Military Spending Rise Sought

By Peter Milius

Washington Post Staff Writer

President Nixon is to ask Congress Monday to increase defense spending by $7.2 billion, or 8.8 per cent, next fiscal year, to $87.7 billion, according to the economic report made public yesterday.

But military spending would continue to decline slightly as a percentage of the total budget. It will be about 29.4 per cent of all spending this year, and 28.8 per cent in fiscal 1975.

The President's budget contemplates total outlays in the fiscal year beginning next July 1 of $304.4 billion, as against $295 billion in revenues, leaving the government with a deficit of $9.4 billion.

The spending total would be up $29.7 billion, or 10.8 per cent, from this year's.

Of the increase, $15.1 billion would go for what the budget-makers call income security programs—Social Security, welfare and the like.

These income security programs will cost $100.1 billion in fiscal 1975, a third of all the spending proposal.

The year Mr. Nixon took office, 1969, they came to $43.7 billion, a fifth of the budget.

The budget total has risen 50 per cent in those same years, from just under $200 billion in fiscal 1970 to just over $300 billion now.

More than half of that increase has been due to the swelling of income security programs.

The tax that supports the bulk of these outlays, the Social Security tax, has also risen dramatically in the last six years. Revenues from the Social Security tax were $45.3 billion in fiscal 1970; they will be about $85.6 billion next fiscal year, an increse of about 90 per cent.

Revenues from the individual income tax, by contrast, have gone up about 44 per cent in those six years, from $90.4 billion to $129 billion.

Corporate income tax payments have risen about 48 per cent, from $32.8 billion to an estimated $48 billion next fiscal year.

The economic report said interest on the national debt will rise from $27.8 billion this year to $29.1 billion next.

For all its growth, the federal budget has remained fairly constant as a percentage of the Gross National Product in the last six years, at about 20 per cent. The federal debt has declined as a percentage of GNP. It will be about $508 billion next fiscal year.

97th Year · No. 59 © 1974. The Washington Post Co. SATURDAY,

Nixon's Economists See

Advisers' Report Forecasts a Mild Recession

By Hobart Rowen
Washington Post Staff Writer

Despite the disclaimer by both President Nixon and his chief economic aide, Herbert Stein, the economic report sent to Congress yesterday in effect forecasts a mild recession for 1974, concentrated in the first half of the year.

Echoing the President in his State of the Union message, Stein told reporters: "We don't expect a recession and we don't want a recession."

But, he added quickly, the administration "is open-minded" about the possibility of tax cuts and other measures to stimulate the economy if that proves necessary.

The report itself—by the Council of Economic Advisers, which Stein heads—stresses the many "uncertainties" that flew from the energy crisis, especially in terms of international consequences. In the world-wide sense, the report said "several possibilities can be envisaged which could lead to cumulative recession."

It warned, "The single-country response could well either create recession at home or export recession. If many countries are following this policy at once, the compound result could be a large and unnecessary decline in the world economy."

It is not surprising that the economic report eschews—for the United

News Analysis

States — the use of the word "recession," which can be defined with certainty only by the economic historians and technicians.

But the report itself puts forth—as both a "feasible target and prediction of what will be achieved"—only an 8 per cent increase in the Gross National Product in 1974, to about $1,390 billion.

The $102 billion gain over 1973 would be composed of a scant 1 per cent in real growth, and 7 per cent in inflation. That is a dramatic change for the worse from 1973, when real growth was 6 per cent, and the inflation rate (measured by the so-called GNP deflator) was 5.3 per cent.

Thus in an objective sense, the economy would be receding, or going downhill in terms of real growth—the basic underpinning for new jobs, profits, and expanding opportunities.

Even more pointedly, the council report says, "As for the expected path during 1974, this would leave real output approximately flat, and perhaps declining for an interval, in the first half of the year, but would bring a rise at somewhat more than the normal trend rate in the second half."

Generally, as recession is defined as a period of at least six months of an actual decline in the real level of activity. Most economists, including those at the CEA, expect a minus number in at

See ANALYSIS, A14, Col. 5

FEBRUARY 2, 1974 Phone 223-6000 Classified 223-6200 Circulation 223-6100 15c Beyond Washington, Maryland and Virginia 10c

Output Rising Only 1%

Inflation to Approach 7%, Unemployment to Be 5.5%

By Peter Milius
Washington Post Staff Writer

President Nixon's Council of Economic Advisers said yesterday that it expects the economic news to be mostly bad the first half of this year, but that it will then get better.

