provide loans and other aids to communities which seem to be in chronic economic distress. This aid will help those communities in attempting to solve their basic problems.

Disaster insurance, loans, and relief.—The experimental program for Federal insurance against flood losses, which was recommended and enacted last year, will soon be underway. A supplemental appropriation of 100 million dollars is recommended for this fiscal year to finance initial operations. An additional appropriation of 4 million dollars for administrative expenses is recommended for 1958.

The 1958 recommendations also include 12 million dollars under proposed legislation for disaster loans by the Small Business Administration.

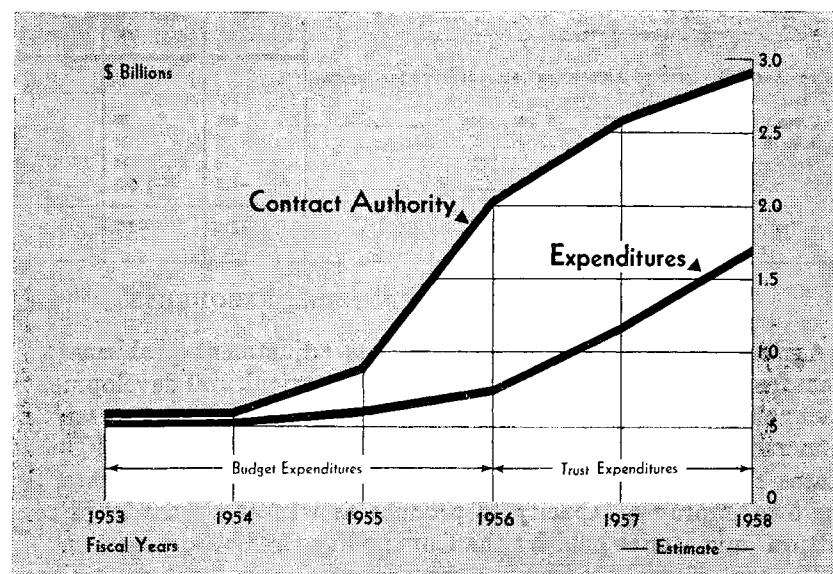
Civil defense.—For budget classification purposes, expenditures for civil defense are grouped with those for peacetime disasters. The

civil defense program was discussed, however, in the major national security section of this analysis.

Highway and housing trust funds.—Under legislation enacted last year, the Federal share of the new highway program will be financed from proceeds of certain excises on motor fuels, tires, and vehicles. These receipts are deposited in a highway trust fund.

The legislation authorized Federal grants averaging about 2 billion dollars a year for a 13-year period to cover 90 percent of the cost of completing the Interstate Highway System—an integrated network of efficient and safe roads linking major centers of population and industry. Increased grants amounting to 875 million dollars for the fiscal year 1958 were also provided for primary, secondary, and urban highways not in the Interstate Highway System. Prudent planning is continuing in cooperation with the States in order to assure maximum value for each dollar spent.

FEDERAL-AID HIGHWAY PROGRAM



Expenditures from the trust fund in the fiscal year 1958 for Federal-aid highways are estimated at 1.7 billion dollars and are expected to rise gradually in later years to nearly 3 billion dollars annually. The excess of receipts over expenditures in the early years will accumulate in the trust fund for later use. Balances in the fund are expected to reach 770 million dollars by the close of the fiscal year 1958.

The privately financed mortgage purchases under the secondary market functions of the Federal National Mortgage Association are

trust rather than budget expenditures. They are estimated at 500 million dollars in 1958. Temporary borrowing from the Treasury and preferred stock investment by the Treasury, amounting together to 705 million dollars in 1957 and 203 million dollars in 1958, are included in budget expenditures.

COMMERCE AND HOUSING TRUST FUNDS

(Under existing and proposed legislation)

[Fiscal years. In millions]

Fund and item	1956 actual	1957 estimate	1958 estimate
Highway trust fund:			
Balance in fund at start of year.....			\$390
Receipts:			
Excise taxes transferred from general receipts.....	\$1,539	2,173	
Interest.....	2	12	
Payments (-):			
Grants, including administration.....	-1,150	-1,690	
Refunds of taxes.....			-116
Net accumulation.....	390	379	
Balance in fund at close of year.....	390	770	
Federal National Mortgage Association (secondary market operations):			
Treasury loans and preferred stock purchases, net.....	\$94	705	203
Sales of common stock.....	7	14	10
Net operating income and other.....	4	14	13
Net purchases of mortgages (-).....	-217	-1,005	-726
Net trust expenditures (-).....	-112	-272	-500

AGRICULTURE AND AGRICULTURAL RESOURCES

Agriculture is confronted with serious adjustment problems that stem from international as well as domestic agricultural developments. Technological advances in agriculture by other nations are resulting in increased production which in many instances has restricted United States export markets. These problems are further complicated by our own improved capacity to produce as well as by the large agricultural inventories held by the Commodity Credit Corporation.

The agricultural programs of the Federal Government are designed to meet these problems and to foster long-run improvements and adjustments in the Nation's farm economy. The soil bank legislation enacted last year is helping to curtail crop production and support farm income; it also facilitates the shifting of cropland to uses more consistent with long-term conservation objectives. Other Federal programs are helping to move large quantities of food and other farm products into consumption at home and abroad. Research programs

MESSAGE OF THE PRESIDENT

M47

have been enlarged to find ways to reduce marketing and production costs and to develop new industrial uses and other permanent market outlets for our farm products. Educational and credit services have been expanded to help farmers take advantage of the results of research, and special attention is being given in the rural development program to low-income farmers.

AGRICULTURE AND AGRICULTURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Gross budget expenditures			Net budget expenditures			Recommended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	1956 actual	1957 estimate	1958 estimate	
Stabilization of farm prices and farm income:							
Price support, supply and purchase programs (CCC)-----	\$5,639	\$5,482	\$4,961	\$3,554	\$1,889	\$1,950	\$1,577
Soil bank (excluding conservation practice payments)-----	4	1,012	1,023	4	1,012	1,023	984
International Wheat Agreement-----	92	100	111	92	100	111	93
National Wool Act-----	2	66	95	2	64	60	35
Removal of surplus agricultural commodities-----	179	245	245	179	245	245	219
Federal crop insurance-----	33	39	36	10	14	7	7
Sugar Act-----	65	67	74	65	67	74	72
Acreage allotments and marketing quotas-----	39	41	43	39	41	43	43
Financing rural electrification and rural telephones ¹ -----	217	234	265	217	234	265	249
Financing farm ownership and operation:							
Farm Credit Administration-----	1,991	1,101	3	43	—45	—5	2
Farmers' Home Administration: ¹							
Present program-----	188	263	282	185	260	278	275
Proposed legislation-----			16			16	25
Disaster loans and emergency feed-----	90	91	55	3	(2)	—18	—
Conservation of agricultural land and water resources:							
Agricultural conservation and Great Plains programs-----	222	250	254	222	250	254	257
Soil bank (conservation practice payments)-----		236	270		236	270	270
Soil Conservation Service, watershed protection, and other-----	83	93	111	83	93	111	113
Research and other agricultural services-----	215	241	280	215	241	280	270
Total-----	9,060	9,560	8,123	4,913	4,701	4,965	3 4,792

¹ Net expenditures for the Farmers' Home Administration and for rural electrification and telephone loans do not reflect loan collections, since these collections go directly into miscellaneous receipts of the Treasury. In 1958 these collections are estimated at 157 million dollars and 95 million dollars respectively.

