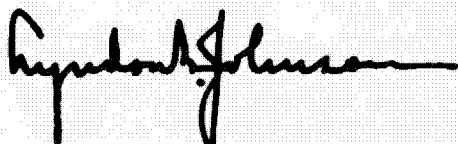
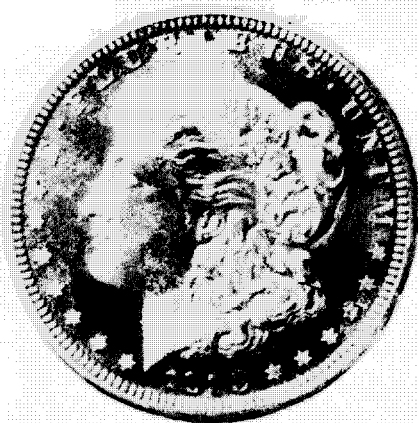


*I have pledged . . . that the government will get a dollar's
value for a dollar spent.*



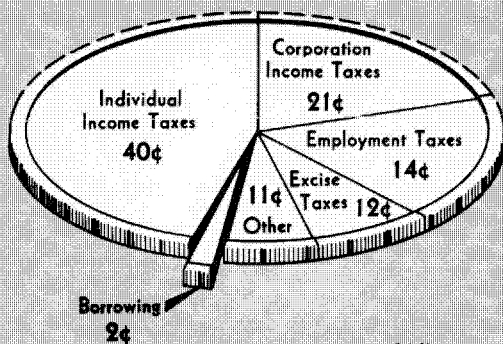
The
BUDGET
in Brief



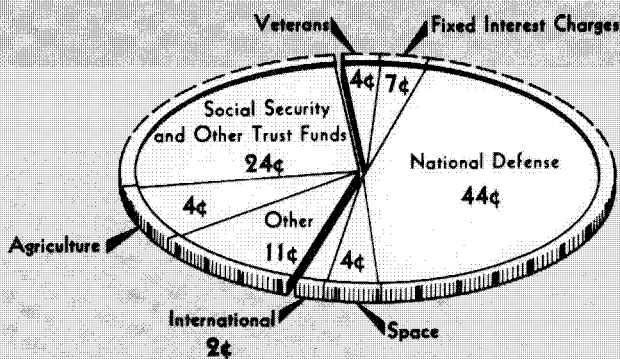
1965
FISCAL YEAR

THE GOVERNMENT DOLLAR

Where it comes from . . .



Where it goes . . .



Fiscal Year 1965 Estimate

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C., 20402 - Price 35 cents

From the President's Budget Message

"A government that is strong, a government that is solvent, a government that is compassionate is the kind of government that endures.

There is no inconsistency in being prudent and frugal, in being alert and strong, and in being sensitive and sympathetic to the unfilled needs of the people.

This is the objective of this Administration. It is an objective that will be met."

A handwritten signature in black ink, which appears to be "Lyndon B. Johnson". The signature is fluid and cursive, with a long horizontal stroke at the end.

JANUARY 21, 1964.

Portions of the President's budget message are reprinted beginning on page 65.

Contents

	Page
From the President's budget message.....	1
Introduction.....	5
<i>Part 1. BUDGET HIGHLIGHTS.....</i>	<i>7</i>
The budget program for 1965.....	7
Efficiency and economy.....	11
Receipts of the Federal Government.....	12
The budget and the national economy.....	14
Meeting national needs.....	16
The Federal budget in perspective.....	18
Investments on behalf of the Nation.....	21
The public debt.....	22
<i>Part 2. FEDERAL ACTIVITIES BY FUNCTION.....</i>	<i>25</i>
National defense.....	26
International affairs and finance.....	30
Space research and technology.....	32
Agriculture and agricultural resources.....	34
Natural resources.....	35
Commerce and transportation.....	37
Housing and community development.....	40
Health, labor, and welfare.....	43
Education.....	47
Veterans benefits and services.....	48
General government.....	50
Interest.....	52
<i>Part 3. BUDGET FACTS AND FIGURES.....</i>	<i>53</i>
Measures of Federal finances.....	54
The budget process.....	59
Portions of the President's budget message.....	65
Tables on the budget.....	78

Note.—All years referred to are fiscal years, unless otherwise noted. Detail in the tables, text, and charts of this booklet may not add to the totals because of rounding.

THE BUDGET PROCESS

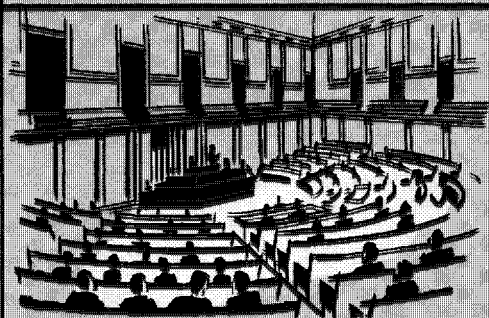
THE PRESIDENT

Reviews the Nation's Needs
Formulates Policies
Proposes the Budget



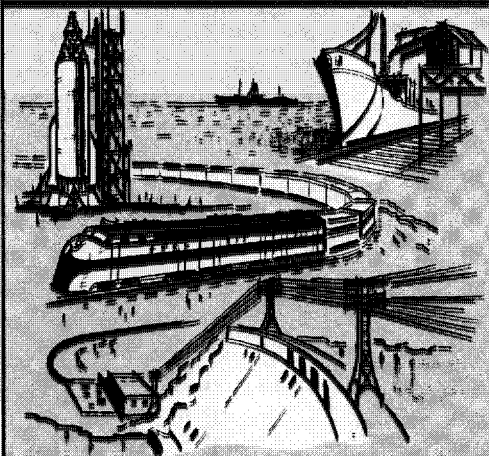
THE CONGRESS

Considers the Budget
Authorizes Programs
Appropriates Funds
Enacts Tax Laws



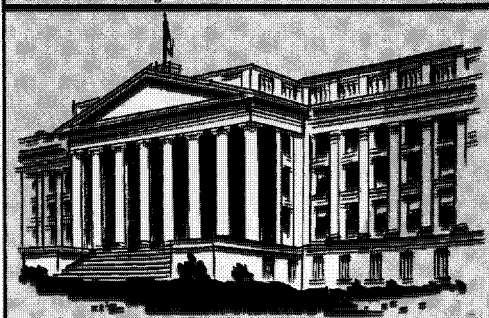
FEDERAL AGENCIES

Make Contracts
Purchase Goods
Employ Workers
Perform Services
Pay Pensions, Benefits, Etc.



THE TREASURY

Collects Taxes
Pays the Bills



Introduction

WHAT IS THE BUDGET?

The budget serves several purposes. It is both a financial report and a plan for the future. It is also a request for legislation, since congressional approval is necessary if the proposals in the budget are to be carried out. Further, it is an important aid in the management and administration of the Government's activities. Finally, it is an economic document, for it must take into account the many ways in which Government taxation and spending affect the operation of our economic system.

The budget is presented to the Congress each January, 6 months before the start of the fiscal year, which extends from July 1 to the following June 30 and is designated by the calendar year in which it *ends*. Congress considers the budget and votes new obligational authority and new revenue measures. Once granted authority, Federal agencies may obligate the Government to make the payments necessary to carry out the authorized programs. However, there may be a considerable interval between the time Congress votes the spending authority and the time the payments are actually made.

The totals discussed in the budget include both the amounts contained in the *administrative budget* (explained in part 3) and the money paid into and spent out of Government *trust funds* (such as social security and Federal aid to highways).

The budget is often discussed in terms of its effect on the economy or the gross national product. The gross national product is the total value of all goods and services that the Nation produces in a single year. It includes purchases of goods and services by consumers, businesses, foreigners, and Federal, State, and local governments.

Additional information on the budget process and the relation of the budget to the economy is provided in this booklet.

Part 1 Budget Highlights

THE BUDGET PROGRAM FOR 1965

The budget of the United States for 1965 presents the President's proposals for using the financial resources of the Federal Government to meet the Nation's responsibilities at home and overseas. These proposals reflect a determined effort to continue building our military strength; to bolster the foundations of freedom around the world; to advance the Nation's knowledge of the vast and mysterious frontier of space; and to satisfy high-priority domestic needs.

The budget provides resources for initiating a major new attack on poverty in the United States. It proposes that the Federal Government join forces with State and local governments to strike at the sources of chronic poverty—inadequate education, training, health, housing, and job opportunities.

In advancing his proposals, the President has stressed economy and improved management of Government programs. During 1965, Federal employment will be lower than in 1964. Total cash payments will remain unchanged; but within that total, expenditures by the social security and other trust funds will rise, while administrative budget expenditures will decline.

This budget, and this year's legislative program, are designed to help each and every American citizen fulfill his basic hopes—his hopes for a fair chance to make good; his hopes for fair play from the law; his hopes for a full-time job on full-time pay; his hopes for a decent home for his family in a decent community; his hopes for a good school for his children with good teachers; and his hopes for security when faced with sickness or unemployment or old age.—From the President's State of the Union Message, January 8, 1964.

For 1965, particular emphasis is being placed on reductions in income taxes in order to promote a vigorous and noninflationary, full employment economy. Special attention has also been given to measures which will widen opportunities for all people to keep pace with our country's progress.

The Jobs To Be Done

The Federal Government's foremost responsibility is to safeguard the peace and security of the United States and to join other nations in safeguarding the free world. Correspondingly, the largest single category of expenditures is for defense programs. International programs complement the defense effort and support the cause of freedom around the world.

The Government has undertaken in recent years the major task of exploring space and achieving a manned round trip to the moon during this decade. Budgetary outlays for this purpose have been increasing rapidly in recent years, and will continue to rise in 1965, but at a slower rate.

On the domestic front, we face urgent and increasing needs in education, community development, transportation, and manpower conservation, development, and training. We must also meet continuing responsibilities for developing natural resources, encouraging commerce, promoting exports, providing improved health care for our citizens, and maintaining a strong farm economy.

Enactment of the tax program now before the Congress is another essential task that must be completed. The economy has not been producing at its full potential in recent years, and unemployment has been much too high. If the Nation is to provide jobs for its new entrants to the labor force, if it is to reduce the number of people currently unemployed and underemployed, and if it is to promote an economic environment within which each family can achieve the dignity that accompanies self-sufficiency, the slack in the economy must be eliminated and economic growth must be accelerated. The tax proposal is a major step to this end.

As the largest single user of national resources, the Government must constantly strive to increase the efficiency with which it conducts its business. Thrift and frugality are essential elements of a sound budget program. Dollars wasted either add unnecessarily to the tax burden or preclude more urgent Government expenditures.

How the Budget Meets the Country's Needs

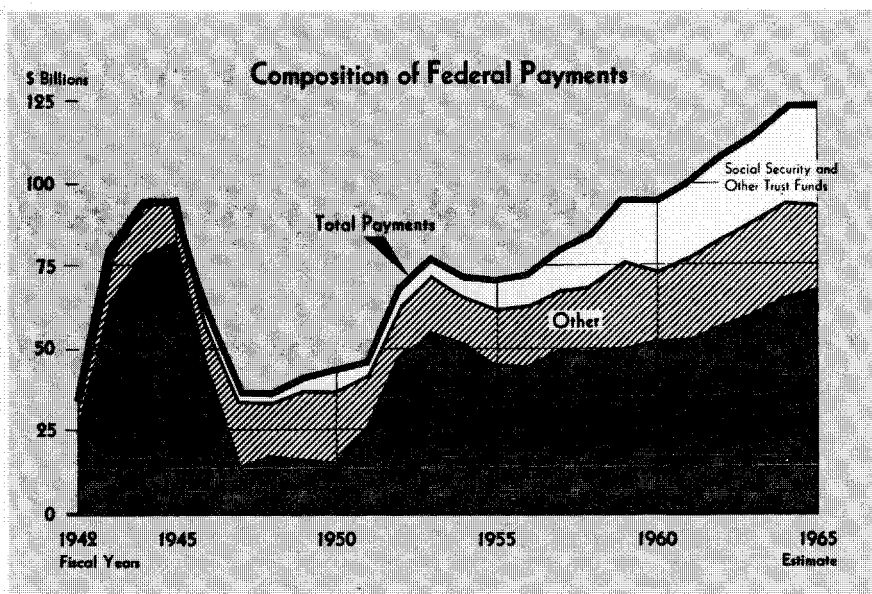
The 1965 budget calls for total payments to the public of \$122.7 billion. Total payments will remain unchanged from 1964 to 1965, despite unavoidable increases for carrying out programs under existing legislation, mandatory pay raises, higher payments of interest on the public debt, and for other past commitments which must be met. In the administrative budget, total expenditures have been reduced \$500 million below 1964.

Total receipts from the public in 1965 are estimated at \$119.7 billion, \$5.4 billion more than in 1964. The increase reflects anticipated higher production and earnings, yielding additional tax receipts which will be more than sufficient to offset the revenue lost temporarily, due to the proposed tax cut. Both receipts and payments include the activities of the social security, highway, and other trust funds that finance a large and important part of the activities of the Government. The estimated totals include receipts and payments based on both existing and proposed legislation.

FEDERAL RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

[Fiscal years. In billions]

Description	1963 actual	1964 estimate	1965 estimate
FEDERAL RECEIPTS			
Administrative budget receipts.....	\$86.4	\$88.4	\$93.0
Trust fund receipts.....	27.7	30.2	30.9
Deduct: Intragovernmental transactions.....	4.3	4.2	4.1
Total receipts from the public.....	109.7	114.4	119.7
FEDERAL PAYMENTS			
Administrative budget expenditures.....	92.6	98.4	97.9
Trust fund expenditures.....	26.5	29.3	29.4
Deduct: Intragovernmental transactions and other adjustments.....	5.4	5.0	4.6
Total payments to the public.....	113.8	122.7	122.7
Excess of receipts (+) or payments (—).....	—4.0	—8.3	—2.9



The costs of programs recommended for 1965 are described in part 2 of this booklet. Briefly, the expenditures include: ¹

- \$54.0 billion in the administrative budget for national defense, down \$1.3 billion from 1964, and \$16.1 billion for space and interest payments, up \$1.0 billion from 1964. Together, these costs of preserving the peace, exploring space, and paying interest—mostly on borrowing to pay for the Second World War—account for 72% of administrative budget expenditures.
- \$27.8 billion in the administrative budget for the rest of the activities carried out by the Government, down \$0.2 billion from 1964.
- \$29.4 billion, outside the administrative budget, for the self-financed social security, highway, and other trust funds, up \$0.1 billion from 1964.

Apart from the space program and interest on the public debt, increased administrative budget expenditures are proposed for education and manpower programs, the new program designed to help eradicate poverty, and for the conservation of natural resources. These programs are vital to the Nation's welfare and growth. In addition to these and other increases in the administrative budget, cash

¹ The sum of the following figures exceeds the net total of Federal payments to the public, largely because some transactions, which take place wholly between one government agency and another, have not been eliminated.

payments to the public provide for expanded trust fund outlays, mainly for social security and highway construction. Such increased outlays are made possible, within an unchanged total, by decreases estimated in payments for national defense, the postal service, housing and other lending programs, farm programs, and veterans benefits.

EFFICIENCY AND ECONOMY

The 1965 budget reflects the President's insistence on a most careful scrutiny of all Government programs in order to hold them to the minimum amount consistent with national needs and responsibilities.

The Government will set an example of prudence and economy. This does not mean we will not meet our unfulfilled needs or that we will not honor our commitments. We will do both.—From the President's address to the Joint Session of Congress, November 27, 1963.

Management Improvement and Cost Reduction

Major savings for the taxpayer are arising from a Government-wide program to improve organization, eliminate unnecessary procedures and paperwork, adopt more efficient techniques, and advance the productivity of employees. A few examples of the many achievements are:

- A saving of more than \$1 billion in the cost of the Defense Department's logistical operations in 1963 as a result of a continuing cost reduction program. The goal of this cost reduction program is to achieve annually recurring savings of \$4 billion by 1967, without affecting combat strength. Civilian employment in the Department is estimated to decrease by 10,000 in 1964 and by an additional 17,000 in 1965.
- A saving in 1963 of about 9,000 new postal employees who would have been required by the increased volume of mail and other services, had there been no increase in productivity and management improvement. There were actually fewer postal employees at the end of 1963 than at the beginning of the year.
- An annually recurring saving of \$11 million by the Internal Revenue Service in 1963 due to management improvements, such as field

office realignments and a streamlined training program for revenue agents.

- An estimated \$30 million reduction in expenditures by the Atomic Energy Commission in 1964, stemming from improved processes and production techniques.
- An 18% decrease in the number of man-years required to process a given number of checks and savings bonds in the Treasury Department's Division of Disbursement.

Government Civilian Pay Reform

Pay legislation passed by Congress in 1962 for career employees was based on two principles: (1) Federal employees should be paid at rates comparable with those paid by private employers for similar work; and (2) Federal employees should receive equal pay for equal work, with differences in pay reflecting differences in work and performance. Together, these principles provide the yardstick needed to determine an equitable pay scale and to attract and keep high caliber Federal employees. Present statutory rates fall short of this yardstick. The 1965 budget includes allowances to raise pay of career employees, and to increase salaries for top positions in the executive branch, the Congress, and the Judiciary.

RECEIPTS OF THE FEDERAL GOVERNMENT

The largest source of Federal receipts is the individual income tax; the second largest is the income tax paid by corporations. The other major sources of revenue include employment taxes largely for social security, unemployment insurance deposits, gasoline and other excise taxes, customs duties, and estate and gift taxes.

Tax Rates and the Economy

Tax rates are established by law. Since the major taxes are levied as a proportion of income, the receipts of the Government vary from year to year as the Nation's income changes, even without any change in tax laws. For example, in periods of high employment, receipts will be high because more workers will be earning wages and will be paying higher income and social security taxes. Thus, the *level of economic activity* is a major factor in determining the *amount of Federal receipts* in a given year.

Lower Taxes for Faster Growth

The tax system itself has an important influence on the level and rate of growth of economic activity. In recent years it has become clear that spending by consumers and business firms has been excessively restrained by Federal, State, and local taxes.

In order to ease this burden, the President is urging final congressional action early this year on a major tax program, which was approved by the House of Representatives last year. This tax measure includes substantial reductions in every bracket of individual income tax rates, a decreased corporation income tax rate, and reform of the tax structure to lessen inequities, strengthen incentives, and spur economic growth.

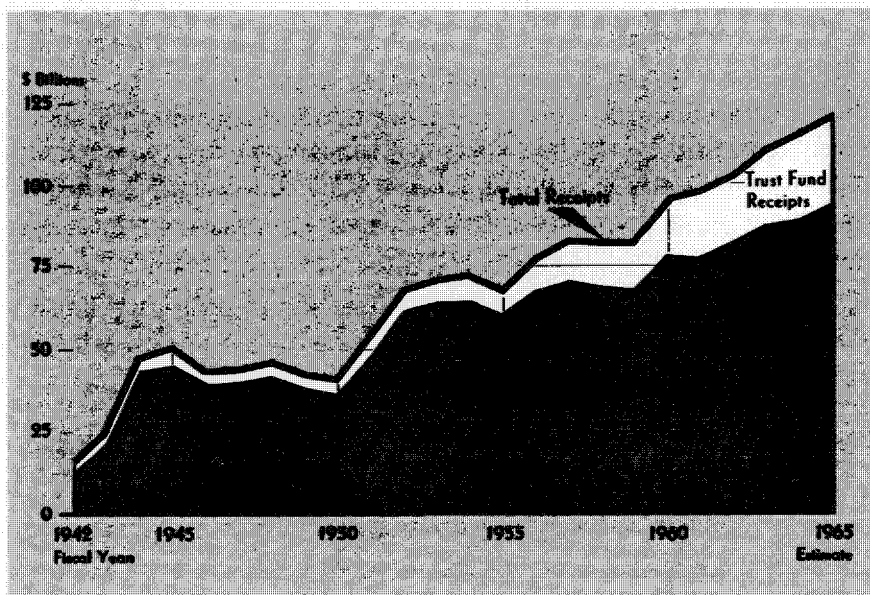
The tax cut will result in smaller increases in revenues in 1964 and 1965, than would have occurred with unchanged tax rates. However, over the long run, as the economy responds to the stimulus of a tax cut, rising economic activity will produce a sharper increase in revenues.