The President himself, at a ceremony yesterday at the White House, said that "as I see it" 1974 "will be a good year for the economy" as a whole.

"The economic record of this administration has been outstanding," Mr. Nixon added.

In its annual Economic Report, the council said the nation's economic output, which grew 5.9 per cent last year, will probably increase only 1 per cent in 1974. That lower growth rate will mean rising unemployment.

At the same time, the economists said, the overall inflation rate will also rise, from last year's 5.3 per cent to "about 7 per cent."

Inflation will be even higher early in the year, they said, but lower later.

Output, meanwhile, actually may shrink for "an interval" in the first half of the year, but will be rising at an annual rate of more than 4 per cent by the fourth quarter, they predicted. Four per cent is about average for the U. S. in recent years.

Two straight quarters of shrinking output would be a recession, or at least that is how recessions are commonly defined. The President said in his State of the Union address on Wednesday that "there will be no recession in the United States" this year.

Herbert Stein, chairman of the Council of Economic Advisers, said at a briefing Thursday that he does not think there will be a recession, either — that output probably will only decline in the first quarter.

But even if it does decline two quarters in a row, he said, it won't be a recession.

Urging the press and the public "not to be guided by simplified, mechanistic standards" which he said have "no standing in the economics profession," Stein defined a recession as "a departure of the economy from its normal growth path of considerable intensity, durability and breadth."

"That is what I have in mind and what the President had in mind," he said.

Anyway, he added, "calling a situation a recession will not make it any worse, and not calling it one will not make it any better."

The council said the unemployment rate, which went up to 5.2 per cent last month, would average "a little above 5.5 per cent" this year. Last year's average was 4.9 per cent, and the average since World War II has been about 4.5 per cent.

Stein said he thought unemployment

See REPORT, A14, Col. 1

REPORT, From A1

would go up quickly, hitting its peak early in the year.

The economic advisers said federal fiscal policy—spending minus taxes—will have a "fairly neutral" effect on the economy this year, neither pumping it up very much nor holding back expansion. For calendar 1974, which includes the last half of the present fiscal year and the first half of fiscal 1975, they estimated that the government will run a deficit of $4.6 billion.

By the full-employment standard, though, there would be a surplus of $6.0 billion, meaning that the planned spending levels will not be enough to pump the economy all the way up to full employment, which is commonly defined as an unemployment rate of 4 per cent.

To pump it up that much wuld be an invitation to further inflation, the administration says.

As with recession, moreover, so with full employment: The administration thinks the common definition is simplistic.

The makeup of the labor force has changed in the last 20 years; it now contains a higher percentage of women and teen-agers, both of whom have chronically higher unemployment rates than men. It thus takes more pump-priming than in the past to get the overall unumployment rate down to 4 per cent. The old goal may be unreachable without worsening inflation, the administration says.

The council did not actually call for abandonment of the old goal. It did say, though, that given the changes in the labor force, a standard of about 4.6 per cent now would be about as demanding as the standard of 4.0 per cent was in 1956.

Using 4.6 per cent as the standard, the full-employment surplus in calendar 1974 would be only $2.1 billion.

Judged that way, the planned fiscal policy for the year seems less restrictive.

The President told Congress Wednesday that he is prepared to go beyond his budget and stimulate the economy further if it bogs down more than now expected.

Stein said, though, that the step will not be taken lightly. He also said a tax reduction "is not high on our list of possibilities" if more stimulus becomes necessary. Several key congressional Democrats have already called for tax reductions. Stein said that tax reductions tend to be permanent, that spending is easier to turn on and off.

Stein told reporters on Thursday the President had not yet decided whether to recommend extension of wage and price controls when the present law authorizing them expires on April 30. But the council said "wisdom" lies in "pressing on with the removal of controls."

The council predicted the Gross National Product—the market value of all the goods and services Americans produce and consume—will rise about 8 per cent this year, to about $1,390 billion. Most of that increase will be in the form of rising prices. GNP rose 11.5 per cent last year.

The council said inflation is likely to be "rapid in the early part of the year, mainly as a consequence of energy and food prices, and then subside to rates signficantly below those experienced in 1973."

