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DEBT LIMIT

1462-2

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 11375

AN ACT TO PROVIDE FOR THE PERIOD ENDING JUNE 30, 1965, A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

P.L. 88-327

JUNE 23, 1964

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DEBT LIMIT

TUESDAY, JUNE 23, 1964

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

The committee met, pursuant to notice, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (presiding), Long, Smathers, Anderson, Douglas, Talmadge, McCarthy, Hartke, Ribicoff, Williams, Curtis and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The bill before us is H.R. 11375 to increase the debt limit temporarily to $324 billion.

(H.R. 11375 is as follows:)

[H.R. 11375, 88th Cong., 2d sess.]

AN ACT To provide, for the period ending June 30, 1965, a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, during the period beginning on the date of the enactment of this Act and ending on June 30, 1965, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b), shall be temporarily increased to $324,000,000,000.

Passed the House of Representatives June 18, 1964.

Attest:

RALPH R. ROBERTS, *Clerk.*

The CHAIRMAN. At the proper time, I want to ask the Secretary of the Treasury, when he uses the word "temporarily" in connection with raising the statutory debt limit, whether he means that the limit will be reduced at some future time.

You may proceed, Mr. Secretary.

STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Mr. Chairman, in the absence of new legislation, the $315 billion temporary debt limit, under which we are currently operating, is scheduled to drop for the 1 day of June 30 to $309 billion and on July 1 the limit will revert to its permanent level of $285 billion.

The latest published figure we have for the public debt subject to the limit is $311.9 billion as of June 18. While there are many cross currents in the last 2 weeks of June, our best estimate is that the debt will still approximate $312 billion on June 30. This means that if the debt limit is not raised before then, the outstanding debt will exceed the limit by about $3 billion on June 30 and by more than $26 billion on July 1 when the ceiling drops to its $285 billion permanent level.

It is clearly imperative that these scheduled reductions in the debt limit not be allowed to occur. We simply cannot put the U.S. Government in the impossible posture of being unable to refinance maturing securities or to pay legal obligations as they come due. We can do grave damage to the credit of the United States if we permit the debt limit to be inadequate for even 1 day. The issue goes well beyond the question of sound domestic financial housekeeping to the far greater issue of the financial responsibility or irresponsibility of our Government.

In a world which recognize economic and financial strength as the essential foundation for military and political power, we cannot permit the slightest doubt to arise in any quarter regarding the ability of the United States at all times to meet all of its obligations instantly and fully.

The outlook for the public debt in fiscal 1965 is shown in the attached table which is the same as that presented to the House Ways and Means Committee on May 25. The table gives projected levels of the debt for midmonth and monthend dates through June 30, 1965. It reflects the usual temporary seasonal borrowing requirements as well as the need to finance the deficit anticipated for the year as a whole.

The debt projections shown in the table are, of course, based on the same mechanical assumption that has been used in past debt limit hearings: namely, that the Treasury's operating cash balance holds unchanged at $4 billion. On this basis, the table shows that the debt is expected to swing up to temporary peaks of $320.5 billion on December 15 and $321 billion on March 15 before the usual yearend decline brought on by the heavy June tax receipts.

The assumption of a constant $4 billion operating cash balance focuses attention on the impact of the projected pattern of receipts and expenditures on the debt and this is appropriate in a debt limit hearing. However, in actual practice it is not feasible to hold the cash balance unchanged, as I am sure the members of this committee are fully aware. The actual operating cash balance necessarily fluctuates over a wide range. Moreover, the $4 billion figure assumed is a very conservative estimate of the average amount needed to permit the day-to-day operations of the Treasury to be conducted in an efficient manner. The Treasury's operating balance has, in fact, averaged susbtantially higher than $4 billion during each of the past 5 years.

During the past 6 months, for example, a period in which we have made a vigorous effort to hold down the operating cash balance, it has averaged $5.1 billion. With cash expenditures averaging $10 billion per month over the same period, it has not been easy to operate on so tight a rein. It has been safe only because, as an emergency support, we could count on obtaining funds overnight if necessary through the authorization to borrow temporarily from the Federal Reserve banks.