FEDERAL RECEIPTS FROM THE PUBLIC

[Fiscal years. In billions]

Source	1963 actual	1964 estimate	1965 estimate
ADMINISTRATIVE BUDGET RECEIPTS			
Individual income taxes	\$47.6	\$47.5	\$48.5
Corporation income taxes	21.6	23.7	25.8
Excise taxes	9.9	10.2	11.0
Other	7.3	7.0	7.7
Total, administrative budget receipts	86.4	88.4	93.0
TRUST FUND RECEIPTS			
Social security receipts	14.9	16.8	17.0
Deposits by States, unemployment insurance	3.0	2.9	2.8
Gasoline and other highway excise taxes	3.3	3.5	3.5
Other	6.5	7.0	7.5
Total, trust fund receipts	27.7	30.2	30.9
Deduct: Intragovernmental transactions	4.3	4.2	4.1
Total, receipts from the public	109.7	114.4	119.7

Federal Receipts



Other Revenue Measures

The President is requesting the Congress to enact a series of *user charges* designed to assure that groups or individuals who benefit directly from Government programs pay a more equitable share of the expenses of these programs. This recommendation relates principally to such services as use of the Federal airway system by commercial and general aviation, and use of Government-maintained inland waterways.

Above all, we must release \$11 billion of tax reduction into the private spending stream to create new jobs and new markets in every area of this land.

That tax bill has been thoroughly discussed for a year. Now we need action. The new budget clearly allows it. Our taxpayers surely deserve it. Our economy strongly demands it.—
From the President's State of the Union Message, January 8, 1964.

THE BUDGET AND THE NATIONAL ECONOMY

Federal fiscal policies can contribute significantly to the health of the economy. This was recognized by the Congress in the Employ-

ment Act of 1946, which gave the Government specific responsibility to promote maximum employment, production, and purchasing power.

Government Expenditures and the Economy

The discussion of the tax program, above, emphasized the important relationship between Federal receipts and the economy. Federal expenditures, as well as taxes, have an important impact on the national economy.

For a better understanding of the impact of Federal activities, it is helpful to use a special set of figures. These figures (which represent the Federal sector of the *national income accounts*) measure receipts and expenditures as they enter the income and output flows of the economy.

The figures show, for example, that the outlays of the Federal Government (on a national income basis) will total \$121.5 billion in fiscal year 1965. Only \$69.1 billion, however, will actually be used to buy goods and services needed to carry out the Government's programs.

The remainder will be paid to meet other commitments. For example, when the Government pays social security benefits to individuals, it does not "buy" anything itself, and therefore it does not use up resources. It simply transfers social security funds to eligible beneficiaries, who in turn purchase goods and services for themselves.

Similarly, the Federal Government grants large amounts to the States to use for such purposes as highway construction and public assistance payments. Thus, expenditures that represent actual use of the current output of the economy by the Federal Government itself are much smaller than total Federal expenditures.

The Budget, Prices, and the Balance of Payments

In 1965, estimated Federal payments will exceed receipts by \$2.9 billion. In the present state of our economy, this deficit does not raise the threat of inflation. Government deficits could indeed contribute to inflationary pressures if they were incurred during periods of full employment, when the economy was already producing at full capacity. The Nation's current problem, however, is not that market demands are straining productive capacity, but quite the opposite—capable workers are idle, and efficient factories are not fully utilized for want of adequate markets.

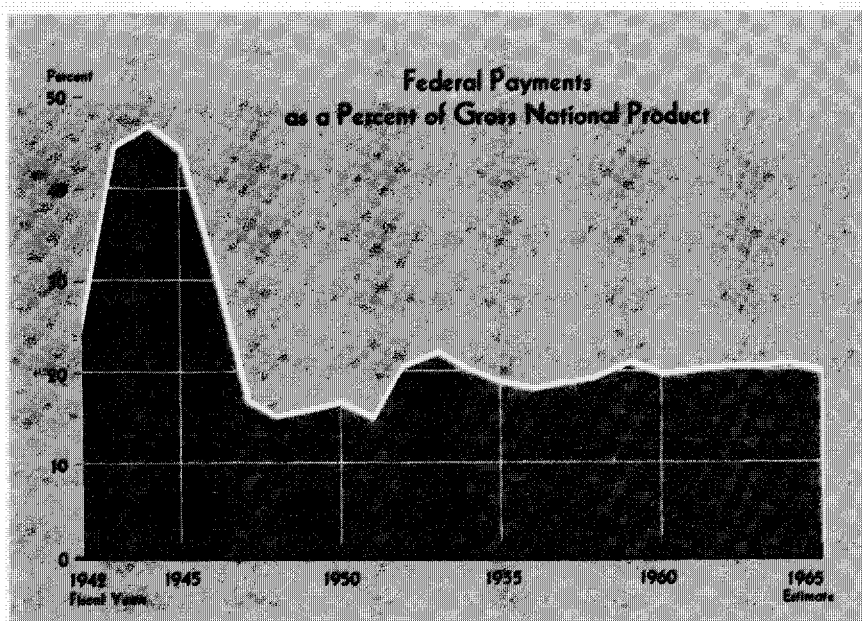
Budgetary policy must also take account of the Nation's balance of payments problem. During recent years this country has paid more abroad (for private imports and investments, and for military expenditures and other Government programs) than it has received from abroad (for exports, earnings on its investments, and repayments of its loans). This has occurred even though our exports of goods and services to the rest of the world typically exceed our imports. Costs and prices in the United States, however, have moved up less rapidly than those of most other nations in the past few years. In addition, specific measures—such as the encouragement of exports, a proposed tax on foreign securities sold here, and controls over Government spending abroad—have been taken to reduce the balance of payments gap. As a consequence, there has been a distinct improvement in our balance of payments.

In the long run, a healthy balance of payments depends upon a growing and vigorously competitive economy. Current budgetary policies are aimed at restoring full employment and increasing the rate of economic growth. While more rapid economic expansion will tend to increase the Nation's imports, the swifter gains in productive efficiency and the greater productivity of domestic investment, which accompany full employment and rapid economic growth, will help our balance of payments position.

MEETING NATIONAL NEEDS

In 1940, this country had a population of 133 million. This year the population will be about 192 million, or 44% more. In calendar year 1940, the total output of goods and services of the Nation—the gross national product—amounted to \$242 billion in real dollars of today's purchasing power. In calendar 1964, it is expected to reach \$623 billion, or more than two and one-half times as much.

Our society is undergoing many changes which affect the costs of government. In 1940, about 32 million motor vehicles were registered in the United States. In 1962, 79 million were registered. In 1940, there were 32,000 miles of Federal airways. In 1962, there were 137,000. In 1940, 56% of the population of the United States lived in urban areas. Today, about 70% of the population lives in these areas. In



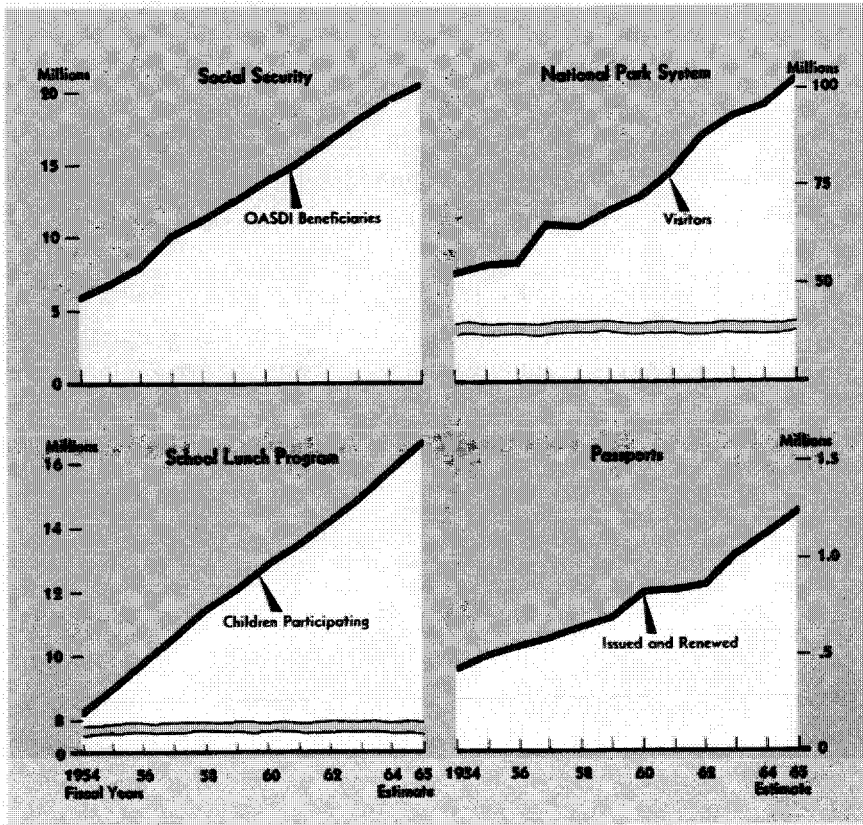
1940, persons below 18 and over 64 years of age—the groups most associated with many needs for public services—constituted over 37% of the population. In 1963, 46% of the population was in these age groups. The number of such persons has expanded by 74% since 1940 and will continue to grow at a rapid rate throughout the 1960's.

Growth of the Federal Government

Federal expenditures in recent years have risen because the Nation has become the leader of the free world and also because it has become more populous, mobile, urbanized, and complex. The expansion in outlays has been necessary not only for the Nation's defense and its increasing mastery of space, but also to furnish the services and benefits necessary to meet the requirements of a growing population in an increasingly interdependent society.

The following examples serve to illustrate this point. In 1965 the volume of mail is expected to increase 2.8% over the current fiscal year; visits to our national parks will expand by 6%; the number of beneficiaries under the old-age and survivors insurance program will go up by 5%; the number of veterans or survivors receiving pensions is estimated

Selected Program Trends



to rise by 4%; aircraft landings and take-offs at airports with Federal towers are going up by 3.7%; the number of patent applications is rising by 2.3%; and the number of schoolchildren expected to participate in the school lunch program is estimated to rise by 5.3%. The rising prices the Government pays, including pay increases for Government employees to keep pace with private wage rates, also require additional outlays over the long run. In 1965, however, increased productivity and other savings will offset the cost of rising workloads.

THE FEDERAL BUDGET IN PERSPECTIVE

Public Use of the Nation's Output

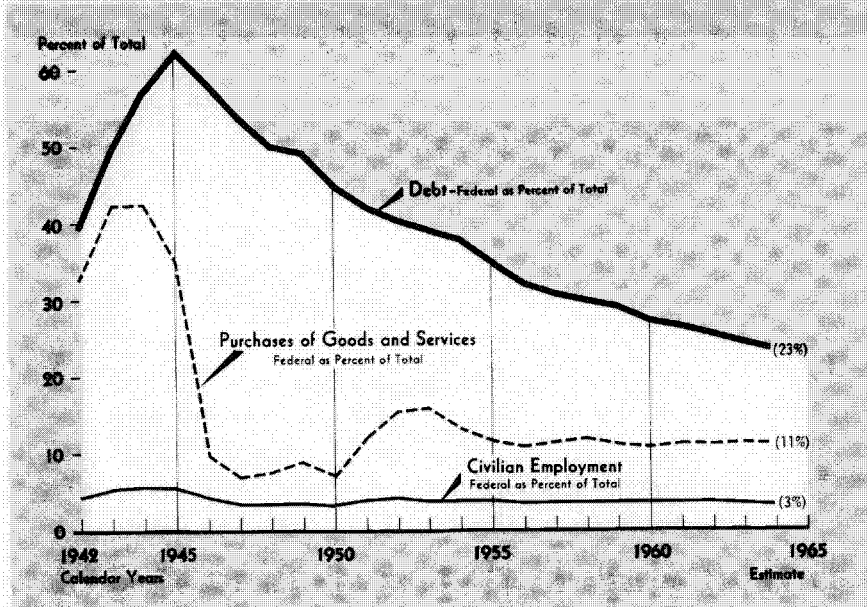
In the decade ending in fiscal 1965, Federal purchases of goods and services are estimated to rise by 54%. In the same period the gross

national product will rise by about 70%. Thus, the Federal Government has been able to supply expanded public services while its purchases have been declining as a proportion of GNP—from 12% in 1955 to less than 11% in 1965.

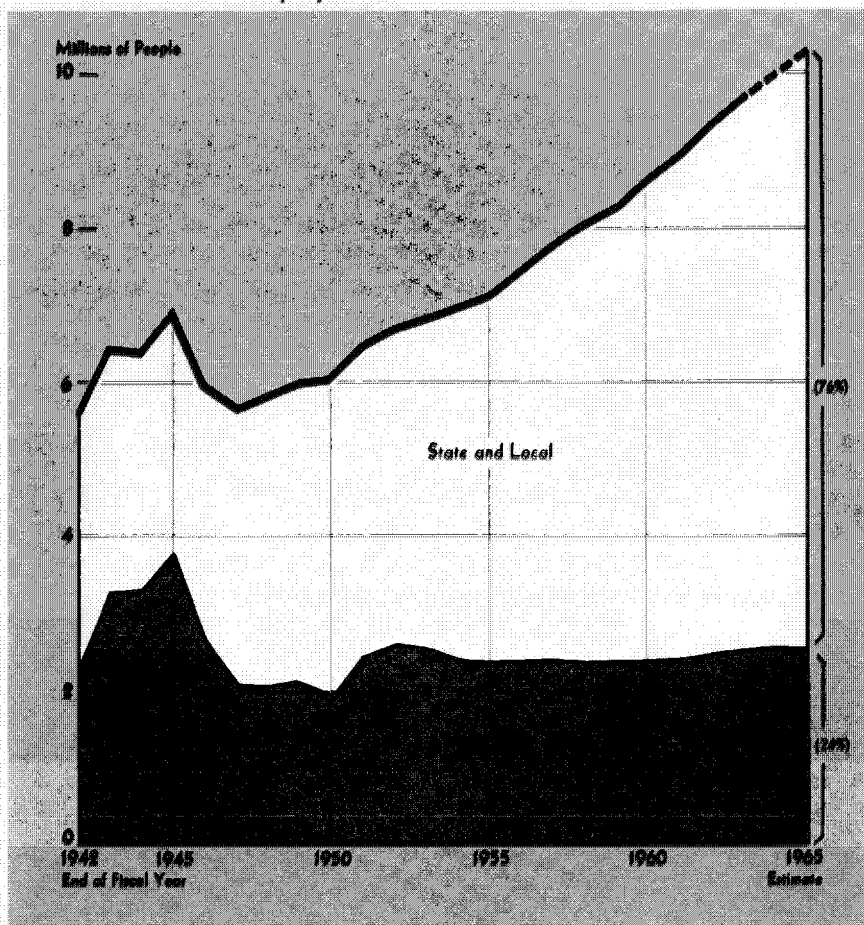
All levels of government have experienced growing public needs, requiring them to increase their purchases of goods and services. This increase has been particularly rapid for State and local governments.

Compared to the rise in Federal purchases of goods and services of 54% since 1955, purchases by State and local governments will increase by an estimated 123%. The Federal Government's proportion of the output bought by all levels of governments will fall from 61% in 1955 to 52% in 1965, as State and local governments continue to use a relatively increasing share of the resources used by governments. Based on recent experience, the increase in State and local purchases of goods and services in 1965 will be over \$4 billion, in contrast to \$1.3 billion estimated for the Federal Government.

Federal Debt, Purchases, and Employment Down Relative to Total Economy



Government Civilian Employment



Public Use of the Nation's Labor Force

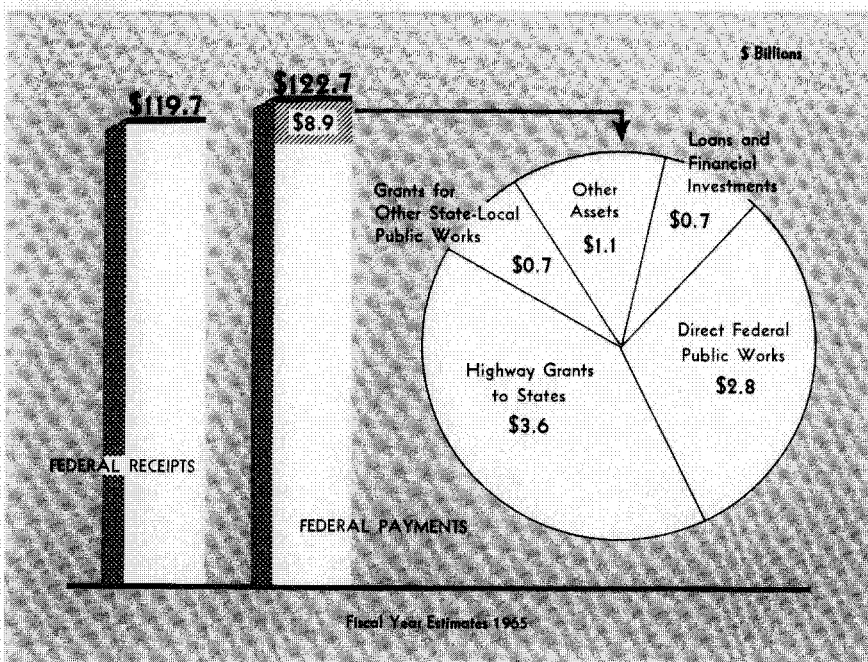
The same relative trends are also visible in Government employment. Although Federal civilian employment in the executive branch is estimated to rise by 6% in the decade since 1955, the employment of State and local governments will rise by about 65%. In 1955, the Federal Government employed 33% of all civilian government employees. In 1962, it employed 27%. Federal civilian employment is estimated to decrease by 1,200 employees from 1964 to 1965. State and local governments, on the other hand, have added in each of the last 5 years about 300,000 employees.

INVESTMENTS ON BEHALF OF THE NATION

The United States Government does not follow the practice of budgeting separately for capital investments and current outlays, but combines both capital and current operating expenses in a single budget. However, data are made available in the budget to show the sizable expenditures for loans, public works, and similar assets of an *investment nature*. Expenditures for *other developmental purposes*—such as those for education, training, and research—are also grouped and shown separately.

The 1965 budget includes payments of \$8.9 billion for civilian investment outlays and \$7.9 billion for other developmental programs including space activities. These programs will help the Nation directly or indirectly to increase its output and accelerate long run economic growth. They amount to about one-seventh of total Federal payments, and about 25% of nondefense outlays. These payments are for Federal civil public works, for highways and similar additions to the Nation's physical assets, and for loans to help finance activities

Additions to Non-defense Assets



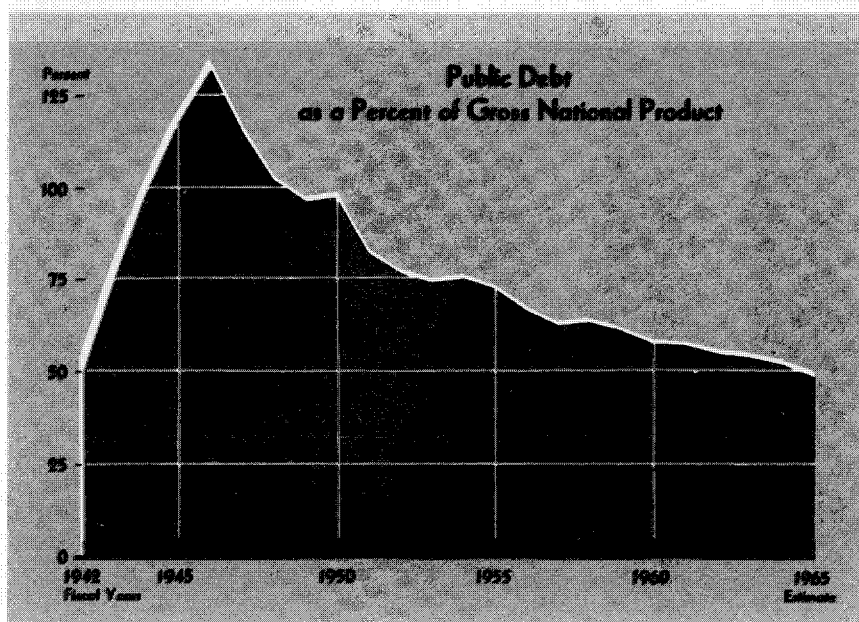
such as rural electrification, housing, farm operations, college dormitory construction, and small business operations. Also included are payments which contribute to the economic growth of our country through programs for the promotion of education, training, and health and through scientific research and development.

