DEBT CEILING INCREASE

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HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 7749

AN ACT TO INCREASE THE AMOUNT OF OBLIGATIONS, ISSUED UNDER THE SECOND LIBERTY BOND ACT, WHICH MAY BE OUTSTANDING AT ANY ONE TIME

JUNE 25, 1959

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DEBT CEILING INCREASE

THURSDAY, JUNE 25, 1959

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

The committee met, pursuant to call, at 10:20 a.m. in room 2221, New Senate Office Building, Senator Robert S. Kerr presiding.

Present: Senators Byrd (chairman), Kerr (presiding), Frear, Anderson, Gore, Talmadge, Hartke, Bennett, Butler, Cotton, and Curtis.

Also present: Elizabeth B. Springer, chief clerk.

Senator KERR (presiding). This is a hearing on H.R. 7749.

(H.R. 7749 is as follows:)

[H.R. 7749, 86th Cong., 1st sess.]

AN ACT To increase the amount of obligations, issued under the Second Liberty Bond Act, which may be outstanding at any one time

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C., sec. 757b), is amended to read as follows: "The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $285,000,000,000 outstanding at any one time."

SEC. 2. During the period beginning on July 1, 1959, and ending on June 30, 1960, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended, shall be temporarily increased by $10,000,000,000.

SEC. 3. This Act may be cited as the "Public Debt Act of 1959".

Senator KERR. All right, gentlemen, the committee will come to order.

Secretary ANDERSON. Shall I proceed?

Senator KERR. Yes, sir.

STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE TREASURY

Secretary ANDERSON. Mr. Chairman, I am here today in support of H.R. 7749, which was passed by the House of Representatives on June 19, 1959. This bill provides for a permanent increase from $283 billion to $285 billion in the statutory limitation on the public debt and a temporary increase in the limitation to $295 billion to be in effect until June 30, 1960.

As you know, the President on June 8 proposed to the Congress an increase in the regular statutory limit to $288 billion. In my statement before the House Ways and Means Committee on June 10, I explained that the increase to $288 billion would enable the Treasury to conduct its debt operations, except for seasonal swings, with a margin of $3 billion between the estimated total debt outstanding and the proposed debt ceiling.

On the basis of past experience, the Treasury feels that a margin of $3 billion over and above provision for minimum working balances represents the minimum needed for flexibility in debt management operations and for contingencies.

In addition to an increase in the permanent limit to $288 billion, the President requested a temporary ceiling of $295 billion through June 30, 1960. This proposal was made in order to cover the situation during the course of the fiscal year, when we estimate that there will be a cumulative deficit of something like $7 billion by mid-December, necessitating a corresponding temporary increase in borrowing, despite the estimated balance between expenditures and receipts for the year as a whole.

While the permanent ceiling of $285 billion provided in H.R. 7749 falls short of the President's request, the temporary ceiling of $295 billion approved by the House of Representatives does provide the Treasury with the necessary flexibility for conducting debt management operations effectively during the coming year.

The Treasury therefore urges the adoption of H.R. 7749, even though its passage will mean that we shall be operating under a very narrow margin on June 30, 1960, unless there is a substantial budget surplus next year.

Before going into the details of the current situation, it might be helpful for me to summarize briefly previous actions which the Congress has taken with respect to the borrowing authority of the Treasury.

Prior to World War I, the Secretary of the Treasury had little discretion in the actual carrying out of the public debt operations. The acts of Congress authorizing the issuance of U.S. Government obligations usually specified the terms and conditions applicable to each individual issue.

World War I brought a change in this situation. For the first time, a series of loan operations involving large amounts of borrowing were anticipated and were in fact required. Under these circumstances, Congress gave the Secretary of the Treasury much more latitude in determining the terms and conditions of issues, although it continued to set limitations on the amounts of various types of obligations authorized or outstanding, as well as maintaining a ceiling on interest rates for Treasury bonds.

During World War II, the principle of establishing a limitation on total debt outstanding, rather than on specific issues or types of obligations, became firmly established. By an act of June 26, 1946, the permanent ceiling on the public debt was set at $275 billion. Congress authorized temporary increases in this ceiling in 1954, 1955, and 1956. Effective July 1, 1957, the ceiling on the public debt reverted to $275 billion.

In February 1958, however, when it became apparent that there would be a substantial budget deficit in the fiscal years 1958 and 1959 Congress again permitted a $5 billion temporary increase in the ceiling to $280 billion, and in September 1958 two other changes were made. First, the permanent ceiling was raised to $283 billion, and second, the $5 billion temporary addition provided in February

1958 was continued through June 30, 1959, bringing the ceiling in effect for the remainder of fiscal 1959 to $288 billion.

As I have already noted, H.R. 7749 recognizes the debt limit problem which we shall face during fiscal 1960 by raising the permanent ceiling to $285 billion and increasing the temporary ceiling during the coming year to $295 billion, the amount requested by the President.

I should like now to discuss some of the elements of this problem.

The requested ceiling of $295 billion is $10 billion above the estimated debt of $285 billion as of June 30, 1959. The need for $10 billion of temporary debt limit authority during the year reflects two factors: a $7 billion need to cover seasonal borrowing requirements plus $3 billion for much needed flexibility and to allow for contingencies. The necessity of having an allowance for flexibility was recognized by the Congress when it provided the temporary debt limit of $288 billion which is now expiring.

I shall take up each of these considerations, beginning with a discussion of the seasonal demands on the Treasury.

SEASONAL BORROWING NEEDS

Charts 1 and 2 below show budget expenditures and budget receipts on a semiannual basis for the fiscal years 1956–60, based on the January budget estimates.

Chart 1 shows that there is no distinct seasonal pattern in budget expenditures between the two halves of the year.

In chart 2, on the other hand, it will be seen that budget receipts follow a distinct seasonal pattern.

Even when the speedup in corporate tax collections, growing out of revisions in the Revenue Code of 1954, is completed in 1960 there will still be a substantial seasonal disparity in tax receipts. As you know, smaller sized corporations will continue to concentrate payments in the spring which, together with the concentration of individuals' declarations and final payments, will still result in relatively high tax receipts in January–June of each year.

We expect, therefore, that even with a balance between expenditures and receipts for the fiscal year as a whole expenditures will exceed receipts by approximately $6 billion during the 6 months beginning July 1 and ending December 31, 1959. Our need for $7 billion of new borrowing during that period reflects not only the $6 billion deficit for the 6 months as a whole, but also the fact that the deficit for the period from July 1 through December 15, 1959, for example, is $7 billion, which means an additional billion dollars of financing. The July–December 1959 deficit will be, however, only slightly more than half of the $11 billion deficit in July–December 1958, as is shown in chart 3.

In order to illustrate the problem further we have prepared table 1 at the end of this statement to show our estimates of public debt outstanding during the fiscal year 1960 based on a constant operating cash balance of $3.5 billion. The projections are stated both before and after the allowance for $3 billion flexibility under the debt ceiling.

As you will note from the table (and also from chart 4, below) on December 15, for example, even the $295 billion temporary debt limit would appear to be insufficient for a few days. However, we will be able to operate within that limitation without undue impairment of our flexibility. Chart 4 also indicates the wide fluctuations in the amount of debt outstanding within each month during the fiscal year just ending.

In connection with our projections for the fiscal year 1960, it may be of interest to note the comparison between the semimonthly projections which we made on July 30, 1958, for the current fiscal year and actual results of our operations during that year. These are shown in table 2, also found at the end of this statement.

The debt subject to limitation shown in column 2 of table 2 on the assumption of an operating cash balance of $3.5 billion throughout the year may be compared with the figures shown in column 5 of the table which represent actual debt subject to limitation on semimonthly dates adjusted to the same cash balance figure of $3.5 billion. It will be seen that the projections plotted a fairly accurate course of what lay ahead. A greater falloff than expected in revenues during the early part of the present calendar year threw our estimates somewhat out of line for a brief period. More recently, however, actual debt outstanding on semimonthly dates has run very close to the levels which we estimated earlier.

The figures shown in column 3 of table 2 indicate very clearly the tight cash balance position which we have been in around tax collection dates in fiscal 1959. It will be noted that on January 15, 1959, for example, we found it necessary to draw down the actual operating cash balance to $1.7 billion—only slightly more than the Treasury spends on the average between Monday morning and Friday night of each week.

THE NEED FOR FLEXIBILITY

The need for $3 billion flexibility over and above the $7 billion seasonal borrowing need next year is essential to proper handling of the Government's operations. Three factors are involved.

In the first place, the Treasury must maintain adequate balances. The Treasury has been operating on an average cash balance of about $4½ billion during each of the last 3 fiscal years. This is relatively small; the operating cash balance this year has averaged only 69 percent of average monthly budget expenditures—the lowest percentage for any recent year, as is shown on the right side of chart 5, below. The Treasury's cash balance is no higher today than it was a decade ago, when budget spending was half its present rate.

It may be noted on the basis of figures available for recent years that whereas the Federal Government conducts its operations on the basis of an average cash balance considerably less than average monthly expenditures, State and local governments typically keep on hand an amount of cash between two and three times the total of average monthly expenditures. While the Treasury will continue to make the most economical use possible of available funds, we believe that the ratio of cash balance to expenditures has fallen about as low as it can without impairing efficiency of Treasury operations.

There are a number of reasons why an adequate cash balance is essential for the efficient management of the public debt. First of all, the very size of the Government's operations means that the Treasury has potentially very large demands for cash. In the coming year we have something like $76 billion of Government obligations coming due and requiring refunding. In addition, there are more than $50 billion of savings bonds of all series outstanding and these are demand obligations.

(Senator Harry Flood Byrd (chairman) now presiding.)

Secretary ANDERSON. When the Treasury goes into the market to refund an outstanding issue it must take into consideration the fact that in the normal course of events certain of these securities will be turned in for cash regardless of what is offered in exchange. Some holders will decide that the terms of the new securities do not meet their particular investment requirements and they, too, may take payment for their maturing securities in cash.

When the debt limit margin is very narrow and cash balances are small, the margin of error in estimating the attrition (demand for cash) becomes much more critical, and any greater turn-in than expected runs the risk of requiring immediate new financing to raise the required cash.

This situation also points up the need for sufficient cash balance so that the Treasury will have greater flexibility in choosing the timing of cash offerings—rather than being limited to cash financing for budget requirements on a last-minute basis, regardless of what market conditions may be at the time.

Secondly, an adequate debt limit will permit necessary debt management flexibility in another way. The Treasury should be prepared to sell new issues of securities a week or so in advance of the maturity of old securities if such action would add materially to the success of a particular financing operation. When the debt is pushing against the ceiling, of course, this cannot be done.

The lack of leeway under the debt ceiling has in the past hampered the Treasury in several ways. For example, in the September 1957 cash financing the payment date on a small bond issue had to be delayed until October 1 because there wasn't room for the issue under the debt ceiling until after the attrition had been paid on the October 1 maturities.

On other occasions the Treasury has had to refrain from sizable market offerings and resort to smaller increases in reguler Treasury bill auctions each week because of inadequate debt limit leeway. This was especially true in December 1957 and January 1958. There have also been other occasions where the Government agency financing has been in part determined by the problems of a tight debt ceiling.

The third consideration leading the Treasury to ask for sufficient flexibility in its debt ceiling—the need to cover contingencies—requires little elaboration.

The possibility always exists that there may be sudden demands on the Treasury in the event of a national emergency. This indicates the desirability of sufficient room under the ceiling to meet unexpected financing needs.

In addition, there are certain demands of a less critical nature which the Treasury should be in a position to meet without returning to the Congress for new authorization. Changing economic circumstances may cause our debt projections to vary appreciably, and if such variations are all in one direction, leeway under a debt ceiling which is too restrictive may soon disappear.

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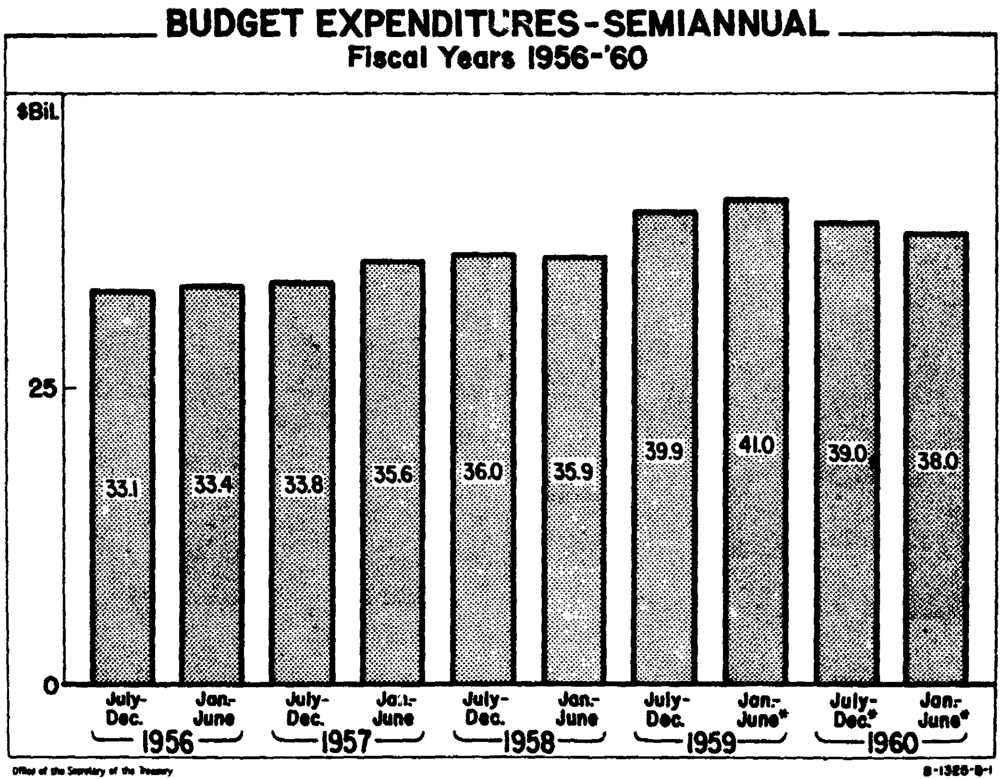
For example, as you know, corporate tax law makes it possible for taxpayments on current liabilities in September and December 1959 to be made on the basis of the previous year's tax liability if the taxpayer so desires. Many corporate treasurers may find it prudent to make payments this year on the basis of 1958 liabilities, since corporation profits in that year were relatively low. This would, of course, tend to reduce receipts coming in during the first half of fiscal 1960 even though the total for the year is unaffected.