The table also shows the customary $3 billion leeway required for flexibility and contingencies. This provision, regularly requested by both Democratic and Republican administrations, represents the minimum margin of safety needed to cover circumstances which cannot be foreseen, including the inescapable uncertainties in our month-to-month projections of revenues and expenditures. Hardly less important, this margin of flexibility also is needed because of the impossibility—indeed the undesirability—of precisely matching the timing of our borrowing operations to our changing cash needs. Treasury borrowing is necessarily done in relatively large amounts and in an orderly sequence. These sizable financings should be and are timed in such a way as to avoid unnecessary market disturbance and, where possible, to take advantage of favorable market conditions whenever they appear. Our borrowing operations cannot be adjusted to passing changes in our net inflow or outflow of cash, but rather must anticipate needs over a period of time.

The final column in the table shows the debt limit required when we add this $3 billion safety margin to each of the semimonthly projections of the public debt. It is clear from these figures that a $324 billion debt limit is necessary to provide adequate room for maneuver in managing our finances responsibility and economically.

I should emphasize that our peak debt requirements are primarily a reflection of the recurrent seasonal pattern in our receipts and expenditures. And it is this peak requirement which determines the appropriate level for the debt ceiling. As I have pointed out to your committee before, the debt rises substantially during the first half of every fiscal year, in years of budget surplus as well as in years of budget deficit. This is so because we receive only about 44 percent of our annual revenues in the first half of each fiscal year, the July–December period, with the remaining 56 percent flowing in during the second half, which includes the big corporate taxpayment months of March and June. As a result, the Treasury always has to borrow heavily in the July–December period but can then, depending on the state of the budget, pay off some or all of this seasonal borrowing out of the heavy receipts which flow in from mid-March to the end of the fiscal year.

This means that the peak of the debt in any given fiscal year is importantly influenced by the previous year's results. Generally speaking, whenever we run a deficit in one year the debt ceiling for the following year must be increased in roughly the same degree. Conversely, a surplus in one year should permit a reduction in the debt ceiling for the following year. Fiscal 1965 is no exception to this general rule. Since we are incurring a substantial deficit in fiscal 1964, a substantial increase in the 1965 debt limit is essential in order to meet the seasonal requirements brought on by reduced receipts prior to the heavy flow of taxpayments that begins on March 15. Our need for a $9 billion increase in the debt limit for fiscal 1965 rests largely on this fact and is only influenced in a relatively minor degree by the deficit that is projected for fiscal 1965.

Let me now turn to the fiscal background of our debt limit recommendation. The following table presents the fiscal 1964 and fiscal 1965 estimates of receipts by the Treasury and of expenditures by the Budget Bureau that were released by the President May 22 and presented to the Ways and Means Committee on May 25.

Administrative budget receipts and expenditures, fiscal years 1964 and 1965

[In billions]

	January budget estimates		Current estimates	
	1964	1965	1964	1965
Expenditures	$98.4	$97.9	$98.3	$97.3
Receipts	88.4	93.0	89.5	91.5
Deficit (1)	−10.0	−4.9	−8.8	−5.8

They show that the latest estimates, differing from those in the January budget, show a deficit for 1964 of $8.8, and for 1965 of $5.8 as compared to the budget estimates, which showed a deficit of $10 billion for 1964 and a $4.9 billion for 1965.

The table shows that the deficit for fiscal 1964 is lower than was estimated in January and that the deficit for fiscal 1965 is higher. But the significant point is that these new estimates for fiscal 1964 and fiscal 1965 indicate that the overall 2-year deficit will be $300 million less than was originally estimated in January.

The estimate of $5.8 billion for the fiscal 1965 deficit is some $900 million more than the $4.9 billion deficit projected in the President's January budget message, even though the Budget Bureau's spending estimate for fiscal 1965 has been reduced by $600 million from the earlier estimate. This increase in the 1965 deficit is due almost entirely to changes made by the Congress in the tax bill as compared to the assumptions that were used by the President in his budget message.

Most important is the fact that the tax bill went into effect about 1 month later than had been assumed in the President's budget message. This meant that the 18 percent withholding rate continued for 1 month longer than had been projected with a consequent benefit of some $800 million to fiscal 1964 revenues (the monthly dollar difference between the 18 percent withholding rate and the current 14 percent withholding rate). But it also meant that estimated fiscal 1965 revenues will be reduced correspondingly since final net payments on 1964 liabilities by individual taxpayers next spring will be lowered by the same amount.