Retail prices were rising at an annual rate of more than 8 per cent in the last quarter of last year. Stein said he thinks they will be going up at a rate of about 5 per cent by the last quarter of this year.

The council noted that, for both food and energy, the nation and the world in general may have quietly slipped in recent years out of an era of plentiful supplies and usually low prices into

United Press International

At White House ceremonial signing of the annual economic report, President Nixon gives pens to members of his Council of Economic Advisers, from left, William J. Fellner, Gary Seevers and council chairman Herbert Stein.

one of relative scarcity and higher prices.

The President, in the customary preface to the Economic Report which was sent to Congress yesterday, said that "the American people generally prospered despite the inflation in 1973."

"Their incomes on the average rose more than prices," he said, though he added "there were many families for which that was not true."

Mr. Nixon made similar statements in his State of the Union address on Wednesday.

The government publishes several different series of statistics on income and earnings.

The broadest of these sets forth real disposable personal income — total income per capita after allowing for taxes and inflation. That did go up last year, to $2890 from $2767 in 1972. That average, though includes everyone's income, not just the incomes of wage earners; it includes farmers, for example, and they had a good year. It also reflects higher rates of employment; the more people working, the more income there is per capita.

A second statistical series describes real compensation per man hour after allowing for inflation. That, too, went up last year, by 1.4 per cent, but all the increase was in the first quarter; it declined in the next three. This average includes fringe benefits, such as the Social Security taxes paid by employers.

A third series of statistics deals just with the earnings of rank-and-file workers—the wages of about 50 million of the 80 million people at work in the country.

This average went down last year after allowing for inflation. Real hourly earnings fell 1.9 per cent and real average weekly earnings 1.5 per cent.

Stein conceded that a person who worked full time 52 weeks a year in 1972 and the same in 1973 "was probably better off in 1972."

The council devoted one chapter of its report to income distribution. The government affects income distribution in two ways, through taxes and through what are known as transfer payments—Social Security and Welfare checks, for example, payments under Medicare and Medicaid, and food stamps. The total of transfer payments has risen markedly in recent years.

One result is that the number of people living in what the government officially defines as poverty (annual income under $4300 for a non-farm fam-

ily of fou
million in
now, desp
ued growt

The cou
come di
much. Th
still have
income, a
about 40 p
ago. One
federal ta
the transf

The cou
will be re
the inflat
based on

One is
products
rate of 1
will pres
level fro
likely to

"There
prospect
this year.

Similar
output is
of the oi
for thin
"presage
down."

"There
ing to su
economy,
substanti
ness fixe
try to inc

The co
tal is goi
few years
that a lot
by "envir
isfy clear

The P
that "tax
uctive in
ing its re

In wha
the outcr
try and
the Presi
dulge in
attacks u

The co
non-finar
cent last
lower pe
ing in th
year fron

The co
report wl
did estir
from the
rise abou

Advisers' Report Sees Mild

ANALYSIS, From A1

least the first three months of this year. In the fourth quarter of 1973, real GNP rose at a rate of only 1.3 per cent and would have been minus except for production of large cars that were unsold and went into dealer inventories.

A first-half dip, combined with severe inflation, is almost precisely within the middle range of forecasts by most private economic experts, who are less sensitive, than Mr. Nixon about what the process is called.

For example, the Chase Manhattan Bank last week published comparable figures, saying: "The economy will experience a mild recession this year, with real growth in the range from 0.5 to 1.5 per cent. Our own estimate remains at 0.7 per cent, which is perhaps just a shade below the average."

Perhaps more to the point is not what the administration chooses, for political reasons, to call the present economic difficulties, but what it plans to do about them.

"The main functions of policy," the report says, "will be to keep the dip in the early part of the year from going too far and to assist the revival later in the year, but to avoid stimulating too rapid a surge."

Optimistically—and without any real supporting estimate—the council ventures the guess that as the year progresses, "The period of maximum increase of energy prices and food prices should have passed."

At many points in the council's document, there is acknowledgement that if the mid-year recovery it is counting on does not take place, "we must be prepared with means for adapting policy" by a variety of measures, which presumably would include not only tax cuts but increased spending.

Administration critics such as economist Joseph A. Pechman of the Brookings Institution argue that the economy is already in a decline "which will be hard to avoid being called a recession. I would reduce taxes right away," Pechman said yesterday.