I mention this possibility as only one illustration of the many circumstances outside the control of the Treasury which may cause variations in the fiscal outlook. Prudent debt management, we feel, requires that there should be sufficient leeway under the debt ceiling to cover uncertainties of this nature without the need for new authorizations, particularly at times when Congress is not in session.

Thank you, Mr. Chairman.

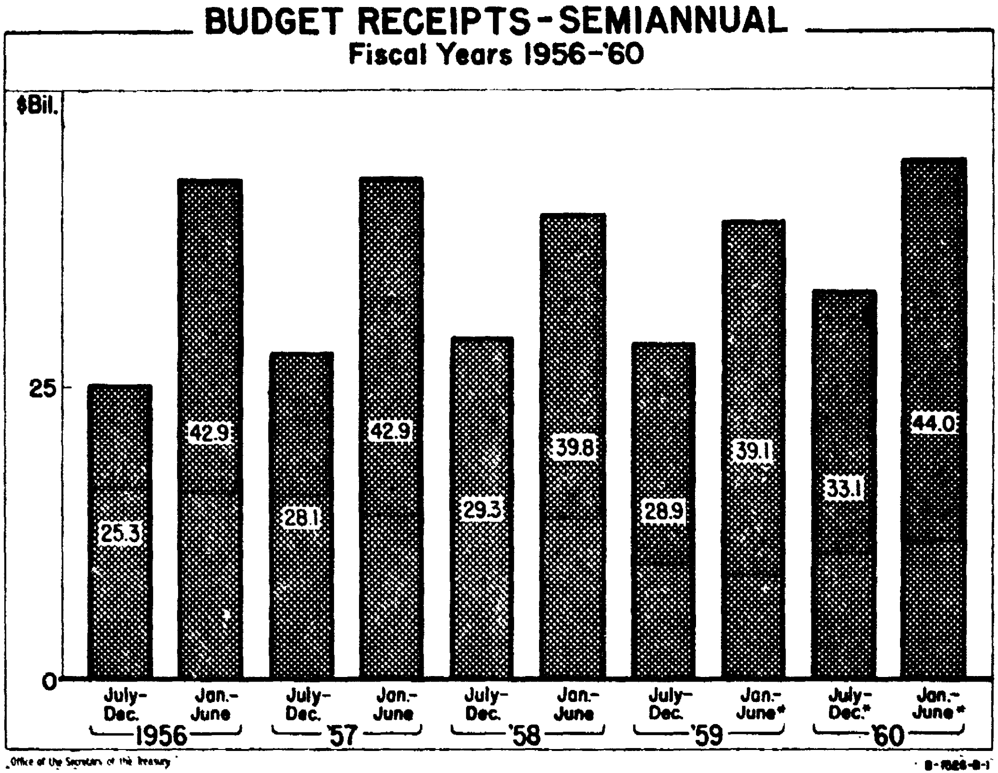
(The charts and tables referred to are as follows:)

CHART 1



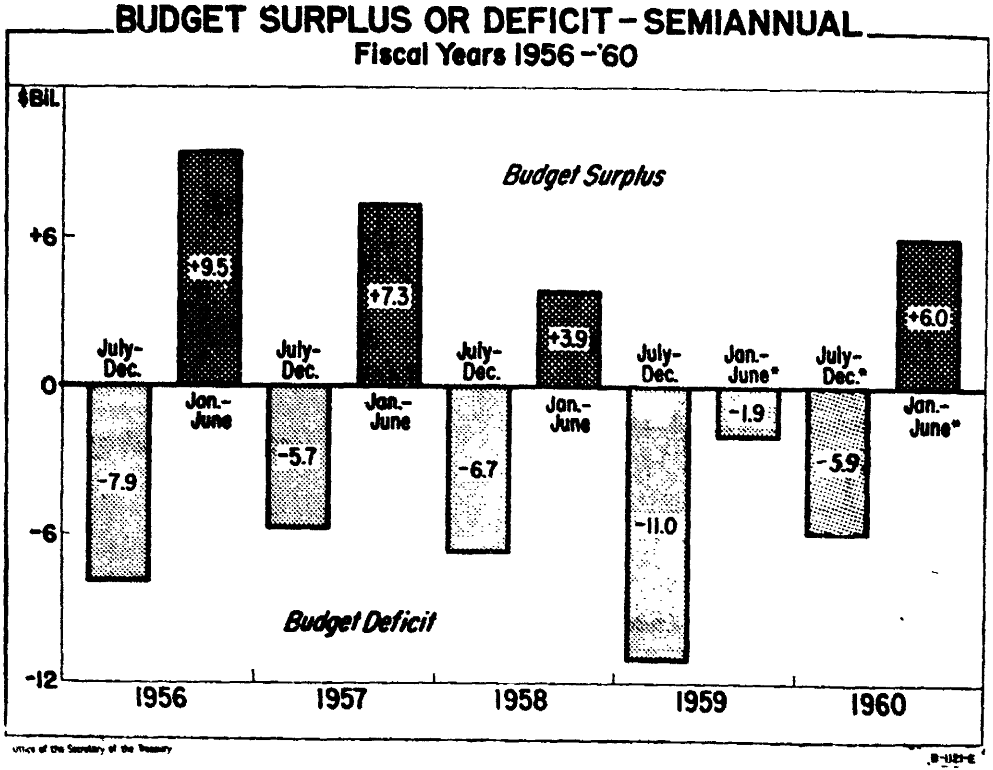
*Estimate on basis of January 1959 Budget Message.

CHART 2



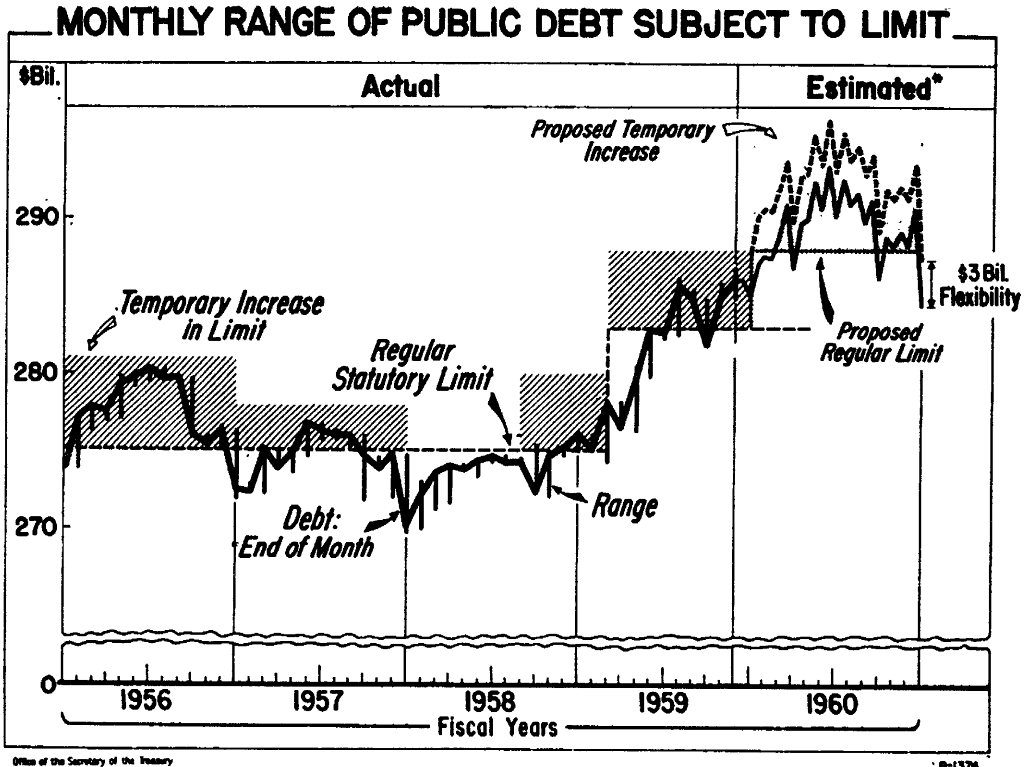
*Estimate on basis of January 1959 Budget Message

Chart 3



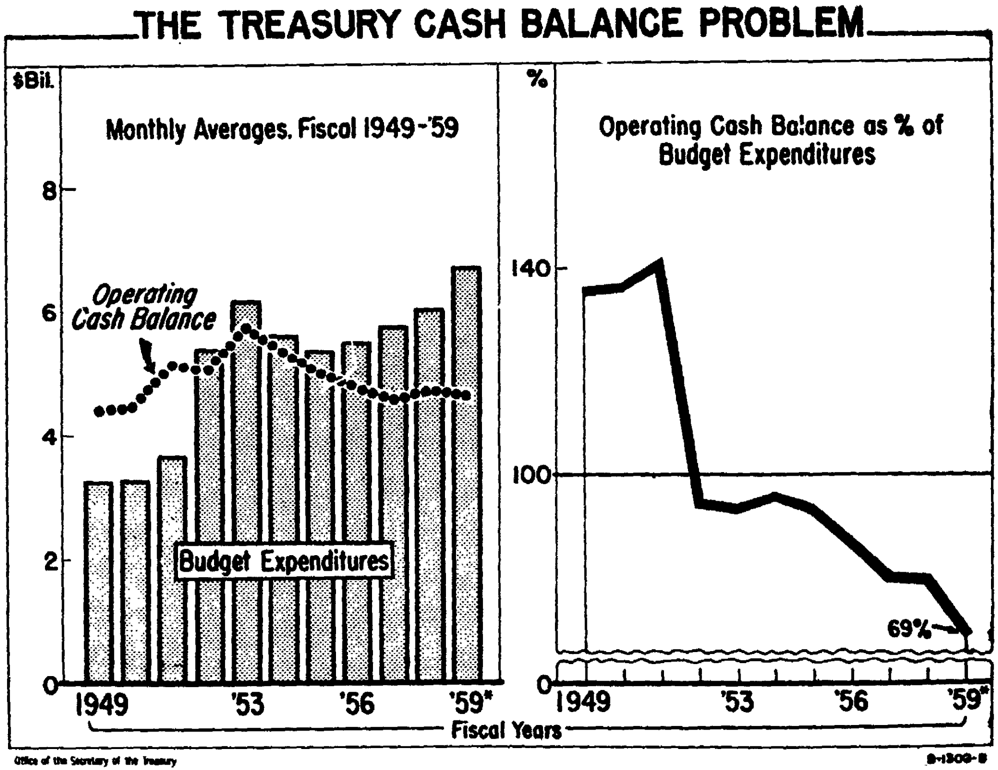
*Estimate on basis of January 1959 Budget Message.

CHART 4



*Semimonthly; assuming $3.5 billion operating balance excluding free gold.

CHART 5



*Estimate on basis of January 1959 Budget Message.

TABLE 1.—*Forecast of public debt outstanding, fiscal year 1960, based on constant operating cash balance, $3,500,000,000 (excluding free gold) (based on 1960 budget document)*

[In billions]

	Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation indicated
July 15, 1959	$3.5	$287.1	$3	$290.1
July 31	3.5	287.6	3	290.6
Aug. 15	3.5	287.5	3	290.5
Aug. 31	3.5	288.9	3	291.9
Sept. 15	3.5	290.8	3	293.8
Sept. 30	3.5	286.7	3	289.7
Oct. 15	3.5	289.7	3	292.7
Oct. 31	3.5	290.0	3	293.0
Nov. 15	3.5	292.5	3	295.5
Nov. 30	3.5	290.6	3	293.6
Dec. 15	3.5	293.5	3	296.5
Dec. 31	3.5	290.2	3	293.2
Jan. 15, 1960	3.5	292.6	3	295.6
Jan. 31	3.5	290.9	3	293.9
Feb. 15	3.5	291.7	3	294.7
Feb. 29	3.5	289.8	3	292.8
Mar. 15	3.5	291.3	3	294.3
Mar. 31	3.5	286.1	3	289.1
Apr. 15	3.5	288.9	3	291.9
Apr. 30	3.5	288.3	3	291.3
May 15	3.5	289.3	3	292.3
May 31	3.5	288.3	3	291.3
June 15	3.5	290.6	3	293.6
June 30	3.5	284.4	3	287.4

NOTE.—When the 15th of a month falls on Saturday or Sunday, the figures relate to the following business day.

TABLE 2.—*Comparisons of debt projections of July 30, 1958, with actual results*

[In billions]

Fiscal year 1959	Projections of July 30, 1958		Actual		Actual debt subject to limitation, adjusting cash balance to $3,500,000,000	Difference, col. 5 compared with col 2
	Operating cash balance (excluding free gold)	Debt subject to limitation	Operating cash balance (excluding free gold)	Debt subject to limitation		
	(1)	(2)	(3)	(4)	(5)	
July 31, 1958	$3.5	$275.2	$3.9	$275.1	$274.7	−$0.5
Aug. 15	3.5	276.5	5.3	277.8	276.0	−.5
Aug. 31	3.5	276.8	5.3	278.2	276.4	−.4
Sept. 15	3.5	277.6	1.5	276.3	278.3	+.7
Sept. 30	3.5	275.6	3.9	276.4	276.0	+.4
Oct. 15	3.5	278.6	4.7	280.0	278.8	+.2
Oct. 31	3.5	279.7	3.3	279.9	280.1	+.4
Nov. 15	3.5	280.5	2.2	279.9	281.2	+.7
Nov. 30	3.5	280.8	5.3	282.7	280.9	+.1
Dec. 15	3.5	283.0	2.1	282.2	283.6	+.6
Dec. 31	3.5	281.9	3.8	282.6	282.3	+.4
Jan. 15, 1959	3.5	283.3	1.7	282.6	284.4	+1.1
Jan. 31	3.5	283.3	4.5	285.5	284.5	+1.2
Feb. 15	3.5	284.2	2.8	284.8	285.5	+1.3
Feb. 28	3.5	283.4	3.9	284.8	284.4	+1.0
Mar. 15	3.5	284.8	2.1	284.6	286.0	+1.2
Mar. 31	3.5	281.5	3.2	281.7	282.0	+.5
Apr. 15	3.5	283.4	4.2	285.4	284.7	+1.3
Apr. 30	3.5	284.5	4.4	285.0	284.1	−.4
May 15	3.5	284.9	4.2	285.0	284.3	−.6
May 31	3.5	285.2	4.7	286.0	284.8	−.4
June 15	3.5	287.2	2.3	285.8	287.0	−.2

NOTE.—From Feb. 26 to Sept. 2, 1958, the statutory debt limitation was $280,000,000,000 including a temporary increase of $5,000,000,000 which was scheduled to expire June 30, 1959. The act approved Sept. 2, 1958 increased the limitation to $288,000,000,000, which will revert to $283,000,000,000 on June 30, 1959.