THE PUBLIC DEBT

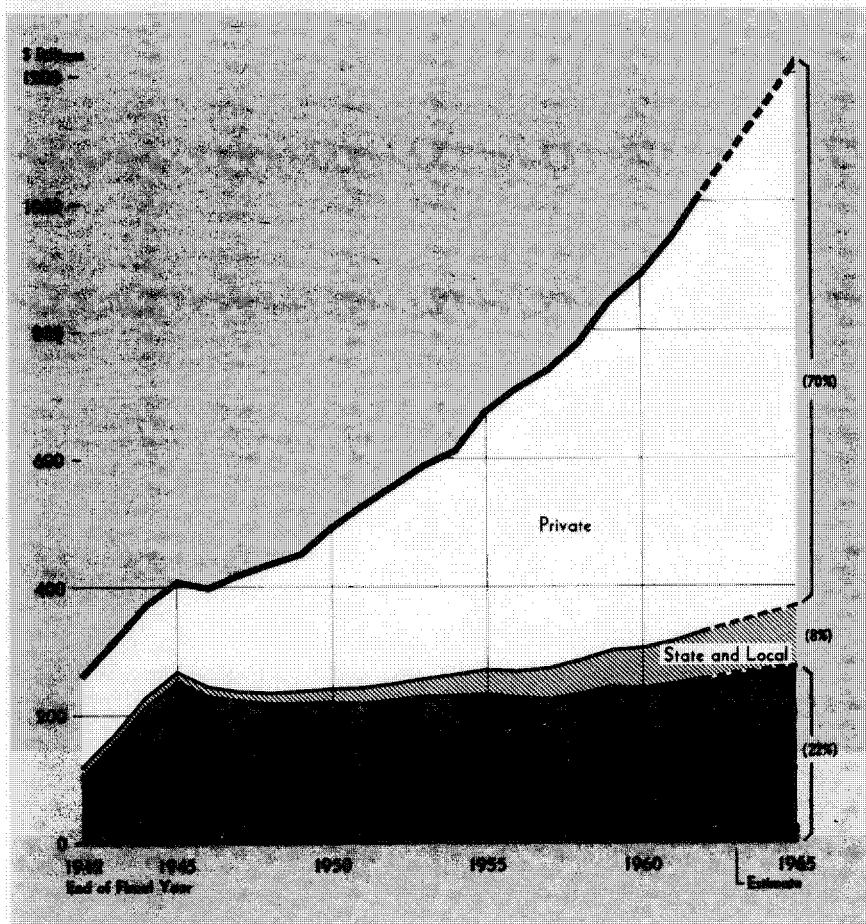
The public debt is estimated to increase by \$5.2 billion during 1965. To make possible the issuance of Government bonds for financing the deficit, the Congress will be asked to enact an increase in the debt limit.

The debt was incurred primarily in World War II. In 1939, the debt was \$40.4 billion. By 1947, it had risen sixfold to \$258.3 billion. Eighteen years later, at the end of 1965, it will have risen to \$317 billion, 23% above 1947—a rise of over 1% a year. Between 1947 and 1963, the gross national product increased by 155%. Thus, in proportion to GNP, the Federal debt fell from 116% in 1947 to 54%, and this ratio is expected to continue its decline.

During the postwar period, business corporations have increased their net debt by 240%, consumers by 500%, and State and local governments by 470%.



Net Public and Private Debt



At the end of calendar 1963 the Federal debt was \$309 billion. About 30% of this was held by the social security and other trust funds, Federal agencies, and the Federal Reserve banks. The remainder was held by the general public. Individuals directly owned approximately \$67 billion; and—in their role as depositors and stockholders in banks, shareholders in savings institutions, and owners of insurance policies—shared in the interest earnings on the approximately \$94 billion held by these institutions. State and local governments owned \$21 billion of Government securities, as did business corporations, while another \$16 billion was held by foreign owners.

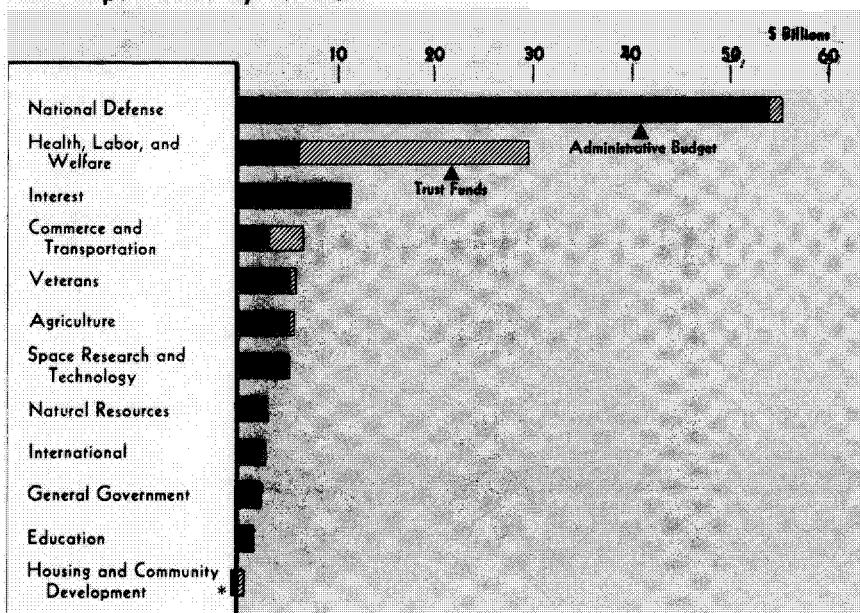
Part 2 Federal Activities by Function

As an aid to understanding, the wide variety of activities carried on by the Federal Government are grouped according to the functions shown on the chart below. All programs which serve the same general purpose are shown together, even if they are carried on by different agencies.

The only activities not classified by purpose are those covered under special allowances, which are estimated to total \$1.1 billion in 1965. These allowances provide for a major new program to attack poverty, adjustments to Federal civilian pay, the promotion of economic development of the Appalachian region, and an allowance for contingencies.

Expenditures for the 12 major functions of the Government are summarized in this section.

1965 Expenditures by Function



NATIONAL DEFENSE

1965 Expenditures	{ Administrative Budget.	\$54.0 Billion
	{ Trust Funds.....	\$1.2 Billion

The Nation has developed a formidable array of military forces, capable of responding effectively to challenges ranging from nuclear attack to guerrilla warfare. To accomplish this, there have been large increases in defense expenditures in the past 3 years. Although continued improvements will be made in our defense capability, expenditures for national defense are estimated to fall to \$55.2 billion in 1965, about \$1 billion below the estimate for 1964.

The reduction reflects the diminishing need for further large additions to our present and planned forces, substantial economies in procurement and operations, and careful screening of existing and proposed programs. Expenditures estimated for 1965 include \$52.4 billion for the military activities carried on by the Department of Defense, including military assistance, \$2.7 billion for atomic energy programs, and \$44 million for other defense-related activities.

Department of Defense—Military

The Department of Defense carries out ten major programs which provide the military diversity and flexibility required for the security of the Nation:

(1) *Strategic retaliatory forces*, including manned bombers, intercontinental ballistic missiles, Polaris missile-launching submarines, and the varied facilities, such as communications, needed to control these forces.

(2) *Continental defense forces*, which combine warning systems against missile or manned aircraft attack with the means to resist an attack, such as interceptor aircraft and ground-to-air missiles.

(3) *General purpose forces*, which combine ground, air, and sea forces equipped and trained to cope with conventional or brush-fire wars.

(4) *Airlift and sealift forces* to move our combat forces quickly wherever they are needed.

(5) *Reserve forces* to provide swift additional strength to the regular forces when needed.

(6) *Research and development* activities on which the continued effectiveness of all the defense forces depends.

(7) *General support* activities, which include training, intelligence and security, Defense-wide supply, and housing and medical care for military personnel.

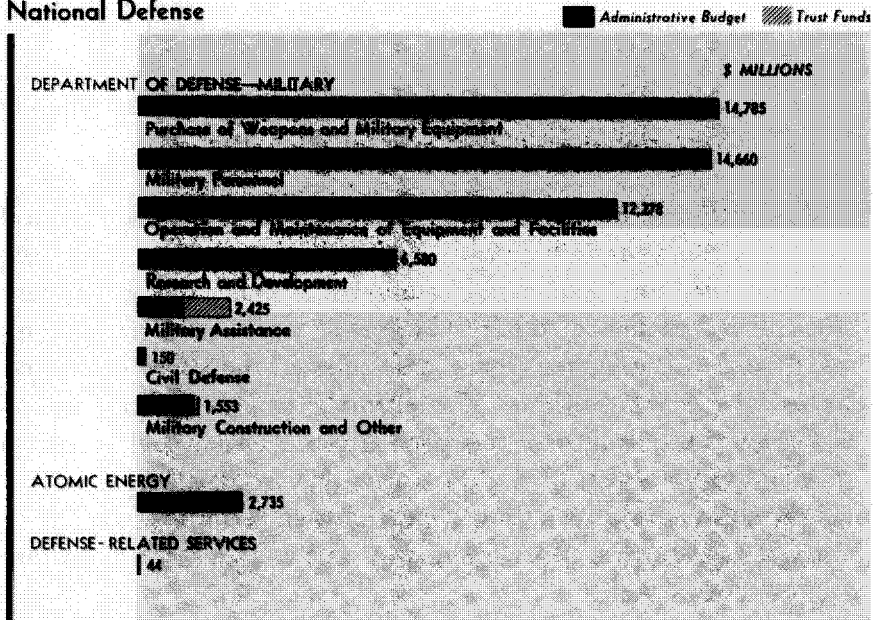
(8) *Retirement pay* for military personnel.

(9) *Civil defense* activities, including the development of warning and fallout shelter facilities, to increase the chances of survival in the event of nuclear attack.

(10) *Military assistance*, under which military equipment, training, and related services are provided to other nations to bolster the collective security of the free world.

To carry these programs forward, the Department of Defense will make expenditures to purchase equipment, pay military personnel, operate and maintain equipment and facilities, conduct research and development, and build necessary facilities.

National Defense



Purchase of weapons and equipment.—We now have more than 600 operational long-range ballistic missiles and about 1,000 strategic bombers. These forces represent a strong deterrent to nuclear attack. The 1965 budget provides for procurement of additional Minuteman missiles, bringing the number approved through fiscal 1965 to 1,000. Our potent limited war capability will also be improved through additional purchases of modern weapons, ammunition, and equipment.

For example, six new nuclear attack submarines, additional destroyer escorts, and modern fighter aircraft will be purchased in 1965. Additional jet transports will also be acquired to increase further the mobility of our forces.

Military personnel.—Active duty personnel of the Army, Navy, Marine Corps, and Air Force will total 2.7 million by the end of 1965. The reserve components of these services will increase to 987,500 at that time. To keep military pay scales abreast of changes in compensation in private business, the Congress will be requested to approve a pay increase to become effective on October 1, 1964. Expenditures for this increase are estimated at \$136 million in fiscal year 1965.

Operation and maintenance.—Equipment and facilities must be maintained in a high state of readiness to meet combat or training needs. Expenditures are estimated to increase by \$408 million in 1965, mainly because of the higher operating costs associated with sophisticated modern weapons and equipment, and pay increases required by law for civilian employees of the Department of Defense.

Research and development.—Expenditures in 1965 for research and development are estimated to decline by \$363 million from 1964, reflecting the near completion of a number of major weapons systems and the cancellation of others. However, work will continue on a wide range of weapons, equipment, and techniques to enable our forces to meet new threats. For example, current projects include the large booster rocket for the space program (Titan III), a ballistic missile defense system (Nike X), a new jet cargo aircraft, devices to aid our missiles in penetrating enemy defenses, vertical takeoff fighter and transport aircraft, antisubmarine warfare weapons, and a medium-range ballistic missile.

Military assistance.—This program of assistance to more than 60 allied and friendly nations is a recognition of the mutual benefits which flow from united resistance to aggression. Our European allies now pay nearly the full cost of their own forces, and also provide military aid to other nations. Approximately 70% of our military assistance program now goes to nine key countries on the periphery of the Soviet

Union and Communist China: Greece, Turkey, Iran, India, Pakistan, Thailand, Vietnam, Nationalist China, and the Republic of Korea. In the developing nations of Latin America and Africa, our program aims at strengthening internal security and promoting civic action projects.

Civil defense.—An effective civil defense program is an important part of our total defense effort. Federal assistance for fallout shelters in public buildings and nonprofit institutions has been proposed. The 1965 budget also provides for continued work on warning systems, training programs, equipment for measuring radiation, emergency centers for Government operation, and continuation of the nationwide shelter survey.

Military construction and other.—The budget for 1965 provides for the construction of additional underground missile-launching sites, maintenance facilities, troop housing, and research and development facilities. Funds are being requested for construction of 12,500 new family housing units for Armed Forces personnel.

Atomic Energy

The Atomic Energy Commission is responsible for developing and producing nuclear weapons and other military applications of nuclear energy, adapting atomic energy to peaceful uses, and conducting basic research. Expenditures in 1965 will decline by \$65 million, due mainly to decreases in the procurement of uranium and in the production of special nuclear materials. However, several research and development programs will increase. Continued emphasis will be given to power reactors which produce more fuel than they consume ("breeders"), compact nuclear electric power units for use in space, and research in the physical and biomedical sciences. Basic research capacity will be expanded by construction of the world's finest research reactor at Argonne National Laboratory near Chicago.

Defense-Related Services

These programs include the Selective Service System, the stockpile of strategic and critical materials, the expansion of defense production, and the emergency preparedness programs of agencies other than the Department of Defense.

INTERNATIONAL AFFAIRS AND FINANCE

1965 Expenditures	{ Administrative Budget..	\$2.2 Billion
	{ Trust Funds.....	\$0.1 Billion

The Nation's international programs promote our own security and the security of the free world. They contribute to world peace, mutual trust and understanding, and the maintenance of free societies. Most of the expenditures in this category are devoted to strengthening the economies of the developing nations. The remaining expenditures, which also stress mutual understanding and cooperation, are for the conduct of foreign affairs and for overseas information and exchange activities.

Economic and Financial Programs

Many countries of the free world are beset by extreme poverty, and the social unrest which such poverty breeds. Our economic and financial programs are geared to assist the developing nations in building viable economies and in strengthening their political independence.

Rigorous standards are applied to insure that our assistance is being matched by increasing local initiative and self-help. A number of nations which we have aided through low interest development loans and technical assistance are now economically strong enough to obtain loans from other sources and on more nearly commercial terms.

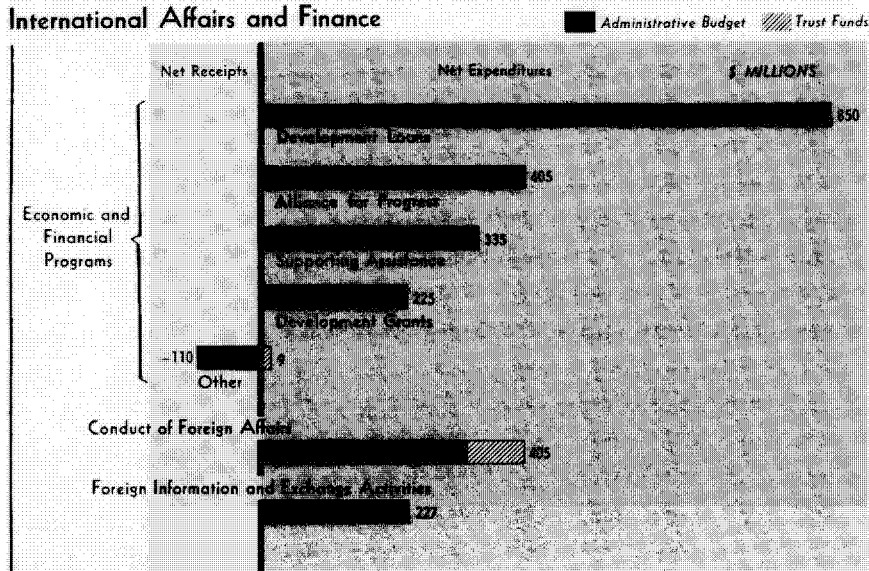
Development loans and grants.—The United States provides long-term loans to developing nations at very low rates of interest to supplement local resources. In addition, grants are used to finance training in the United States, to pay for technical experts and other advisers in such fields as health, education, and public administration, and for other programs vital to development. Private U.S. investments in developing nations and privately financed U.S. exports are encouraged through an expanding program of investment guarantees.

Alliance for Progress.—The Alliance for Progress is an historic cooperative effort of the United States and the countries of Latin America to bring social and economic progress to the Latin American people. Loans and grants are extended according to the progress made by these countries in achieving the economic and social reforms

necessary for development. It is expected that the accomplishments of Latin America will warrant our continued financial support of the Alliance at the same rate in 1965 as in 1964.

Supporting assistance.—This program provides funds for countries facing serious and immediate problems of economic and political stability, and for countries needing help in maintaining defense forces.

International Affairs and Finance



Other programs.—Several other programs give additional support to U.S. development endeavors:

- In 1965, the Peace Corps will provide 14,000 volunteers to developing countries.
- Surplus agricultural commodities will be made available for the support of development projects and for disaster relief as a part of the Food for Peace program.
- The Export-Import Bank will continue to finance and insure U.S. exports, while selling a participating interest in loans to private investors. Receipts from these sales will exceed expenditures.
- International organizations to which the United States contributes, such as the International Development Association and the Inter-American Development Bank, will continue to provide financing for development.

Conduct of Foreign Affairs

The State Department is responsible for conducting this Nation's foreign affairs, for maintaining high caliber representatives abroad, and for participating in international organizations. Four years ago the State Department maintained diplomatic and consular posts in 82 countries; today it maintains representatives in 111 countries. Although this trend will continue as more new nations gain their independence, the Department will meet its increasing responsibilities in 1965 with no increase in employment or in expenditures.

Foreign Information and Exchange Activities

The Department of State and the United States Information Agency conduct a wide variety of activities to promote better understanding of our Nation and our foreign policy. These include the use of motion pictures, radio and television broadcasts, cultural and educational exchange activities, and book translation programs.

SPACE RESEARCH AND TECHNOLOGY

1965 Administrative Budget Expenditures: \$5.0 Billion

The space program of the United States is aimed at maintaining world leadership in space, as symbolized by the goal of sending a man on a round trip to the moon in this decade. The funds provided for this program will continue to support research in space by means of both manned and unmanned space flights, further development of satellites for weather forecasting and communications purposes, and other laboratory research and development. Expenditures for 1965 are estimated to increase by \$590 million over the estimate for 1964—mainly to pay for goods and services already ordered.

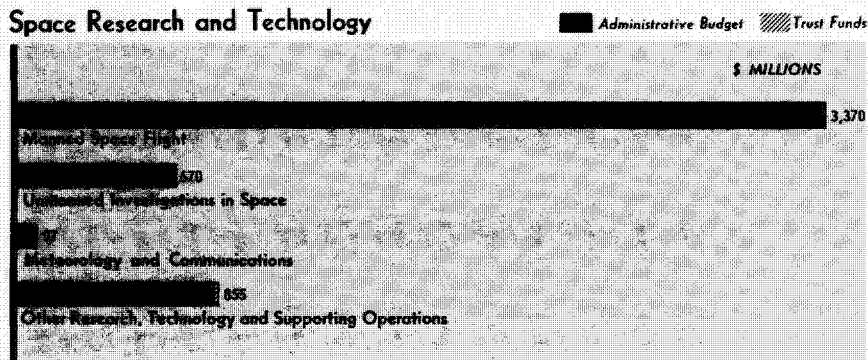
Manned space flight.—The manned lunar landing program, which is the largest single expenditure item in the space budget in 1965, is the top priority activity of the National Aeronautics and Space Administration. The manned flight to the moon will be made using the Apollo spacecraft launched by the Saturn V rocket. The Saturn V will be capable of orbiting about 10 times as much payload as the Saturn I, the largest rocket known to be in existence today. Development of both the Apollo and the Saturn V will proceed at high levels

in 1965, and preliminary flight tests of the Apollo spacecraft will be made with the Saturn I. Manned flights of the 2-man Gemini spacecraft will also be made during 1965.

Unmanned investigations in space.—In 1965, unmanned space flights will be made by Ranger and Surveyor spacecraft to explore conditions for lunar landing. Mariner flights—one of which was successful in reaching Venus—will be made to Mars.

Economies are being sought in unmanned flight programs by improving contracting methods, and by trimming spacecraft launch schedules to correspond more closely with the most economical production schedules.

Space Research and Technology



Meteorology and communications.—Recent test flights of satellites for weather observation and for use as part of communications systems spanning the globe have been conspicuously successful. Further tests will be conducted during the coming year. A multi-purpose satellite will be produced to develop the techniques for placing large satellites over the equator with an orbiting period exactly equal to the 24-hour earth day. These satellites will be able to maintain a constant position over a given place on the earth, and, therefore, will not move out of range of stations communicating with them.