² Less than one-half million dollars.

³ Compares with new obligational authority of 3,310 million dollars in 1956 and 5,096 million dollars in 1957.

Stabilization of farm prices and farm income.—Net price support expenditures of the Commodity Credit Corporation are expected to be about the same in the fiscal year 1958 as in the current year but sub-

stantially below the amount spent in 1956. However, the decrease from 1956 is more than offset by increases in expenditures for the soil bank and other agricultural programs.

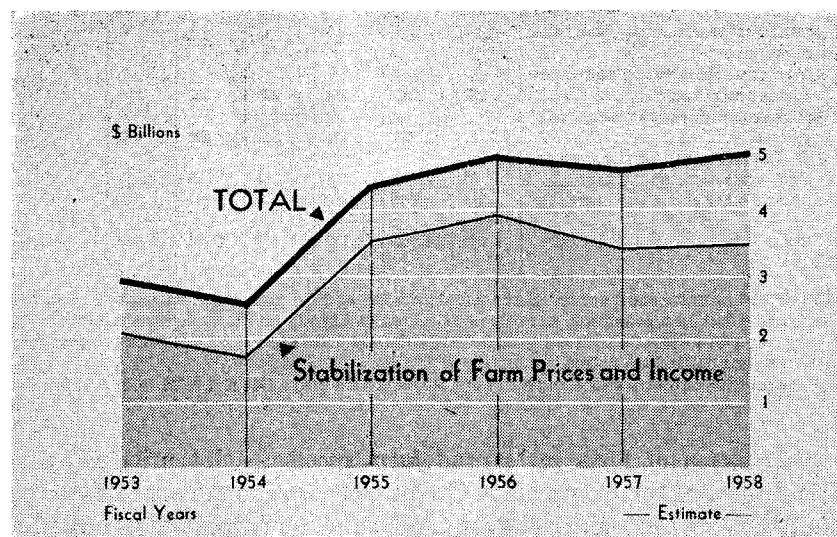
In the fiscal year 1956, retirement of all outstanding certificates of interest used in financing previous price support loans, and curtailed purchases of United States cotton by foreign buyers in anticipation of more favorable prices, contributed to the high net price support expenditures in that year.

In the fiscal year 1957, no funds will be required for the redemption of certificates of interest. In addition, increased sales of farm commodities abroad, particularly cotton, are expected to decrease net budget expenditures for price supports still further.

In the fiscal year 1958, exports of price supported commodities are expected to be less than in 1957. This factor, which tends to increase net price support expenditures, will be partially offset by the initial effects of crop acreage reductions under the soil bank. The full effects of the soil bank on price support expenditures will come in later years.

Under the acreage reserve program of the soil bank, farmers are compensated for loss of net income resulting from their voluntary withdrawal of land from crop production. Under the conservation reserve program of the soil bank, they receive rent for other cropland placed in cover crops and reforestation and also receive payments to cover part of the cost of carrying out certain conservation practices. Expenditures for both programs are estimated to total 1.3 billion dollars in 1958, somewhat more than in 1957.

NET EXPENDITURES FOR AGRICULTURAL PROGRAMS



Under title I of the Agricultural Trade Development and Assistance Act of 1954 (P. L. 480), substantial quantities of farm products have been disposed of abroad in return for foreign currencies. This title expires on June 30, 1957. It should be extended for 1 year and the present legal limit of 3 billion dollars on the permissible loss under this program should be increased by 1 billion dollars. Extension for a 1-year period will enable the Congress to consider alternative measures that will contribute to a continued development of normal export markets.

The new obligational authority recommended for the fiscal year 1958 for price support, supply, and purchase programs of the Commodity Credit Corporation is made up of (1) 1,240 million dollars to restore the capital impairment of the Corporation experienced in 1956, mainly from price-support losses, and (2) 637 million dollars to reimburse the Corporation for costs and losses incurred in 1956 under title I of the Agricultural Trade Development and Assistance Act.

Rural electrification, rural telephones, and farm credit.—This budget continues strong support for the rural electrification and rural telephone programs. It provides for new electrification loans totaling 185 million dollars and new telephone loans totaling 80 million dollars in the fiscal year 1958, the same amount of loan approvals as anticipated in 1957. Disbursements on loans and administrative expenses are expected to result in budget expenditures of 265 million dollars in 1958, which is 31 million dollars more than in 1957 and 48 million dollars more than in 1956.

Budget expenditures for the credit programs of the Farmers' Home Administration, exclusive of farm housing loans which are included in the commerce and housing section of this analysis of the budget, are estimated at 294 million dollars in the fiscal year 1958. The substantial rise of 109 million dollars in estimated annual expenditures since 1956 reflects in part the legislation enacted last year expanding the scope of this agency's authority to refinance farm debts and to make loans to farmers whose farms are smaller than family size. The increase results also from the operating loans estimated to be made in designated counties as a part of the rural development program and from the additional credit needs of farmers suffering from continued drought and other economic disasters.

In connection with the loan program of the Farmers' Home Administration, legislation will be proposed to modify the present formula for the distribution of loan funds among States and Territories. The budget also provides for some increase in the authority to appropriate for loans under title I of the Bankhead-Jones Farm Tenant Act.

In accordance with the proposals of the Hoover Commission, legislation will be recommended to liquidate the Agricultural Marketing

Act revolving fund by transferring its assets to the Treasury. As of June 30, 1956, this fund had assets of 186 million dollars, consisting of 150 million dollars of the capital stock of the central and regional banks for cooperatives and 36 million dollars of balances with the Treasury.

Agricultural land and water resources.—A substantial increase in budget expenditures for the conservation and development of land and water resources is provided for in this budget. Cost-sharing payments for conservation practices under the soil bank, which were begun in the current fiscal year, are a major addition to the previous level of conservation expenditures.

Under the Great Plains conservation program, which was authorized by legislation enacted last year, long-term contracts will be entered into with farmers whereby they agree to carry out specified soil management and land-use practices. The budget provides for 20 million dollars of new obligational authority for the Great Plains conservation program in 1958.

Spending under the program authorized by the Watershed Protection and Flood Prevention Act is estimated to increase in 1958. Funds are provided in the budget for the continuing cost of some 83 projects underway in 1957 and for the Federal share of first-year costs on approximately 80 additional projects expected to be started by local groups in 1958.

Research and other agricultural services.—The expansion of research and educational programs of the Department of Agriculture, which was undertaken at the beginning of this administration, will be continued under this budget. Efficiency in agricultural production, development of new industrial uses for farm products, and expansion of markets for farm commodities will continue to be emphasized in order to advance the long-run interests of both farmers and consumers.

As a part of the rural development program, specialized research, technical assistance, and credit will be provided to assist State and local groups to develop and improve economic opportunities in rural areas with low average family income. The Federal Government and States and local groups are now working jointly in designated pilot counties.