When the 15th of a month falls on Saturday or Sunday, the figures relate to the following business day.

The CHAIRMAN. Thank you very much, sir.

You have mentioned corporations paying on the previous year's tax liability.

In dollars, what difference would that make in receipts?

Secretary ANDERSON. Well, the calendar year 1958, as the Senator will remember, was the year in which most of the effects of the recent recession were realized. Accordingly, corporate profits were low, which was one of the factors accounting for the deficit.

Now, if in September and December of this year corporate treasurers elect to base their payments on the basis of the 1958 liabilities, our receipts during that period—and Congress will not be in session—will be relatively low. The corporations will then be permitted after January to readjust their taxpayments because the profits from 1959 will be known, and while we will recoup after January, we could have a lean period of collections during the fall of this calendar year.

Senator KERR. In the fall of this year?

Secretary ANDERSON. This year.

The CHAIRMAN. What would that be in dollars? For instance, you estimate that on September 15, the debt will be $287.3 billion, on September 30, it is $283 billion. In December it is 290. That is correct, is it not?

Secretary ANDERSON. Yes, sir. Now, to give some idea of the variations that could occur——

The CHAIRMAN. It will work in reverse next year.

Secretary ANDERSON. It will work in reverse in the following year.

The CHAIRMAN. I am extremely reluctant as you know to vote for this large increase. This is $20 billion increase in the debt ceiling in 16 months.

Your figures show that on June 30, 1960 when this temporary debt ceiling expires the debt will be $280.9 billion.

Could you give the committee any assurance that you will not ask for an extension of this temporary $10 billion over this year?

Secretary ANDERSON. May I inquire of the Senator the origin of the $280 billion?

The CHAIRMAN. What?

Secretary ANDERSON. May I inquire——

Senator FREAR. $284 billion less $3.5 billion.

Secretary ANDERSON. Well, if you deduct the $3.5 billion, this would assume that we would be operating with no cash balance.

The CHAIRMAN. I understand. Assume that the actual debt will be $280 billion without allowance for leeway. The ceiling will be $295 billion, $10 billion is temporary, to expire June 30, 1960. Will you be willing to allow that $10 billion to expire on schedule?

As you know, Secretary Humphrey permitted the temporary debt ceiling to expire. He didn't ask for its renewal.

Secretary ANDERSON. Well, Senator Byrd, I will only say this: I will not ask this committee to renew any debt ceiling, permanent or temporary, that I do not believe is necessary or in the best interests of the country as of June 30 of next year.

The CHAIRMAN. You think there should be a leeway of $6.5 billion—$3.5 billion, as I understand it, for a constant balance and $3 billion additional for flexibility.

Secretary ANDERSON. That is correct.

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The CHAIRMAN. The estimates show one point where the actual outstanding debt is $289 billion. When you add the $6.5 billion for balance and flexibility you are at a total of $295.5 billion.

Do you think it will be possible to get the $285 billion permanent limit, excluding the leeway?

Secretary ANDERSON. Well, Senator, if you will look at the figures on December 15 on the table, if we have $3.5 billion working capital, and a $3 billion allowance for contingencies, the total public debt limitation would be $296.5 billion.

This would be $1.5 billion more——

The CHAIRMAN. Do these figures reflect the corporation tax payment situation?

Secretary ANDERSON. It will not occur by this time, because December 15 is this year, and the reverse effect of the approriate tax payments would not accrue earlier than sometime past January say on the March 15 dates.

Senator FREAR. But, Mr. Secretary, don't the corporations have the privilege even next year, if their profits are less, not to use 1959 figures?

Secretary ANDERSON. They do.

The CHAIRMAN. Is it your present feeling, then, that this $10 billion temporary ceiling will have to be continued?

Secretary ANDERSON. Senator, it is very hard for me to be entirely emphatic about what we will do toward the debt ceiling as of—I mean, for the period of the year after June 30, 1960.

Now, it is very difficult to estimate receipts and expenditures even a year ahead. For me to try to estimate them 2 years ahead would have to take into consideration the whole chain of circumstances that happens in the economy, the kind of corporate profits we have, the kind of individuals earnings, and I just don't feel I can honestly and informatively advise the Senator as to figures.

I will say we understand the Senator's feeling, and that we will be very careful in examining our figures before coming back next year so as not to ask for an unreasonable extension of either the permanent or the temporary limits.

The CHAIRMAN. Do you anticipate with any confidence there will be a balanced budget in next fiscal year?

Secretary ANDERSON. Well, being an optimist, sir, I would hope very much that we could have a balance between our expenditures and receipts.

The CHAIRMAN. If you were a betting man—I know you are not, but if you were—would you bet there would be a balanced budget or a deficit?

Secretary ANDERSON. Rather than being a betting man, sir, I will say I will be a working man to achieve that.

Senator KERR. And a praying man. [Laughter.]

The CHAIRMAN. It is a little difficult for me to understand. We have a $12 to $13 billion deficit this year; and now we are supposed to have a balanced budget next year, yet we have to give a $20 billion increase in debt ceiling, and these temporary conditions that you mentioned about the corporation taxes will be reversed next year.

Secretary ANDERSON. Senator, if you will look at the tables in the statement, we have the Government expenditures. If you look at our estimates for the two halves of the year 1960, we estimated that in the July-December period we will spend $39 billion. We estimate in the January–June period we will spend $38 billion.

Now, if you will look at the same two columns in chart 2, we estimate that in the July-December period we will collect only $33.1 billion, about $6 billion less than we will spend.

Now in the January to June period, we will collect $44 billion, and spend $38 billion. So we will be retiring a part of the seasonal debt.

We anticipate that if we have the working capital of $3.5 billion on June 30, 1960, assuming again that we have a balance in our expenditures, and our revenues, we will have a total public debt of $284.4 billion.

Now this is the reason why we ask that the permanent ceiling be set not lower than $285 billion, because I would frankly not know how to answer the question if someone should ask me, if we had a lower ceiling as to how we intend to pay the debt back to the permanent limit on June 30, 1960, because as we currently look at it, this will be our debt ceiling with this amount of working capital.

Now, the $10 billion we can live with, because it will allow us the $7 billion which is the maximum in the loan period, plus the $3 billion which we believe is necessary for our flexibility and our contingencies.

The CHAIRMAN. If your estimates of the debt are correct, would it be possible for you to recommend that part of this temporary debt ceiling should be permitted to lapse?

Secretary ANDERSON. I think that would depend on what we look forward to in the last half of fiscal year 1960.

The CHAIRMAN. If you could be assured of this $6.5 billion leeway, you would make such a recommendation, would you not?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Now, Mr. Secretary, this debt ceiling permits us to owe $295 billion. How much does this Government owe indirectly in the form of contingent debt?

Secretary ANDERSON. I have before me a complete list of the long-range commitments, and contingencies of the Government as of December 31, 1958, and I will be glad to supply this for the record. It is a four-page list.

The CHAIRMAN. You may insert that in the record.

(The list referred to follows:)

LONG-RANGE COMMITMENTS AND CONTINGENCIES OF THE U.S. GOVERNMENT AS OF DECEMBER 31, 1958

The attached statement covers the major financial commitments of the U.S. Government, except the public debt outstanding and those involving recurring costs for which funds are regularly appropriated by the Congress and are not yet obligated, such as aid to States for welfare programs and participation in employee-retirement systems. The statement is segregated into four categories; namely (*a*) loans guaranteed and insured, etc., by Government agencies; (*b*) insurance in force; (*c*) obligations issued on credit of the United States; and (*d*) undisbursed commitments, etc.

The items appearing in this statement are quite different from the direct debt of the United States. They are programs of a long-range nature that may or may not commit the Government to expend funds at a future time. The extent to which the Government may be called upon to meet these commitments varies widely. The liability of the Government and the ultimate disbursements to be made are of a contingent nature and are dependent upon a variety of factors, including the nature of and value of the assets held as a reserve against the commitments, the trend of prices and employment, and other economic factors.

Caution should be exercised in any attempt to combine the amounts in the statement with the public debt outstanding for that would involve not only duplication but would be combining things which are quite dissimilar. As indicated by the enclosed statement, there are $111.8 billion of public debt securities held by Government and other agencies as part of the assets that would be available to meet future losses. The following examples illustrate the need for extreme caution in using data on the contingencies and other commitments of the U.S. Government.

1. The Federal Deposit Insurance Corporation had insurance outstanding as of December 31, 1958, amounting to $137.7 billion. The experience of the Federal Deposit Insurance Corporation has been most favorable. During the period this Corporation has been in existence, premiums and other income have substantially exceeded losses which has permitted the retirement of Treasury and Federal Reserve capital amounting to $289.3 million (all repaid to Treasury), and the accumulation of $2 billion reserve as of December 31, 1958. The Corporation's holdings of public debt securities as of that date amounted to $2.1 billion which already appears in the public debt total. Out of $267.7 billion of assets in insured banks as of December 31, $71 billion are in public debt securities (also reflected in the public debt). The assets, both of insured banks and the Federal Deposit Insurance Corporation, as well as the continued income of the Corporation from assessments and other sources, stand between insured deposits and the Government's obligation to redeem them.

2. The face value of life insurance policies issued to veterans and in force as of December 31, 1958, amounted to $43.3 billion. This does not represent the Government's potential liabilities under these programs since some of these policies will probably be permitted to lapse and future premiums, interest, and the invested reserves amounting to $6.8 billion of public debt securities should cover the normal mortality risk.

3. Under the Federal Reserve Act of 1913, as amended, Federal Reserve notes are obligations of the United States which, as of December 31, 1958, amounted to $26.9 billion. The full faith and credit of the United States is behind the Federal Reserve currency. These notes are a first lien against the $53.1 billion of assets of the issuing Federal Reserve banks which includes $26.3 billion of Government securities already included in the public debt. These notes are specifically secured by collateral deposited with the Federal Reserve agents which, as of December 31, 1958, amounted to $18.6 billion in Government securities and $11.1 billion in gold certificates.

Long-range commitments and contingencies of the U.S. Government as of Dec. 31, 1958

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Loans guaranteed, insured, etc., by Government agencies:		
Agriculture Department:		
Commodity Credit Corporation	[1] 803	------------
Farmers Home Administration: Farm tenant mortgage insurance fund	[2] 178	------------
Civil Aeronautics Board	5	------------
Commerce Department, Federal Maritime Board and Maritime Administration: Federal ship mortgage insurance revolving fund	[2] 149	------------
Development Loan Fund	5	------------
Export-Import Bank of Washington	8	------------
Housing and Home Finance Agency:		
Federal Housing Administration:		
Property improvement loans	[2] 320	74
Mortgage loans	24,749	498
Office of the Administrator: Urban renewal fund	213	------------
Public Housing Administration:		
Local housing authority bonds and notes (commitment covered by annual contributions)	2,345	------------
Local housing authority temporary notes (guaranteed)	891	------------
International Cooperation Administration: Industrial guarantees	[4] 341	------------
Small Business Administration	[5] 9	------------
Treasury Department:		
Reconstruction Finance Corporation liquidation fund	[5] 3	------------
Defense Production Act of 1950, as amended	[5] 16	------------
Federal Civil Defense Act of 1950, as amended	[5] 2	------------
U.S. Information Agency: Informational media guarantees	8	------------
Veterans' Administration	16,933	------------
Defense Production Act of 1950, as amended	236	------------
Total loans guaranteed, insured, etc., by Government agencies	47,214	572
Insurance in force:		
Agriculture Department: Federal Crop Insurance Corporation	[6] 244	------------
Commerce Department, Federal Maritime Board and Maritime Administration: War risk insurance revolving fund	62	------------
Export-Import Bank of Washington	3	------------
Federal Deposit Insurance Corporation	137,698	2,053
Held by insured commercial and mutual savings banks	------------	71,004
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation	44,767	289
Held by insured institutions	------------	3,562
Veterans' Administration:		
National service life insurance	41,738	5,680
U.S. Government life insurance	1,514	1,120
Total, insurance in force	226,026	83,708
Obligations issued on credit of the United States, postal savings certificates:		
U.S. Postal Savings System	[7] 1,134	1,132
Canal Zone Postal Savings System	[7] 6	6
Total, postal savings certificates	1,140	1,138
Other obligations: Federal Reserve notes (face amount)	26,934	[8] 26,347
Undisbursed commitments, etc.:		
To make future loans:		
Agriculture Department:		
Commodity Credit Corporation	2	------------
Disaster loans, etc., revolving fund	1	------------
Farmers' Home Administration: Loan programs	12	------------
Rural Electrification Administration	763	------------
Development Loan Fund	246	------------
Export-Import Bank of Washington: Regular lending activities	1,556	------------
Housing and Home Finance Agency:		
Office of the Administrator:		
College housing loans	302	------------
Public facility loans	33	------------
Urban renewal fund	397	------------
Public Housing Administration	222	------------
Interior Department:		
Bureau of Commercial Fisheries: Fisheries loan fund	6	------------
Defense Minerals Exploration Administration: Defense Production Act of 1950, as amended	3	------------
International Cooperation Administration: Loans to foreign countries	[4] 1,207	------------
Small Business Administration	81	------------

See footnotes at end of table, p. 18.