Other research, technology, and supporting operations.—These activities provide for the maintenance and long-term improvement of our ability to master space. They include the worldwide tracking system and a broad program of supporting research in aeronautics and space technology.

AGRICULTURE AND AGRICULTURAL RESOURCES

1965 Expenditures	{ Administrative Budget..	\$4.9 Billion
	{ Trust Funds.....	\$0.4 Billion

High agricultural productivity is an outstanding achievement of our private enterprise economy and one of the Nation's greatest assets. However, the capacity to produce has expanded more rapidly than the demand for farm commodities. As a result, substantial Federal expenditures have been necessary to keep commodity surpluses from reducing the level of farm income, and to make the best use of our excess production.

Farm income stabilization and Food for Peace.—This category accounts for about three-fourths of the 1965 budget for agriculture and agricultural resources. Proposals are being made to improve our programs for dairy products and cotton. In addition, legislation is being proposed to encourage the permanent shifting of additional cropland to less intensive uses.

Part of the excess farm production is being used advantageously to assist needy people in our own country and to provide food for hungry people abroad. Surplus farm commodities sold abroad for foreign currencies represent the largest portion of the Food for Peace program. Although the volume of shipments is expected to be about the same as in 1964, expenditures for this activity are estimated to decline by \$528 million from the 1964 level, because of a decrease in the estimated purchase cost of commodities sold under the program.

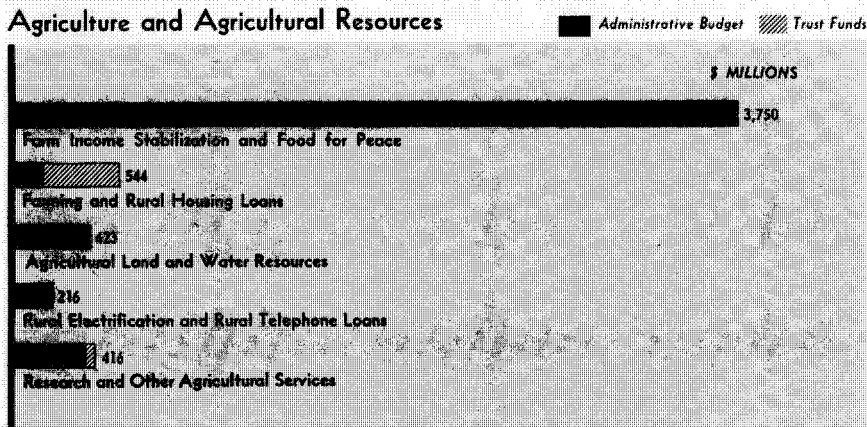
Farming and rural housing loans.—Assistance for rural housing will be expanded in 1965. Under proposed legislation, however, direct Federal loans for rural housing will largely be replaced by federally insured private credit. The special program for rural area development (rural renewal) will be continued on a pilot basis in 1965, and housing loans for the elderly will be increased.

Agricultural land and water resources.—Under the agricultural conservation program, the Government shares with farmers the cost of a number of conservation practices that are in the long-run public interest. The budget includes funds to continue a pilot program of loans and grants to rural communities to promote conservation and development of land and water resources on an area-wide basis.

Funds are included in 1965 for the upstream watershed protection program of the Soil Conservation Service to continue construction on 260 projects and to begin construction on 36 new projects.

Rural electrification and telephone loans.—The rural electrification and telephone loan program in 1965 will continue at about the same level as in 1964. The expenditure estimates for 1964 and 1965 reflect proposed legislation to authorize the use of collections on outstanding loans to help finance new loans.

Agriculture and Agricultural Resources



Research and other agricultural services.—The budget proposes selected increases in 1965 expenditures for high priority research and regulatory activities of the Department of Agriculture. Emphasis will be placed on ways to avoid or minimize pesticide hazards and on improvement of pesticide regulation. Construction will start in 1965 on the National Agricultural Library at Beltsville, Md.

Legislation is being proposed to finance the full cost of meat, poultry, and grain inspection activities through a system of fees.

NATURAL RESOURCES

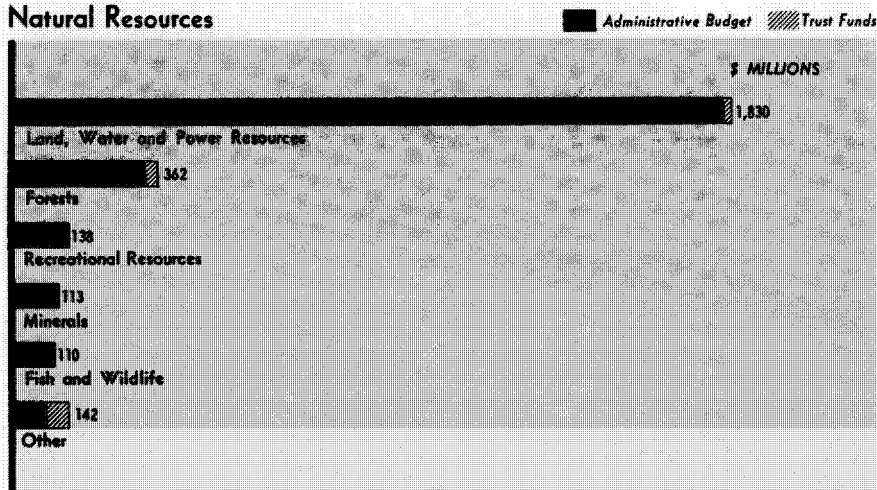
1965 Expenditures	Administrative Budget..	\$2.6 Billion
	Trust Funds.....	\$0.1 Billion

The Nation's valuable natural resource endowment must be carefully conserved and developed to provide for the future growth of the economy. Expenditures for this purpose are national investments which will yield dividends for years to come.

Land, water, and power resources.—This category accounts for approximately two-thirds of the expenditures for natural resources in 1965. Major construction projects will be continued for flood control, navigation, irrigation, water supply, and hydroelectric power. In addition, the Corps of Engineers will undertake 34 new projects, and the Bureau of Reclamation will begin 10 projects. Basic research to reduce the cost of converting saline water to fresh water will continue.

With proceeds from the sale of electric power and revenue bonds, the Tennessee Valley Authority will continue the construction of steam-electric power units started in earlier years.

Natural Resources



The Federal Power Commission will soon complete its national power survey. This study will provide a broad perspective for planning future power supplies and for encouraging the best use of the Nation's fuel, equipment, and technology.

Economic development programs for Indians have provided important and needed benefits: since 1961, 25 new industrial plants have located on or near reservations, creating 4,000 new jobs. Programs to raise the educational level of Indians will continue to be emphasized in 1965. These include elementary, secondary, and adult education, as well as vocational and on-the-job training.

Forest resources.—In 1965, further progress will be made in enhancing the use and value of Federal forest resources: additional trees

will be planted, access will be improved, and recreational areas will be developed.

Recreational resources.—The Nation's outdoor recreation areas and facilities take on added value as the population increases and the country becomes more urbanized. To satisfy the growing need for recreation, authority for additional Federal recreation areas is being sought, and legislation has been proposed for Federal grants to encourage States to plan and develop recreational facilities.

Minerals, fish and wildlife, and other.—Further steps will be taken to increase the uses and find new markets for coal.

The budget also provides for the operation and maintenance of 100 fish hatcheries and 298 wildlife refuges, as well as the acquisition of wetlands for the conservation of migratory birds.

COMMERCE AND TRANSPORTATION

1965 Expenditures	{ Administrative Budget..	\$3.1 Billion
	{ Trust Funds.....	\$3.5 Billion

The common purpose of these programs is to strengthen our economy by aiding private businesses, encouraging innovation and competition, and improving transportation and communication facilities.

Transportation

National transportation policy will continue to stress fast, safe, and economical transportation. Increased emphasis will be placed on improving the planning and coordination of transportation programs, and on encouraging innovations in rates and services. To help achieve lower Government costs and more efficient use of resources, legislation is proposed to charge the users of Government-financed transportation facilities, wherever feasible, for the benefits which they receive.

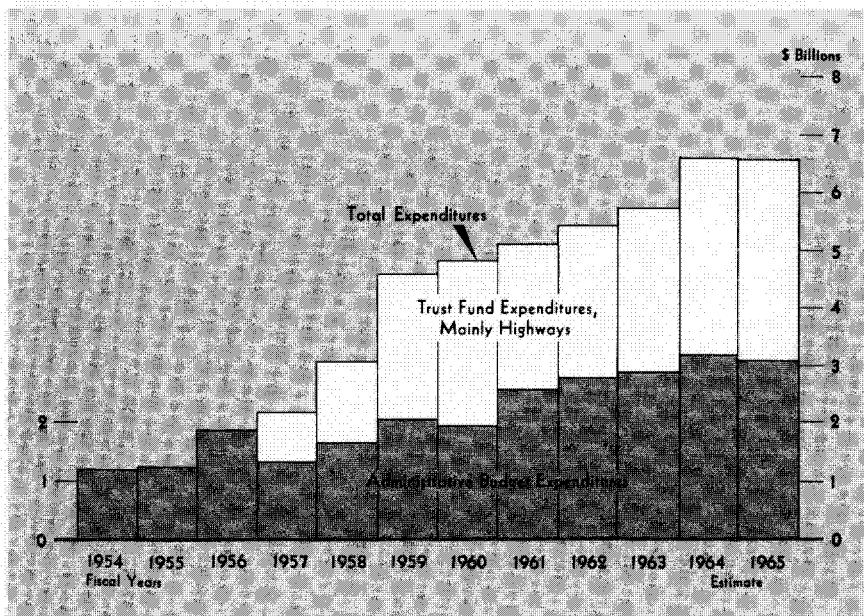
Highways.—The highway program, which is the largest component of expenditures for commerce and transportation, is a striking example of financing by user charges. Highway construction is financed

on a "pay-as-you-build" basis through the highway trust fund. Trust funds receipts come from taxes on gasoline, and on other items bought by highway users. The accompanying chart shows the significant growth in trust fund expenditures since 1957. Highway trust fund expenditures will total \$3.6 billion in 1965. Most of the outlays are for the Interstate Highway System scheduled for completion in 1972. Over 15,400 miles of this 41,000-mile system have been completed, and another 16,600 miles are in various stages of development. Federal aid for primary and secondary highways accounts for about one-quarter of total expenditures.

Aviation.—The Federal Aviation Agency is continuing to expand and modernize the national system for controlling air traffic. The joint industry-Government program leading to the development of a civilian supersonic transport aircraft will move forward in 1965.

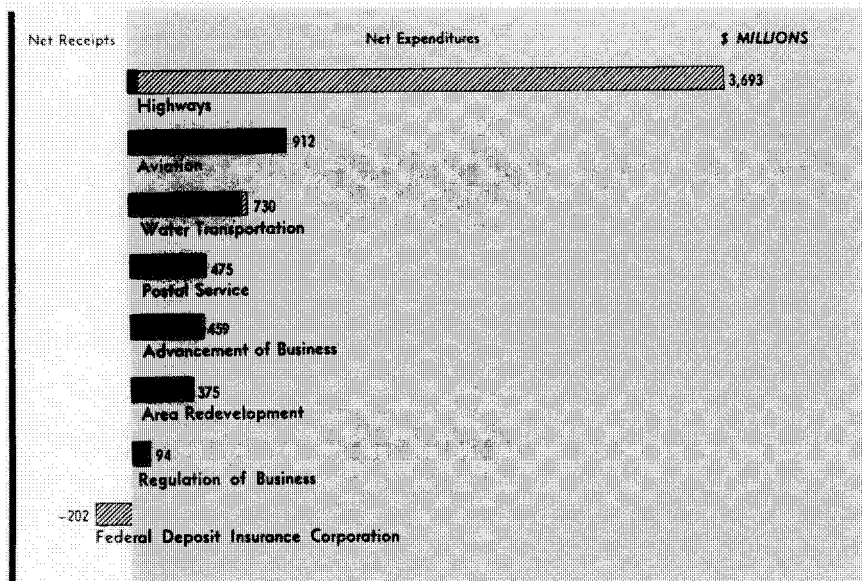
Water transportation.—Expenditures by the Department of Commerce to maintain the quality of the U.S. merchant fleet will help start construction of 17 new ships in 1965. The Coast Guard will also accelerate its replacement of obsolete ships and its expansion of air rescue facilities.

Commerce and Transportation



Commerce and Transportation

■ Administrative Budget ▨ Trust Funds



Postal Services

Expenditures of the Post Office are estimated to exceed revenues by \$475 million in 1965. The largest part of the revenue deficiency represents the cost of providing public services not chargeable to users of the postal service. The remaining \$89 million, the postal deficit, is the loss sustained by the Post Office in its regular operations. The 1965 postal deficit represents a reduction to one-half of the estimated 1964 level, primarily as a result of the continuing improvement of management techniques, and the parcel post rate increases becoming effective for the full fiscal year.

Advancement of Business

Programs to encourage exports are being expanded to take advantage of growing world markets and to improve the Nation's balance of payments. Other programs of the Department of Commerce aid American business by developing and disseminating a great variety of technical and economic data.

The Small Business Administration will continue to provide loans and other aids to credit-worthy small businesses which are unable to obtain funds elsewhere on reasonable terms.

The Weather Bureau provides the weather observations and forecasts used by the farming, aviation, and construction industries, as well as by the general public.

Area Redevelopment

The Area Redevelopment Administration finances a variety of programs designed to attract new firms to communities in depressed areas and to help these communities increase job opportunities for their people. Loans, grants, and technical aids provided in 1965 and prior years will help provide permanent employment for 150,000 workers in economically depressed areas.

Expenditures under the temporary accelerated public works program will permit further progress on the projects already approved, which include over 2,400 waste treatment plants and water supply facilities, more than 1,000 street construction and repair projects, 281 hospitals and health facilities, and other useful public works.

HOUSING AND COMMUNITY DEVELOPMENT

1965 Expenditures	{ Administrative Budget..	—\$0.3 Billion
	{ Trust Funds.....	\$0.5 Billion

The Federal Government extends financial support in numerous ways to help realize the long-range goal of a decent home and a suitable living environment for every American family. Tools being used to achieve this goal include grants, loans, purchases of mortgages, and Government insurance of private loans. The substitution of private for public financing will be continued through the sale of seasoned housing and community facility loans to private investors. Administrative budget receipts from sales of loans and from other sources are estimated to exceed expenditures for housing and community development in 1965 by \$317 million.

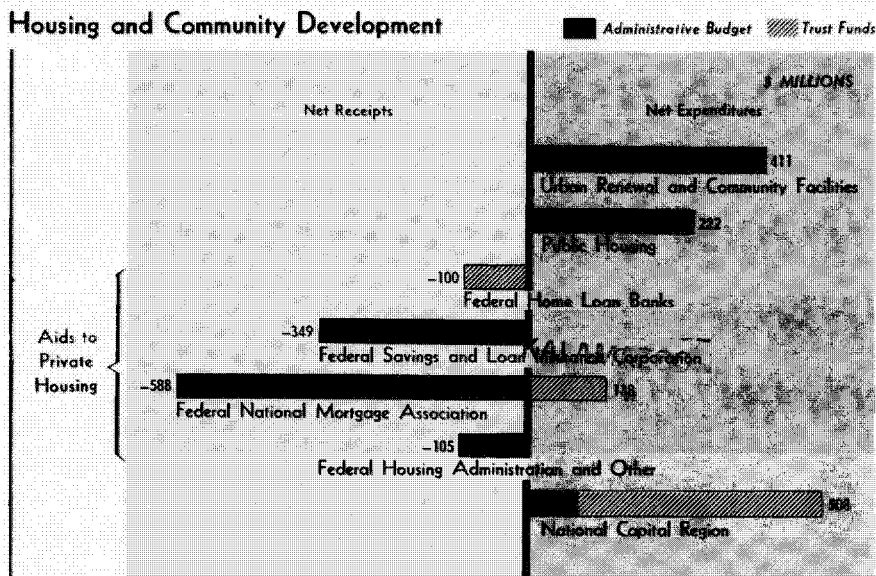
Urban Renewal and Community Facilities

Federal expenditures for urban renewal and other community development programs aid in revitalizing areas and improve the neighborhoods of their residents. Approximately 65 urban renewal proj-

ects will be completed in 1965, and plans for 200 new projects are expected to be approved. It is expected that an additional \$1.4 billion in authority for urban renewal grants will be enacted in 1964 to finance the program through 1966.

The urgent need to revitalize urban mass transportation systems requires strengthened Federal assistance. A new program to attack this problem with the help of grants, direct loans, and loan guarantees, would involve expenditures of \$10 million in 1965.

Housing and Community Development



Public Housing Programs

The Public Housing Administration assists local housing authorities in constructing housing for low-income families. Additional authority will be proposed to contract for 200,000 more units over the next 4 years.

Aids to Private Housing

The Federal Government assists people to obtain suitable housing mainly by assuring the availability of credit on favorable terms by a variety of methods—which are largely or wholly self-supporting.

Federal Savings and Loan Insurance Corporation.—Federal insurance of savings and loan accounts encourages small savers to pool their funds for home mortgage lending, thus providing the largest single source of funds for private housing. Premiums charged for Federal insurance will exceed expenditures in 1965 and will permit the Federal Savings and Loan Insurance Corporation further to strengthen its reserves.

Federal Housing Administration.—In 1965 the Federal Housing Administration will insure the loans used to finance construction or purchase of an estimated 546,800 houses and apartments, and modernization and improvement of 800,000 houses. Receipts from insurance premiums, and from sales of acquired properties and mortgages, will exceed expenditures by \$173 million.

Federal National Mortgage Association.—The Federal National Mortgage Association influences the supply of funds for private housing by buying and selling federally insured or guaranteed mortgages. Marketing policies of the Association this year will provide enough receipts to pay for all current operations as well as repay some previous borrowings. A new program is being proposed to broaden further the scope of private investment in federally insured or guaranteed mortgage loans. FHA-insured and VA-guaranteed loans, now owned by Federal agencies, would be grouped in pools, and certificates of participation in these pools would be sold to the public.

Federal home loan banks.—The 11 Federal home loan banks supplement private home mortgage funds by lending money to member savings and loan associations which experience loan demands temporarily greater than they can meet. In 1965, it is estimated that repayments of old loans will exceed new loans made, giving rise to net receipts for the year.

Other aids to private housing.—Direct loan commitments of \$100 million for building apartments for the elderly will be made in 1965.

National Capital Region

The government of the District of Columbia provides both State and local services for the businesses and residents of the National Capital City. As the predominant property owner and major industry of

the District, the Federal Government recognizes a special responsibility to bear its proper share of the costs of these services, as well as to provide long-term loans needed to carry out an orderly program of capital improvements. These expenditures are included in the administrative budget. Expenditures made directly by the District government, primarily from local revenues, are included in trust fund expenditures.

HEALTH, LABOR, AND WELFARE

1965 Expenditures	{ Administrative Budget..	\$5.8 Billion
	{ Trust Funds.....	\$23.5 Billion

Federal expenditures help meet the special needs of many of our people, particularly the retired, the unemployed, the sick, and the needy. Trust funds account for more than four-fifths of the outlays for this purpose.

Social insurance.—The social insurance and retirement programs of the Federal Government provide financial support to help those individuals and their families who suffer a loss of income because of retirement, disability, death, or unemployment of the breadwinner. They are financed through trust funds, which depend for their receipts on payroll contributions made by employers and employees and on interest earned on invested reserves. The benefit payments made by the trust funds have been growing steadily, as shown on the accompanying chart.

In 1965, expenditures under the old-age, survivors, and disability insurance trust funds are estimated at \$17.5 billion. Benefits will go to the retired, the disabled, and to survivors. The railroad retirement system will provide former railroad employees and their families similar benefits totaling \$1.1 billion in 1965.

Expansion of the social security system to assist the aged in paying the heavy costs of hospital and nursing home care is again being proposed. Benefits to those now aged and ineligible for social security or railroad retirement benefits would be financed from the administrative budget. No expenditures would be made under the program in 1965, because benefit payments would not begin until 1966.