Federal intermediate credit banks trust fund.—In accordance with the Farm Credit Act of 1956, the production credit corporations were merged into the Federal intermediate credit banks as of January 1, 1957, and provision was made for the retirement of the Government's capital in the banks and for their eventual ownership by the production credit associations. Because of this change in financial struc-

ture, the transactions of the banks are being carried as trust fund expenditures starting January 1, 1957.

In the fiscal year 1958, the total loans and other outlays of these banks are estimated at 2,201 million dollars; total collections, principally from loan repayments, at 2,159 million dollars; the resulting net outlay of the trust fund is an estimated 42 million dollars.

At the time the Farm Credit Act of 1956 was approved last year, the lack of adequate protection of the Government's interest in the surplus of the intermediate credit banks was pointed out. The Government's interest should be protected, even though the prospect of dissolution or liquidation of any bank is remote.

NATURAL RESOURCES

The development and conservation of the resources of America are vital to the present and future strength of the Nation. They must be a concern not only of the Federal Government, but of everyone. Individual enterprise and State and local participation are essential to effective development of the Nation's soils and forests, water, minerals, fuels, and fisheries.

Federal budget expenditures for natural resources in the fiscal year 1958 are estimated at 1.5 billion dollars, 167 million dollars more than in 1957. In addition to their general economic value, many of the resource development programs produce substantial revenues for the Government.

The policies enunciated in the budget message with respect to the present active competition for labor, materials, and equipment in the construction industry and to the rate of Federal construction expenditures are especially applicable to natural resource programs.

Land and water resources.—The Presidential Advisory Committee on Water Resources Policy has recommended national policies and improved administrative organization to bring about the best use of water resources. This budget provides for certain of these recommendations which can be achieved by budgetary action. Important among these is expansion of the collection of basic data needed for planning water resource developments. Legislative proposals to carry out other recommendations of the Committee will be transmitted to the Congress as developed.

The Corps of Engineers and the Bureau of Reclamation will continue construction on 299 going projects for flood control, navigation, irrigation, water supply, and power. Construction of 38 of these projects will be completed in 1958.

This budget provides for starting construction on certain new projects which are now authorized. It is recommended that the Bureau of Reclamation start 6 irrigation and water-supply projects,

and the Corps of Engineers start 7 navigation projects, 13 flood-protection projects, 3 flood-control reservoirs, and a powerplant at an existing installation, as well as some small projects to be selected by the Secretary of the Army. Advance planning on these new projects has reached the stage where the design and scope of the major structure have been clearly determined and a sound estimate of cost has been prepared. First-year expenditures for these new starts are estimated at 12 million dollars. The total estimated cost to complete these projects is 300 million dollars.

NATURAL RESOURCES

[Fiscal years. In millions]

Program or agency	Budget expenditures			Recommended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	
Gross budget expenditures:				
Land and water resources:				
Corps of Engineers, civil functions:				
Present program.....	\$534	\$600	\$654	\$647
Proposed legislation:				
Partnership projects.....			5	10
Advance planning.....			1	1
Department of the Interior:				
Bureau of Reclamation:				
Present program.....	163	176	202	203
Proposed legislation:				
Fryingpan-Arkansas project.....			1	2
Small reclamation projects.....			4	5
Power marketing agencies.....	42	42	44	49
Indian lands resources.....	43	47	52	55
Public domain (Bureau of Land Management) and other.....	20	26	29	31
St. Lawrence Seaway Development Corporation:				
Present program.....	9	48	49	
Proposed legislation.....				35
Tennessee Valley Authority:				
Present program.....	236	262	307	15
Proposed legislation.....			3	30
Department of State.....	3	7	5	4
Federal Power Commission.....	5	5	6	6
Forest resources.....	138	163	186	186
Fish and wildlife resources.....	45	65	63	62
Recreational resources.....	44	76	76	80
Mineral resources.....	43	94	104	89
General resource surveys and other.....	35	39	47	49
Total.....	1,361	1,649	1,836	¹ 1,550
Deduct applicable receipts:				
Land and water resources:				
Department of the Interior.....	5	4	5	
St. Lawrence Seaway Development Corporation.....	1	9	3	
Tennessee Valley Authority.....	246	258	282	
Fish and wildlife resources.....		(?)	2	
Mineral resources.....	5	6	6	
Net budget expenditures.....	1,104	1,371	1,538	

¹ Compares with new obligational authority of 1,213 million dollars in 1956 and 1,391 million dollars in 1957.² Less than one-half million dollars.

MESSAGE OF THE PRESIDENT

m53

Recommendations for related watershed and flood prevention activities of the Department of Agriculture were discussed in the section on agriculture and agricultural resources.

Work is underway on the comprehensive Upper Colorado River Basin development which the Congress authorized during the past session. Legislation is still needed, however, to permit the Fryingpan-Arkansas multiple-purpose project to proceed. Appropriations which will enable the Bureau of Reclamation to initiate this construction are included under proposed legislation for 1958.

This budget also includes 10 million dollars under proposed legislation to enable the Corps of Engineers to participate in 1958 with States, local governments, and private groups in the development of partnership water resources projects, such as the Bruces Eddy Reservoir in Idaho and the Oroville Reservoir in California, neither of which has yet been authorized. Also, where feasible and in the public interest, non-Federal interests will be encouraged to participate with the Federal Government in certain previously authorized projects now in various stages of planning or construction. Similar partnership arrangements are being considered by the Bureau of Reclamation.

In previous years this administration has recommended legislation to provide that the Federal Government make payments to owners of non-Federal water resources projects when Federal hydroelectric power developments benefit from these projects. In simple equity, the Government should pay for such benefits in the same way that licensees must pay for the benefits they derive from Federal or other projects. The Federal Power Act should be amended during this session to provide for such Federal payments.

The Small Reclamation Projects Act of 1956 is a step forward in Federal, State, and local cooperation. Appropriations to permit the Bureau of Reclamation to proceed with the program will be requested as soon as the basic legislation is amended to correct deficiencies with respect to the responsibility for approval of project proposals by the executive branch, which were pointed out at the time the legislation was approved.

To assure efficient use of resources and to safeguard the public investment, the 1958 budget includes funds for the Bureau of Reclamation and the Corps of Engineers to make general investigations and to prepare project designs that are needed prior to construction of water resources projects. Also, an appropriation of 1 million dollars is included under proposed legislation to permit immediate initiation of planning of the most urgently needed projects expected to be authorized in river and harbor and flood-control legislation early in this session of the Congress. Presidential approval of the measure enacted during the last session was withheld primarily because many of the

projects included had not been reviewed in accordance with established procedures.

As a further step in coping with the growing water scarcity, increased appropriations are recommended in the fiscal year 1958 for research and pilot-plant operations for converting saline water to fresh water for municipal, industrial, and agricultural uses. This research is undertaken by the Department of the Interior in cooperation with other public and private groups.

Construction of the St. Lawrence Seaway will go forward in the fiscal year 1958. To meet increased construction costs and provide for additional dredging work not originally contemplated, 35 million dollars of additional borrowing authority is recommended for 1958 under proposed legislation.