Long-range commitments and contingencies of the U.S. Government as of Dec. 31, 1958—Continued

[In millions of dollars]

Commitment or contingency and agency	Gross amount of commitment or contingency	Public debt securities held by Government and other agencies
Undisbursed commitments, etc.—Continued		
To make future loans—Continued		
Treasury Department:		
Reconstruction Finance Corporation liquidation fund	1	
Defense Production Act of 1950, as amended	1	
Veterans' Administration (veterans' direct loan program)	47	
Total, undisbursed commitments to make future loans	4,880	
To purchase mortgages:		
Agriculture Department, Farmers Home Administration: Farm tenant mortgage insurance fund	1	
Housing and Home Finance Agency, Federal National Mortgage Association:		
Secondary market operations	80	
Special assistance functions	1,498	
Total, commitments to purchase mortgages	1,579	
To guarantee and insure loans:		
Agriculture Department, Farmers Home Administration: Farm tenant mortgage insurance fund	5	
Commerce Department, Federal Maritime Board and Maritime Administration: Federal ship mortgage insurance revolving fund	96	
Housing and Home Finance Agency: Federal Housing Administration	5,235	
U.S. Information Agency: Informational media guarantees	1	
Defense Production Act of 1950, as amended	117	
Total, commitments to guarantee and insure loans	5,454	
Unpaid subscriptions: International Bank for Reconstruction and Development	2,540	

[1] The Corporation finances part of its activities by issuing certificates of interest to private lending agencies. The outstanding amount of $734,000,000, as of Dec. 31, 1958, is included in this figure.
[2] Includes accrued interest.
[3] Represents the Administration's portion of insurance liability. The estimated amount of insurance in force and loan reports in process, as of Dec. 31, 1958, is $1,307,000,000. Insurance on loans shall not exceed 10 percent of the total amount of such loans.
[4] The Export-Import Bank of Washington acts as agent in carrying out this program.
[5] Represents deferred participations.
[6] Represents estimated insurance coverage for the 1958 crop year.
[7] Excludes accrued interest.
[8] Includes public debt securities amounting to $18,615,000,000 that have been deposited with the Federal Reserve agents as specific collateral.

NOTE.—The above figures are subject to the limitations and precautionary remarks, as explained in the note attached to this statement.

The CHAIRMAN. What is the total?

Secretary ANDERSON. I will have to add them up for you in just a minute. We have got them in categories.

Senator Byrd, lumping together all classes of obligations, regardless of the contingencies that may attend them, the December 31 figures would show roughly $310 billion. I should say that this does not include the recent commitment of obligations to the World Bank, which would have to be added to it and to the non-interest-bearing notes of the Monetary Fund.

The CHAIRMAN. Would it include any contingent liability in social security?

Secretary ANDERSON. No, it does not.

The CHAIRMAN. Would you give some of the main categories in this $310 billion in contingent liabilities?

Secretary ANDERSON. Well, some of them are loans guaranteed or insured by Government agencies.

Senator KERR. That includes the $285 billion?

Secretary ANDERSON. No, this is in addition to it.

The CHAIRMAN. In other words, the total is $605 billion?

Secretary ANDERSON. This would include the Commodity Credit Corporation, the FHA, the Veterans' Administration.

It would include insurance in force; FDIC liabilities; Veterans' Administration; postal savings certificates; Federal Reserve notes which are outstanding; Reconstruction Finance Corporation liquidation fund.

The CHAIRMAN. If you add that to the $295 billion, assuming we reach that point, that will make a total of direct debt and contingent liability of $605 billion.

Secretary ANDERSON. Yes, although it is misleading to add them up; and to that would have to be added the commitments to the World Bank which we have just passed.

The CHAIRMAN. How much will that be?

Secretary ANDERSON. I will have to supply that accurate figure. I do not have it in my mind.

(The information referred to is as follows:)

The increase in the commitment to the International Bank for Reconstruction and Development (commonly referred to as the World Bank) is $3,175 million.

The CHAIRMAN. Do you think there is any contingent liability in social security? We passed a law whereby the Government is obligated to make these payments, whether money is in the trust fund or not.

Secretary ANDERSON. Well, we would hope that the taxes collected under the social security laws would be such as to pay off the liabilities, and I think it is quite——

The CHAIRMAN. It is a contingent liability, then, is it not?

Secretary ANDERSON. It may be a contingent liability, but not like the others.

The CHAIRMAN. We are obligated to pay that whether or not there is money in the trust fund?

Secretary ANDERSON. I think it is only fair to say that included in this list are some rather remote contingencies.

For example, you take the contingencies of the FDIC. As long——

Senator KERR. How much is that, Mr. Secretary?

Secretary ANDERSON. $137 billion-plus.

Senator KERR. And the Federal Reserve notes?

Secretary ANDERSON. $27 billion, roughly.

Senator KERR. So that there is one hundred and how much in the two items? One hundred and sixty-four billion dollars; in connection with bank deposits and Federal Reserve notes; is that correct?

Secretary ANDERSON. Yes, sir; and then we have got Federal Savings and Loan Insurance Corporation which is included.

The point I want to make is when we put out a list like this, it includes all shades of contingencies from the most likely to the most unlikely.

The CHAIRMAN. When you submit the list for the record, would you indicate the items you regard as likely contingencies and those you regard as unlikely?

Could you do that in regard to each item when you submit it?

Secretary ANDERSON. Senator Byrd, I would have some reluctance in trying to assess a particular likelihood.

Certain of the liabilities I regard as rather remote.

Senator KERR. You will describe them accurately, Mr. Secretary, so the committee can draw its own conclusions as to the extent of the liability?

Secretary ANDERSON. Yes, I will, sir.

The CHAIRMAN. That will be sufficient.

I do not want to press the question.

With regard to the so-called free gold; how much do we have now. It was $400 million or $500 million.

Secretary ANDERSON. Senator Byrd, on June 22, 1959, we had free gold of approximately $401,144,000. We are paying out, as of yesterday, $300 million of that gold to satisfy the contribution of the United States to the International Monetary Fund, so that as of today we will have about $100 million left.

The CHAIRMAN. Has that been taken into consideration in these figures that you have presented?

Secretary ANDERSON. Yes.

The CHAIRMAN. In other words, your estimate of the debt, taking into account the balance and so forth, anticipates that this particular obligation would be paid out of the free gold?

Secretary ANDERSON. $300 million of it; yes, sir.

The CHAIRMAN. You will have $100 million left?

Secretary ANDERSON. We will have $100 million, roughly, left.

The CHAIRMAN. At this point, would you care to advise the committee to what extent gold has been withdrawn in recent months?

Secretary ANDERSON. The U.S. gold stocks as of April 30, 1959, were approximately $20,358 million.

Deducting from that $344 million, which is the total contribution, and allowing for other changes since April, leaves us an approximate, $19.8 billion.

The CHAIRMAN. Has there been previously a direct payment out of the gold fund to the International Monetary Fund such as you have made at this time?

Secretary ANDERSON. The previous subscription did it the same way.

The CHAIRMAN. I know when Mr. Humphrey came in, the free gold was about $1 billion, and he reduced it to $500 million?

Did you sell the gold at that time or did you pay it out as part of a contribution to the International Bank? 25 percent of our contribution must be paid out in gold.

Secretary ANDERSON. That is correct, sir, with regard to the increased subscription to the International Monetary Fund.

The CHAIRMAN. I think, Mr. Humphrey, If I recall it correctly, sold the gold or transferred it and got the currency for the ——

Secretary ANDERSON. In 1953, $500 million was so treated.

The CHAIRMAN. Did he sell the gold then?

Secretary ANDERSON. The Treasury issued gold certificates to the Federal Reserve for cash.

The CHAIRMAN. He sold it to the Federal Reserve?

Secretary ANDERSON. Federal Reserve.

The CHAIRMAN. And is that gold stored now in Fort Knox?

Secretary ANDERSON. Well, yes, sir. Some of our gold is at Fort Knox.

The CHAIRMAN. By bookkeeping methods you kept what you called free gold in your checking account?

Secretary ANDERSON. Yes, we had ——

The CHAIRMAN. It is really a checking account, is it not, of the Government?

Secretary ANDERSON. It is part of the Treasury's cash balance.

We had had $401 million, roughly, until we paid out the $300 million for our recent commitment.

The CHAIRMAN. What is the largest amount of gold we have ever had on hand?

Secretary ANDERSON. I believe, according to the figures I have here, the highest gold holdings occurred in August of 1949, at which time we had $24,600 million.

The CHAIRMAN. $24 what?

Secretary ANDERSON. $24,600 million.

The CHAIRMAN. Then it has gone down to $19.6 billion?

Secretary ANDERSON. Yes——

The CHAIRMAN. $19.8 billion or $19.6 billion?

Secretary ANDERSON. $19.8 billion.

The CHAIRMAN. In other words, we have lost practically $5 billion of gold since 1949?

Secretary ANDERSON. I think I should say to the committee that we would anticipate that there would be some other withdrawals by countries who are also going to make gold payments to the International Monetary Fund.

The CHAIRMAN. I thought you said you took the gold out of the checking account to pay that.

Senator KERR. That was our contribution.

Secretary ANDERSON. We did, sir.

The CHAIRMAN. Other countries?

Secretary ANDERSON. What I mean is, other countries will convert part of their dollar and short-term securities into gold in order to acquire the necessary gold for them to pay a quarter of their subscription to the Monetary Fund.

The CHAIRMAN. Could you explain to the committee under what conditions the other countries have the option to call for gold instead of dollars?

Secretary ANDERSON. The official holdings of the central banks of other countries may be to convert their dollar holdings into gold.

The nonofficial holdings——

The CHAIRMAN. They can do that in their own right. They can do it whether we agree to it or not; is that correct? What obligations do the central banks now own that they can convert into gold?

Secretary ANDERSON. I did not hear the question.

The CHAIRMAN. What is the extent to which these central banks could call for and be paid in gold?

Secretary ANDERSON. The official dollar balances and short-term holdings of foreign countries as of April 30, 1958, were $8,432 million.

The CHAIRMAN. And they could call $8 billion?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Is that all?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. I understood there were some short-term loans and certificates.

Secretary ANDERSON. Well, this includes their dollar balances and short-term holdings.

I think I should state to the Senator, in order to be accurate, that foreign nonofficial holdings amount to $6,700 million.

The CHAIRMAN. Can that be called?

Secretary ANDERSON. That cannot be called directly, but if the holders of nonofficial dollars and short-term holdings elect to deposit their dollars or securities with the central bank of another country, of their own country, and to take currency of their own country in lieu of it, you would thereby increase the dollar holdings of the other countries, of the official dollar holdings of the central banks of the other countries.

The CHAIRMAN. There are $8 billion that can be called in gold directly. So that leaves our gold down to $11.6 billion, and you said that it is possible that they could call in gold, $6, billion more?

Secretary ANDERSON. Well, it is about $6 billion of nonofficial holdings.

The CHAIRMAN. You said under certain conditions, though, they could call the gold for that.

Secretary ANDERSON. Yes.

Let me be a little explanatory in my answer on that, Senator.

As long as countries operate in a trading atmosphere, they have to have certain dollar holdings and short-term securities in the normal conduct of their business. They do maintain these kinds of balances in order to carry out those normal commercial operations.

Now, while it is possible that they would all or could all take their dollar balances and short-term obligations to the central bank of their own country and convert them into the currency of their own country, to the extent that they did, they would not have dollar balances upon which to maintain their normal trading transactions.

Senator KERR. But to the extent they did, they would then add to the amount which the central banks of other countries would have a call on, with reference to the gold that is here?

Secretary ANDERSON. That is correct.

The CHAIRMAN. Let us start with August 1949, when we had $24.6 billion. It is now down to $19.6 billion. Calls can be made upon us which we cannot reject of an additional $8 billion.

That would leave $11.6 billion, and then there is a contingent liability, so to speak, of $6 billion more.

Suppose our gold should get down to $5 billion. What would be the effect?

Secretary ANDERSON. Senator, I would not like to assume that we are going to so manage our affairs, either that foreign central banks or that foreign holders of gold would do other than to pursue normal courses.

I think that up to the present we have to take into account, and believe, that gold has been performing its normal and natural function. That even though in 1958 there was an outflow of gold to the extent of about $2.3 billion, there was an increase in the foreign holdings of short-term dollar balances and securities of $1 billion.

The $1 billion, I suppose, was in dollar balances.

I think one of the things we have to recognize is the fact that we have become, through a process subsequent to the war, a world banker. We are performing the normal functions of a world banker.

We are in the position of borrowing short and lending long.

If we take into account the obligations which are owed to us by other countries, those obligations are—and I will have to supply the accurate figure—but I think in the neighborhood of $36 billion or $37 billion.

(The information referred to is as follows:)

At the end of 1957, U.S. private investments abroad were estimated at $36.8 billion, predominantly at long term. U.S. Government credits to and claims on foreign countries amounted to an additional $17.4 billion.

The CHAIRMAN. Let me interrupt you there.

Are they repayable in gold, if we require it?

Secretary ANDERSON. I think they are repayable in dollars. I would again have to check to be sure. I am reasonably sure they would have to be paid in dollars.

The CHAIRMAN. In other words, the agreements or contracts, whatever they may be, are such that these other nations can call on us for gold but we, if we had to call on them, they could pay in dollars; is that correct?

Secretary ANDERSON. Loans and credits will be payable on the terms in which the contractual obligations were created.

Now, I think that what we must realize is that we are face to face with a different kind of situation than that which we have had in the past, in that we have become the world's banker, and because of that there is a concern in countries abroad, to a greater extent than before, as to the way in which we manage the bank, which is our own country, our own internal affairs.

As long as we maintain such a system that inspires confidence, and believe that we are going to manage our affairs wisely and properly, gold will continue to perform its normal functions.

I think what we have to bear in mind is that we are going to be scrutinized by other countries in the future, to be assured that we do so manage our own internal affairs to maintain all that confidence.

I think it is quite apparent that that confidence exists today.

If it were not so, foreign countries would not be increasing their dollar balances and their holdings in short-term securities which is now going on.

The CHAIRMAN. Foreign countries can call for gold on their dollar balances. I cannot see what risks they run.

The central banks of foreign countries, can ask that the deposits they make here be paid in gold and not dollars; is that correct?

Secretary ANDERSON. Yes; but those central——

The CHAIRMAN. They are not taking any risks.

Am I not right about the importance of gold in the final showdown—that gold is the only international currency in the world.

Secretary ANDERSON. Well, I think the dollar is an international currency. It is internationally accepted as such.

The CHAIRMAN. If the dollar goes down, we have already lost one-half of the purchasing power of the dollar, more than one-half, in something like 18 years; is not gold the most solid medium of money exchange in the world?

Let us take the Russian situation. Russia either buys, barters, or trades by barter or buys with gold in other countries; isn't that right? They do not use the Russian currency.

Secretary ANDERSON. Well, again, I would like to be a little explanatory in this respect.

I think we all have to realize that when the Russian Government lends its own currency, that currency is expendable by the borrowing country only in Russia or in a satellite country where goods can be purchased for the Russian currency.

By the same token, the Russian can barter in instances where it is not possible or not practicable for other countries to barter, because they would not have to take into consideration whether or not the item bartered was in long supply or short supply, since they have a dictatorial form of government, and they could, as they have, barter and then dump what they barter on the world market.

Now, to the extent that they would need to acquire goods outside of Russia or one of their satellite countries, they would require foreign exchange.

In order to acquire that foreign exchange, they would either have to sell to customers willing to buy, or they would have to buy foreign exchange with gold.