Expenditures from the unemployment insurance trust fund are estimated at \$3.4 billion in 1965. Legislation will be proposed to broaden the coverage of the unemployment insurance system and to

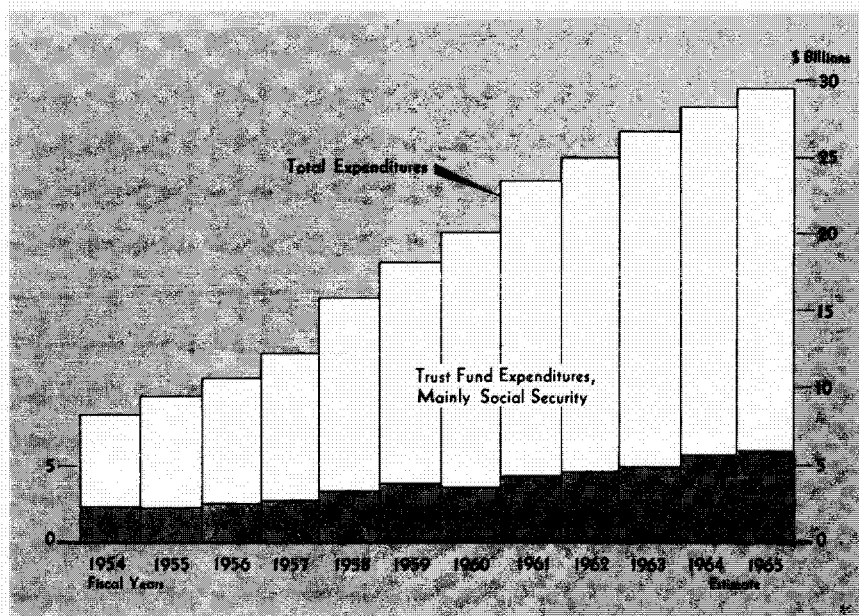
lengthen the period of benefits to help meet the needs of the long-term unemployed.

Most Federal civilian employees are provided retirement, disability, and survivor benefits through the Federal employees retirement trust funds. These funds are financed by employee contributions matched by the Federal Government. Retirement and other benefit payments by the funds are estimated at \$1.5 billion in 1965.

Public assistance.—Expenditures for public assistance help meet basic needs—food, shelter, and medical care. However, legislation enacted recently provides a new emphasis on helping needy individuals achieve economic independence through counseling, guidance, and rehabilitation services financed by both Federal and State governments. Proposed legislation is geared to further encourage self-sufficiency, particularly through community work-training programs.

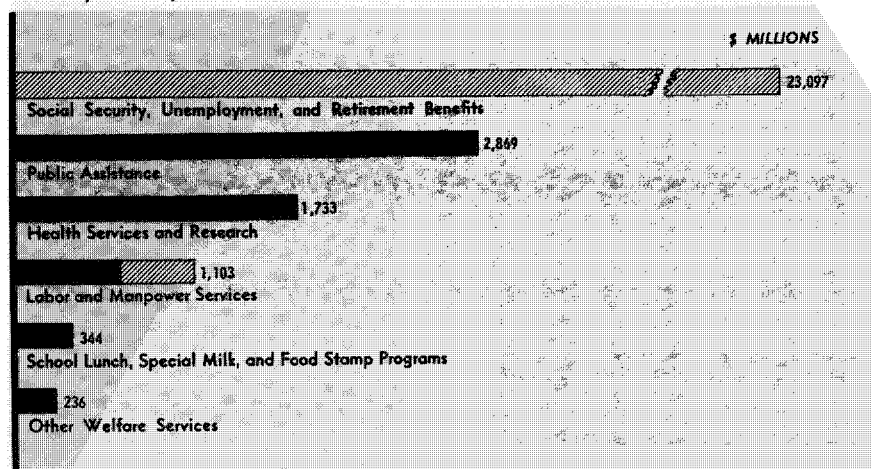
Health services and research.—Of the Nation's total outlay for health research in the current year, nearly two-thirds, or more than \$1 billion, is supported by the Federal Government. In turn, the National Institutes of Health will account for about three-fifths of the total Federal Government expenditures for health research in 1965.

Health, Labor, and Welfare



Health, Labor, and Welfare

■ Administrative Budget ▨ Trust Funds



Legislation was enacted in calendar year 1963 authorizing Federal grants to assist in building new medical, dental, public health, and related professional schools, and in providing financial aid to needy and qualified students in medicine, dentistry, and osteopathy. These measures will help to supply the increased number of physicians and dentists which our growing population requires. Legislation is being proposed for programs to increase the number of qualified professional nurses.

The older general hospitals in the Nation, largely in urban centers, require substantial renovation and modernization. Physical facilities to meet the rapidly increasing needs for the long-term care of the chronically ill and aged are also inadequate. The budget contains funds for proposed legislation to broaden and change the emphasis in the Hill-Burton Act to stimulate construction for this purpose.

The budget also provides for strengthening environmental health and consumer protection activities. Special emphasis will be given to research on the possible health hazards resulting from the expanded use of pesticides, and to programs to prevent and control air pollution.

Mental health and mental retardation.—The great majority of the mentally ill in our society receive too little treatment and receive it much too late. Many mental hospitals serve largely as custodial institutions.

In recognition of the need for energetic action to combat mental illness, pathbreaking legislation was adopted in calendar year 1963. In 1965, funds provided for the National Institute of Mental Health are estimated to rise to \$189 million, \$13 million more than in 1964. These funds will stimulate intensive therapy programs and training of personnel in State mental institutions. Increasing emphasis is being placed on modern psychiatric methods which can better diagnose and treat the mentally disturbed in their own communities, rather than in distant mental hospitals. Funds totaling \$35 million are provided to support construction of community mental health centers.

Programs to combat mental retardation were also augmented by several pieces of legislation enacted in calendar year 1963. These programs—totaling \$243 million of new obligational authority in 1965—will help prevent retardation, and improve the health, education, and general well-being of those already mentally retarded.

Labor and manpower.—Increased emphasis is being given to providing training and employment opportunities for unemployed workers and youths. The budget provides additional funds under the Manpower Development and Training Act to permit training services for more than 275,000 workers in 1965. Basic literacy training has been authorized when necessary as a first step before vocational training. The proposed Youth Employment Act would provide work experience and training for an estimated 60,000 unemployed youths in 1965.

The Federal-State employment service system, with 1,900 offices, will increase its activities in matching the abilities of workers with the skills needed by employers.

Other welfare services.—The budget provides Federal matching funds for the cooperative Federal-State vocational rehabilitation program which will rehabilitate an estimated 133,000 individuals in 1965. Expenditures for the school lunch and special milk programs of the Department of Agriculture are estimated at \$293 million in fiscal 1965, an increase of \$13 million over 1964. The pilot food stamp program provides food for needy families in 43 areas in 22 States.

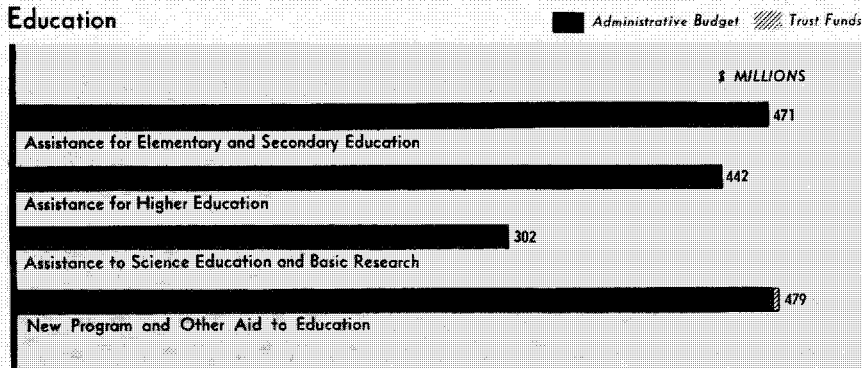
EDUCATION

1965 Administrative Budget Expenditures: \$1.7 Billion

Education enriches the individual and is essential to the freedom, economic growth, and welfare of our society. Great advances were made last year toward strengthening our educational system, but many inadequacies remain to be overcome.

The Higher Education Facilities Act of 1963 represents an important milestone in financing construction of academic facilities for graduate and undergraduate schools, public junior colleges, and technical institutes. Other significant legislation enacted last year expands and modernizes Federal-State vocational education programs, increases student loan funds under the National Defense Education Act, and provides a new program for training teachers of handicapped children.

Education



Legislation proposed for fiscal year 1965 would help strengthen the base of the educational process—the elementary and secondary school system—through grants for teachers' salaries and urgently needed classroom construction. A new program is being proposed to provide project grants for educational services to schoolchildren with special needs, such as slow learners and the handicapped, as well as the talented. Project grants would also be used in connection with broad community action programs to combat poverty. In addition, Federal support would be provided for able college students, teacher training, libraries, and basic adult education and general university extension programs. In all, the 1965 budget proposes \$718 million in new legisla-

tive authorizations for education. Expenditures in 1965 are estimated at \$118 million.

The remaining sections largely relate to existing educational activities of the Federal Government.

Assistance for elementary and secondary education.—The 1965 budget provides \$395 million for continued assistance to schools in areas where enrollments are increased by children of Federal employees, and \$76 million for laboratory equipment and for counseling and testing programs under the National Defense Education Act.

Assistance for higher education.—To meet the demands of doubled college enrollment during the 1960's, there is an urgent need for expansion of facilities and for aid to students. The 1965 budget provides expenditures of \$246 million for loans and grants to colleges to construct classrooms, libraries, laboratories and dormitories, and \$134 million for National Defense Education Act loans to students.

Assistance to science education and basic research.—The National Science Foundation continues to perform a vital role in stimulating science education and basic research. Expenditures of the Foundation are expected to increase \$42 million in 1965 to increase scientific knowledge, and to help overcome the shortage of trained scientists and engineers. This increase in 1965 emphasizes support for graduate students in the sciences, improvement of course materials, training of science teachers, and related programs designed to strengthen college and university science facilities.

Other aid to education.—The Office of Education will increase its expenditures considerably in 1965, principally to augment vocational education programs. The expansion of educational research, training for teachers of the handicapped, and construction of educational television facilities also contribute to the rising outlays.

VETERANS BENEFITS AND SERVICES

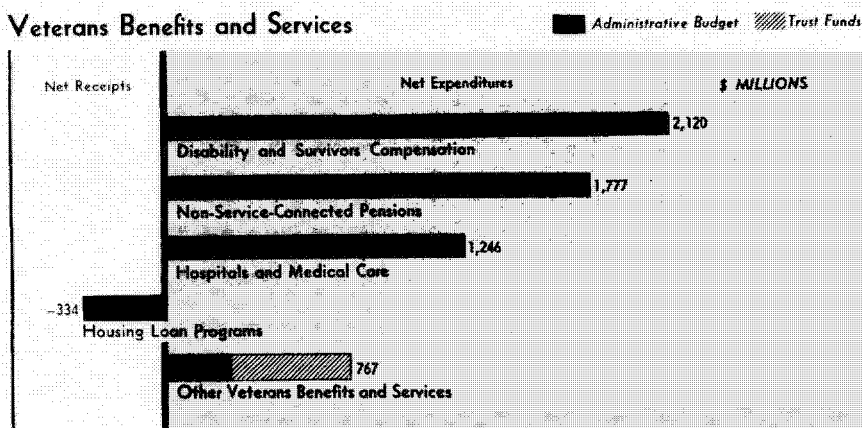
1965 Expenditures	{	Administrative Budget..	\$5.1 Billion
		Trust Funds.....	\$0.5 Billion

Federal expenditures for veterans programs will decrease by approximately \$400 million in 1965 as a result of the sales of Veterans

Administration-held mortgages, and also because of the acceleration to fiscal 1964 of some life insurance dividends originally scheduled for 1965. However, the major continuing programs for veterans—compensation, pensions, and medical and hospital care—will remain close to their present levels.

Compensation.—Compensation payments are made to veterans or to their survivors for disability or death arising from military service. The average compensation paid to recipients will increase because of cost-of-living adjustments enacted in 1963. However, the number of beneficiaries will decline by 7,000, and as a result, expenditures in 1965 are estimated to be \$6 million less than in 1964.

Veterans Benefits and Services



Pensions.—Payments are made to veterans or their survivors for disability or death from causes not related to military service. Expenditures for pensions are expected to rise by \$34 million in 1965, as the average number of recipients increases to an estimated 2.1 million. World War I pensioners and their survivors account for 72% of the pension payments. However, a rapidly increasing number of World War II and Korean veterans or their survivors are becoming eligible for pensions.

Hospitals and medical care.—Estimated expenditures of \$1,160 million will provide hospital services and medical care for over 137,600 beneficiaries per day. Provision is made in the 1965 budget for continued improvement in the quality of medical care, for expansion of medical research, and for the opening of a new hospital at Washington, D.C.

The 15-year hospital modernization program, begun in 1961, will continue, with estimated expenditures of \$85 million for hospital construction proposed for 1965.

Loan guarantee and direct housing loan programs.—An estimated 175,000 loans will be guaranteed and 10,000 direct loans will be made by the Veterans Administration in 1965. However, receipts from increased sales of properties and mortgages held by the Veterans Administration—including sales of certificates of participation in housing mortgages—will result in net receipts of \$334 million for this category in 1965. Although the same services will be provided eligible veterans, Government expenditures will drop as private funds are increasingly being substituted for public financing.

Education and training benefits.—Expenditures for veterans education and training benefits are estimated to decline by \$23 million from 1964 to 1965 because of the continuing decline in the number of Korean conflict veterans receiving these benefits. About 15,000 war orphans will receive educational benefits, and an estimated 7,000 ex-servicemen, disabled in peacetime service, will benefit from vocational rehabilitation programs.

Other benefits and services.—Savings from lower workloads and increased efficiency in the operating expenses of veterans programs will result in decreased expenditures in 1965.

GENERAL GOVERNMENT

1965 Administrative Budget Expenditures: \$2.2 Billion

Expenditures for general government provide for service activities of a Government-wide nature, for executive direction and financial management, and for the costs of the Congress and the Federal court system.

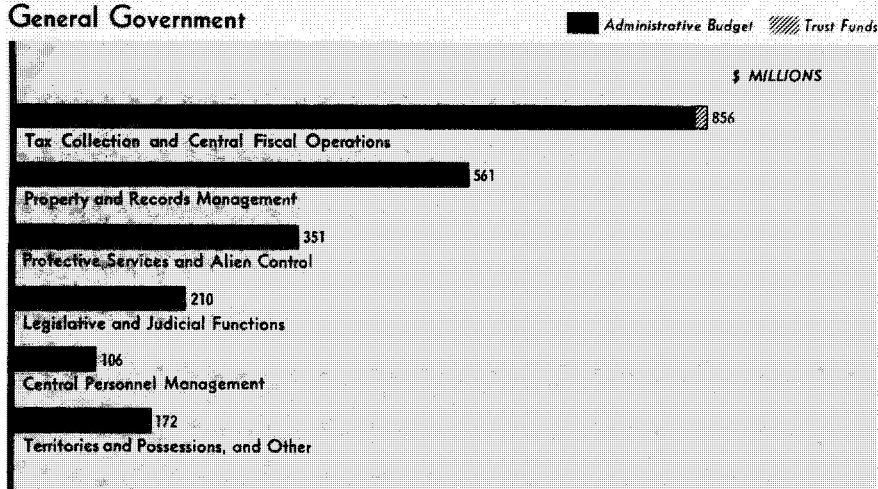
These general administrative, legislative, and law enforcement expenses of the Federal Government will require estimated expenditures of \$2.2 billion in 1965, the same as in 1964.

Tax collection and central fiscal operations.—The Treasury collects the Government's taxes and other revenues, and issues the checks

that pay the bills. The Internal Revenue Service will increase its expenditures by an estimated \$29 million in 1965, mainly to acquire and operate automatic data processing equipment, as a further step in improving compliance with the tax laws and regulations.

General property and records management.—As part of the continuing program to provide more efficient facilities for Government operations, the 1965 budget includes funds for acquisition of 41 sites; construction of 151 new buildings; and operation, maintenance, and repair of existing facilities. The General Services Administration will also provide increasing supply services for the Department of Defense and civilian agencies, dispose of surplus property, and continue work on the new Federal telecommunications system.

General Government



Central personnel management.—The administrative costs of the Civil Service Commission are included under this heading, together with costs of accident compensation and health benefits for Federal employees.

Territories and possessions.—The United States provides Government services and financial assistance to the Canal Zone, Virgin Islands, Ryukyu Islands, American Samoa, the Trust Territory of the Pacific, Guam, and other areas. The rehabilitation program for Guam will provide loans and grants mainly to replace public facilities destroyed by a typhoon 2 years ago.

INTEREST

1965 Administrative Budget Expenditures: \$11.1 Billion

Administrative budget expenditures for interest on the public debt are expected to be \$400 million more than in 1964. This increase reflects in part the higher average level of the outstanding public debt. It also takes into account the effect, in 1965, of interest rate increases which have taken place in the last several years as part of the effort to stem the flow of short-term funds abroad. The impact on the budget is occurring gradually as individual issues mature and are refunded with securities paying higher interest.

About \$1.9 billion of the total interest expenditures will be paid to trust funds and Government agencies which have invested reserves in Government interest-bearing securities.

Part 3 Budget Facts and Figures

The budget necessarily involves a great many numbers, usually with dollar signs attached. To have meaning, they must be related to programs, policies, the process of Government, the size of the economy, and so on. In the first two sections of this booklet, an effort was made to present the budget in understandable and nontechnical terms, and to limit the use of statistics.

In order to introduce the reader to some of the more technical aspects of the budget, this section presents briefly information on measures of Federal finances and on the budget process.

Historical statistics are shown at the end of this booklet.

MEASURES OF FEDERAL FINANCES

Federal financial activities are examined from different points of view and for many different purposes. No single set of figures can serve all purposes equally well. In the budget (as well as this booklet) Government activities are discussed in terms of the administrative budget, the statement of total receipts from and payments to the public, and the Federal sector of the national income accounts. Technical and sometimes complicated distinctions have to be made to clarify these various concepts and to explain the usefulness of each one.

For an understanding of the different budget concepts used to measure Federal financial transactions, it is helpful to consider at the outset two basic sets of accounts used by the Government. The first covers (federally owned) administrative budget funds; the second covers trust funds. Together they comprise the financial books of the Government, which record in detail each agency's expenditures, as well as the revenues of the Government. They are the indispensable tools for managing the Government's finances properly and efficiently.

Administrative budget funds include most of the tax and other receipts of the Government. These receipts go into a general fund; small amounts are also deposited in other funds for special purposes. The receipts of these funds are owned by the Federal Government—just as land and equipment are owned. Administrative budget funds also include the transactions of wholly owned Government enterprises of a business character, such as the postal service, the Small Business Administration, the Export-Import Bank, and the Federal Housing Administration.

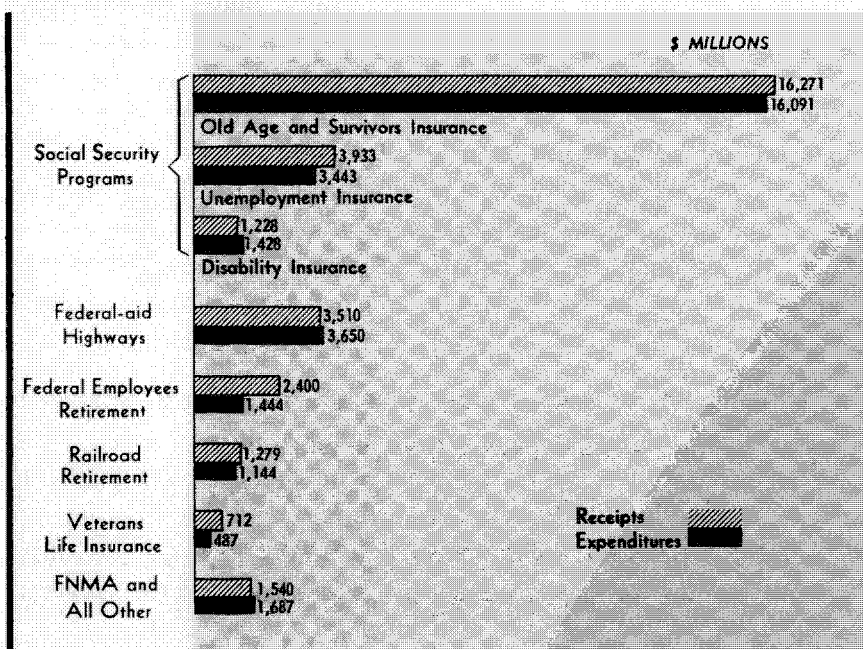
The administrative budget—which covers only administrative budget funds—is the oldest and most widely known measure of our Federal finances. It is mainly within the framework of this budget that Congress evaluates requests for funds and grants the authority for Government agencies to carry out their programs. The expenditures of this budget emerge as a result of Presidential requests, congressional action, and the administration of programs by various

Government agencies. Thus, the administrative budget is generally used for the control, administration, and execution of Federal programs that are financed with the Government's wholly owned funds.