The second factor is that the Revenue Act of 1964, as finally enacted, will result in about $500 million less revenue in fiscal 1965 than had been provided in the tax bill as it passed the House, which was necessarily used as the basis for the revenue estimates in the budget document.

These two changes in the tax program, together with minor refinements in the projections of economic activity and taxable incomes, have reduced projected revenues for fiscal 1965 to $91.5 billion, $1.5 billion lower than the January estimate. But, as noted earlier, the impact of these lower revenues on the size of the deficit has been partially offset by the $600 million reduction in expenditures now foreseen by the Budget Bureau.

Finally, I should like to note that the experience of recent weeks has been somewhat more favorable than these May 22 projections would suggest. Expenditures are running well below expectations. Should this more favorable experience persist, we can expect to finish up fiscal

1964 with better overall results than the table indicates. This would leave us with a somewhat larger cash balance on June 30 than we had earlier expected which, in turn, would reduce our needs for new cash financing over the next few months.

I would now like to mention briefly some broader and longer run considerations which form the background to this debt limit hearing. We are in the early stages of the biggest tax cut our Congress has ever approved or this Nation has ever enjoyed.

We expect this to provide a major long-term stimulus to the economy, to put new strength into our private business system, and to strengthen our ability to compete in international markets. However, I think everyone recognized, when this approach was proposed by the administration and approved by the Congress, that there would be transitional deficits that would have to be financed and that an appropriate debt limit adjustment would be required. In order to hold these deficits to the minimum, both in size and time, and to minimize the requisite increase in the debt limit President Johnson is making a maximum effort to hold down Federal expenditures.

We, in the Treasury Department, for our part, always have before us, as a primary purpose, the protection of the financial integrity of the United States. No one is more dedicated to responsible finance and strict expenditure control than I am. But effective control of Federal spending cannot be achieved by restriction at the tag end of the expenditure process when the bills come due. Our bills must be paid promptly and in full if the credit of the United States is to be maintained.

The proper place to control expenditures is in the appropriations process and in the Federal agencies which spend the money. President Johnson is continuing to press for economy in Government, so you can be confident that a reasonable debt ceiling will not be abused. Of course, Congress has not yet completed action on fiscal 1965 appropriations, and expenditure estimates at this time are necessarily tentative. However, there is a basis for confidence, I think, in the fact that the May 22 estimates show expenditures for fiscal 1964 and fiscal 1965 combined to be $700 million less than was estimated in January.

If we continue to hold Federal expenditures under control, the outlook for decreasing the burden of our public debt is good. Indeed, by the end of this fiscal year, the Federal debt is expected to amount to about 50 percent of our current gross national product as compared to 52½ percent last year. This is a smaller percentage than at any time since World War II financing added so greatly to the public debt. At the close of fiscal 1946, as you may recall, the debt was about 127 percent of the gross national product. With the continued growth in the economy that is generally expected, the ratio of the debt to GNP should fall still further during fiscal 1965, dropping below the prewar levels of fiscal 1939 and 1940.

I think we are well started on an orderly and constructive program that will stimulate our economic growth, protect our financial stability at home and the key role of the dollar abroad, and also express the fiscal responsibility of the American people. Under these circumstances, I strongly urge that you approve the $324 billion temporary public debt limit which we are requesting for fiscal year 1965 as the

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minimum consistent with meeting our financial obligations and handling the public debt in an economical and responsible fashion.