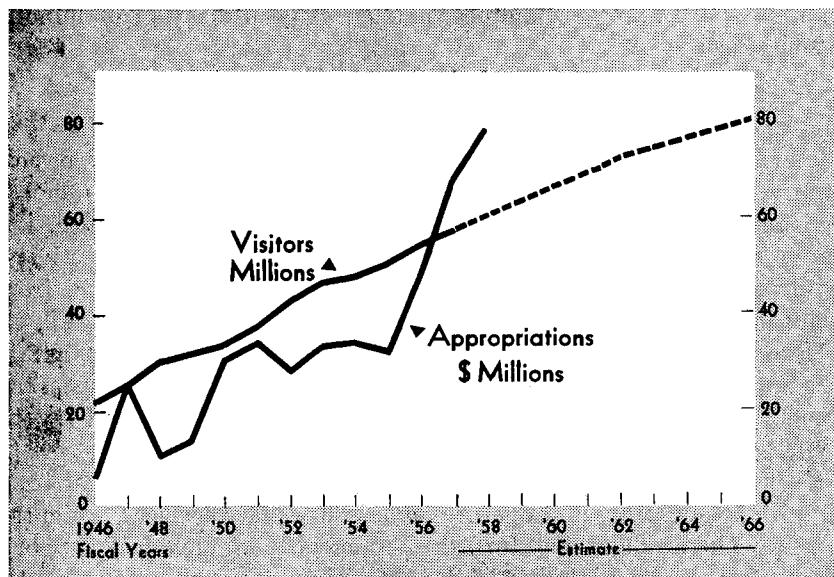
The Tennessee Valley Authority will continue construction in the fiscal year 1958 of the Wilson Lock started in 1957. Work on 7 steam-electric generating units at present plants was started in the fiscal years 1956 and 1957 with proceeds from the sale of power, as approved by the last Congress, and will be continued in 1958. Based on the best information now available, it appears that additional generating capacity will be needed to meet TVA power requirements by the end of the calendar year 1960. Legislation is recommended to authorize the TVA, subject to regular budgetary review, to finance new generating facilities by the sale of revenue bonds. After the Congress has acted upon this legislative proposal, the power requirements of the TVA will be reexamined. Pending this re-examination, an authorization of 30 million dollars for construction of a new unit of about 180,000 kilowatts at an existing steam plant is included in the budget under proposed revenue-bond legislation to meet power needs of the area.

Forest, fish and wildlife, and recreational resources.—This budget provides funds to increase soil-conservation work on the lands in the national forests, in the public domain under the Bureau of Land Management, in the national parks and wildlife refuges, and on Indian lands held in trust by the Government. The budget also provides for forestry research and reforestation, for leasing of mineral and grazing lands, and for necessary construction of schools for Indians. Consistent with the needs for expanded timber sales, provision is made for access roads.

Provision is made for carrying forward the 10-year development and improvement program of the National Park Service. This program is designed to provide the necessary facilities and personnel to accommodate an estimated 80 million visitors to the national parks in 1966.

MESSAGE OF THE PRESIDENT

M55

NATIONAL PARK SERVICE PROGRAM

National forests also offer recreational opportunities for many millions of our citizens. The 1958 budget provides for an enlarged program to develop and improve campgrounds, picnic areas, and sanitation and other facilities to accommodate the recreational users of these forests.

A reorganization of the Federal programs for fish and wildlife resources has been effected in accordance with legislation enacted by the last Congress. To assist commercial fisheries in improving their competitive position, expenditures for fishery research will be increased in the fiscal years 1957 and 1958. It is estimated that loans of 12 million dollars over the 2-year period will be made from the newly established fisheries loan fund, and a program of vocational education grants for training fishery technicians will be inaugurated in 1958.

Our sport fishery and wildlife resources make a substantial contribution to meeting the recreational needs of our citizens. A study is underway to determine future needs for fish and wildlife programs.

Mineral resources.—The Secretary of the Interior is developing a minerals program to meet the long-range needs of the Nation, now that the defense minerals programs are nearing completion. In the meantime, a program authorized in the past session of the Congress will provide 91 million dollars of assistance to segments of the mining industry in adjusting from defense needs to normal market conditions. The Geological Survey and the Bureau of Mines will also continue

their activities in support of exploration for new deposits, development of improved mining techniques, and effective utilization of mineral resources.

LABOR AND WELFARE

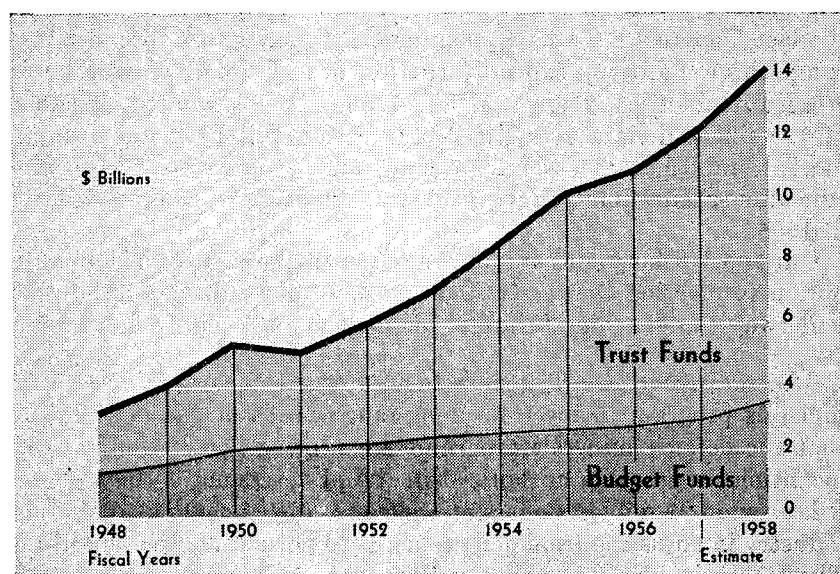
The objective of the Government's labor and welfare programs is to further the well-being of the people by increasing individual opportunity, fostering self-reliance, and providing safeguards against economic hazards. These programs aid education and science, improve health, facilitate employment and increase labor productivity, while aiding the aged, disabled, and dependent to enjoy life free from want for its necessities.

Budget expenditures in the fiscal year 1958 for labor and welfare programs are estimated at 3.5 billion dollars. In addition, estimated benefit payments of more than 10 billion dollars will be paid by the Federal social insurance and retirement trust funds.

Primary reliance has been placed upon the States and local communities to organize and operate labor and welfare services, while the Federal Government has furnished financial and technical support. Four-fifths of the 3.5 billion dollars of estimated budget expenditures for labor and welfare services in 1958 is for grants-in-aid to State and local governments.

As science lengthens the span of life and the average age of the population increases, the problems of older people—there are now 15 million past the age of 65—assume increasing significance. The

EXPENDITURES FOR LABOR AND WELFARE



Source: ECONOMICS

Federal Government's participation in activities that benefit older citizens is extensive. Payments for old-age and railroad retirement benefits (paid from trust funds and not included in budget expenditures), and veterans' pensions and public assistance grants for the aged are estimated to total more than 8 billion dollars in 1958. In addition, other special activities in health research, employment assistance, housing, and veterans' services benefit our aged citizens.