Trust funds come into existence when the Congress designates certain taxes or contributions as funds to be held in trust by the Federal Government for specified benefit payments or special programs. They may also arise when Congress provides for an activity, partly owned by the Federal Government and partly owned by someone else. The receipts of these funds can be spent only to finance the activities for which they are set aside. For example, premiums paid by World War I and II veterans on their Government life insurance policies are held in trust funds and used only to pay insurance claims or dividends to policyholders.

Most of the major trust funds finance insurance-type activities such as social security (retirement, disability, and unemployment insurance), Federal employees retirement, and veterans life insurance. Trust funds also finance Federal grants for highway construction and the secondary market activities of the Federal National Mortgage Association (FNMA).

Trust Fund Estimates for 1965



Receipts of the trust funds come from sources related to their activities. For example, the employers and the employees covered by old-age and survivors insurance pay the taxes that finance the OASI trust fund. Similarly, Federal gasoline and other taxes related to highway use provide the receipts for the highway trust fund; and veterans life insurance policyholders pay premiums which account for the bulk of veterans life insurance trust fund receipts. The chart on page 55 lists the major trust funds and indicates their estimated receipts and expenditures for 1965.

Trust fund receipts are often greater than their expenditures. This excess is accumulated in reserves to meet anticipated future benefit payments or other outlays. The reserves are usually invested in U.S. securities and earn interest for the trust funds.

Federal receipts from and payments to the public.—Basically, the statement of receipts from the public and payments to the public (often called the consolidated cash budget) represents a consolidation of the administrative budget and trust fund receipts and expenditures. In this consolidation, payments between the administrative budget and trust funds are eliminated, since they do not involve a flow of money between the Federal Government and the public. (An example is the payment of interest from the administrative budget to the trust funds on the latter's investment in U.S. securities.)

Thus, the statement of Federal payments to and receipts from the public is much more inclusive than the administrative budget. It portrays the financial dimensions of the Government's overall program. It is the best measure for analyzing the cash needs and borrowing requirements of the Federal Government.

The table on page 57 summarizes the relationship between the administrative budget, trust funds, Federal receipts from and payments to the public, and the Federal sector of the national income accounts.

Federal sector, national income accounts.—Like the consolidated cash statement, the Federal sector of the national income accounts includes the transactions of both the administrative budget and the trust funds. However, it excludes those transactions which do not directly affect the Nation's current income or production. Thus, it excludes transactions of a purely financial nature (such as loans and mortgages), as well as purchases and sales of previously existing assets (such as land and secondhand items).

SUMMARY OF FEDERAL RECEIPTS AND PAYMENTS

[Fiscal years. In billions]

Description	1963 actual	1964 estimate	1965 estimate
FEDERAL RECEIPTS			
Administrative budget receipts.....	\$86.4	\$88.4	\$93.0
Trust fund receipts.....	27.7	30.2	30.9
Deduct: Intragovernmental transactions.....	4.3	4.2	4.1
Total, cash receipts from the public.....	109.7	114.4	119.7
Add: Adjustment from cash to accrual basis.....	0.6	—0.1	—0.2
Deduct: Receipts from loans, property sales, and other adjustments.....	1.0	0.7	0.7
National income account receipts—Federal sector.....	109.3	113.6	118.8
FEDERAL PAYMENTS			
Administrative budget expenditures.....	92.6	98.4	97.9
Trust fund expenditures.....	26.5	29.3	29.4
Deduct: Intragovernmental transactions and other adjustments (net).....	5.4	5.0	4.6
Total, cash payments to the public.....	113.8	122.7	122.7
Add: Adjustment from cash to accrual basis.....	0.6	0.1	1.1
Deduct: Disbursements for loans, land purchases, and other adjustments.....	1.8	3.7	2.3
National income account expenditures—Federal sector.....	112.6	119.1	121.5
EXCESS OF RECEIPTS (+) OR PAYMENTS (—)			
Administrative budget.....	—6.3	—10.0	—4.9
Receipts from and payments to the public.....	—4.0	—8.3	—2.9
National income accounts—Federal sector.....	—3.3	—5.5	—2.8

The national income accounts also differ from the consolidated cash statement with respect to the time when receipts and payments are recorded. While the consolidated cash statement is on a checks-paid basis, the national income accounts are largely on an accrual basis. Thus, tax receipts are recorded in the income accounts as tax liabilities build up, rather than on the actual date the Treasury receives the

money. For example, corporations accrue Federal taxes as they earn profits—but they pay these taxes to the Government only after some months have elapsed. Similarly, expenditures for most goods and services are recorded at the time goods are delivered or services performed, rather than when the checks in payment for them are issued or cashed.

This timing reflects better the economic impact of Federal taxes and expenditures on spending decisions in the private sector of the economy.

Total expenditures of the Federal sector of the national income accounts are divided into four basic components that provide information on the economic nature of Federal expenditures. As the following table indicates, the largest is purchases of goods and services. This category represents that part of the Nation's current production of goods and services which the Government uses for public purposes—such as Federal employees' services, military equipment, Government buildings, other direct public works, and so on.

NATIONAL INCOME ACCOUNT EXPENDITURES—FEDERAL SECTOR

[Fiscal years. In billions]

Description	1963 actual	1964 estimate	1965 estimate
Purchases of goods and services	\$64.4	\$67.8	\$69.1
Transfer payments	29.2	30.5	31.8
Grants-in-aid to State and local governments	7.9	9.4	9.7
Net interest and other	11.1	11.5	11.0
Total national income account expenditures—Federal sector	112.6	119.1	121.5

The second category, transfer payments, covers Federal expenditures for which there are no current services rendered—unemployment benefits, veterans pensions, old-age and survivors insurance benefits, and other benefits (sometimes based on contributions made and on eligibility obtained in previous years). When the Government makes transfer payments, it does not use up resources itself, but rather channels purchasing power to the retired, the unemployed, and others.

Grants-in-aid to State and local governments also represent the transfer of funds to other economic groups to use for a nationally desirable purpose. The State and local governments may use the grants for

purchases of goods and services (such as highway construction), or they may in turn make transfer payments to individuals (for example, through public assistance payments).

The final category includes net interest (that is, interest paid by the Federal Government less the interest it receives on loans it has made to others) and such other transactions as subsidies to farm and non-farm businesses.

The Federal sector account is closely related to the Nation's economic accounts which measure total national income and output. Because of the relationship, this measure is particularly valuable for fiscal analyses, such as studies of the impact of Federal activities on the Nation's income and output.

THE BUDGET PROCESS

Each January the President recommends to the Congress a budget representing his judgment as to the Government programs required to meet the Nation's needs during the coming fiscal year.

The presentation of any budget usually marks the culmination of at least 10 months of administrative action and planning. For example, the process of formulating the budget for fiscal year 1965 commenced in March of 1963. The budget was transmitted to the Congress in January 1964, about 6 months before the fiscal year begins—July 1, 1964. When the fiscal year ends 12 months later, over 2 years will have elapsed since the start of the budget cycle. These time intervals of approximately 10 months, 6 months, and 12 months correspond roughly to three basic steps of budgeting: executive formulation, congressional deliberation and enactment, and administrative execution.

Inevitably over such a long period, many changes will take place in the original proposals: international and domestic situations may vary from the assumptions made earlier; the President may amend some of his own proposals; and the Congress may modify the President's requests or add new proposals of its own. Indeed, change is often essential to keep the budget responsive to current needs.

During the 10 months of executive formulation of the budget, there is a constant exchange of information between the President, his staff, and the executive departments and administrative agencies. Budget requests and programs, fiscal policies, and analyses of the domestic and

international issues are constantly evaluated and reevaluated during this period. This process continues through December when very difficult policy issues are finally resolved, and the President's budget proposals take on a more definite form in terms of specific dollar values.

When the budget is sent to the Congress, the second phase of the cycle—congressional review and enactment—commences. Upon receipt of the budget and the President's budget message, the House of Representatives refers the proposals to its Appropriations Committee. Twelve subcommittees of the Appropriations Committee give detailed consideration to the parts of the budget referred to them. The subcommittees make their recommendations to the whole Appropriations Committee, which, in turn, makes its recommendations to the House of Representatives.

When finally passed by the House of Representatives, the measure is forwarded to the Senate. The process in the Senate is similar to that in the House.

If there is disagreement between the two Houses of Congress, a conference committee (consisting of members of both bodies) meets to resolve the differences. The conference report is then referred back to the House and Senate for approval, and forwarded to the President for his approval or disapproval.

The basis for budget control: New obligatory authority.—No Federal funds can be spent without specific authority from the Congress. Therefore, the budget presents the President's recommendations for action by the Congress in terms of the amounts of budget authorizations (new obligatory authority) necessary to carry out the programs he is proposing. The Congress then considers and acts on these requests for new obligatory authority.

New obligatory authority is composed of three kinds of authorizations which allow Federal agencies to incur obligations requiring the payment of money.

Appropriations are the most common form of new obligatory authority; they authorize the agencies to order goods and services and to draw funds from the Treasury and make expenditures to pay for these items.

Contract authorizations, which are occasionally given to agencies, allow them to contract for the purchase of goods and services but not to make expenditures to pay for them. An appropriation to liquidate the contract authorization must later be enacted by the Congress before money may actually be spent to pay the bills incurred under a contract authorization.

Authorizations to expend from debt receipts permit agencies to borrow money (usually through the Treasury), to contract for its use, and to pay the amounts authorized.

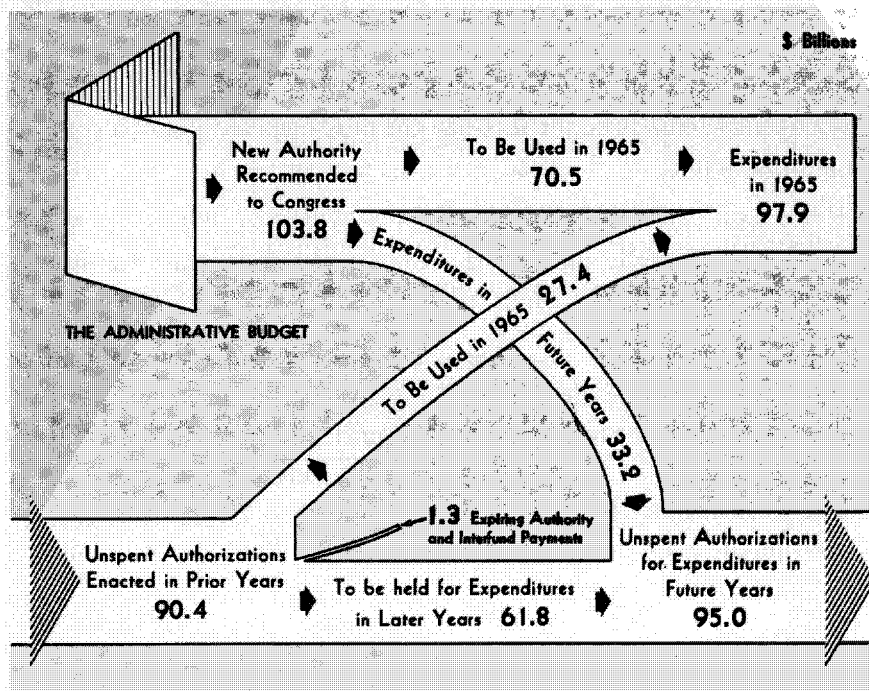
In most cases, new obligational authority becomes available each year only as voted by the Congress. In some cases, however, the Congress has voted permanent authority under which additional sums become available annually without further congressional action. The chief example in the administrative budget is the permanent appropriation to pay interest on the public debt. Most trust fund appropriations are also permanent.

Obligations.—Obligations are commitments made to pay out money. Obligations are incurred when personnel are employed, loan agreements are approved, and when contracts for equipment or construction are made. They are authorized by the obligational authority granted by the Congress and precede expenditures.

Expenditures.—Expenditures generally consist of checks issued and cash paid. Government agencies (such as the Post Office) which carry on business-type operations with the public usually have their receipts deducted from their disbursements to arrive at the amount included in the expenditure totals; when receipts exceed disbursements, the result is shown as a negative payment.

Relationship between new obligational authority and expenditures.—Only a part of the obligational authority enacted for a fiscal year is spent in the same year. Appropriations to pay salaries or pensions are usually spent almost entirely in the year for which they are enacted. On the other hand, the bulk of appropriations to buy naval warships or to construct missile sites is likely to be spent 2 or 3 or more

1965 Administrative Budget – Relation of Authorizations to Expenditures



years after enactment, because of the time required to prepare designs, arrange contracts, complete production or construction, and finally pay the bills.

Therefore, when the Congress reduces or increases the amount of new obligational authority requested by the President for a given year, it does not necessarily change the budget expenditures *in that year* by the amount of the increase or decrease. Such a change may affect expenditures over a period of several years. The relationship between new obligational authority and expenditures estimated for the coming fiscal year is illustrated in the accompanying chart.

Unexpended balances.—The amounts of enacted obligational authority that have not been spent at the end of a fiscal year, and are still available for expenditure in future periods, are called unexpended balances. These balances do not represent cash on hand, but authority to enter into contracts or to make payments under earlier contracts. Most of the unexpended balances are obligated; that is, the amounts are committed to pay bills which come due upon the completion of contracts already signed, or when services or goods are received.

Often, any authority which is not obligated by the time the year ends is no longer available; that is, the authority to obligate expires. In some cases, such as programs for construction of public works, the unobligated part of the unexpended balances continues available from year to year, because the Congress has made the appropriation available until expended. In a few cases, such as the authorization for the Federal Deposit Insurance Corporation to borrow from the Treasury, the balances carried forward represent standby authority for possible emergencies—authority which the Government does not anticipate having to use in the foreseeable future.

Receipts.—Receipts are moneys received by the Treasury from taxes and customs and miscellaneous sources such as collections on certain loans, rents, fines, fees, and sales.

Surplus or deficit.—A surplus results when receipts exceed expenditures; a deficit results when expenditures exceed receipts. A surplus is usually used to retire part of the Government's outstanding borrowing from the public. A deficit is normally financed by new borrowing.

Portions of the President's Budget Message

To the Congress of the United States:

This is the budget of the United States Government for 1965.

The preparation of this budget was the first major task to confront me as President, and it has been a heavy one. Many decisions of great importance have had to be made in a brief span of weeks. I have done my best, and I am satisfied that the budget which I am sending to the Congress will advance our Nation toward greater national security, a stronger economy, and realization of the American dream of individual security and equal opportunity for all of our people.

In formulating my budget, I have been guided by two principles:

- I have been guided by the principle that spending by the Federal Government, in and of itself, is neither bad nor good. It can be bad when it involves overstaffing of Government agencies, or needless duplication of functions, or poor management, or public services which cost more than they are worth, or the intrusion of government into areas where it does not belong. It can be good when it is put to work efficiently in the interests of our national strength, economic progress, and human compassion.
- I have been guided by the principle that an austere budget need not be and should not be a standstill budget. When budgetary restraint leads the Government to turn its back on new needs and new problems, economy becomes but another word for stagnation. But when vigorous pruning of old programs and procedures releases the funds to meet new challenges and opportunities, economy becomes the companion of progress.

This is, I believe, a budget of economy and progress. On the one hand, it calls for a reduction from the preceding year in total administrative budget expenditures—and it is only the second budget in 9 years to do so. It calls for a substantial reduction in total civilian employment in the executive branch—and it is the first budget to do so since the practice of totaling the employment estimates in the budget was initiated in January 1956. It cuts the deficit in half, and carries us a giant step toward the achievement of a balanced budget in a full-employment, full-prosperity economy.

On the other hand, this budget safeguards the peace by providing for the further strengthening of the most formidable defense establishment the world has ever known; it recommends continued military assistance to those nations menaced by Communist aggression, direct and indirect; it includes economic assistance to those nations which are willing to take the steps necessary to guard their freedom and

independence through economic self-help; it provides the funds necessary to advance our mastery of space toward the achievement of a manned lunar landing in this decade; it provides for the sound management and development of our natural and agricultural resources; and in its recommendations relating to education, housing, manpower training, health, and employment opportunities for youth, it provides more funds than ever before in our history for the fuller development of our Nation's most important resource—its people.

Moreover, this budget makes provision for the initiation of a new and major effort to break the vicious circle of chronic poverty, which denies to millions of our fellow citizens a just participation in the benefits of life in our country. We owe to every young person in America a fair start in life—and this means that we must attack those deficiencies in education, training, health, and job opportunities by which the fetters of poverty are passed on from parents to children. The attack on poverty must rely on local initiative and leadership; and the resources of the local, State, and Federal Governments must be mobilized to support these efforts. I will shortly send to the Congress a special message conveying my recommendations for the attack on poverty.

The urgent and necessary program increases recommended in this budget will be financed out of the savings made possible by strict economy measures and by an exhaustive screening of existing programs. As a result of the highly successful cost reduction program launched in 1962 by the Secretary of Defense, the 1965 program of the Department of Defense will require over \$2 billion less in appropriations than would otherwise be the case—a sum greater than the 1965 cost of the new programs I am recommending to the Congress. Department of Defense expenditures will decline by more than \$1 billion from 1964 to 1965, and additional savings are expected to be realized in agriculture, atomic energy, postal services, veterans benefits, and in various lending programs through substitution of private for public credit.

My proposals call for administrative budget expenditures in 1965 of \$97.9 billion—\$900 million less than was requested in the 1964 budget and \$500 million less than I now estimate will be spent in 1964. This reduction in expenditures will be achieved despite a steady growth in the workload of nearly every civilian agency of Government—ranging all the way from the number of income tax returns to the number of visitors to our national parks. The reduction in expenditures will be achieved despite built-in and relatively uncontrollable expenditure increases resulting from past commitments and legislative provisions, including higher costs for interest on the debt and for military and civilian pay increases required by law.

Administrative budget receipts are expected to increase in 1965 to \$93.0 billion, \$4.6 billion over 1964. This increase, reflecting the

expectation of a strongly growing economy spurred by prompt enactment of the tax program, takes into account the estimated revenue losses from the new tax rates.

The resulting administrative budget deficit of \$4.9 billion for 1965 is \$5.1 billion below the deficit now estimated for the current year and marks an important first step toward a balanced budget.

* * *

On the cash basis, total payments to the public are estimated at \$122.7 billion for 1965. Total receipts from the public are estimated at \$119.7 billion, resulting in a \$2.9 billion excess of payments over receipts. The estimates of cash payments and receipts in 1965 reflect the normal, built-in growth of trust fund benefit payments, and the employment and excise tax revenues which finance them.

Another measure of Federal finances—one which emphasizes the impact of the Government's fiscal activities on the economy—is based on the national income accounts. Under this concept, Federal fiscal data, including the trust funds, are generally estimated on an accrual rather than a cash basis, and eliminate transactions, such as loans, which do not directly result in production and income. These data indicate an excess of payments over receipts of \$2.8 billion in fiscal year 1965.

THE ECONOMY AND TAX REDUCTION

The Federal budget is a detailed plan for managing the business of Government, but it is more than that: In setting the relationship between Government expenditures and taxation, the budget is also a powerful economic force which can help or hamper our efforts to achieve stable prosperity and steady growth.

The expenditure proposals in this budget are ample to satisfy our most pressing needs for governmental services, but the broad economic stimulus needed to carry our economy to new high ground in production, income, and employment will not come principally from Government outlays. I believe—as did President Kennedy—that the primary impetus needed to move our economy ahead should come, in present circumstances, from an expansion of the private sector rather than the public sector. Therefore, the earliest possible enactment of the tax reduction bill now before the Congress is an integral and vital part of my budgetary proposals.

Our country is currently in its fourth postwar period of economic expansion—a period which started in February 1961, and has now lasted nearly 3 years.

Preliminary estimates indicate that the Nation's total output of goods and services—our gross national product—rose to \$585 billion in calendar year 1963, an increase of 5.4% over 1962.

Over the same period, personal income rose 4.7%, industrial production 5.1%, and corporate profits 10.5%.

Price stability has been maintained for the sixth consecutive year.

This is a record of strong expansion—and yet the expansion has not been strong enough to absorb the margin of idle workers and idle plant capacity which continues to tarnish our economy's performance. Almost 3 years after the trough of the last recession, and despite the creation of 2½ million new jobs in our economy, the unemployment rate now stands at 5½%. Our factories continue to produce below their optimum rate. As a nation we are producing at a rate at least \$30 billion below our comfortable capacity. This is a gap for which we are paying a high price in idle resources, both human and physical.

This gap must be closed. It must be closed—as President Kennedy urged a year ago—by loosening “the checkrein of taxes on private spending and productive incentives.” It must be closed promptly, for the unemployed have already waited too long for jobs which can be created simply by allowing our people to spend and invest a greater part of the money they earn.