To the extent that they bought foreign exchange with gold, they would increase the total gold holdings of the free world.

The CHAIRMAN. But gold is acceptable all over the world, is it not?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. In other words, we might say it is about the only medium of exchange that is.

Its convertibility is on the basis of $35 per ounce?

Secretary ANDERSON. We maintain gold at $35 an ounce; yes, sir.

The CHAIRMAN. You would pay out gold, if it was asked for, on the basis of $35 an ounce?

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. What is the world price of gold?

Secretary ANDERSON. It is just about at that point.

The CHAIRMAN. Just one more question, Mr. Secretary. This thing has concerned me a good deal, as it has you. What is the effect on the credit of this country of constantly reducing the amount of gold, gold deposits?

Secretary ANDERSON. Senator Byrd, I think we should remember that the $24 billion figure which we alluded to in 1949 was the aftermath of the war.

We had another influx of gold into this country during the period of the Suez crisis.

Had the Suez crisis continued for a long time, the flow of gold into this country would likely have continued.

When the Suez crisis was settled, when the balance of payments between ourselves and other nations permitted it, countries which historically had maintained a large part of their own reserves in gold, and, particularly, during the year 1958, when earnings on short-term securities in the United States went to a low point, countries elected to restore what had been their historical position by rebuilding their own gold reserves.

This made possible, I think, the partial convertibility which took place in December of 1958 in England, France, Germany, and the other Common Market countries, because it added stability to their currencies.

Now, we will still have very close to about half of the world's free gold. As long as we maintain our——

The Chairman. What do you mean by "free gold"?

Senator KERR. Free world gold.

Secretary ANDERSON. Outside of Russia.

Senator KERR. Not the world's free gold, but the free world gold. That is what you mean.

Secretary ANDERSON. That is correct, sir.

Now, as long as we maintain a condition in which people believe we are going to manage our affairs soundly, that we are going to work as diligently as we can toward preventing the impairment of the value of our dollar, those countries will maintain their confidence in us, they will hold or increase their holdings of dollar balances, because the dollar balances meet their commercial requirements, and so long as they hold them in the securities of this country, they are earning assets on the part of the other countries.

The important thing, I think, we have to look at is that because we have over a period of years maintained such a policy which, in the aggregate, has caused the balance of payments to run favorably to other nations and, therefore, allowed the buildup of dollar balances in those countries, that we now have those countries looking to us to say, "We have a stake in the sound way in which you manage your internal affairs because you are in the position of being a world bank."

Therefore, it seems to me, that the problem with which we are confronted is the problem of maintaining that which now exists, and that is confidence here and confidence abroad, that we are a people who are willing to subject ourselves to those disciplines of a free economy that will inspire confidence here and in holders elsewhere.

The CHAIRMAN. Just one more question. That confidence, how important do you think a balanced budget is to preserve the confidence of other nations in this country?

Secretary ANDERSON. I think it is very important.

The CHAIRMAN. You think it is very important?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Senator Kerr?

Senator KERR. No questions.

The CHAIRMAN. Are there any questions?

Senator FREAR. Yes, Mr. Chairman.

Is it not true that our Government encouraged these foreign countries to build up their gold and dollar reserves?

Secretary ANDERSON. I think that is a correct statement, because what you must look at is not just the trade differentials that occur in the normal course of business, but that since the war we have engaged in the maintenance of forces overseas; we have engaged in certain mutual security programs, we have had a rapidly growing tourist business in which we do not limit the amount that can be spent abroad by Americans.

We have a substantial rate of foreign investment abroad, running now at the rate of about $3 billion a year.

So the net effect of everything that we have done has been to create a balance of payments allowing other countries to accumulate dollar holdings.

Senator FREAR. When an American corporation makes an investment abroad, and its deposits of dollars go to a foreign bank, and those dollars are converted into the central bank, then that makes, as I believe you have stated, a direct lien on our gold reserves in this country.

Secretary ANDERSON. Well, I would not describe it as a lien, but I would describe it as a competence on their part, if necessity should require, that they ask for conversion.

Senator KERR. I thought I understood you to say if these dollars got into central banks they could exchange them for gold if they so desired.

Secretary ANDERSON. That is correct; they could.

Senator FREAR. What type of money do we use in granting economic assistance to foreign countries? Do we use the dollars?

Secretary ANDERSON. Yes.

Senator FREAR. Then in our foreign aid program, all of those dollars that get into the central bank of a country can be exchanged, as you said before, for gold out of this country.

Secretary ANDERSON. Yes. But I think I should say that a great many or most of those dollars are used to buy goods, and buying goods from us returns the dollars.

Senator FREAR. That is right. That has been the part in the past, Mr. Secretary, and that is one of the things that alarms me in the future.

If we are going to continue to give dollars without—give foreign aid in the form of dollars without any strings attached to them, and those countries to which we make these grants have the privilege of buying machinery in Russia or any of their satellites, which I understand they can do, then does it not take the gold supply or the gold reserve of this country and put it into the hands of the Communists?

Secretary ANDERSON. Well, I should say that about half of it is currently spent here, and, of course, to the extent that other countries bargain for our dollars in the sale of goods, whatever those countries may be, they would in the payment acquire dollars, if that was the basis upon which they sold their machinery.

Senator FREAR. Yes; and those acquired dollars could be exchanged for gold or the demand could be put upon us for gold.

Secretary ANDERSON. If and when they are lodged in the central bank of the respective countries.

Senator FREAR. Yes, sir.

But if they want gold they can get it by that means.

Secretary ANDERSON. Not the individual.

Senator FREAR. No, sir. But that is what I am saying that alarms me. Maybe there is a point in here that I have missed somewhere. But the money that our Government gives as economic grant, as grants to foreign countries, and to the extent that those dollars that we give are used to purchase goods in another country, and that sale of goods or the seller of those goods puts his money into a central bank, those dollars into a central bank, and, of course, which you said he has to exchange for local currency.

Secretary ANDERSON. That is correct.

Senator FREAR. But if that central banks wants to demand gold from our Treasury, what would prohibit us from granting it?

Secretary ANDERSON. Nothing. They can demand it when it gets into the central bank.

Senator FREAR. So that then in reality a part of our grant of foreign aid can end up in gold in the hands of Communist countries.

Secretary ANDERSON. If they are acquired by Communist countries from—well, we would not. We would only convert the official dollar holdings of free countries; we would not convert into gold for Communist countries.

Senator FREAR. All right.

Let us take it a step further then. Suppose what I have said does go to a Communist country or an Iron Curtain country, and that country deals with Switzerland, and that money gets into the Swiss central bank. Then it can demand from us——

Secretary ANDERSON. Then it can be demanded.

Senator FREAR. So even though it may be rather circuitous, it is a potential demand?

Secretary ANDERSON. That is correct; when it gets into the hands——

Senator FREAR. Is the same thing true with our military spending abroad?

Secretary ANDERSON. To the extent that we spend dollars in those countries.

Senator FREAR. Yes; and our travel abroad.

As you said, our people are now taking many dollars abroad for travel, and even when they appreciate or add to the dollars in European countries, and those European countries trade with the Iron Curtain countries, they can use our dollars and the same thing, if necessary, come back through Switzerland as a demand on our gold reserve.

Secretary ANDERSON. One can assume a circuitous method by which, when the money, the dollars ,become lodged as official holdings in central banks of free countries, then it could become a claim against us.

I think, if I may, Senator Frear, say that just what you are saying points up the problems of making sure that our system is a competitive system, and of making sure that we maintain the value of our currency and the confidence of the people to deal with us.

Senator FREAR. Mr. Secretary, I could not agree with you more. I think that is my position, too, and I hope I can always maintain that stature.

Now what other forms of currency are equal to or superior in value to the U.S. dollar?

Secretary ANDERSON. I do not think there is any currency in the world superior to the American dollar.

I think you get into conditions, as you do in Canada, as a matter of trade balances, where you would have one selling at a premium. But there certainly is no currency in the world superior.

Senator FREAR. Maybe the word "superior" was not the proper word, but I think we ought to relate it to value, purchasing value.

Senator KERR. Will you yield?

Senator FREAR. Yes; I will yield.

Senator KERR. With reference to these dollars that the Senator has mentioned that go out of here in the form of foreign aid and expenditure in connection with our military forces overseas, spending by American tourists abroad, for any holder of those dollars to put them in position where they would be in a central bank and become a call on us for gold, that holder would have to prefer, if in France, French francs, if in Switzerland, Swiss——

Secretary ANDERSON. Francs.

Senator KERR (continuing). Francs.

If in Germany, German marks; if in England, pounds; if in Holland, guilders.

Secretary ANDERSON. Guilders.

Senator KERR. If in Belgium——

Secretary ANDERSON. Francs.

Senator KERR (continuing). Francs, and so forth.

Secretary ANDERSON. That is correct.

Senator KERR. So that until the time comes that foreign currencies are more desirable than American currency, the situation visualized would not become a threat or the basis of——

Secretary ANDERSON. That is correct, sir.

Senator KERR (continuing). Or the basis of substantial withdrawals of gold.

Secretary ANDERSON. That is correct, sir.

Senator KERR. That is the reason why you have said here that the working of this system is based on confidence.

Secretary ANDERSON. That is correct.

Senator KERR. Just like a bank.

Until the depositors get into the frame of mind to make a run on the bank, the bank can operate as a bank and be secure and a going institution and of great value to everybody.

But if it operates in such a way that the depositors panic and make a run on it, they can make a small institution out of any bank.

Secretary ANDERSON. That is correct, sir.

Senator FREAR. I agree with what the Senator has said. I certainly think it is factual.

However, within the past 2 or 3 years the condition has come about whereas, I believe, the purchasing power of the dollar relative to other currencies was only exceeded by one country, and that was Switzerland, to a very minor degree, and now I think there are four or five countries, especially the German mark, and the value of the German mark has appreciated many, many times over.

What I think brings out the part that disturbs me a bit is the amount of money that we have put into West Germany through grants and through military assistance and through the operation of the spending of our military forces in Germany.

We have, I think, by design partially tried to build up the economy of Germany, and rightfully so. I certainly have no criticism of that.

But I think in so doing we have built up Germany to the point of where their deutsche mark in purchasing power is a bit better than the American dollar.

If we are going to continue that in all of the countries of the world, and it does have this circuitous route of calling on our reserves of gold in this country, I see the potential, at least, of dwindling our gold supply to a position where we will not have enough gold as a reserve for the currency we have in circulation in this country. That is the point I am trying to build up to.

I am not too fearful—I think the Secretary of the Treasury this morning has given me a bit more confidence than I had before I started talking to him. But it still has not alleviated all the fears that I have.

That is all.

Secretary ANDERSON. If I may comment for one moment. If one looks back to the period following World War II, one recalls a devastated Europe. It was a Europe with very little productive power. It was a Europe trying to rebuild after the ravages of war. It was the commonplace thing at that time to talk of the dollar gap.

As a good creditor nation, the United States from the period following the war rendered very valuable services in meeting that "dollar gap" and helping to rebuild the economies of devastated countries.

We now have a group of countries in Western Europe that are relatively strong.

Senator FREAR. And friendly.

Secretary ANDERSON. And friendly.

One looks or needs to look back only a year or two to see that some of our neighbors abroad faced rather difficult circumstances. But they took those measures, hard as they were, to correct them, and they have emerged stronger.

After the Suez situation they rebuilt their own reserves. They now have increased productive capacity.

They are competing for markets all over the world, and while there is still a great part of this world that is underdeveloped and needs help, I think we must now reorient our thinking, and we must view it not just as a task which belongs to us, but as a task in which we must ask and expect other countries with strong economic situations and productivity to share in meeting the resource requirements of what we will call the less developed countries of the world.

We must realize that to that extent, the "dollar gap" has been met.

Now we must realize also that in the pursuance of these worthy causes we have become, in fact, the world banker and, therefore, this problem of our maintaining confidence, as Senator Kerr indicated and as you have indicated, is of vast importance.

Senator FREAR. I agree with you, Mr. Secretary; and I think perhaps it was our duty to do these things, because without a strong Europe, I think the Communist countries would have overrun it.

As a matter of security, we are probably better off.

However, by building up those countries economically, as you have stated, we have also built up our competitors, which may be the right thing to do, too. But we have no control over what those European countries are doing in relation to the Iron Curtain countries, and I know you are more aware of this than I am, that even now Russia is talking about forming an economic bloc of its own, and putting the Russian ruble in comparison to the dollar in its purchasing power in these underprivileged countries.

Senator TALMADGE. Mr. Chairman, will the Senator from Delaware yield at that point?

Senator FREAR. Yes, sir.

Senator TALMADGE. Mr. Secretary, on our foreign aid program we deal with governments instead of individuals, do we not?

Secretary ANDERSON. Well, I think there would have to be some qualification by programs.

For example, a number of institutions, the World Bank, for example, into which we put resources, can deal either with governments or it can deal with individuals.

If it deals with individuals, it requires the guarantee of the government in which the project, the money, is spent for its repayment.

Senator TALMADGE. The point that interests me is, when this money gets into the central bank to be in position to demand gold from us.

I saw in the morning paper, I believe, where we had let Yugoslavia have another $9 million. How do we do that? Do we issue a draft payable to the Government of Yugoslavia?

Secretary ANDERSON. I am sorry, I am not familiar with that specific transaction.

Senator TALMADGE. Well, in any event, that $9 million will immediately be made available to the credit of Yugoslavia, will it not?

Secretary ANDERSON. If the grant was an unrestricted grant or loan, government to government, the money will be lodged wherever the government of the other country will elect, and, of course, it would be in the central bank.

Senator TALMADGE. If they saw fit, they could deposit it in the central bank of Yugoslavia.

Secretary ANDERSON. Yes.

Senator TALMADGE. At that point Yugoslavia could demand $9 million in gold?

Secretary ANDERSON. Without knowing, I would guess that it is probably tied to purchases. But I would have to find out.

(The following was subsequently received for the record:)

The transaction referred to is a Development Loan Fund loan for a thermal electric plant. The funds will be used to purchase generators and other equipment.

Senator TALMADGE. So any grant to any foreign government at its election could be deposited in their central bank and a demand for gold made at that time.

Secretary ANDERSON. Not necessarily. It would have to be a transaction in which there were no restrictions.

For example, the grant or transaction might be conditioned upon purchasing equipment or being utilized either by buying from us or buying from other countries.