Last March a Federal Council on Aging was established to coordinate Federal activities, to improve working relationships with the States in this field, and to devise better means for meeting the needs of the aged. In this coming year the Federal Government will provide leadership in a cooperative effort with business, private organizations, and State and local governments to enlarge the employment opportunities which many of our older citizens need and want. The Department of Labor will continue its program to remove barriers to employment of older workers, and State employment security agencies will give increased attention to employment opportunities for such workers. This budget also provides greater emphasis on health services to older persons.

The President's Council on Youth Fitness, of which the Vice President is chairman, was established in July to promote and coordinate the numerous Federal activities in the field of physical and general youth fitness and to work with State, local, and private groups in this field.

Promotion of education.—Since the White House Conference on Education was held a year ago, the States and communities have made greater efforts to overcome their educational problems. Sixty-nine thousand classrooms, 10 percent more than last year, are expected to be built in the school year 1956-57. The number of teachers and their average salaries have also been increasing. Despite these gains, growing enrollments are straining the financial capacities of school districts in many areas of the country. Today, 31.5 million children crowd the public schools beyond their normal capacity and enrollments are increasing by well over 1 million per year.

Legislation is recommended to complete in 4 years the general school construction assistance program which was proposed as a 5-year program last year. This budget includes new obligational authority of 451 million dollars for the first year under this proposed legislation.

MESSAGE OF THE PRESIDENT

LABOR AND WELFARE

[Fiscal years. In millions]

Program or agency	Budget expenditures ¹			Recommended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	
Promotion of education:				
Office of Education:				
School construction—general aid (proposed legislation).....			\$185	\$451
Assistance for school construction in federally affected areas.....	\$95	\$68	105	42
Assistance for maintenance and operation of schools in federally affected areas.....	86	106	125	127
Vocational education.....	33	39	41	41
Other:				
Present program.....	9	11	12	13
Proposed legislation.....			2	2
Department of the Interior and other.....	52	58	63	64
Labor and manpower:				
Unemployment compensation and employment service:				
Grants to States (Department of Labor).....	231	238	257	270
Payment to unemployment trust fund (Treasury Department).....	168	62	53	53
Other:				
Present program.....	76	81	88	88
Proposed legislation.....			3	3
Promotion of public health:				
National Institutes of Health.....	99	173	211	220
Hospital construction grants.....	56	83	100	121
Grants for construction of waste treatment facilities.....		7	62	50
Other:				
Present program.....	197	238	231	227
Proposed legislation.....			3	15
General-purpose research, libraries, and museums:				
National Science Foundation:				
Regular program.....	15	36	50	65
International Geophysical Year.....	5	21	10	-----
Department of Commerce (Census Bureau and Bureau of Standards).....	27	23	28	29
Libraries and museums.....	13	18	22	21
Correctional and penal institutions.....	31	33	35	42
Other welfare services:				
School lunch program.....	83	100	100	100
Vocational rehabilitation.....	36	44	51	51
Other:				
Present program.....	7	8	12	11
Proposed legislation for health, education, and welfare.....			5	9
Public assistance.....	1,457	1,584	1,684	1,684
Total.....	2,776	3,032	3,538	2,3,799

¹ After deducting applicable receipts—primarily Mexican farm labor supply fund (part of other labor and manpower programs) of 2 million dollars in 1956, 3 million dollars in 1957, and 4 million dollars in 1958.² Compares with new obligational authority of 2,860 million dollars in 1956 and 3,196 million dollars in 1957.

Last April the President's Committee on Education Beyond the High School was appointed to consider problems created by the record enrollments in colleges and universities. The budget anticipates a supplemental appropriation for the fiscal year 1957 to finance the State and regional conferences which the Committee plans to hold before it prepares its final report. It also provides in 1958 for assistance under proposed new legislation to encourage States to undertake specific planning action to meet their needs in higher education.

Expenditures for other activities of the Office of Education are primarily to carry out the 2-year extension of assistance to areas where school enrollments are seriously affected by Federal activities and to provide for educational research and for grants for vocational education.

The budget recommendations for the Department of the Interior include funds for the education of Indian children and for a recently enacted program for vocational education of adult Indians.

Labor and manpower.—The budget provides grants to the States for the administrative costs of providing employment service and unemployment compensation, and for the employment security work of the Department of Labor. The recommended grants include funds for job placement of older and handicapped workers. Better methods of scheduling placement will continue to assure longer and steadier work for domestic migrant farm workers. The budget for other labor and manpower programs continues enforcement and promotional work to insure greater compliance with labor legislation, and provides for enforcement of labor standards in the use of Mexican nationals who work on farms. Further improvements are recommended in labor statistics.

Rapid scientific and technological developments are creating new industries which are faced with shortages of skilled workers and technicians. The Department of Labor has recently undertaken training programs in a broader range of occupations. Support is provided for these programs in 1958 through the newly reorganized Bureau of Apprenticeship and Training.

In addition to the new legislation to improve the Government's labor programs which was recommended earlier in the budget message, legislation is also recommended to (1) increase, as part of the proposed area redevelopment program, assistance in labor services to local areas where there has been persistent and chronic unemployment and (2) provide insurance benefits to workers in the District of Columbia who are temporarily disabled because of nonoccupational accidents or illness and improve the District of Columbia unemployment insurance law,

Promotion of public health.—Expenditures for promotion of health during the fiscal year 1958 are estimated to be 607 million dollars, 106 million dollars more than in the current year.

The budget recommendations for the National Institutes of Health for the fiscal year 1958 provide for more research, while keeping in proper balance support of individual projects, training of additional technicians, and new laboratories and other facilities. This balance is necessary to safeguard the quality of research because of the high utilization of the present technical resources. An increase of 38 million dollars in expenditures is estimated, primarily for the new grants to assist in the construction of medical research facilities and to provide the non-Federal institutions receiving grants with more equitable payments for the indirect costs of these programs.

Expenditures for Federal aid to hospital construction are estimated at 100 million dollars in the fiscal year 1958. The increase of 17 million dollars over the 1957 estimate includes the provision of nursing homes, rehabilitation facilities, and chronic disease hospitals which are especially important to older people and to others suffering from long-term illness or disability. The budget also includes 62 million dollars in 1958 for the recently started program for grants to communities to stimulate construction of waste treatment facilities where Federal aid is appropriate.

To meet other health needs, this budget includes increased expenditures for community health services to the aged and those with chronic diseases, for research in combating air and water pollution, for accident prevention, and for health services to children and Indians. Grants for poliomyelitis vaccine will no longer be needed. Enforcement of the food and drug laws will be strengthened.

To help meet the critical need for more medical research scientists and other health personnel, the recently enacted legislation for construction grants for medical and dental research facilities should be amended to include teaching facilities. New obligational authority of 15 million dollars is recommended for this purpose. First-year expenditures are estimated at 3 million dollars.