The bill approved by the House of Representatives last September meets the fundamental requirements for tax action in 1964. I propose only two changes in that bill:

- The bill provides for a reduction in the rate of withholding on wages and salaries from 18% to 15% for calendar 1964, starting on January 1, 1964. Since that date has already been passed, the institution of the 15% withholding rate at a later date in 1964 would require substantial additional refunds to taxpayers next year. A corresponding part of the economic stimulus provided by the tax program would be delayed until then. Hence, I propose that the withholding rate be reduced to 14% rather than 15%, effective as soon as possible after enactment. This will assure that the beneficial effects of the 1964 tax reductions are felt immediately, instead of being postponed, in part, for a year. It will simplify procedures for taxpayers and their employers by making unnecessary another change in the withholding rate in 1965, as provided in the House bill. Moreover, the change will also maintain approximately the same division between the fiscal year 1964 and 1965 revenue impact of tax reduction as would have resulted from the House bill. The revenue estimates in this budget assume approval of this change.
- The House bill fails to close the loophole by which property transferred at death now escapes capital gains taxation, but it nevertheless would reduce the rate of taxation on capital gains. With-

out the former provision, the latter provision is unwarranted, and it should be deleted from the bill.

With these two changes, I urge the enactment of the House bill by the Senate.

With prompt enactment of the tax program, economic expansion in 1964 should proceed briskly. Reflecting the effects of the first stage of the tax reduction, the gross national product in calendar year 1964 should rise to about \$623 billion, plus or minus \$5 billion. This is substantially higher than the GNP which could be expected in the absence of prompt enactment of the tax legislation. In fact, since expectations of a tax reduction have been incorporated into the forward planning of many business firms, the effect on the economy of failure to pass the legislation swiftly might be deeply disturbing.

As the tax reduction takes full effect, its stimulus to private consumption and investment will shrink the \$30 billion gap between the Nation's actual and potential output, and provide approximately 2 million additional jobs for the unemployed and the new workers entering the labor force. As economic activity expands, and personal and business incomes increase, Federal revenues will also rise. The higher revenues, combined with continuing pressure for economy and efficiency in Federal expenditure programs, should hasten the achievement of a balanced budget in an economy of full prosperity.

Income tax revisions.—The bill currently before the Senate will reduce income tax liabilities by \$11.1 billion. Individual rate reductions and structural changes account for about 80% of the total tax reduction. The remaining 20% reflects a reduction in corporate taxes, providing enhanced incentives for new investment.

Once the tax bill becomes fully effective in calendar year 1965, the entire schedule of individual income tax rates will fall from the present range of 20% to 91% to a range of 14% to 70%, and the current first \$2,000 bracket of taxable income will be divided into four successive brackets of \$500 each.

All corporations will pay lower tax rates, with incorporated small businesses receiving the largest proportionate tax rate reduction because the tax rate on the first \$25,000 of their taxable income is reduced from 30% to 22%. Large corporations (with estimated tax liabilities above \$100,000) will have to speed up their tax payments in order to reduce the lag between the time when taxable profits are earned and the time when taxes are paid; however, this speedup plan is gradual, shifting the timing of corporation tax collections a bit each year for the next 7 years.

The combination of the investment tax credit and the revision of depreciation guidelines achieved in 1962, plus the \$2½ billion tax rate reductions and structural changes proposed for corporations in the

pending bill, will result in a total reduction of about \$5 billion in corporate tax liabilities.

The bill also contains many changes in the income tax laws that are designed to reduce the weight of taxes where the burden is most unfair, and to correct special tax advantages which will no longer be equitable under the proposed structure.

Excise tax extension.—The Congress should extend several current excise tax rates which will otherwise decline or expire on July 1, 1964. These excise taxes have been continued at the present rates through annual extensions for the past several years. Without extension, revenues would fall by \$1.7 billion during fiscal year 1965.

User charges.—Many Federal Government programs furnish specific, identifiable benefits to the individuals and businesses using them. Equity to all taxpayers demands that those who enjoy the benefits should bear a greater share of the costs. I am, therefore, renewing recommendations for the enactment of user charges for commercial and general aviation and for transportation on inland waterways.

Appropriate fees should also be assessed in other areas where the Government provides special services. New legislation is necessary in several cases to carry out this policy—such as a revision of patent fees to reflect today's costs more adequately—and appropriate proposals are either before the Congress or will be forwarded this year.

NEW OBLIGATIONAL AUTHORITY

Obligations incurred by Federal agencies under authority provided by the Congress are the forerunners of Federal expenditures. Expenditure control, therefore, depends substantially upon careful control of obligations.

In this budget, new obligational authority of \$103.8 billion is proposed in the administrative budget for fiscal year 1965. This is \$1.2 billion above the amount now estimated for fiscal year 1964, but is \$4.1 billion less than was originally requested for the current year in the 1964 budget. The amount recommended for 1965 includes \$50.9 billion for the Department of Defense (including military assistance), \$120 million less than the amount for the current year.

Significant changes in new obligational authority from 1964 to 1965 include increases of \$1.5 billion for the Department of Health, Education, and Welfare, mainly as a result of new health and education proposals; \$361 million for the Department of Labor because of the recently amended manpower training program and the proposed youth employment legislation; and \$500 million for special appropriations requested for new community programs to attack poverty. Major decreases include \$1.5 billion for the Housing and Home Finance

NEW OBLIGATIONAL AUTHORITY

[Fiscal years. In billions]

Description	1963 actual	1964 estimate	1965 estimate
Total authorizations requiring current action by Congress:			
Administrative budget funds.....	\$90.6	\$90.0	\$91.4
Trust funds.....	3.9	.4	4.2
Total authorizations not requiring current action by Congress:			
Administrative budget funds.....	11.6	12.6	12.4
Trust funds.....	24.7	31.3	27.6
Total new obligational authority:			
Administrative budget funds.....	102.3	102.6	103.8
Trust funds.....	28.6	31.7	31.8

Agency, reflecting nonrecurring authority requested in 1964, and \$1.3 billion for the Department of Agriculture.

Of the total amount proposed, \$40 billion will become available under permanent authorizations without further congressional action, including \$27.6 billion becoming automatically available as revenues flow into the trust funds. In the administrative budget, the principal permanent appropriation is to pay the interest on the public debt which in 1965 is estimated at \$11 billion, \$0.4 billion more than in 1964.

For the current fiscal year, the Congress is requested to enact \$4.2 billion of additional new obligational authority to provide needed funds for housing and space programs and to finance legislation enacted last year for which no appropriations were provided—such as increased military compensation, broadened manpower development activities, aid to higher education, vocational education activities, and mental retardation programs. Including supplemental authorizations, a total of \$102.6 billion in new obligational authority is estimated for fiscal year 1964 in the administrative budget.

GOVERNMENT PROGRAMS AND EXPENDITURES

The expenditures proposed in this budget are necessary to meet the needs of our growing society, promote the basic strength of the Nation, honor our worldwide commitments, and fulfill our financial obligations.

Between 1955 and 1965, our population will grow by almost 30 million people, about 17% with the largest increases in the very young and the very old age groups. To keep pace, the Federal Government has had to continue existing public services and provide the additional services needed for future growth. The expansion of the economy, even though falling short of its potential in recent years, has helped provide the resources for both increased public and private services.

We will continue to experience rapid population growth while we seek to improve the rate of economic growth, and over the long run

this will put upward pressure on Government expenditures for civilian purposes. Nevertheless, wherever and whenever possible, we should try to reduce costs, curtail less urgent activities, and find other savings to permit essential new or growing services to be financed at the least cost to the taxpayer. That has been the policy in this budget. Essential services have been provided while administrative budget expenditures decline by over one-half billion dollars between the fiscal years 1964 and 1965.

THE 1964 AND 1965 BUDGETS COMPARED

[In billions]

	Change from prior year (administrative budget)			
	New obligational authority		Expenditures	
	1964 budget document	1965 budget document	1964 budget document	1965 budget document
National defense.....	+\$2.2	-\$0.2	+\$2.4	-\$1.3
Space.....	+2.0	+1	+1.8	+.6
Interest.....	+3	+4	+3	+4
Subtotal.....	+4.6	+3	+4.6	-.3
Health, labor, welfare, and education (including attack on poverty).....	+2.1	+2.6	+.9	+.9
All other.....	-2.0	-1.7	-.9	-1.1
Total.....	+4.7	+1.2	+4.5	-.5

The attack on poverty.—In this budget I have provided over \$1 billion of new obligational authority to begin an all-out attack on the problem of poverty in the United States. In a nation as rich and productive as ours we cannot tolerate a situation in which millions of Americans do not have the education, health, and job opportunities for a decent and respected place as productive citizens. The vicious circle of poverty—in which one generation's poverty, ignorance, and disease breed the same problems for the next—must be broken. I propose to break that circle by raising the educational, skill, and health levels of the younger generation, increasing their job opportunities and helping their families to provide a better home life. I propose a program which relies upon the traditional and time-tested American methods of organized local community action to help individuals, families, and communities to help themselves.

Poverty stems from no one source, but reflects a multitude of causes. Correspondingly, a number of individual programs have been developed over the years to attack these individual problems of job opportunities, education, and training. Other specific programs deal with the closely related areas of health, housing, welfare, and agri-

cultural services. I propose to establish a means of bringing together these separate programs—Federal, State, and local—in an effort to achieve a unified and intensified approach to this complex problem, in which each separate element reinforces the others.

Under this proposal, locally initiated, comprehensive community action programs would be developed, to focus the various available resources on the roots of poverty in urban and rural areas. I shall shortly transmit to the Congress legislation initiating this attack and authorizing, in 1965, \$500 million of new obligational authority specifically for this purpose. Additional funds for the local community action programs will be available from existing agency programs. Moreover, other legislative proposals, recommended elsewhere in this message, will contribute important new resources to the attack on poverty. The Youth Employment Act, the National Service Corps, and the community work and training program, are examples of such proposals. Of particular significance will be the education proposal for project grants to meet special educational needs. All told, in 1965 more than \$1 billion of Federal resources under existing and proposed legislation would be concentrated, through local community action programs, in an intensive and coordinated attack on poverty.

Special emphasis is also being given to the economic needs of the 165,000-square-mile Appalachian region of the United States, which has been largely bypassed in the growth of prosperity in recent years. This emphasis by the Government, combined with the resources and activities of State, local, and private institutions and enterprises in the region, will be directed toward the development of the natural resources of the region, and the promotion of better employment opportunities for its people.

* * *

PUBLIC DEBT

Under present law the temporary debt limitation of \$315 billion will continue in effect through June 29, 1964. The temporary limit then becomes \$309 billion for one day, June 30, 1964, after which the permanent ceiling of \$285 billion again becomes effective.

The present temporary debt limits were enacted in November 1963. The House Committee on Ways and Means noted in its report of November 4, 1963, that the ceilings were very restrictive, and cut sharply into the normal allowances for contingencies and flexibility during periods of peak requirements in March and June. The report also noted the concern of the Secretary of the Treasury that the debt could not be reduced to the \$309 billion limit set by statute for June 30, 1964, without disrupting orderly management of Treasury finances.

Based on the latest estimates contained in this budget, the debt subject to limit on June 30, 1964, is now estimated to be \$312 billion.

Accordingly, a change in the limit is necessary before June 30, 1964, if serious difficulties in the conduct of public debt management are to be avoided. A further change will be needed to cover the anticipated but reduced, deficit for 1965.

Debt limitations which are so restrictive or so temporary in application as to necessitate several legislative revisions in a single year—as last year—conflict with economical operation of the Government and effective financial management, and involve both the Congress and the Executive in unnecessarily repetitive discussions of the same issues. Instead, the debt ceiling should provide sufficient flexibility for sound management of the Government's finances at the lowest cost, and also permit the Treasury leeway for actively supporting the Nation's balance-of-payments position through timely debt operations. With or without a restrictive debt ceiling, expenditures in this administration will be held to the lowest possible level.

EFFICIENCY AND ECONOMY IN GOVERNMENT

I call upon all Government employees to observe three paramount principles of public service:

First, complete fairness in the administration of governmental powers and services;

Second, scrupulous avoidance of conflicts of interest; and

Third, a passion for efficiency and economy in every aspect of Government operations.

For its part, the Federal Government must be a good employer. It must offer challenging opportunities to its employees. It must be prompt to recognize and reward initiative. It must pay well to attract and keep its share of dedicated and resourceful workers. It must welcome fresh ideas, new approaches, and responsible criticism.

For 33 years I have been in Government service. I have known its challenge, its rewards, and its opportunities. But all these will multiply in the years to come. The time is at hand to develop the Federal service into the finest instrument of public good that our will and ingenuity can forge.

Controlling employment.—Although both our population and our economy are growing and placing greater demands upon the Government for services of every kind, I believe the time has come to get our work done by improving the efficiency and productivity of our Federal work force, rather than by adding to its numbers.

This budget proposes a reduction in Federal employment in 1965—from 2,512,400 to 2,511,200 civilian employees—and I have directed the heads of all departments and agencies to work toward reducing employment still further. This reversal in the trend of Federal employment results from a rigorous appraisal of personnel needs, de-

terminated measures to increase employee productivity and efficiency, and the curtailment of lower priority work. It will be accomplished despite large and unavoidable increases in workloads.

Of the 9½ million civilian employees of governments in the United States today, 2½ million are employed by the Federal Government and about 7 million by the State and local governments. In the decade from fiscal year 1955, Federal civilian employment in the executive branch will rise by 6%, while the population of the United States will increase by 17%. State and local employment will increase about 65% during the same period.

In fiscal year 1955, we had 14 Federal civilian employees in the executive branch for every 1,000 people; in fiscal year 1965, we will have fewer than 13 Federal civilian employees to serve every 1,000 people.

Management improvement and cost reduction.—As substantial as are savings due to tightening up on Federal employment, even larger economies result from actions which eliminate waste and duplication, simplify unnecessarily complex systems and procedures, and introduce new and better business methods.

The emphasis on management improvement in the executive branch during the past 3 years has led to impressive economies on a very wide front. Functions have been consolidated. Automatic data processing equipment has improved efficiency and reduced operating costs. Excess property in the possession of one agency has been transferred to others, saving substantial funds budgeted for new purchases. Productivity has been increased in agencies with the heaviest volume of workloads, thus avoiding payroll increases.

In the Department of Defense, the cost reduction program has achieved exceptional results. Without impairing combat strength or effectiveness, savings of over \$1 billion were achieved in fiscal year 1963, and annual savings by fiscal year 1967 are expected to reach the impressive figure of \$4 billion. As part of this effort, defense bases and installations no longer needed will be shut down. The number of civilian employees in the Department of Defense will decrease by 10,000 in fiscal year 1964 and by another 17,000 in 1965—to the lowest level since 1950.

I have directed all departments and agencies to continue and intensify these efforts. When the search for economy is compromised, the taxpayer is the loser.

Government organization.—The organization of the Government must be adjusted to cope with new and challenging problems resulting from scientific and technological advances, the development of new and the elimination of old programs, and changes in policies and program emphasis.

One of the most urgently needed improvements requiring congressional action is legislation to create a Department of Housing and Community Development to provide leadership in coordinating various Federal programs which aid the development of our urban areas. I recommend that the Congress approve establishment of this new Department during its current session.

The authority of the President to transmit reorganization plans to the Congress expired on May 31, 1963. Legislation now pending in the Congress should be enacted to renew this authority.

Salary reform and adjustment.—Although this budget is deliberately restrictive, I have concluded that Government economy will be best served by an upward adjustment in salaries. In the last year and a half the Federal Government has taken far-reaching steps to improve its pay practices. The Federal Salary Reform Act of 1962 and the Uniformed Services Pay Act of 1963 established the principle of keeping military and civilian pay generally in line with pay in the private economy. This is a sound principle, and it is reinforced by the sound procedure of annual review. This principle is fair to the taxpayer, to Government employees, and to the Government as an employer.

This budget provides for the costs of such action in this session of Congress. Any pay action by the Congress should bring salary rates for top executive branch positions up to levels more nearly commensurate with their respective responsibilities, and increase rates for the Congress and the judiciary. Economy and efficiency in Government will come primarily from the hard and conscientious work of our top managers, who are now plainly underpaid for what is expected of them.

CONCLUSION

Approval of this budget will:

- Lift a major barrier to more rapid growth in the private sector of

the economy by reducing tax burdens and providing investment incentives.

- Meet the Nation's defense, international, and domestic requirements.
- Provide generously for human needs and, with local community action, attack forcefully the pockets of human want and deprivation in our land.
- Advance efficient and economical administration in the Government so that each tax dollar will be a dollar well spent.

The program proposed for 1965 should provide ample assurance of our determination to keep costs under tight control and move the tax reduction bill toward speedy approval. It should also provide ample evidence that critical national problems need not go unsolved and human wants unmet in a nation rich in moral as well as material strength.

A government that is strong, a government that is solvent, a government that is compassionate is the kind of government that endures.

There is no inconsistency in being prudent and frugal, in being alert and strong, and in being sensitive and sympathetic to the unfilled needs of the people.

This is the objective of this administration. It is an objective that will be met.

I firmly believe the proposals in this budget will serve the Nation well and I ask the support of the Congress and the American people in putting them into effect.

LYNDON B. JOHNSON.

January 21, 1964.

TABLES ON THE BUDGET

Administrative Budget and Trust Fund Expenditures by Function, 1958-65

The following two tables show administrative budget and trust fund expenditures since 1958, according to the functions they serve. The functional categories provide a meaningful historical comparison because all expenditures for activities of a similar nature are grouped together even if they are made by different agencies, or if—through reorganizations or otherwise—they are shifted from one agency to another over the years.

ADMINISTRATIVE BUDGET EXPENDITURES BY FUNCTION

[Fiscal years. In millions of dollars]

Description	Actual						Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965
National defense:								
Department of Defense—military:								
Purchase of weapons and equipment.....	14,083	14,409	13,334	13,095	14,532	16,632	16,337	14,785
Military personnel.....	11,611	11,801	11,738	12,085	13,032	13,000	14,180	14,660
Operation and maintenance.....	9,761	10,378	10,223	10,611	11,594	11,874	11,870	12,278
Research and development.....	2,504	2,866	4,710	6,131	6,319	6,376	6,943	6,580
Military assistance.....	2,187	2,340	1,609	1,449	1,390	1,721	1,400	1,200
Civil defense.....					90	203	150	150
Military construction and other.....	1,110	1,769	1,210	1,305	1,248	170	1,420	1,547
Subtotal, military.....	41,258	43,563	42,824	44,676	48,205	49,973	52,300	51,200
Atomic energy.....	2,268	2,541	2,623	2,713	2,806	2,758	2,800	2,735
Defense-related activities.....	709	379	244	104	92	24	197	44
Subtotal.....	44,234	46,483	45,691	47,494	51,103	52,755	55,297	53,979
International affairs and finance:								
Economic and financial programs:								
Development loans.....	2	66	202	258	347	760	790	850
Alliance for Progress.....					155	260	325	405
Supporting grants.....	1,103	1,138	995	1,013	618	494	415	335
Development grants.....	136	146	149	169	272	245	230	225
Other.....	669	2,053	131	685	980	282	137	-110
Conduct of foreign affairs.....	173	237	217	216	249	346	316	315
Foreign information and exchange activities.....	149	139	137	158	197	201	234	227
Subtotal.....	2,231	3,780	1,832	2,500	2,817	2,588	2,447	2,248
Space research and technology: ¹								
Manned space flight.....				237	547	1,533	2,898	3,370
Unmanned investigations in space.....				216	337	484	645	670
Meteorology and communications.....				16	61	90	105	97
Other research, technology, and supporting operations.....				275	312	445	752	853
Subtotal.....	89	145	401	744	1,257	2,552	4,400	4,990
Agriculture and agricultural resources:								
Farm income stabilization and Food for Peace.....	3,284	5,297	3,602	3,800	4,576	5,517	4,746	3,750
Agricultural land and water resources.....	315	376	368	397	426	404	417	423
Rural electrification and telephone loans.....	297	315	330	301	303	342	219	216
Farming and rural housing loans.....	269	311	289	349	234	300	279	130
Research and other agricultural services.....	255	291	293	324	341	391	409	388
Subtotal.....	4,419	6,590	4,882	5,172	5,881	6,954	6,070	4,907
Natural resources:								
Land, water and power resources.....	1,139	1,184	1,235	1,394	1,564	1,699	1,720	1,808
Forests.....	174	201	220	331	280	303	354	339
Recreational resources.....	69	85	74	91	94	112	122	138
Minerals.....	59	71	65	61	68	71	107	113
Fish and wildlife.....	60	68	68	73	81	94	104	110
Other.....	44	61	51	55	60	73	76	80
Subtotal.....	1,544	1,670	1,714	2,006	2,147	2,352	2,483	2,588

¹ Breakdown not available on a comparable basis prior to 1961.