One of the things, for example, that I think we frequently overlook is when you put money into an underdeveloped country it does not necessarily remain in the underdeveloped country, because the underdeveloped country will utilize it as an international exchange to buy whatever and wherever it needs what it wants, unless it is tied to buy from the United States.

Senator KERR. The only way they can put it in their central bank effectively would be for the country with whom they sought to trade to rather have their currency than the dollars which the country we are helping received from us as help.

Secretary ANDERSON. That is correct, if it is on a project basis.

The CHAIRMAN. Are there any further questions?

Senator TALMADGE. Thank you, Mr. Secretary.

Senator ANDERSON. Mr. Secretary, you talk about a temporary increase and a permanent limit.

Secretary ANDERSON. Yes.

Senator ANDERSON. Why do you ask for a permanent limit of $288 billion when you are going to need more than that all of next year?

Why don't you make it permanent and be done with it? Didn't you come here three times now in the last 16 months asking for an increase in the debt?

Secretary ANDERSON. We asked for $288 billion permanent. The House gave us a $285 billion permanent.

Senator ANDERSON. I know, but why don't you ask for $295 billion permanent? You came in here in February 1958, from your own statement, in September of 1958, and now here in June of 1959. You are going to need—and your own table back here shows you are going to need—over $290 billion permanent. Why don't you call it permanent and be done with it?

Senator KERR. Will the Senator yield?

Senator ANDERSON. Yes.

Senator KERR. I would suggest that the Secretary would if the Senator was in a position to give it to him.

Senator ANDERSON. Why don't you try for it? We are not fooling anybody, are we, by calling it temporary or permanent? We know it is permanent, do we not?

Secretary ANDERSON. Senator——

Senator ANDERSON. It is over $290 billion all the time except for one short period of a few days.

Secretary ANDERSON. Well, if you come down to June 30, 1960, which was the end of the next fiscal year, with a $3.5 billion operating balance, we will have a debt of $284.4 billion.

Now, before you came in——

Senator ANDERSON. If all these calculations work out all right. But you know you are going to have a bigger deficit than you are talking about——

Secretary ANDERSON. That may be.

Senator ANDERSON. By several billions, so why not face it and ask for it?

Secretary ANDERSON. If they do not work out, then we would have to come again.

Senator ANDERSON. Keep coming back; and it is a nuisance to keep testifying. Why not ask for what you are going to need? It is at least $295 billion permanent. Why don't we ask for it and why don't we try to get that? I will not say we will succeed.

What is the advantage in calling one temporary and the other permanent when it is all the same thing?

Secretary ANDERSON. Senator, primarily, I would assume that we call it temporary because the debt will fluctuate between the $285 billion and the over $290 billion by the $7 billion seasonal factor, and $3 billion flexibility request.

Now, frankly, if the Senator and others would want it to be made all permanent, I would not object. We have tried to be as conservative as we can and still meet our obligations.

Senator ANDERSON. Do you think this constantly coming up for an increase in the debt limit has any effect on Government financing? For instance——

Secretary ANDERSON. Senator, it would be very hard for me to answer categorically.

I would simply say that the fact we sit down once or twice a year to review it brings it at least to our attention and to the attention of the country, and to be able to measure that effect would be very difficult.

Senator ANDERSON. I think it brings it to the attention of the country, and that is what I am worried about a little bit.

I saw a table recently showing what yields you would have on a series of Government bonds. I called to the attention of somebody that the 2⅝ bonds, due February 15, 1965, were 4.49 yesterday. They were only 4.48, actually, when they got through yesterday, but even 4.48 for a 6-year bond is a rather attractive return.

Aren't some of these yields based on the fact that there is uncertainty as to whether the Government is going to be in the bond market steadily, to what it is going to be doing when it gets there because of this debt limit?

Secretary ANDERSON. I think that the yields on the bonds are primarily a matter of demand and supply and are affected, of course, by judgments which people make as to the course which the Government will pursue, as to judgments of the course of the economy, and to a whole group of factors which contribute to them.

Senator ANDERSON. Do you know a long-term bond of the U.S. Government that today has a yield of less than 4 percent?

Senator KERR. On the basis of market value?

Senator ANDERSON. I am talking about yield.

Secretary ANDERSON. As of yesterday, the 3 percent bonds of 95 were quoted at 3.84.

Senator ANDERSON. Of 95?

Secretary ANDERSON. Yes, sir. That is the only one.

Senator ANDERSON. Yes, I see that. But the 3½s of 90 were 4.15, about 4.15; and the 2½s, 1961, were 4.45; 2½s of 1963 were 4.40-something, and so forth.

Secretary ANDERSON. Yes, sir.

Senator ANDERSON. Do you think that the uncertainty as to what the Government is going to come in and ask for on these debt increases and get it is in any way causing trouble in the money market?

Secretary ANDERSON. I do not think that the debt ceiling in itself causes it, because I think that the country realizes that as a nation we are going to pay our bills and that, as a nation, we have to have a debt ceiling at all times that will accommodate a sufficient amount of borrowing for the country to pay its bills.

Senator ANDERSON. Did you know what the Government of Canada got last week and the week before on $200 million of government bonds?

Do you know what its yield was?

Secretary ANDERSON. Yes, sir.

Senator ANDERSON. 5.50 for the 9-month bonds, and 5.68 for the 17-month bonds.

Secretary ANDERSON. Yes, sir.

Senator ANDERSON. Did you notice that the rate of the Bank of Canada went to 5.47 last week? A year ago it was 1.12.

Secretary ANDERSON. Yes, sir.

Senator ANDERSON. Don't those indicate we are going to have some pretty staggering interest costs?

Secretary ANDERSON. They do if it works out that way.

Senator ANDERSON. Isn't there anything we can do about it, other than just keep raising the interest?

Secretary ANDERSON. Senator Anderson, this is, I think, the crux of the problem.

If we examine into the costs, the factors which affect them, I think that in a Nation as diverse and as complex as ours, one would be in error if he tried to isolate any one thing as the moving factor.

We are going through a period of very rapidly expanding prosperity. Almost every month sees us set new highs.

We are increasing expenditures for long-range projects very rapidly.

We have just going through a process of financing a deficit during a period of rising activity, for the most part.

If, of course, we were able to reduce our expenditures below our revenues, and if instead of being a net borrower of money we were a net contributor of money, we would in the soundest way possible reduce the interest cost.

I think if we will look at the period of 1921 to 1929, as an example, you will see a period in which we had a rather constant growth, but during that period we paid off approximately one-third of the national debt.

During that period, even though we had a period of growth, we had a declining interest to pay.

Now, I think that we have to take into consideration the fact that we have a rapidly expanding economy, and that we have been in the past a net demander of funds from the standpoint of the Government, and even now with continued prosperity we are, perhaps, talking about at best maintaining something of a balance between our expenditures and our revenues. So that we would not be a contributor of funds.

This being so, a great deal of importance, I think, is paid to the way in which we manage the debt which is now extant.

Senator ANDERSON. I was glad you said we were talking about balance, because nobody really believes we are going to get balance in the next 2 or 3 years; I do not.

Secretary ANDERSON. Sir, I am hopeful that we will.

Senator ANDERSON. I am hopeful, of course. We are all hopeful, but nobody anticipates that any balancing of the budget will occur in the next 2 or 3 years.

I think interest is going to be one of the big factors that keeps throwing it out. You have got what, $4 billion in July to meet?

Secretary ANDERSON. The next refinancing is in August. We have about $13 billion to refinance in August.

Senator ANDERSON. You have $13 billion in the last 6 months of the year, do you not, net?

Secretary ANDERSON. $76 billion for the whole year, and I think August it was—August 1 we will have $473 million in bonds to pay off. This was the 2 by 4 notes issued in 1957, and holders of securities $473 million of the holders elected to take cash.

Senator ANDERSON. Mr. Secretary, I am not just talking about maturity. You are going to borrow about $4 billion in July to take care of the needs.

Secretary ANDERSON. Excuse me——

Senator ANDERSON. There is a deficit that is suddenly coming due, so you have to get about $4 billion out of the market in July.

Secretary ANDERSON. Senator, I would not want to be unresponsive to your question, but may I say we are in the midst of making a decision or a determination on the financing, and probably it will be announced in the next day or two, and I would not like to comment on it until the announcement is made.

Senator ANDERSON. Well, that is coming up right away. I will not go on if you have a problem coming up, because I recognize what those things are.

I just think after you get through with the July financing you have a whole raft coming up again on August 1, these 1⅝ certificates.

Secretary ANDERSON. That is correct.

Senator ANDERSON. And I do not want to commit you, but I do not believe you think they are going to be refinanced on the 1⅝ basis. So long as a man can go and buy a 2½ or 2⅝ bond, 1965, that is a 4-year bond, that pays him nearly 4½ percent interest, he is not going to pay 1⅝.

I am wondering whether you are taking that into consideration in the next budget.

Secretary ANDERSON. Well, let me say that one does not want to get into a position of trying to forecast all future interest problems, but one has to take into consideration rates as they exist at the time you make judgments, and also the fact that on a great portion of the debt, the rate is fixed during the next coming year. The only thing that is not fixed is the amount of refunding and cash borrowing which will occur early during that year.

Senator ANDERSON. But a great proportion of the debt is not fixed, and is is a floating debt that is very rapidly accelerating in costs.

Secretary ANDERSON. Well, there are $76 billion, roughly, that will accrue within a year.

Now, on this amount of money we will have to adjust ourselves to whatever the market demands.

Senator ANDERSON. That is all, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Senator COTTON. I have just one question.

Mr. Secretary, this is an oversimplification, but if some morning you should awaken and find there is not enough balance in the Treasury to meet the obligations of that day or that week, what, if anything, could the Treasury do about it, assuming your borrowing authority had all been used up?

Secretary ANDERSON. Senator, I would have tried to have anticipated that long before it occurred, and before it occurred do something about it, even if it required coming to the Congress or doing whatever else I had to do.

Senator KERR. Will the Senator yield?

Senator COTTON. Yes.

Senator KERR. You would have had to have been asleep a lot longer than you would think you were to have that happen.

Secretary ANDERSON. Yes, sir; I would.

Senator COTTON. Let me ask the second question I wish to ask.

I have properly been put in my place. However, I was talking about a hypothetical situation on which I wanted to be clear.

If you could stretch your imagination to the contingency I mentioned, or if it was imminent next week or a month from today, outside of coming up to the Congress—are there any funds, any trust funds, anything that is being held by the Government in trust—and—I do not want to use the word "juggle"—that by transferring and by moving about would enable the Treasury to get by a situation of that kind when tax money is expected in the near future; that is, so that you do not actually say to some creditor, "we haven't any money and can't pay this obligation."

Secretary ANDERSON. There would be some things.

For example, we have $100 million of gold that we could sell.

We could go to such Government agencies as Fannie Mae, Federal National Mortgage Association, and issue securities in the market and let them retire obligations held by the Treasury which would, for a short run, accomplish the purpose.

We are not entirely precluded from everything, but it would certainly not be a desirable thing.

Senator COTTON. I can understand that, but I was just trying to get that thoroughly in mind.

Well, now, obviously, if the day ever came that because of the lack of elasticity of your operations, because you did not have this leeway, that it actually had to go out that the payment of obligations had been delayed because of lack of funds, it would start a run on the bank, both domestic and foreign, that we have geen discussing this morning; right?

Secretary ANDERSON. Senator, I do not want to be the man who says we have insufficient funds. That can be a calamity.

Senator COTTON. Yes, I understand.

The constant effort which you, as a banker, and I am referring to the Treasury as a bank, naturally make, is to retain public confidence at home and abroad in the fiscal integrity of this country. By the same token those very efforts also tend to lull to sleep many segments of the American people on the possibility of what may happen if we have unbridled spending; isn't that, of necessity, true?

Secretary ANDERSON. Well, I am not quite sure that I follow the Senator's thinking.

I am assuming that what you are saying is that by maintaining such a balance, that every time anyone knows that when he presents a bill to the U.S. Treasury it is going to be paid, he therefore does not become as concerned as he might become if he thought some of the bills would not be paid.

I can only respond to that by saying that I would view with such concern the long-lasting effects upon the credit of this country of being unable to pay a bill at any time that I would never want that to occur, even though it dramatically impressed a lot of people.

I would not——

Senator COTTON. I can quite understand that. But may I put it this way: People constantly come into my office and talk to me when I am in my home State and say, "Don't be ridiculous about this. There is plenty of money. There is no reason why you cannot give us this or that, because we have been hearing you people cry 'Wolf, wolf,' for the past 20 years as to what happens when you keep increasing the public debt." Part of that confidence is the fact they have never had one real scare, and the real scare, of course, as I understand what you said, and we all understand, will be fatal.

May I ask you this, and this is what I was coming to——

Secretary ANDERSON. Yes.

Senator COTTON. The fact that you come to the Congress from time to time and that we go through this agonizing reappraisal of extending the temporary or the permanent debt ceiling, does have some slight salutary effect, would you not think, as a warning sign even to the man on the street that it would not have if we give you everything you asked and said, "Here, this will take care of you for the next 5 years and you won't have to keep coming back and endangering the credit of the country."

Is that a fair statement?

Secretary ANDERSON. Senator, there are very honest differences of opinion between very competent people as to the value of the debt limit. Certainly I would say that if it is too stringent and too tight, it is costly and undesirable.

I have felt that so long as there was sufficient elasticity, that so long as we were given sufficient flexibility, that a review of it from time to time would have some salutary effect, bringing to the public consciousness the necessity of maintaining disciplines within a free economy.

It is for that reason that I have not asked for the debt limit to be permanently removed, but have come rather to ask that the debt limit be sufficiently high that we thought we had a minimum reasonable elasticity for the operation of this country.

Senator COTTON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. As I understand you, you say then the real value of the debt limit, the value it has on the American people, is on the psychological aspect alone.

Secretary ANDERSON. I would think that is fair, including in the American people myself and others who have responsibility.

Senator HARTKE. In your opinion, Mr. Secretary, is debt limitation a major factor in debt control and management?

Secretary ANDERSON. Well, I think again, only to the extent that it brings an awareness to us of the extent to which the debt has grown and thereby causes us to restrain ourselves more than we would otherwise.

Senator HARTKE. Is not the actual control of the debt of the United States outside the scope and authority of the Secretary of the Treasury to a great extent?

Secretary ANDERSON. Completely outside.

Senator HARTKE. You have to try to live with what everybody else has done; isn't that it?

Secretary ANDERSON. That is correct.

The one thing that is within our scope is to seek from time to time enough elasticity that we think we can operate competently within it.