Clearly, the administration is taking a more relaxed view than Pechman's. Stein predicted in a briefing for reporters that consumrs will make an "adjustment" to the higher prices for oil products early in the year, reducing a "drag on the expansion of the economy."

Stein also is confid:ent that the housing and auto slumps will bottom out during the first quarter. This, coupled with rising private investment and government spending, he believes, will snap the economy out of the doldrums.

Many economists — especially those associated with the hard-hit housing and auto industries — think this may be a rose-colored view. Home-builders look for little relief while housing prices stay high and consumer confidence is still below par.

There may be "a demand out there" for small cars, as Stein suggested, but the auto industry is finding it difficult to crank up a volume of small-car production that will help make up for the loss of the big-car market.

One mild surprise in the report is that, after toying with the idea of abandoning 4 per cent unemployment as the definition of "full" employment, the council blurred the issue and cited alternative possibilities.

For the past couple of years, the Nixon administration has been arguing that unemployment is not really so bad as it seems, because the composition of both the labor force and the ranks of the unemployed has changed.

Thus, it is contended, a higher unemployment rate than 4 per cent more accurately represents full employment. A footnote in the economic report suggests that 4.6 per cent in 1973 would really have been "full" employment, because there are more women and young people in the labor force, and these gr
higher u
males. (I
per cent
ing to t
cent in 1

Obvio
of "full"
sive the
needed

Critic
Nixon, a
produce
merely

In bri
liam J.
been "re
issue. I
showing
and bot
"variabl
cent for
jobless
gories o
at 1956 l

On eit
budget
1974, co

But Fe
body in
suggest
ment ra
the use
get was
tened to
carded p

Not su
sour vie
price co
the cont
flation i
sure. A
prices d
that the
or later.

Yet,
options
was no
on Apri
pires, b
pursue

Federal Budget Receipts, Outlays, Financing, Debt Fiscal Years 1972-1975

MILLIONS OF DOLLARS; FISCAL YEAR

	Actual		Estimates	
	1972	1973	1974	1975
BUDGET RECEIPTS AND OUTLAYS:				
Total receipts	208,649	232,225	270,000	295,000
Total outlays	231,876	246,526	274,660	304,445
Total surplus or deficit (—)	—23,227	—14,301	—4,660	—9,445
BUDGET FINANCING				
Total means of financing	23,227	14,301	4,660	9,445
Net borrowing from the public	19,442	19,275	3,500	12,500
Other means of financing	3,785	—4,974	1,160	—3,055
OUTSTANDING DEBT, END OF YEAR:				
Gross Federal debt	437,329	468,426	486,350	507,973
Held by Government agencies	113,559	125,381	139,806	148,929
Held by the public	323,770	343,045	346,545	359,045
BUDGET RECEIPTS	208,649	232,225	270,000	295,000
Individual income taxes	94,737	103,246	118,000	129,000
Corporation income taxes	32,168	36,153	43,000	48,000
Social insurance taxes and contributions	53,914	64,542	77,907	85,603
Excise taxes	15,447	16,260	17,144	17,444
Estate and gift taxes	5,436	4,917	5,400	6,000
Customs duties	3,287	3,188	3,500	3,800
Miscellaneous receipts:				
Earnings by Federal Reserve	3,252	3,495	4,400	4,700
All other	381	426	649	453
BUDGET OUTLAYS	231,876	246,526	274,660	304,445
National defense	78,336	70,021	80,573	87,729
Int. affairs and finance	3,726	2,957	3,886	4,103
Space research, technology	3,422	3,311	3,177	3,272
Agriculture, rural development	7,063	6,191	4,039	2,729
Natural resources, environment	3,761	589	609	3,128
Commerce and transportation	11,284	13,070	13,521	13,400
Commun. development, housing	4,282	4,132	5,450	5,667
Education and manpower	9,752	10,185	10,819	11,537
Health	17,099	18,417	10,810	11.537
Income security	64,909	18,417	23,268	26,282
Veteran's benefits and services	10,731	73,073	84,995	100,071
Interest	20,582	12,013	13,285	13,612
General government	4,787	22,813	27,754	29,122
General revenue sharing	.....	5,480	6,800	6,774
Allowances	.....			
Undistributed Intragovernmental				
transactions:		6,636	6,147	6,174
Employer share, employer retire-		.....	300	1,561
ment	—2,768	—2,927	—3,543	—3,577
Interest received by trust funds	—5,089	—5,436	—6,420	—7,140

Mansfield Answers President

Low-Key Talk Dismisses Idea Of Resignation

2/1/74

By David S. Broder
Washington Post Staff Writer

Senate Majority Leader Mike Mansfield (D-Mont.) last night rejected President Nixon's bid to close the curtain on Watergate and challenged him to join Congress in an effort to "clean up the campaign-financing mess" by supporting public campaign finance bills.