ADMINISTRATIVE BUDGET EXPENDITURES BY FUNCTION—Continued

[Fiscal years. In millions of dollars]

Description	Actual						Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965
Commerce and transportation:								
Aviation.....	315	494	568	716	781	808	875	912
Water transportation.....	392	436	508	569	654	672	708	717
Postal service.....	674	774	525	914	797	770	546	475
Advancement of business.....	170	234	265	271	427	366	426	455
Area redevelopment.....	—	—	—	—	7	101	463	375
Regulation of business.....	49	58	59	67	74	84	89	94
Highways.....	31	30	38	36	33	41	45	42
Subtotal.....	1,632	2,025	1,963	2,573	2,774	2,843	3,151	3,069
Housing and community developments:								
Urban renewal and community facilities.....	78	108	130	162	261	222	316	411
Public housing.....	51	97	134	150	163	178	146	222
Aids to private housing:								
Federal Savings and Loan Insurance Corporation.....	—38	—41	—20	—35	—237	—264	—250	—349
Federal National Mortgage Association.....	—32	842	—30	75	—123	—439	—578	—588
Federal Housing Administration and other.....	—56	—69	—122	—84	211	167	106	—105
National capital region.....	26	33	30	51	74	70	69	90
Subtotal.....	30	970	122	320	349	—67	—191	—317
Health, labor, and welfare:								
Public assistance.....	1,797	1,969	2,061	2,170	2,437	2,788	3,007	2,869
Health services and research.....	540	700	815	938	1,128	1,354	1,638	1,733
Labor and manpower.....	488	924	510	809	591	224	390	651
School lunch, special milk, and food stamp.....	167	218	234	241	275	284	325	344
Vocational rehabilitation and other.....	67	66	70	85	108	140	174	236
Subtotal.....	3,059	3,877	3,690	4,244	4,538	4,789	5,533	5,832
Education:								
Elementary and secondary education.....	189	259	327	332	337	392	411	471
Higher education.....	178	225	261	286	350	428	404	442
Science education and basic research.....	50	106	120	143	183	206	260	302
New program and other aid to education.....	124	141	156	181	207	219	272	477
Subtotal.....	541	732	866	943	1,076	1,244	1,348	1,691
Veterans benefits and services:								
Disability and survivors compensation.....	2,024	2,071	2,049	2,034	2,017	2,116	2,126	2,120
Non-service-connected pensions.....	1,037	1,152	1,265	1,532	1,635	1,698	1,743	1,777
Hospitals and medical care.....	856	921	961	1,030	1,084	1,145	1,240	1,246
Education and training.....	699	574	383	237	142	88	56	33
Housing loan programs.....	239	234	328	312	236	—109	—59	—334
Other benefits and services.....	329	335	281	268	287	248	257	240
Subtotal.....	5,184	5,287	5,266	5,414	5,403	5,186	5,362	5,081
General governments:								
Tax collection and central fiscal operations.....	502	566	558	607	653	715	800	838
Property and records management.....	245	295	372	372	419	444	540	561
Protective services and alien control.....	233	235	263	289	300	323	338	351
Legislative and judicial functions.....	133	149	158	170	192	194	209	210
Central personnel management.....	84	95	84	140	153	142	175	106
Territories and possessions, and other.....	88	107	108	131	158	160	178	172
Subtotal.....	1,284	1,466	1,542	1,709	1,875	1,979	2,238	2,238
Interest.....	7,689	7,671	9,266	9,050	9,198	9,980	10,701	11,101
Allowances:								
Attack on poverty.....	—	—	—	—	—	—	—	250
Civilian pay comparability.....	—	—	—	—	—	—	—	544
Contingencies.....	—	—	—	—	—	—	250	300
Subtotal.....	71,936	80,697	77,233	82,169	88,419	93,155	99,089	98,500
Deduct interfund transactions.....	567	355	694	654	633	513	685	600
Total administrative budget expenditures.....	71,369	80,342	76,539	81,515	87,787	92,642	98,405	97,900

TRUST FUND EXPENDITURES BY FUNCTION

[Fiscal years. In millions of dollars]

Description	Actual						Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965
National defense.....	344	229	256	196	366	679	867	1,231
International affairs and finance.....	1	21	48	13	15	44	86	99
Space research and technology.....								2
Agriculture and agricultural resources.....	357	645	458	416	398	507	475	442
Natural resources.....	101	94	116	183	112	122	138	107
Commerce and transportation.....	1,401	2,493	2,831	2,505	2,662	2,877	3,394	3,466
Housing and community development.....	295	1,263	1,439	273	1,524	36	1,628	456
Health, labor, and welfare.....	12,775	14,306	16,358	19,236	20,382	21,855	22,669	23,549
Education.....	1	1	1	1	1	2	2	2
Veterans benefits and services.....	671	651	673	811	733	835	642	495
General government.....	10	10	17	16	20	19	18	18
Deposit funds (net).....	29	60	78	203	544	146	116	17
Direct interfund transactions.....	11	135	908	515	528	505	488	477
Total trust fund expenditures.....	15,325	19,521	21,212	22,793	25,141	26,545	29,315	29,372

*Less than one-half million dollars.

Receipts From and Payments to the Public, 1958-65

The following table presents total receipts from the public by source and payments to the public by function. These data combine the administrative budget and trust fund figures, and eliminate transactions taking place entirely within the Government. A few other adjustments are also made to shift data recorded on an accrual basis to a cash basis.

[Fiscal years. In millions of dollars]

Description	Actual						Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965
<i>Receipts from the public:</i>								
Individual income taxes.....	34,724	36,719	40,715	41,338	45,571	47,588	47,500	48,500
Corporation income taxes.....	20,074	17,309	21,494	20,954	20,523	21,579	23,700	25,800
Excise taxes.....	10,638	10,578	11,676	11,860	12,534	13,194	13,699	14,491
Employment taxes.....	8,565	8,767	11,067	12,405	12,561	14,862	16,777	16,996
Estate and gift taxes.....	1,393	1,333	1,606	1,896	2,016	2,167	2,335	2,740
Customs.....	782	925	1,105	982	1,142	1,205	1,275	1,460
Deposits by States, unemployment insurance.....	1,501	1,701	2,167	2,398	2,729	3,009	2,900	2,825
Veterans life insurance premiums.....	485	478	482	504	501	494	501	499
Other budget and trust receipts.....	3,730	3,851	4,766	4,905	4,288	5,641	5,678	6,432
Total, receipts from the public.....	81,892	81,660	95,078	97,242	101,865	109,739	114,366	119,742
<i>Payments to the public:</i>								
National defense.....	44,552	46,673	45,915	47,685	51,462	53,429	56,011	55,211
International affairs and finance.....	2,651	2,398	1,574	2,153	2,492	2,242	2,452	2,377
Space research and technology.....	89	145	401	744	1,257	2,552	4,400	4,992
Agriculture and agricultural resources.....	4,347	7,052	4,877	5,183	5,942	7,266	6,340	5,065
Natural resources.....	1,641	1,754	1,822	2,101	2,223	2,456	2,611	2,688
Commerce and transportation.....	3,060	4,545	4,819	5,107	5,487	5,777	6,601	6,588
Housing and community development.....	319	2,141	1,440	103	1,691	268	1,279	40
Health, labor, and welfare.....	15,757	18,017	19,107	22,364	23,975	25,698	27,265	28,595
Education.....	542	733	867	945	1,052	1,214	1,302	1,641
Veterans benefits and services.....	5,828	5,910	5,907	6,187	6,092	5,971	5,950	5,525
Interest.....	5,884	5,350	7,233	7,257	6,940	7,427	8,120	8,596
General government.....	1,292	1,475	1,558	1,724	1,882	1,983	2,241	2,239
Deposit funds (net).....	29	60	78	203	544	194	116	17
Allowances:								
Attack on poverty.....								250
Civilian pay comparability.....								544
Contingencies.....								300
Undistributed adjustments.....	-1,823	-1,382	-1,114	-2,006	-2,289	-1,801	-2,003	-1,864
Total, payments to the public.....	83,472	94,752	94,328	99,542	107,662	113,751	122,704	122,690
Excess of receipts (+) or payments (-).....	-1,580	-13,092	+750	-2,300	-5,797	-4,012	-8,338	-2,948

Administrative Budget Totals and Public Debt, 1789-1965

The administrative budget surplus or deficit during a given year does not alone determine the change in the public debt. Changes in the Federal Government's cash balance and a few other factors also influence the change in the debt. A significant part of the public debt is held by Federal Government trust funds.

As explained in this booklet, the administrative budget totals are not as comprehensive as the totals for Federal receipts from and payments to the public. However, for most years prior to the beginning of social security in 1938, the differences are insignificant.

[In millions of dollars]

Fiscal year	Administrative budget receipts	Administrative budget expenditures	Surplus (+) or deficit (-)	Public debt at end of year	Fiscal year	Administrative budget receipts	Administrative budget expenditures	Surplus (+) or deficit (-)	Public debt at end of year
1789-1849 ...	1,160	1,090	+70	63	1932	1,924	4,659	-2,735	19,487
1850-1899 ...	13,895	14,932	-1,037	1,437	1933	1,997	4,598	-2,602	22,539
1900	567	521	+46	1,263	1934	3,015	6,645	-3,630	27,053
1901	588	525	+63	1,222	1935	3,706	6,497	-2,791	28,701
1902	562	485	+77	1,178	1936	3,997	8,422	-4,425	33,779
1903	562	517	+45	1,159	1937	4,956	7,733	-2,777	36,425
1904	541	584	-43	1,136	1938	5,588	6,765	-1,177	37,165
1905	544	567	-23	1,132	1939	4,979	8,841	-3,862	40,440
1906	595	570	+25	1,143	1940	5,137	9,055	-3,918	42,968
1907	666	579	+87	1,147	1941	7,096	13,255	-6,159	48,961
1908	602	659	-57	1,178	1942	12,547	34,037	-21,490	72,422
1909	604	694	-89	1,148	1943	21,947	79,368	-57,420	136,696
1910	676	694	-18	1,147	1944	43,563	94,986	-51,423	201,003
1911	702	691	+11	1,154	1945	44,362	98,303	-53,941	258,682
1912	693	690	+3	1,194	1946	39,650	60,326	-20,676	269,422
1913	714	715	-*	1,193	1947	39,677	38,923	+754	258,286
1914	725	725	-*	1,188	1948	41,375	32,955	+8,419	252,292
1915	683	746	-63	1,191	1949	37,663	39,474	-1,811	252,770
1916	762	713	+48	1,225	1950	36,422	39,544	-3,122	257,357
1917	1,100	1,954	-853	2,976	1951	47,480	43,970	+3,510	255,222
1918	3,630	12,662	-9,032	12,455	1952	61,287	65,303	-4,017	259,105
1919	5,085	18,448	-13,363	25,485	1953	64,671	74,120	-9,449	266,071
1920	6,649	6,357	+291	24,299	1954	64,420	67,537	-3,117	271,260
1921	5,567	5,058	+509	23,977	1955	60,209	64,389	-4,180	274,374
1922	4,021	3,285	+736	22,963	1956	67,850	66,224	+1,626	272,751
1923	3,849	3,137	+713	22,350	1957	70,562	68,966	+1,596	270,527
1924	3,853	2,890	+963	21,251	1958	68,550	71,369	-2,819	276,343
1925	3,598	2,881	+717	20,516	1959	67,915	80,342	-12,427	284,706
1926	3,753	2,888	+865	19,643	1960	77,763	76,539	+1,224	286,331
1927	3,992	2,837	+1,155	18,512	1961	77,659	81,515	-3,856	288,971
1928	3,872	2,933	+939	17,604	1962	81,409	87,787	-6,378	298,201
1929	3,861	3,127	+734	16,931	1963	86,376	92,642	-6,266	305,860
1930	4,058	3,320	+738	16,185	1964 est.	88,400	98,405	-10,005	311,800
1931	3,116	3,577	-462	16,801	1965 est.	93,000	97,900	-4,900	317,000

*Less than one-half million dollars.

NOTES.—Refunds of receipts are excluded from administrative budget receipts and expenditures starting in 1913; comparable data are not available for prior years.

Certain interfund transactions are excluded from administrative budget receipts and expenditures starting in 1932. For years prior to 1932 the amounts of such transactions are not significant.

Federal Finances and the Gross National Product, 1942-64

Since the gross national product (GNP) is the total of all the goods and services produced by the Nation in a given year, its trend is a useful measure of the growth of the economy. By calculating annual Federal outlays as a percentage of GNP, it is possible to tell at a glance how these outlays have changed over a period of time in relation to the change in the economy as a whole.

Only Federal purchases of goods and services represent the use of currently produced resources by the Federal Government—in effect the Government's direct share of the GNP. In contrast, both administrative budget expenditures and Federal payments to the public include funds lent or transferred to others, or given to State and local governments, which do not represent the use of current economic resources by the Federal Government.

[Amounts in billions of dollars]

Fiscal year	Gross national product	Administrative budget expenditures		Cash payments to the public		Federal purchases of goods and services		Public debt	
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1942.....	140.5	34.0	24.2	34.5	24.6	30.0	21.4	72.4	51.5
1943.....	178.4	79.4	44.5	78.9	44.2	72.4	40.6	136.7	76.6
1944.....	202.8	95.0	46.8	94.0	46.4	85.6	42.2	201.0	99.1
1945.....	218.3	98.3	45.0	95.2	43.6	90.0	41.2	258.7	118.5
1946.....	202.8	60.3	29.7	61.7	30.4	41.3	20.4	269.4	132.8
1947.....	223.3	38.9	17.4	36.9	16.5	16.8	7.5	258.3	115.7
1948.....	246.6	33.0	13.4	36.5	14.8	16.6	6.7	252.3	102.3
1949.....	261.6	39.5	15.1	40.6	15.5	21.8	8.3	252.8	96.6
1950.....	263.8	39.5	15.0	43.1	16.3	20.0	7.6	257.4	97.6
1951.....	310.8	44.0	14.2	45.8	14.7	26.4	8.5	255.2	82.1
1952.....	338.8	65.3	19.3	68.0	20.1	47.8	14.1	259.1	76.5
1953.....	359.7	74.1	20.6	76.8	21.4	56.8	15.8	266.1	74.0
1954.....	362.0	67.5	18.6	71.9	19.9	53.9	14.9	271.3	74.9
1955.....	377.0	64.4	17.1	70.5	18.7	45.0	11.9	274.4	72.8
1956.....	408.5	66.2	16.2	72.5	17.8	45.2	11.0	272.8	66.8
1957.....	433.0	69.0	15.9	80.0	18.5	48.3	11.2	270.5	62.5
1958.....	440.2	71.4	16.2	83.5	18.9	50.5	11.5	276.3	62.8
1959.....	466.5	80.3	17.2	94.8	20.3	53.9	11.6	284.7	61.0
1960.....	494.6	76.5	15.5	94.3	19.1	53.0	10.7	286.3	57.9
1961.....	505.0	81.5	16.1	99.5	19.7	54.9	10.9	289.0	57.2
1962.....	538.9	87.8	16.3	107.7	20.0	60.1	11.2	298.2	55.3
1963.....	568.4	92.6	16.3	113.8	20.0	64.4	11.3	305.9	53.8
1964 (estimate)...	603.0	98.4	16.3	122.7	20.3	67.8	11.2	311.8	51.7

Expenditures and New Obligational Authority by Agency

The following table indicates the 1965 expenditure estimates for the major agencies of the Federal Government. It also shows the amount of spending authority being requested for each agency. Because of the long lead time required to design, order, produce, and deliver such complex goods as military and space equipment, and for other reasons, not all the new obligational authority granted will result in expenditures during the same year.

[Fiscal year 1965 estimate. In millions of dollars]

Description	Expenditures		New obligational authority ¹	
	Administrative budget funds	Trust funds	Administrative budget funds	Trust funds
Legislative Branch.....	179	2	200	2
The Judiciary.....	72	*	72	1
Executive Office of the President.....	28	.....	29	.....
Funds appropriated to the President:				
Foreign assistance—economic.....	2, 150	3	2, 392	3
Public works acceleration program.....	245	.....	5	.....
Other.....	138	*	404	*
Department of Agriculture.....	5, 815	52	5, 956	55
Department of Commerce.....	833	3, 673	923	3, 817
Department of Defense:				
Military.....	51, 200	1, 230	50, 880	1, 330
Civil.....	1, 192	27	1, 214	26
Department of Health, Education, and Welfare.....	5, 853	17, 519	7, 649	17, 499
Department of the Interior.....	1, 148	64	1, 213	54
Department of Justice.....	343	22	368	.....
Department of Labor.....	667	3, 443	831	3, 933
Post Office Department.....	475	.....	551	.....
Department of State.....	382	9	377	9
Treasury Department.....	12, 335	19	12, 394	19
Atomic Energy Commission.....	2, 735	1	2, 693	1
Federal Aviation Agency.....	829	.....	751	.....
General Services Administration.....	578	*	632	*
Housing and Home Finance Agency.....	149	138	749	147
National Aeronautics and Space Administration.....	4, 990	2	5, 304	*
Veterans Administration.....	5, 066	489	5, 444	714
Other agencies.....	—84	2, 739	1, 142	3, 788
District of Columbia.....	88	417	72	419
Allowances:				
Attack on poverty.....	250	.....	500	.....
Civilian pay comparability.....	544	.....	544	.....
Contingencies.....	300	.....	500	.....
Subtotal.....	98, 500	29, 849	103, 789	31, 817
Deduct interfund transactions.....	600	477	.....	.....
Total.....	97, 900	29, 372	103, 789	31, 817

*Less than one-half million dollars.

¹ Of which \$12.4 billion in administrative budget funds and \$27.6 billion in trust funds do not require current action by the Congress.

Government Employment and Population, 1942-65

The following table presents data on employment and population. The figures for the Federal Government include all employment—full-time and part-time—in the executive branch. Legislative and judicial branch employment is excluded.

Both the total population and State and local employment have risen more than Federal executive branch employment in the last two decades. This trend will continue in 1965.

Year	Government employment				Population	
	Federal executive branch (thousands)	State and local governments (thousands)	All governmental units (thousands)	Federal as percent of all governmental units	Total United States (thousands)	Federal employment per 1,000 population
1942.....	2,272	3,310	5,582	40.7	135,361	16.8
1943.....	3,274	3,184	6,458	50.7	137,250	23.9
1944.....	3,304	3,092	6,396	51.7	138,916	23.8
1945.....	3,787	3,104	6,891	55.0	140,468	27.0
1946.....	2,666	3,305	5,971	44.6	141,936	18.8
1947.....	2,082	3,568	5,650	36.8	144,698	14.4
1948.....	2,044	3,776	5,820	35.1	147,208	13.9
1949.....	2,075	3,906	5,981	34.7	149,767	13.9
1950.....	1,934	4,078	6,012	32.2	152,271	12.7
1951.....	2,456	4,031	6,487	37.9	154,878	15.9
1952.....	2,574	4,134	6,708	38.4	157,553	16.3
1953.....	2,532	4,282	6,814	37.2	160,184	15.8
1954.....	2,382	4,552	6,934	34.4	163,026	14.6
1955.....	2,371	4,728	7,099	33.4	165,931	14.3
1956.....	2,372	5,064	7,436	31.9	168,903	14.0
1957.....	2,391	5,387	7,778	30.7	171,984	13.9
1958.....	2,355	5,681	8,036	29.3	174,882	13.5
1959.....	2,355	5,907	8,262	28.5	177,830	13.2
1960.....	2,371	6,233	8,604	27.6	180,676	13.1
1961.....	2,407	6,520	8,927	27.0	183,742	13.1
1962.....	2,485	6,823	9,308	26.7	186,591	13.3
1963.....	2,490	7,141	9,631	25.9	189,278	13.2
1964 (estimate).....	2,512	-----	-----	25.2	-----	13.1
1965 (estimate).....	2,511	-----	-----	24.5	-----	12.9

Notes:

Employment data are for June.

Population data are for July 1 and include Hawaii and Alaska.

An official projection of population and of State and local government employment for 1964 and 1965 is not available. The percentages and ratios shown for these years are consistent with a range of reasonable estimates based on recent trends in population and State and local employment.

EXECUTIVE OFFICE OF THE PRESIDENT • BUREAU OF THE BUDGET