National Science Foundation.—An increase of 25 million dollars in the appropriations for the regular program of the National Science Foundation is recommended for the fiscal year 1958. This will enable the Foundation to deal more effectively with two problems of national importance in the field of science. First, only a very small proportion of the billions of private and public funds devoted to research and development is for the basic research on which progress in the applied scientific fields of health, industrial technology, and weapons development depends. The Foundation will increase its grants for basic research projects and for special research facilities. Second,

to help overcome the acute shortage of skilled scientists and engineers, the Foundation will make a major effort to improve training in science, particularly by increasing the number of qualified teachers, by interesting a larger number of able students to enter scientific careers, and by granting fellowships to graduate and post-doctoral students.

Although expenditures for the International Geophysical Year program will decline, most of the actual scientific operations all over the world will be carried out during the fiscal year 1958.

Other welfare services.—The appropriation for the school lunch program, mainly for cash grants to the States, is recommended at 100 million dollars for 1958, the same as for 1957. The Federal Government will also contribute to the school lunch program in 1958 by (1) making donations of surplus agricultural commodities estimated to have a value of approximately 130 million dollars, and (2) spending 70 million dollars through the Commodity Credit Corporation for the school milk program.

For the past 3 years the Federal Government has increased its financial aid and technical assistance to States and communities for rehabilitating the disabled. The number of persons rehabilitated each year has reached a record level. This budget reflects a further expansion in this program.

Legislation is recommended to (1) authorize construction of sanitation facilities for Indians, (2) transfer Freedmen's Hospital to Howard University, with provision for construction of a new teaching hospital, (3) authorize special grants for training of teachers for mentally retarded children, and (4) assist States in combating juvenile delinquency more effectively. The budget anticipates expenditures of 5 million dollars in the fiscal year 1958 for these new programs.

Provision is made in the budget to promote the principle of self-help and self-care through research into causes of dependency and through training grants for welfare personnel as authorized by the 1956 social security amendments.

Public assistance.—The social security amendments enacted in 1956 raised Federal matching funds for State public assistance to people whose needs are not met by social security insurance, and provided new grants for medical care. Largely as a result of the 1956 amendments, Federal grants for public assistance are estimated to increase 100 million dollars to a total of 1.7 billion dollars in the fiscal year 1958. Benefits will be paid by State agencies to an average of 5 million persons in 1958, including 2.5 million on the old-age assistance rolls which are declining as social insurance benefits cover more people.

Social insurance and retirement trust funds.—Expenditures for social insurance programs and for the payment of Federal civilian employees' retirement benefits do not appear in the total of budget expenditures because they are financed separately through trust funds. The total disbursements from these funds for 1958 will exceed 10.5 billion dollars, mainly for benefits under the various insurance programs. Reserves for future payments, which are invested in Government bonds, will increase to approximately 46 billion dollars at the end of the fiscal year 1958.

Benefits will be paid in 1958 from the old-age, survivors, and disability insurance trust funds to some 9,100,000 retired persons, 380,000 disabled workers, and 1,800,000 mothers and children. These numbers include women between the ages of 62 and 65 and disabled workers between the ages of 50 and 65, who will receive benefits for the first time under the social security amendments enacted in 1956. Legislation is recommended to improve coordination between old-age insurance tax and income tax reporting procedures.

The Federal Government is responsible under law for payments under the social security and railroad retirement funds for credits toward benefits which are accorded for time spent in military service. In the case of the railroad retirement account, the Comptroller General of the United States has informed the Congress that payments already made to the fund by the Federal Government under existing law exceed the estimated actual cost of future benefits for time spent in military service prior to July 1948 by more than 300 million dollars. In order to avoid further overpayments, it is recommended that legislation be enacted to change the basis for appropriations so that the Government henceforth will reimburse the fund for the actual cost of military service benefits as they are paid.

With respect to the employer and employee contributions to the railroad retirement system, provision should be made for adequate long-term financing of the system on a self-supporting basis. The congressional committees concerned reported they would take action, and the need for a sounder financial basis was pointed out in the statement issued last summer when new legislation raising benefits was signed.

MESSAGE OF THE PRESIDENT

M63

SOCIAL INSURANCE AND RETIREMENT TRUST FUNDS

(Based on existing legislation)

[Fiscal years. In millions]

Fund	1956 actual	1957 estimate	1958 estimate
Federal old-age and survivors insurance trust fund:			
Balance in fund at start of year.....	\$21,141	\$22,593	\$23,437
Receipts:			
Payroll tax transferred from general receipts.....	6,337	6,445	6,609
Deposits by States.....	172	305	320
Interest and other.....	495	563	576
Payments of benefits, construction and administrative expenses, and tax refunds.....	-5,551	-6,469	-7,366
Net accumulation.....	+1,452	+844	+139
Balance in fund at close of year.....	22,593	23,437	23,576
Federal disability insurance trust fund:			
Balance in fund at start of year.....	.....	.....	327
Receipts:			
Payroll tax transferred from general receipts.....	335	826	826
Deposits by States.....	10	40	40
Interest and other.....	1	15	15
Payments of benefits and administrative expenses.....	-19	-313	-313
Net accumulation.....	+327	+568	+568
Balance in fund at close of year.....	327	895	895
Railroad retirement account:			
Balance in fund at start of year.....	3,534	3,659	3,736
Receipts:			
Payroll tax transferred from general receipts.....	631	660	665
Interest and other.....	105	109	110
Payments of benefits and administrative expenses.....	-611	-692	-739
Net accumulation.....	+125	+77	+37
Balance in fund at close of year.....	3,659	3,736	3,772
Federal employees' retirement funds (Civil Service and Foreign Service):			
Balance in funds at start of year.....	6,210	6,728	7,504
Receipts:			
Employee contributions.....	574	585	588
Interest.....	213	226	234
Government contributions and other.....	238	530	571
Payment of annuities and refunds.....	-507	-566	-598
Net accumulation.....	+518	+775	+795
Balance in funds at close of year.....	6,728	7,504	8,299
Unemployment trust fund:			
Balance in fund at start of year.....	8,454	8,790	9,090
Receipts:			
Deposits by States and railroad unemployment insurance.....	1,361	1,519	1,580
Interest.....	199	223	253
Transfer from general fund ¹	168	62	53
Payments: State and railroad withdrawals for benefits.....	-1,393	-1,504	-1,534
Net accumulation (+) or withdrawal (-).....	+335	+300	+351
Balance in fund at close of year	8,790	9,090	9,441

¹ Excess of Federal unemployment tax collections over Federal expenditures for unemployment compensation and employment service administration.

VETERANS' BENEFITS AND SERVICES

The Nation's obligation to provide for the special needs of war veterans and their dependents is being met by a wide range of special services and benefits, which account for nearly one-fifth of all budget expenditures other than those for major national security programs. Expenditures for veterans programs will continue to increase in the fiscal year 1958, largely because of the rising number of veterans and their survivors who receive non-service-connected pensions.

Veterans programs generally have served their purpose well. However, the problems which face veterans change as economic and social conditions change and as the Government's general health and economic security programs expand in scope and adequacy.

Against this background, executive review is being made of agency comments on the comprehensive report of the President's Commission on Veterans' Pensions, headed by General of the Army Omar N. Bradley. A special message will be transmitted to the Congress outlining legislative proposals in this field. This budget includes 100 million dollars to cover the estimated cost in 1958 of these proposals.