(The following table, referred to in the above statement, was supplied for the record:)

Estimated public debt subject to limitation (based on constant minimum operating cash balance of $4 billion), fiscal year 1965

[In billions of dollars]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
1964				
June 30	4	307.9	3	310.9
July 15	4	311.0	3	314.0
July 31	4	311.8	3	314.8
Aug. 15	4	313.5	3	316.5
Aug. 31	4	314.2	3	317.2
Sept. 15	4	316.9	3	319.9
Sept. 30	4	311.2	3	314.2
Oct. 15	4	315.0	3	318.0
Oct. 31	4	316.3	3	319.3
Nov. 15	4	318.1	3	321.1
Nov. 30	4	317.7	3	320.7
Dec. 15	4	320.5	3	323.5
Dec. 31	4	316.0	3	319.0
1965				
Jan. 15	4	318.9	3	321.9
Jan. 31	4	318.0	3	321.0
Feb. 15	4	319.1	3	322.1
Feb. 28	4	318.2	3	321.2
Mar. 15	4	321.0	3	324.0
Mar. 31	4	315.4	3	318.4
Apr. 15	4	319.2	3	322.2
Apr. 30	4	315.6	3	318.6
May 15	4	316.7	3	319.7
May 31	4	317.1	3	320.1
June 15	4	319.9	3	322.9
June 30	4	313.9	3	316.9

Secretary DILLON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

As I understand it, your estimate at the end of the current year, which ends next Tuesday, is that the actual Federal debt, subject to the limit, will total $311,900 million. Is that correct?

Secretary DILLON. That is what it totaled the other day. My statement was that we think it will be approximately $312 billion at the end of the year, give or take $200 million either way. We cannot tell exactly, because it depends on the amount of funds that would be invested in the trust funds.

The CHAIRMAN. But your estimate is $311 billion?

Secretary DILLON. $312 billion.

The CHAIRMAN. Your statement said $311——

Secretary DILLON. $311.9, so it is about the same.

The CHAIRMAN. When was your last reduction in the Federal debt?

Secretary DILLON. The last reduction in the Federal debt limit—but I do not know if there was any reduction in the debt—occurred in the year 1960 when the debt limit was reduced by a small amount. I can look to see if that actually reduced the debt.

The CHAIRMAN. Is it not true that the last reduction in actual debt outstanding occurred in fiscal year 1957?

Secretary DILLON. 1957 is the last one I see here, that is right.

The CHAIRMAN. Is was a reduction?

Secretary DILLON. There was a reduction in the year—between 1956 and 1957 there was a reduction of $2 billion. There was also a reduction between 1955 and 1956.

The CHAIRMAN. The debt in 1957 was $270,500 million, was it not?

Secretary DILLON. That is right.

The CHAIRMAN. And so in a 7-year period the actual Federal debt has been increased $41.5 billion; is that correct?

Secretary DILLON. About correct; yes, sir.

The CHAIRMAN. In 7 years.

What was the debt at the end of the fiscal year 1960?

Secretary DILLON. The fiscal year 1960—it was $286.5 billion.

The CHAIRMAN. And the debt at the end of 1961?

Secretary DILLON. $289.2 billion.

The CHAIRMAN. How much has the actual Federal debt subject to the limit been increased since you were Secretary of the Treasury?

Secretary DILLON. Well, I would say since this $289 figure. Actually it was slightly higher than that when I became Secretary of the Treasury for seasonal reasons. It was something over $290 billion. So on that basis, it has been increased about $22 billion.

The CHAIRMAN. And when did you become Secretary of the Treasury?

Secretary DILLON. January 1961.

The CHAIRMAN. There has been an increase of $20-some billion, you say?

Secretary DILLON. As an actual increase in the debt; yes.

The CHAIRMAN. Have you ever appeared before any committee of Congress or made any public statement in opposition to any part of this increase?

Secretary DILLON. No, because we have to pay the bills when they come due. We need an increase in the public debt to pay the bills for which money has been appropriated.

The CHAIRMAN. You are an advocate of the tax reduction?

Secretary DILLON. That is correct.

The CHAIRMAN. Is that not a factor in increasing the public debt?

Secretary DILLON. It is a relatively small factor. This year, this fiscal year, it would increase at the end of the year by about $1.5 billion. In the next fiscal year it might increase by about $3 billion. But without that, I think the chances are very good that our economy would have acted much less well and we would have had larger deficits without the tax reduction than with it. That is the reason for which we favored the tax reduction, because we thought it would stimulate our economy and let us eventually get back to a balanced budget.

The CHAIRMAN. Is it your contention that the reduction of taxes of $12 billion will not be reflected in the public debt except to the extent you have mentioned?