Delivering the Democratic Party's televised reply to Mr. Nixon's Wednesday evening State of the Union address, Mansfield said "the crimes of Watergate" must be aired in the courts "for however long may be necessary."

In response to the President's statement that "one year of Watergate is enough," the opposition party spokesman said, "Whether it is months or years, there are no judicial shortcuts."

However, Mansfield said he would "anticipate" that the Senate Watergate committee's investigation and House action on impeachment "will be completed during this session."

And he delivered a rebuke—in characteristically mild fashion—to those Democrats in Congress who have been urging Mr. Nixon to resign.

"The question of a presidential resignation, as in the case of a vice-presidential resignation is not one for the Congress," Mansfield said. "The President has stated his intentions bluntly in that regard. Insofar as the Congress is concerned, that closes the matter of resignation."

He also said Congress would do as the President suggested and make legislation—not investigation—"the first order of business" from now until election day.

"Whatever the legal difficulties which confront the administration," Mansfield said, "the regular business of the nation must come first. The President put it first. Insofar as Congress is concerned, it will be first."

Appearing simultaneously on the three commercial networks and the Public Broadcasting System on one of the

See DEMOCRATS, A12, Col. 6

DEMOCRATS, From A1

rare occasions that that opportunity has been accorded to an opposition party spokesman, Mansfield took a deliberately low-keyed and nonpartisan tone.

He praised Mr. Nixon's foreign policy successes, found no fault with his domestic record and described the impeachment proceedings in Congress as "onerous" but "inescapable."

As for the 1974 mid-term election, which many Democrats regard as an opportunity for major gains, Mansfield said that "transitory political lives" are unimportant compared with "the political life of the nation."

For that reason, Mansfield said, the most important work of the last session was "to reinforce the nation's system of checks and balances against an accumulation of power in the executive branch," and the most "urgent obligation" this year is "to foreclose an excessive intrusion of great wealth, whether corporate, labor, personal or whatever, into the electoral process."

Mansfield said his personal judgment was that "we shall not come finally to grips with the problem except as we are prepared to pay for the public business of elections with public funds."

Last December, the Senate passed a bill to provide public financing of all federal elections, but the House balked at including congressional contests, and a filibuster, encouraged by White House aides, killed chances of a compromise.

Another public financing measure is slated for debate this month or next, and Mansfield said, "I would hope that the President will join with the congressional leadership in supporting these efforts to clean up the campaign-financing mess."

Reversing the usual Democratic effort to present a more ambitious domestic program than the Republicans, Mansfield criticized Mr. Nixon's proposed $304 billion budget as excessive, and mentioned less than a dozen domestic areas Congress would "consider" this year.

Among his legislative priorities, the Senate leader listed a national health insurance system, expansion of housing and education assistance, reform of private pension systems, development of no-fault automobile insurance and passage of "a fair minimum wage."

Most of these goals are also on Mr. Nixon's list, but the minimum wage bill passed by Congress last year drew a presidential veto, and sharp differences of approach can be expected in several of the other areas.

Mansfield said "there will be time to try" for reform of the tax system this year, but he offered no details of the Democratic approach in his prepared text. No action on tax reform has been taken by Congress since the House Ways and Means Committee completed hearings on the issue early in 1973.

The Montana senator said, "hopefully . . . military spending can be cut, not increased," as Mr. Nixon is proposing, but again his text offered little clue to the substance of Democratic strategy.

Perhaps mindful of the fact that Congress has been snarled since last November in a House-Senate dispute over the terms of emergency energy legislation sought by the President, Mansfield was also sparing in his discussion of that subject—to which Mr. Nixon had given top priority in his speech.

He said, "The immediate responsibility of government is to make certain that the shortage does not devastate the economy and that the price of past neglect is borne equitably by all American. If that means rationing, then let us not hestiate to use this device."

Mansfield said Congress would require more information from the oil companies, "scrutinize" their tax benefits and "consider" a price rollback on petroleum products.