VETERANS' SERVICES AND BENEFITS

[Fiscal years. In millions]

Program or agency	Budget expenditures			Recommended new obligational authority for 1958
	1956 actual	1957 estimate	1958' estimate	
Gross budget expenditures:				
Readjustment benefits:				
Education and training.....	\$767	\$791	\$758	\$758
Loan guaranty and other benefits.....	54	65	72	72
Unemployment compensation.....	68	56	38	42
Compensation and pensions:				
Present program.....	2,798	2,896	3,003	2,990
Proposed legislation.....			100	100
Hospital and medical care.....	758	768	797	803
Hospital construction.....	29	49	38	54
Insurance and servicemen's indemnities.....	121	72	67	46
Other services and administration (Veterans Administration and others).....	208	209	211	177
Total.....	4,804	4,906	5,085	4,5042
Deduct applicable receipts:				
Insurance program.....	16	23	25	-----
Other services and administration.....	32	32	33	-----
Net budget expenditures.....	4,756	4,851	5,027	4,5042

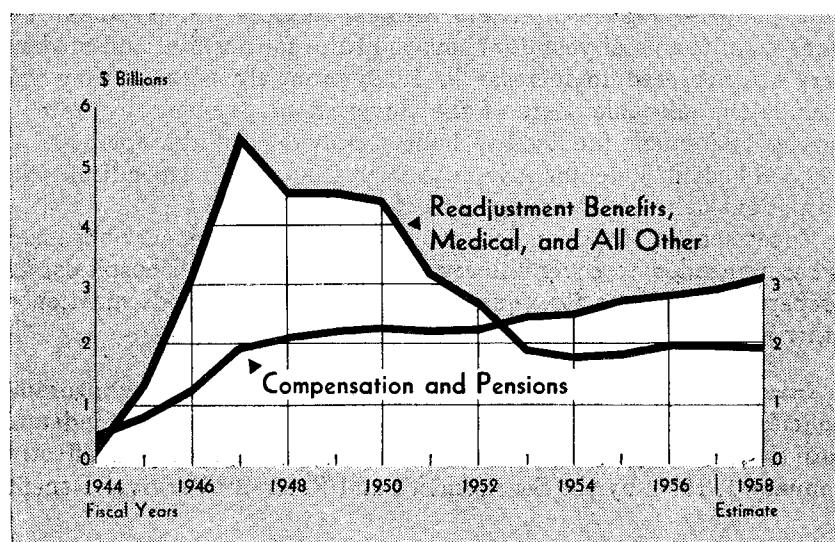
¹ Compares with new obligational authority of 4,823 million dollars in 1956 and 4,890 million dollars in 1957.

Readjustment benefits.—The education and training program now applies principally to veterans of the Korean conflict. Average enrollment of this group is expected to reach a peak in the fiscal year 1957 and then drop about 4 percent to 569,000 in 1958. As a result, expenditures are estimated to drop by 33 million dollars in 1958, even though they include the cost of education and training for some 9,000 children under the War Orphans' Educational Assistance Act which was enacted in 1956. This latter cost is not a readjustment benefit but is financed from the same appropriation.

The Veterans Administration is expected to guarantee home, farm, and business loans to about 540,000 veterans of World War II and the Korean conflict in the fiscal year 1958. Budget expenditures of 61 million dollars are estimated to result from veterans' defaults on guaranteed loans, but a large part of these expenditures will be offset by recoveries from the sale of properties which are deposited in the Treasury as miscellaneous receipts.

Most World War II veterans have had over 10 years to use their loan guaranty benefits, which were intended to assist their adjustment from military to civilian life. As a group, they have successfully reestablished themselves in civilian pursuits with the aid of a wide range of readjustment benefits. New applications under the World War II loan program, which was extended by the last Congress to permit orderly termination, should therefore end as now scheduled in July 1958. Loan guaranty benefits for veterans of the Korean conflict will continue, under current legislation, until 1965, and mortgage insurance benefits remain available to all home buyers, including veterans, through the Federal Housing Administration.

EXPENDITURES FOR VETERANS' SERVICES AND BENEFITS



As pointed out in the section on commerce and housing, the statutory maximum interest rate on veterans guaranteed loans should be increased to bring it more nearly into line with current market conditions. Such action is essential to encourage provision of more adequate mortgage funds from private sources for the veterans guaranty program. That section also indicates there may be need to permit liberalization of the terms of loans insured by the Federal Housing Administration when the Veterans Administration programs for World War II veterans expire.

Compensation and pensions.—Compensation benefits are paid for disabilities or deaths resulting from service; pensions are for needs not connected with service. Compensation rolls, which have been increasing since World War II, are expected to stabilize in 1958, with payments of 1.9 billion dollars to 2.1 million veterans and to 395,000 families of deceased veterans. Total compensation payments are expected to start declining slowly within a few years, as World War I and World War II veterans and dependents leave the rolls more rapidly than veterans of more recent service and their dependents become eligible.

The budget provides for pension payments in the fiscal year 1958 of over 1 billion dollars to an estimated 762,000 veterans and 488,000 families of veterans. Because many of the non-service-connected ailments accepted as establishing eligibility for pensions are normally associated with advancing age, the pension rolls will continue to grow until near the end of this century as veterans grow older and as more survivors become eligible.

Medical care and hospital construction.—Although the number of veterans receiving hospital and medical services will be about the same as in the fiscal year 1957, expenditures for hospital and medical care are expected to increase in 1958, primarily because they will include the allocable share of the Government payment to the civil service retirement fund. The budget provides for the operation of 122,500 beds in Veterans Administration hospitals. Expenditures for outpatient dental care are expected to decline in 1958.

Enactment of 54 million dollars of new authority to incur obligations is recommended to cover the replacement of 2 general hospitals, the preparation of plans for replacing a third, and the modernization of other existing facilities.

Insurance and servicemen's indemnities.—Issuance of new insurance policies to ex-servicemen without disabilities and the award of indemnities to survivors of deceased servicemen were terminated effective January 1, 1957, by the Servicemen's and Veterans' Survivor Benefits

MESSAGE OF THE PRESIDENT

M67

Act. This act provided substitute benefits in the form of new dependency and indemnity compensation benefits and of coverage in the old-age and survivors insurance system. Indemnity and insurance payments, however, will continue to be made on existing cases and to reimburse the veterans' insurance funds for claims resulting from the extra hazards of military service.

Trust funds.—The life insurance programs for veterans of the two world wars are financed through trust funds, whose operations are segregated from the regular budget transactions. About 5.2 million, or one-fourth, of the eligible veterans have retained insurance policies. Because issuance of new policies under these funds was ended in 1951, the insurance in force will continue to decline.

In the fiscal year 1957, dividend rates have been increased by approximately 12 percent, and about one-half of the total premium collections during the year will be returned to policyholders. These generous dividends have been made possible largely by the favorable mortality experience of insured veterans. The increased dividend payments will reduce the rate at which reserves are accumulated, but will not impair the soundness of the funds.