Senator HARTKE. For you really to project an accurate forecast of what is going to happen in the future, you not only have to be an economic seer but you have to probably have all the wisdom of Solomon and then some; isn't that right?

Secretary ANDERSON. Senator, I agonize over this every time a budget is made, because you have to make certain forward guesses, which are very difficult.

Senator HARTKE. But to really predict with just pinpoint accuracy, it is impossible?

Secretary ANDERSON. That could not be done.

Senator HARTKE. That is right. You cannot pay off a debt without a surplus, can you?

Secretary ANDERSON. No, sir.

Senator HARTKE. And we did not materially change the tax structure in 1959 at all, did we?

Secretary ANDERSON. You mean calendar or fiscal?

Senator HARTKE. Fiscal 1959.

Secretary ANDERSON. There were some reductions, transportation tax on freight.

Senator HARTKE. How much in dollars, roughly?

Secretary ANDERSON. $300 to $350 million, I think. If it is not accurate, I will correct it.

Senator HARTKE. I mean it is not $1 billion?

Secretary ANDERSON. No.

Senator HARTKE. And we have a deficit of $13 billion?

Secretary ANDERSON. $12 billion-something; yes, sir.

Senator HARTKE. $12 or $13 billion. All right.

So at least it is—even giving $1 billion for a reduction, which is not accurate, and give a half billion for me to make a mistake—it is more than $11 billion, at least?

Secretary ANDERSON. Yes.

Senator HARTKE. Due to economic factors principally?

Secretary ANDERSON. About; a good portion of it is falloff on corporate tax and other forms of tax which resulted, of course, from the recession.

Part of it was some enlargement of expenditures. For example, we were blessed with an abundant number of crops over the country, and therefore your payments went out larger; and some housing costs.

Senator HARTKE. All right.

But the point of it is, did the debt limitation have any effect upon these economic factors and this abundance that you are talking about?

Secretary ANDERSON. No, sir. It simply required us to come back in February to get it raised.

Senator HARTKE. What I am trying to get over to my own mind as I analyze what you said—and since this is the first time I have had an opportunity to vote upon this debt limitation—I gather that you are worried about an unrealistic debt ceiling, which does not give the Treasury enough flexibility; isn't that right?

Secretary ANDERSON. That is correct, sir.

Senator HARTKE. As I got your statement, it was if it is too stringent it is costly and undesirable.

Secretary ANDERSON. That is correct.

Senator HARTKE. And if you are going to vote for the best interests of the taxpayer, you have to give the Treasury and the Secretary of the Treasury sufficient elasticity; isn't that true?

Secretary ANDERSON. I believe that it is in the national interest to have at least what we have asked for.

Senator HARTKE. But, as I gathered, what you said, in substance, was that the inflexibility impairs efficiency, No. 1, of the Treasury operations; it increases the cost of refunding; it increases the requirement of new financing at inopportune times, irrespective of economic and market conditions of the time, and forces you into an uneconomic and expensive market, possibly.

Secretary ANDERSON. I think you are accurate, sir.

Senator HARTKE. It prohibits advance refinancing which, according to you, would add materially to the success of the particular refinancing operation.

It prohibits market offerings at savings to the taxpayer and does little to affect the spending in times of national emergency, and has no effect upon the economic conditions of the day.

Frankly, after I look at all that, why do we talk to the American people so much about the value of having their national debt limit? It looks to me like these things far outweigh—that we ought to put our attention maybe in some other spot, upon increasing our economic future.

Secretary ANDERSON. There is a great body of opinion which would support the Senator's conclusions that complete abolition of the debt limit would be desirable.

I say that I have not so advocated it because I thought it desirable from time to time, if for no other reason than the psychological effect, that we sit down and review it.

Senator HARTKE. I do not want to say I am advocating the elimination of the debt limit either, but I do think I have enough confidence in the able Secretary that I certainly feel if I am going to trust you with all the money of the United States of America, I am going to trust your opinion as to how much of a debt limit we need.

Secretary ANDERSON. Thank you.

The CHAIRMAN. Do you regard any one of those points made by Senator Hartke to be applicable to the debt ceiling as you have observed the situation?

Secretary ANDERSON. Well, I would say that there have been times when we would have gone to the market, perhaps, for some advance refunding in which we would have paid off issues that were maturing.

I think we would at times have not wanted some of the agencies to go into the market where their yield, their price, was a little higher than prices which we would have paid directly borrowing from the Treasury.

I think that there have been times when we would have felt that we would like to have gone into the market for more money at one time and not so frequently, because the frequency with which we hit the market is disturbing.

I think these have occurred, and to that extent I think that they have not contributed to the best interests of our debt management.

The CHAIRMAN. Your predecessor, Secretary Humphrey, came to the Senate and asked for an increase in the debt limit of $15 billion. He said if he did not get it he could not pay his bills, and the Senate Finance Committee by one vote refused to increase it, and he later testified that he thought that was a wise action, and that he was heartily in favor of a tight debt limitation because he believed that it was a restraint on spending, and an indication on the part of Congress that they did not want the debt increased.

Secretary ANDERSON. Senator, I have testified here that I, too, have believed that we should come from time to time and review the debt ceiling; that it does have a salutary effect, and that my one request is that it have enough elasticity that we have reasonable flexibility to meet contingencies.

The CHAIRMAN. Is there any specific instance that you can give to the committee where the debt limit that then existed was harmful in the financing of the Government?

Senator ANDERSON. Could we modify that question, Mr. Chairman, to ask when there have been times when the money market was very favorable to take advantage of it?

The CHAIRMAN. I did not suppose the Treasury would want to borrow money it did not need, and pay interest on it.

Secretary ANDERSON. I would say that in May of 1959 we would have thought it advantageous to sell issues slightly in advance of the maturity of the old issues; as a part of this financing the Treasury sold $2 billion of 11-month Treasury bills with an issue date of May 11, to provide part of the funds necessary to pay off $2.7 billion in Treasury bills maturing on May 15.

For the intervening 4 days there was an increase in the debt of $2 billion, and this was possible only because the Treasury had some flexibility under the $288 billion limit.

Had the limit been smaller, we would not have had that flexibility, and I think it is desirable that we did have it.

The CHAIRMAN. The Secretary is aware of the fact that until World War I, before money could be borrowed, a special act of Congress had to be passed.

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. And that we first resorted to a statutory debt limit during World War I.

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. And since the beginning of this Republic, either the Congress has directly authorized the debts or it has placed a ceiling on debts that could be made

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. And that same thing applies to practically every State. It applies to most of the cities wherein you can only borrow a certain percent of the assessed value of the property. So there is nothing new about the debt limit. It is fundamental in our form of Government at all levels.

Secretary ANDERSON. I do not quarrel with the Senator's conclusion, only that I would want to be sure we had sufficient flexibility with which to operate.

The CHAIRMAN. As I understand it the bill before us has passed the House and it has the approval of the Secretary?

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. I realize that the conditions are critical and I have heretofore, as the Secretary well knows, advocated very conscientiously a close debt limit. It has more advantages than disadvantages.

I am going to support this bill because of the assurance of the Secretary that he is not going to ask for renewal of the temporary $10 billion, unless he thinks it is imperative to do so.

SECRETARY ANDERSON. I will ask for only what is necessary. But I would want to be quite honest, to say that if there would occur a chain of events, which I do not foresee, but if there should occur a chain of events which would require a request of the whole or more, I would make whatever I thought was in the best interests of the country.

The CHAIRMAN. The chairman understands that it depends on the conditions; that you will not ask an unnecessarily high debt ceiling, more than is necessary to operate.

Secretary ANDERSON. I shall try to be modest and prudent.

The CHAIRMAN. Under the one you are asking for now, you have at all times a leeway of approximately $6.5 billion. In some places you have a leeway of as much as $11 billion, and in one instance, on June 30 next, you have a $14 billion leeway. So certainly this present debt limit could not be regarded as one that is going to restrict the operations of the financing of the Government.

Secretary ANDERSON. Of course, this expires next June 30. The Senator used the June 30 terms. It would expire on that date.

The CHAIRMAN. I understand that. I say from your own figures on June 30 there would be $14 billion in leeway in the national debt. Senator Curtis?

Sentor CURTIS. As long as expenditures exceed revenues, the real debt of the country will go up, whether we pass this bill or not; isn't that true?

Secretary ANDERSON. I know no way of paying off debt unless expenditures fall below revenue.

Senator CURTIS. In other words, while we refer to this as a debt ceiling, it is a ceiling on the authority to borrow money to pay debts, is it not?

Secretary ANDERSON. That is correct, sir.

Senator CURTIS. And excepting only what effect it might have on the Congress to vote more money, the raising of this ceiling in itself does not increase the debt, does it?

Secretary ANDERSON. The debt is fixed by the facts of life.

Senator CURTIS. That is right.

Secretary ANDERSON. The Congress sets the limits within which the Treasury can borrow. The Treasury must try to so anticipate the facts of life that we can manage our debt, pay our bills, take care of our contingencies, in a reasonable manner within the limits which are expressed.

Senator CURTIS. In other words, if the Government of the United States owes for goods and services, payroll and so on, that is a debt or an obligation whether we borrow money to pay it or let it go unpaid; is it not?

Secretary ANDERSON. Yes, we must pay it.

Senator CURTIS. Yes, we must pay it. I am just getting at the point that this is a ceiling on authority to borrow to meet a debt rather than a ceiling on debt.

Secretary ANDERSON. That is correct.

Senator CURTIS. The Congress could refuse to pass this and go on authorizing expenditures and reducing taxes, or not increasing taxes, and while it is a chaotic condition we do not even want to think about, the fact of it is it would increase the debt in spite of any ceiling, would it not?

Secretary ANDERSON. I suppose it could increase the debt. Of course, when it got to that point——

Senator CURTIS. The difference would be that you wiuld have a debt you could not pay, while if the borrowing ceiling is increased, you have a debt with reference to which you could borrow the money to pay.

Secretary ANDERSON. What you would simply wind up with under the concept—under the hypothesis the Senator has suggested, would simply be, you would have obligations unpaid.

Senator CURTIS. That is right.

The CHAIRMAN. Are there any further questions?

Senator ANDERSON. Do you think you would need next June, a year from now, more than $10 billion temporary authority, or less?

Secretary ANDERSON. Senator Anderson, I would not say because you have got so many things ——

Senator ANDERSON. Would you like to guess? I am going to put my guess on the record, if you would like to put yours on the record.

Secretary ANDERSON. I would prefer that the Senator put his guess unilaterally. [Laughter.]

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. If not, the committee will go into executive session.

Secretary ANDERSON. Thank you very much.

The CHAIRMAN. Thank you, Mr. Secretary.

(By direction of the chairman, the following is made a part of the record:)

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS,
New York, N.Y., June 12, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee, Washington, D.C.

DEAR SENATOR BYRD: The Federal debt is so large a part of our entire capital and credit structure that its management influences the course of activity throughout the Nation's financial and industrial markets. Current Federal statutes impose unrealistic restraints on debt management operations, and hinder efforts to maintain fiscal discipline.

Accordingly, legislative action is necessary to enable the Treasury Department to manage the debt more effectively through greater flexibility. The President's proposals with respect to ceilings on interest rates and on debt limits represent such constructive legislation and, thus, have the support of the savings banking industry.

It is a basic tenet of our free enterprise economy that buyers and sellers, borrowers and lenders, compete in open market for the goods, services, and financial claims, which they offer and seek. In this setting, the Federal Government, in financing its operations, must be free to compete with other types of borrowers for available funds. The only ultimate alternative to permitting the Treasury to compete freely on the basis of interest rates and other terms is to turn to Federal regimentation requiring investors directly to purchase U.S. Government securities.

Recognizing the basic importance of an effective Federal savings bond program, savings bankers have always supported this program even though it competes directly with thrift institutions for the funds of small savers. A higher interest rate on these bonds is important to restore their competitive position in financial markets and their basic role in Federal debt management.

The recommendations in this letter are based on proposals made in December 1958 by Carl G. Freese, chairman of the national association's committee on Government securities and the public debt. These proposals were approved at that time by our board of directors.

I would have no objection to your including this letter in the record of hearings which the committee might hold.

Very truly yours,

JOHN deLAITTRE, *President.*

P.S.—I am enclosing a copy of Mr. Freese's statement with this letter.

FEDERAL DEBT MANAGEMENT AND THE SAVINGS BANKING INDUSTRY

Address of Carl G. Freese, chairman of the Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks, and president and treasurer, Connecticut Savings Bank of New Haven, before the 12th annual midyear meeting of the National Association of Mutual Savings Banks, Hotel Commodore, New York City, December 2, 1958

The Federal debt is so large a part of the Nation's entire capital and credit structure that its management has an important influence not only on the state of Federal finances, but also on the course of the national economy. Our Government now owes close to $280 billion, about one-third of the total indebtedness outstanding in this country. Reflecting recent and expected deficits, moreover, the Treasury requested an increase in its temporary debt ceiling from $280 to $288 billion which the Congress recently granted.

All things considered, there is little likelihood in the years ahead of reducing the huge Federal debt; indeed the prospects are for further increases. In addition to problems associated with raising large sums of additional new financing, the Treasury's debt management team must contend with trying problems of refinancing maturing and called issues. In meeting these problems the Treasury has a profound and continuing influence on general financial developments. Indirectly, its debt management policies influence the level and rate of savings; directly they influence conditions in capital markets, including interest rate movements and terms of lending. As savings bankers, therefore, we clearly have a special and continuing interest in Treasury activities. Sound management of savings banks' investment portfolios requires our close interest in, and understanding of, Treasury financing problems and practices.

Recent refundings and new cash offerings have, in the main, not been particularly suited to savings banks. Large Treasury operations scheduled for the early months of 1959, however, may hold greater investment opportunities for our industry.

DEBT MANAGEMENT AND INFLATION

It is important to recognize that present burdensome Treasury problems are the result of heavy wartime expenditures together with spending programs recently undertaken. In fiscal 1958 the Federal Government spent close to $72 billion, nearly $5 billion more than it took in. In the current fiscal year ending June 30, 1959, it expects to spend $78 billion, $12 billion more than anticipated receipts. Clearly, the most direct and effective way of easing debt management problems without inflation is to reduce expenditures and/or increase revenues. The deficit in fiscal 1959 may well be lower than the $12 billion anticipated because of possible higher revenues resulting from the general improvement in business activity. It is not likely, however, that Federal expenditures will soon be reduced. Yet the volume of Federal spending must be controlled if we are to avert a steady erosion of the purchasing power of the dollar.