Secretary DILLON. Except to about that extent, because it is moving the economy ahead much faster. We are getting the revenues from that. I do not believe anybody believes the economy would have advanced at the rate it is presently advancing if it had not been for the tax reduction.

The CHAIRMAN. Your theory is that the more we reduce the taxes, the more money——

Secretary DILLON. It has to be done in proper measure, obviously. You can very easily exaggerate but you have to avoid inflationary pressures. If there should be an inflationary pressure, that would be a time when you should not do it.

I was rather interested in seeing a report the other day by a distinguished committee called the Republican Critical Issues Committee, which favored a tax reduction every year.

The CHAIRMAN. The Finance Committee will have to act tomorrow or the next day on a bill to extend the excise taxes. Would a reduction in the excise taxes help the general prosperity?

Secretary DILLON. Well, I think it is again a question of what is a proper limit. When we suggested a total tax reduction bill on income taxes, we decided, or we felt, that it was not fiscally responsible to go beyond the amount suggested, which was just over about $10 billion. The actual income tax reduction bill, as it was enacted, did go somewhat beyond that to about $11.5 billion. Certainly, we do not think there should be any further tax reduction until the economy has had time to absorb that and we can see that there is no inflationary pressure and we come nearer to a balanced budget. So we do not think that this year is the time to have excise tax reductions although we think they should be studied, as they are being studied now in a very thorough manner by the Ways and Means Committee, looking toward an excise tax reduction some time in the future.

The CHAIRMAN. Some time in the future? When will that be?

Secretary DILLON. I think from the point of view of the economy, it will probably not be desirable until the year 1966, 2 years from now. Congress may decide they want to act earlier, or someone else may decide that.

But looking at the economy and the effect of the income tax cuts, some of which does not go into effect until next year, I think that ought to be allowed to work its way through the economy before we add other tax reductions on top of it.

The CHAIRMAN. When do you think the budget will ever be balanced again?

Secretary DILLON. Assuming that there are no further tax reductions and that we continue along as we are, I see no reason why it should not be balanced in fiscal 1967. Last year, when we were discussing the tax bill, my feeling was that it would be either fiscal 1967 or 1968. Now, on account of the way the economy has reacted to the tax cut and the ability to hold down expenditures in fiscal 1964 and the new budget submitted by the President, I think 1967 looks like a very reasonable estimate.

The CHAIRMAN. You are speaking of fiscal 1967?

Secretary DILLON. Fiscal 1967.

The CHAIRMAN. But how high do you expect the Federal debt to go before the budget is balanced?

Secretary DILLON. Well, on a yearend basis, I would expect it to go somewhere between $320 and $325 billion, on a June 30 basis, the same basis we have been using for these comparisons.

The CHAIRMAN. You mean there would not be any further increases?

Secretary DILLON. I say using the same basis as the table we started off with, which shows $312 billion at the end of this year, I would say possibly another $10 billion at the outside.

The CHAIRMAN. In other words, you expect an addition of $10 billion to the public debt before they balance the budget?

Secretary DILLON. I say at the outside. That is on an average. The President's budget, which has been submitted with these revised figures, shows a figure of a $6 billion deficit for next year, and I am assuming in fiscal 1966 it is possible to reduce that by about half. That is just a very broad assumption, and that would be $3 billion more. Then the next year, balance.

The CHAIRMAN. In other words, a year from now, you will be back asking for a $10 billion increase?

Secretary DILLON. I think the Treasury will be back asking for an increase that will be about the same size.

The CHAIRMAN. Do you not expect to be Secretary of the Treasury a year from now?

Secretary DILLON. No, I do not expect to be, necessarily, Secretary of the Treasury a year from now. It will be a new term and it will be up to events to determine who the Secretary of the Treasury will be at that time.

The CHAIRMAN. Is it your prediction, then, that a year from now somebody, you or some other Secretary of the Treasury, will be prepared to ask for a $10 billion increase?

Secretary DILLON. No, Mr. Chairman, because they will be asking for an increase for the following year. If we have a deficit next year of about $6 billion, such as they now expect, they will have to ask for an increase of about that amount.

Incidentally, last year when we were discussing this, Senator Dirksen asked me to prophesy that far ahead and we indicated at that time that for fiscal 1966 the debt limit might have to be as high as—it might have to be $330 billion. And that looks like—if I had to be asked that same question, I would give the same answer today.