VETERANS' LIFE INSURANCE TRUST FUNDS

[Fiscal year. In millions]

Item	1956 actual	1957 estimate	1958 estimate
Balance in funds at start of year	\$6,587	\$6,709	\$6,777
Receipts:			
Transfers from general and special accounts	78	21	14
Interest on investments	203	205	206
Premiums and other	441	450	456
Total	722	676	676
Payments:			
Dividends to policyholders	212	228	250
Benefits and other	388	381	376
Total	599	608	626
Net accumulation	123	68	50
Balance in funds at close of year	6,709	6,777	6,827

INTEREST

Interest payments are estimated to rise to 7.4 billion dollars in the fiscal year 1958. These payments, almost entirely for interest on the public debt, represent 10 percent of budget expenditures.

Item	Budget expenditures			1958 new obligational authority
	1956 actual	1957 estimate	1958 estimate	
Interest on public debt.....	\$6,787	\$7,200	\$7,300	\$7,300
Interest on refunds of receipts.....	54	54	54	54
Interest on uninvested funds.....	6	6	6	6
Total.....	6,846	7,260	7,360	7,360

The public debt was reduced in the fiscal year 1956 and further modest reductions are planned for 1957 and 1958. By repaying debt, the Federal Government is enlarging the supply of funds available for private financing of other activities. However, the heavy demand for private capital funds and for State and local government financing which accompanies the present record prosperity has increased the interest rates which the Treasury has to pay on securities issued to refinance the large volume of obligations maturing each year. As a result, the average rate the Treasury pays on the outstanding interest-bearing public debt has risen in the past 12 months from 2.49 percent to 2.67 percent.

Substantial reductions in interest rates cannot be expected until there is a better balance between the present pressure of heavy credit demands and the supply of savings.

GENERAL GOVERNMENT

About 2 percent of budget expenditures will be required for general government, mainly for law enforcement and for central management costs which under present accounting practices are not allocated to other major Government functions. The estimated expenditures of 1.5 billion dollars for this category in 1958 are 419 million dollars below 1957 expenditures because of a reallocation of costs. Starting in 1958, each Government program will bear its share of the Government's payment to the civil service retirement fund, and individual appropriations throughout this budget include amounts for this purpose. The payment was previously made from a single appropriation to the Civil Service Commission.

The Commission on Intergovernmental Relations recommended, as a matter of equity, that the Federal Government make payments in lieu of taxes to local governments in those areas where recent Federal acquisition of industrial and commercial type properties has created undue fiscal difficulties. Legislation containing this principle was introduced in the last session of the Congress and is again recommended.

MESSAGE OF THE PRESIDENT

M69

GENERAL GOVERNMENT

[Fiscal years. In millions]

Program or agency	Budget expenditures ¹			Recommended new obligational authority for 1958
	1956 actual	1957 estimate	1958 estimate	
Legislative functions.....	\$77	\$95	\$107	\$80
Judicial functions.....	38	41	45	45
Executive direction.....	12	13	18	18
Federal financial management:				
Tax collection.....	304	305	331	332
Customs collection, debt management, and other.....	171	173	189	187
General property and records management:				
General Services Administration.....	164	245	303	317
Central Intelligence Agency building.....	(*)	4	4	-----
Central personnel management and employment costs:				
Civil Service Commission:				
Payments for employee retirement.....	235	527	2	2
Other.....	18	18	20	20
Labor Department:				
Unemployment compensation for Federal employees.....	30	29	29	32
Accident compensation for Federal employees.....	51	52	53	53
Civilian weather services.....	34	39	40	41
Protective services and alien control:				
Federal Bureau of Investigation.....	97	97	101	101
Immigration and Naturalization Service.....	49	47	50	50
Other.....	42	41	45	45
District of Columbia and territories and possessions:				
District of Columbia.....	22	27	43	42
Other (including proposed legislation).....	47	51	60	62
Other general government:				
Claims and relief acts.....	230	60	9	7
Other.....	8	6	4	4
Total.....	1,629	1,870	1,451	* 1,438

¹ After deducting applicable receipts of 4 million dollars in 1956 and 3 million dollars in 1957 and 1958, mainly for Virgin Islands Corporation.

* Less than one-half million dollars.

² Compares with new obligational authority of 1,595 million dollars in 1956 and 1,851 million dollars in 1957.

General property management.—As part of the continuing endeavor to increase efficiency of Government services and to better the working conditions of Federal employees, additional improvements of Government buildings are planned. An important improvement will be the air conditioning of buildings in areas where temperature and humidity interfere unduly with efficient operations. Because of continuing deterioration in many Government buildings in recent years, more renovation and repairs have also become necessary. Additional space will be needed to avoid overcrowding in certain agencies.

Central personnel management and employment costs.—The Civil Service Retirement Act Amendments of 1956 require that in the fiscal year 1958 all agencies of the Government begin to pay to the retirement trust fund amounts equal to the contributions of their

employees. Total agency payments are estimated at 566 million dollars in 1958. Additional expenditures of 2 million dollars will be made by the Civil Service Commission for payments to annuitants under special statutes.

The Department of Labor will transfer more of the processing of accident compensation claims for Federal employees to regional offices in 1958 in order to bring administration closer to employees and to speed up payment. Legislation should be enacted to provide for each employing agency to bear its share of the cost of these benefits and to encourage still further precautionary safety measures by the agencies.

Substantial increases in benefits for civilian employees of the Government have been adopted in the last two Congresses, and the costs are generally reflected in budget requests for the employing agencies. One of these new benefits, unemployment compensation for separated civilian employees, is financed by an appropriation to the Department of Labor. An increase is recommended in this appropriation in 1958 to provide the amount estimated to be needed because of higher average benefit rates, which are based on State statutes.

Legislation is recommended to establish a system of voluntary health and medical insurance for civilian employees and their dependents. Legislation is also recommended to authorize the training of Government employees outside as well as within the employing agency.

District of Columbia and territories and possessions.—Appropriations are recommended for the full amount of the increased Federal payment to the District of Columbia authorized by the last session of the Congress. Federal expenditures for the District are estimated to rise to 43 million dollars in the fiscal year 1958, including 17 million dollars in loans for construction of public works under the long-term program authorized in 1954.

Legislation will be proposed again to carry out the treaty and agreement made in 1955 with the Republic of Panama. The Canal Zone Government will replace schools and other facilities transferred to the Republic under the treaty, and the Panama Canal Company will replace employee quarters and other facilities in the Canal Zone.

Claims and relief acts.—Payments for miscellaneous claims and relief acts are estimated at 9 million dollars in the fiscal year 1958, compared to 60 million dollars in 1957 and 230 million dollars in 1956. Most of the decrease in this item results from legislation enacted last year, under which each agency now pays bills presented after the appropriation involved has lapsed. Such bills were previously paid out of a single Treasury Department account.

CONCLUSION

This concludes the analysis of the 1958 budget. The budget document itself contains a great deal of additional budgetary information. In part I of the budget document there are seven tables presenting summary data on budget receipts, expenditures, public debt, new obligational authority, and balances. Detailed information, estimates, and schedules for each agency and each appropriation, including statements of program and performance, appear in part II. Part III of the budget document contains both summary tables and detailed appropriation and agency information for trust funds. Part IV consists of 12 "special analyses" which present additional details, classifications, and historical data.