Apart from broader economic considerations, the Treasury has a direct interest in combating the forces of inflation. Fundamentally, a sound market for U.S. Government securities depends on allaying the widespread fears of inflation. So long as consumers and investors are motivated in their actions by a belief in the inevitably of inflation, so long will it be difficult to market new Treasury securities successfully.

COORDINATION OF TREASURY AND OTHER FEDERAL PROGRAMS AND POLICIES

Clearly, debt management policy is but one of the anti-inflationary weapons available to the Federal Government. Its coordination with Federal Reserve monetary and credit actions is essential and, by now, a well accepted principle. During periods when economic expansion threatens to become excessive, for example, and the monetary authorities are rightfully pursuing a policy of credit restraint, it is important that the Treasury offer securities which do not require Federal Reserve support on more than a temporary basis.

It is not as well accepted, at least in practice, that there are other Federal programs in major credit areas which must, also, be coordinated with Federal Reserve and Treasury operations, if debt management is to be most effective and the battle against inflation won. In particular, Federal programs to insure and guarantee mortgage credit operate in direct competition for investment funds with the Treasury Department. Higher yielding mortgages, backed by the contingent liability of the Federal Government, provide nearly as much safety as do U.S. Government securities. Indeed, their amortizing nature provides for a type of liquidity not inherent in Government bonds. When the Federal Government pursues a policy of stimulating demands for mortgage credit, out of social rather than economic considerations in the housing field, at a time when inflationary forces are rampant, it is assuredly acting at cross-purposes.

It is necessary, therefore, that the huge and expanding Federal mortgage credit programs—some $48 billion or 44 percent of all home mortgage debt is now underwritten by the Federal Government—be subordinate to, and modified from time to time in accordance with the chaning need to control inflationary forces. For, after all, if the ability of the Federal Government to stabilize the value of the currency is seriously impaired, the public's confidence in Federal obligations is undermined and Federal credit guarantees become of limited value. The coordination of Federal housing credit policies with fiscal and monetary policies must include not only the Federal Housing and Veterans' Administration—the Federal underwriting agencies—but also the Federal National Mortgage Association, Federal Home Loan Bank System, and Public Housing Administration. Coordination must extend, also, to the Nation's agricultural credit programs.

COMPETITION FOR CAPITAL MARKET FUNDS

It is a basic tenet of our free enterprise economy that buyers and sellers, borrowers and lenders, compete in open markets for the goods, services, and financial claims, which they offer and seek. In this setting, the Federal Government, in financing its operations, must compete with other types of borrowers—both private and public—for the funds available in financial markets. This is as fundamental a principle of sound debt management as the need to combat inflation and to coordinate all Federal fiscal, monetary and credit policies.

There are no isolated or preferred markets in which the Treasury can operate. Thus, in order to attract funds away from other borrowers, and successfully to finance its debt largely outside the commercial banking system, the Treasury must compete on the basis of interest rates and other terms. There can be no other effective financing method short of Federal regimentation or statutes requiring investors directly to purchase U.S. Government securities, or banks to hold them as part of their legal reserve.

Techniques of moral suasion, and appeals to institutional investors to overlook normal market considerations in order to support Treasury financing are not realistic, short of war or grave national emergency. Fiduciaries are themselves in sharp competition for the savings of individuals and have a prime obligation and public trust to depositors, shareholders, and stockholders to earn the highest return possible on invested capital commensurate with safety and liquidity requirements. Longrun considerations of inflation are, of course, essential but the best weapons in this battle are sensible and courageous fiscal and monetary policies of the Federal Government, effectively coordinated with housing and agricultural policies to preserve the purchasing power of the dollar.

To be sure, a debt management policy based on offering securities at competitive rates of interest is not without its problems. The Treasury is, for the most part, in competition with borrowers who are able to deduct interest payments from their tax bill. A corporate borrower, for example, who pays 5 percent interest on debt securities has a net cost, after Federal income tax, of 2.4 percent. The same principle applies to the mortgage borrower. To compete effectively with these borrowers it may be necessary at some future time for the Treasury to request an increase in the statutory rate of interest which it can pay on Government bonds.

Competing with other capital market borrowers on the basis of interest rate means, also, that the cost of interest payments in the Federal budget will be increased. It means, further, that prices on outstanding issues of Government securities may decline and fluctuate over a wider range than they have in other earlier years. This phenomenon has characterized the market for Government securities over the past year or so.

Higher interest costs on the Federal debt, while not in themselves desirable, are a necessary price for managing the huge Federal debt so as to contribute to the prevention of inflation and of an unsustainable rate of economic growth. Market instability may likewise be considered a price that must be paid to prevent economic excesses. Bankers and other investors, of course, rest more comfortably when markets are stable and risks are reduced, but this peace of mind is a luxury that must at times be sacrificed in the Nation's battle against its principal internal enemy, inflation.

It must not be overlooked, on the other hand, that a higher level of interest rates, which might result from vigorous Treasury competition, may well stimulate an increased flow of savings, an essential element of an anti-inflationary program. Moreover, deferral of plans for increased investment as interest rates rise will relieve the pressure on the limited supply of capital funds. In an expanding economy the Treasury can successfully draw funds away from marginal borrowers in both the corporate and mortgage sectors only if it is willing to compete on the basis of rates and terms.

TREASURY MARKET TECHNIQUES

While a willingness and determination to compete for capital funds in the open market must be the chief factor in a successful debt management program, other factors relating principally to techniques for offering new and refunding outstanding U.S. Government securities should also be given careful consideration. Among these techniques the following might be considered.

The technique of forward commitments, widely used in the marketing of mortgages and in the direct placement of corporate securities, may be adaptable to the marketing of U.S. Government securities. Basic modifications would of course be necessary. The extended period of time covered by commitments in the mortgage market, for example, would be inappropriate in the Government securities market. In the corporate securities market, however, the length of time covered by commitments has been generally shorter.

Actually, a commitment technique was used by the Treasury in 1955 in connection with its offering of 3 percent bonds due in 1995. Not many institutional or other types of investors subscribed for this issue on a commitment basis, however. This suggests that the technique may not have been well suited to investors or that the Treasury did not appropriately publicize it. In any event, the commitment device will have to be studied more carefully and refined before it can again be employed.

One refinement which might be considered is the payment of a modest commitment fee by the Treasury. Such a fee to investors would be an added inducement to enter into contracts and would tend to offset in part the disadvantages of a possible market reduction in the price of forward contracts soon after the closing of books. If the problems associated with the commitment technique can be overcome, there will be distinct advantages both to the Treasury and to investors of permitting payment for Government securities over a limited period of time as funds become available from savings, insurance premiums, etc.

There are other marketing techniques associated with redemption and conversion privileges which might be considered. A limited disadvantage of these techniques is that in most cases the initiative for debt management is transferred from the Treasury to investors. This course is to be avoided when possible, but may be a necessary price, on occasion, in order to attract new groups of investors. Privileges of redemption were granted in connection with the two 4-percent note issues offered in 1957. These notes, it will be recalled, had definite maturities, but holders were given the right to redeem them at par at about the midpoint of their contract maturity.

This redemption device need not be limited to note issues. Further, there might be one or more optional redemption dates. For example, the Treasury might offer a 30-year bond, giving the holder the right of redemption on a fixed date, after appropriate notice, perhaps at the end of 2 years and again after 5 years. The disadvantage of this type of security is, of course, that it is redeemable in cash, a fact which might be inconvenient to the Treasury or blunt monetary policy at redemption dates.

In this respect, the offering of securities with conversion rather than cash redemption privileges might be preferable. The offering of a long-term bond which for the first several years of its life would be convertible into any new issue of Treasury securities having a maturity, of say, more than 5 years, might be attractive to investors. Another possibility would be to offer a long-term security bearing a rate of interest in the early years different from that in the later years—higher or lower depending on market conditions—with the option of redemption at the end of the earlier period or retention for the longer period.

An approach of a different sort, directed toward increasing the participation of individuals in the market for Government securities, might operate through tax benefits. Tax exemption per se is not considered to be good public policy, and rightfully so. This is not to say, however, that there are no tax advantages associated with U.S. Government securities. Certain issues which are available at discounts, for example, may be used in payment of certain tax obligations at face value. All issues selling at discounts, moreover, offer some tax advantage in that the discount may be regarded as a potential capital gain.

In the case of individuals, a tax deduction of $1,000 is permitted, with carryover privileges of amounts in excess of $1,000 for losses sustained in U.S. Government and other types of securities. In this connection, the Treasury might wish to consider the advantages of broadening this privilege by permitting individuals to deduct from taxes an additional $1,000 or more, with similar carryover privileges for losses sustained in the sale of U.S. Government securities issued after January 1, 1959. To encourage the continuing interest of individuals in the market for Treasury securities, however, it should be provided that additional tax losses be deductible only from current or future interest earned on Treasury securities.

Consideration might also be given to similar limited tax benefits to nonbank corporate holders of U.S. Government securities.

DEBT LENGTHENING AND ORDERLY MARKETING

I would like to offer a brief comment about the General Treasury objectives of debt lengthening and orderly marketing. Lengthening the average maturity of the outstanding debt is important to the extent that it makes for a more orderly marketing of obligations and contributes to the fight against inflation. There seems to be a tendency at times, however, to overemphasize average maturity statistics without solving the basic problems of Treasury financing. For example, the average outstanding maturity of the debt may be lengthened without materially reducing the problem of refinancing immediately maturing issues.

The Treasury is undoubtedly aware that an orderly scheduling of maturities can be accomplished without necessarily going into the longest maturities. In this respect, issues in the 10- to 15-year maturity range would contribute importantly to bringing about a better spacing of outstanding obligations. As market conditions permit, it would be desirable to have frequent but relatively small amounts of long-term offerings both for cash and refunding.

ASPECTS OF ADVANCE REFUNDING

The Canada conversion loan of 1958 has created considerable interest with regard to the feasibility of a similar advance refunding operation in this country. Apart from considerations of the relative success of the Canada conversion loan, there is a serious question about the applicability of this type of large-scale, dramatic refunding operation to the United States. At this time such an action is hardly to be recommended.

While the near-term problem confronting the Treasury concerns the issues maturing in the period 1959–61, it does not appear feasible to undertake an advance refunding of these issues, considering their large volume, relatively attractive yields, and current conditions in the capital markets. With respect to the feasibility of an advance refunding of issues scheduled to mature in later years, particularly the more than $28 billion of 2½-percent wartime issues with final maturities in 1967–72, there would seem to be little practical advantage to the Treasury in such an action. These issues do not now present a problem to the Treasury, nor would their refunding ease the refinancing problems of the 1959–61 maturities. There are enough "in-between" dates available in the 1967–72 range to accomplish such refinancing in this maturity area, if desired, when the time is appropriate.

Finally, it is open to question whether conversion of the 2½-percent wartime issues into long-term bonds bearing higher interest rates would reduce sales from investment portfolios. At current low prices, holders of the 2½s are reluctant to take the substantial losses attendant upon sale. Conversion to securities with higher yields, instead of making for more "permanent holders," might result in increased net selling as losses were reduced or perhaps converted to gains.

For all of these reasons, advance refunding of outstanding securities does not seem appropriate at this time. Because an advance refunding on a relatively small scale offers important advantages with respect to debt lengthening and orderly scheduling of maturities, I do feel, however, that the question should be kept under continuing study in the event that subsequent market changes make it feasible to undertake such an operation.

MODIFICATION OF U.S. SAVINGS BOND PROGRAM

Since the end of the war the public appeal of savings bonds has been considerably reduced, even though the rate of return on these bonds when held to maturity has at times equaled or exceeded that paid by mutual savings banks and commercial banks on savings deposits and by most savings and loan associations on share accounts. The clear indication is that savers prefer the convenience and flexibility of savings and share accounts and the protection of life insurance to ownership of savings bonds. Only in time of war does it seem possible to sell U.S. savings bonds readily and in large volume.

While large-scale expansion of savings bond sales does not appear feasible, nor in fact economically desirable, the general rise in interest rates that has occurred in recent years suggests the need for a revision in savings bond terms.

The 3¼-percent series E bond was first offered to the public in February 1957. Since that time yields on U.S. Government securities have advanced by approximately one-half percent. Rates on newly offered issues of corporate and State and municipal securities have also advanced by about one-half percent or more during the intervening period. The maximum rate on savings bonds is set by Congress, and it may be February or March of 1959 before congressional action can be taken on this matter. In order to restore the competitive position of savings bonds, therefore, it would seem reasonable to have the yield on series E bonds raised from 3¼ to 3½ or 3¾ percent. It is also desirable to shift responsibility for establishing the rate from Congress to the Treasury, which could administer the rate in accordance with market needs.

Accompanying this revision in interest rate there should be a revision in terms and prices of savings bonds. Heretofore, advances in rates have been achieved by a shortening of maturities. Thus when the rate on series E bonds was raised from 3 percent to 3½ percent in 1957, the maturity was reduced from 9 years and 8 months to 8 years and 11 months. The price at which the bond was offered remained unchanged at 75 percent of ultimate maturity value. In revising the present rate to 3½ or 3¾ percent, a similar device might be employed and an effective rate change achieved by a corresponding reduction in the maturity.

In view of the expense incurred by the U.S. Government in connection with the issuance and turnover of these bonds, however, consideration must be given to maturity extension in order to achieve a reduction in expenses. It is desirable, also, that the cost of the bond be a round fraction of its ultimate maturity. The present and older series E bonds, as you know, were offered at a price of three-fourths of their maturity value. If the cost were to be reduced to five-eighths of maturity value, then the term could be adjusted to provide a 3¾-percent return. For example, a $100 bond costing $62.50 would give a return of 3.75 percent compounded semiannually at a maturity of 1[illegible] years and 8 months.

A price reduction, as suggested above, would give the Treasury an opportunity to eliminate the $25 denomination and make the $50 denomination the smallest issue. This would reduce the administrative costs of the savings bond program considerably. Corresponding modifications should be made in the yield, price, and terms of the series H bonds.

CONCLUSION

The highest order of economic intelligence and political statesmanship must be brought to bear on the complexities of debt management problems. Because of its fundamental influence on the Nation's economic life, debt management policy must have as its primary long-run aim the contribution it can make toward achieving sustained economic growth and relative price stability. No matter the difficulties or the so-called practical problems of Federal finance, all other considerations must be subordinated to these basic objectives, lest the Nation's economic health be undermined.

(Whereupon, at 12:15 p.m., the committee adjourned.)

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