The CHAIRMAN. We are dealing now with 1965, are we not?

Secretary DILLON. Yes.

The CHAIRMAN. In 1966 what would be your estimate of an increase in the public debt?

Secretary DILLON. The same amount as the deficit that we would incur during 1965, which would be approximately $6 billion.

The CHAIRMAN. What about the next year?

Secretary DILLON. Well, if you have no further tax reduction, it would presumably be about half of that.

The CHAIRMAN. Have you abandoned your theory, then, that the reduction of taxes so stimulates the economy that it brings in additional revenue? You say no further tax reductions.

Secretary DILLON. Well, I think the point is that tax reduction to stimulate the economy is desirable at such times as the economy is operating below full employment and needs to be stimulated. We expect that the economy will continue to advance and will reach a state where it is near to full employment. At that point, certainly no one will want to stimulate it further, because you just stimulate it into inflation. So you have to take into account the state of the economy at that time.

The CHAIRMAN. Do you say it is probable that we may have another tax reduction in 1967?

Secretary DILLON. I qualify it, because I think that is a strong desire on the part of the Congress, which I have noticed, to have a substantial reduction in excise taxes. If there is a reduction of several billion dollars excise taxes, that might put off the day for another year.

The CHAIRMAN. Well, now, on April 27, Mr. Heller, Chairman of the Presidential Council of Economic Advisers, told a meeting of business leaders that there was a possibility of tax cuts again and again in the next years.

Secretary DILLON. Well, I think that there are possibilities, but, as I said before, I do not think that they should be even thought of until 1966, and if we want to achieve a balanced budget in 1067, they should not be thought of until 1967. But thereafter, his basis is the same basis that was agreed to in this report of the Republican Critical Issues Committee, which points out that our income under normal circumstances will increase by $5 to $6 billion a year, and you have to do something with that income.

One of the things that can be done with it is to use part of it to pay off debt, another thing is to use part of it for increases in expenditures that are necessary year by year, and the third thing that can be done is to reduce taxes regularly.

The CHAIRMAN. On April 28, the President was quoted as telling the same group that Dr. Heller spoke to that he saw another tax cut in the next few years to come.

Secretary DILLON. I think that is based on the same reasoning, yes.

The CHAIRMAN. Would that be a tax cut that would add to the public debt like the one this year?

Secretary DILLON. No, I think at that point, it would just be using up part of the increased income that would be flowing into the Treasury because of the growth of the economy, and it would not increase, even temporarily, the public debt.

The CHAIRMAN. You predict a total debt in the next year of $317 billion. If and when the budget should ever be balanced, do you think you would advocate using any of the surplus to reduce the public debt?

Secretary DILLON. Most certainly, if we were operating at reasonably full capacity, we should.

The CHAIRMAN. You favor reducing the public debt?

Secretary DILLON. Yes.

The CHAIRMAN. How can you be in favor of reducing the public debt and in favor of reducing taxes at the same time?

Secretary DILLON. It depends on how you divide it. If you have an additional income each year of $6 billion, I think one division might be to divide it three ways: $2 billion to tax reduction, $2 billion to expenditure increase, because as our country grows, our needs will increase, and $2 billion for debt reduction.

The CHAIRMAN. Well, as representing the administration, is there any effort being made to pay off any part of this public debt?

Secretary DILLON. Well, it certainly is one of the things that one would certainly do first when you reach full employment. I think everybody in the administration recognizes that.

The CHAIRMAN. Then you contemplate reducing taxes still further?

Secretary DILLON. Well, instead of using the entire $6 billion to pay off the debt, you might do some of both.

The CHAIRMAN. The cost of the interest on the public debt in this coming fiscal year is $11,100 million, is that correct?

Secretary DILLON. That is the latest estimate, yes.

The CHAIRMAN. And in 1950, the cost of the interest was $5,700 million. In other words, the interest has doubled in 15 years. Is that correct?

Secretary DILLON. In 1951, it was $5.6 billion, yes.

The CHAIRMAN. That is correct, is it not?

Secretary DILLON. That is right.

The CHAIRMAN. Is it not true that when a taxpayer pays his bill as of today, more than 11 cents out of every dollar goes to interest?

Secretary DILLON. That is correct, roughly 11 cents is the percentage of interest to total expenditures.

The CHAIRMAN. Now, Mr. Joseph W. Barr, the Chairman of the Federal Deposit Insurance Corporation, who formerly worked for the Treasury, on June 13 at Hot Springs, said:

> Support the Dillon plan to give the President standby authority to reduce taxes up to five percentage points for a period of 6 months, with an option of extending the cuts for another 6 months.

Did you originate this unconstitutional proposal?

Secretary DILLON. No, sir.

The CHAIRMAN. Why did Mr. Barr call it the Dillon plan?

Secretary DILLON. I think Mr. Barr embroidered considerably on my thoughts. I did say in a speech to the Harvard Business School that it was desirable to work out with the Congress and in accordance with the prerogatives of the Congress some method in which, in the event of a future recession, taxes could be temporarily reduced and then raised again, or in the event of inflation, the opposite, relatively rapidly. But I never made any suggestion in that speech that the authority should be given to the President. I never mentioned the President and I never mentioned any partciular way of doing it. So I do not know why Mr. Barr attributed that part of it to me. That was not my suggestion.

The CHAIRMAN. I asked you do you favor giving to the President the power to reduce taxes?

Secretary DILLON. No, sir, and it is perfectly clear, Mr. Chairman, I favor Congress putting itself in a position so it can act quickly and make reductions within, say, 30 days after they are suggested, rather than taking a year to do this.

The CHAIRMAN. And you think it is constitutional for the President to reduce taxes?

Secretary DILLON. I think if Congress gives him the permission, of course it is constitutional, but only if Congress gives him the permission. Then Congress is actually doing it.

It is the same way they give him permission to raise and lower tariffs under certain circumstances.

Senator WILLIAMS. Do you advocate that we give him that position?

Secretary DILLON. No; I am not advocating that.

The CHAIRMAN. Do you not think you had better get Mr. Barr to stop making statements which get quoted to this effect?

Secretary DILLON. I shall explain to him that my speech did not make that suggestion.

The CHAIRMAN. He is quoted as saying at Hot Springs, Va., in my State:

Support the Dillon plan to give the President standby authority to reduce tax rates 5 percentage points in a period of 6 months, with an option to——

Secretary DILLON. I have not talked to him up until today, and I shall talk to him this afternoon.

The CHAIRMAN. I would suggest that you should talk to him.

Senator SMATHERS. I would suggest that at a meeting in Virginia, Mr. Chairman, he support the Byrd plan.

The CHAIRMAN. If you support the Byrd plan, you would not support a deficit, you know that. We do not have any deficit in Virginia and we are out of debt.

Mr. Secretary, I think you and all of us should bear in mind these facts:

In May 1963, the House passed a bill raising the debt limit by a vote of 213 to 204, a margin of only 9 votes. It indicated great concern about the increase in debt. The House passed the debt limit bill last August by a vote of 221 to 175, a margin of 46. The House passed the debt limit bill last November by a vote of 187 to 179, a margin of 8 votes. The House passed this bill by a vote of 203 to 182, a margin of 21 votes.

I think many of us would feel very much more confident if we had some assurance that there would be an effort to pay some of this debt off. But I gather from your answers to my questions that you have nothing in mind along that line.

Senator Long?

Senator LONG. Mr. Secretary, the economics they teach you fellows up there in those Ivy League colleges may not be the same thing we boys learn in the land-grant colleges, and I want to check out with you the best I can what I make of it.

Secretary DILLON. I would like to make it clear that I have never taken a course in economics.

Senator LONG. I am sure you took one in banking and currency, either in the school of hard knocks or in college. You got some of it somewhere; it had to rub off somewhere.

My understanding from what my economics teachers tell me is that an expanding economy requires an expanding money system; in other words, that your money supply has to expand as your economy expands.

Secretary DILLON. Yes; I would say yes.

Senator LONG. Now, from what I understand also, from the point of view of an economist, your money supply includes your credit, or to put it another way, the debt. Debt is just the opposite side of credit. Credit is on one side of the coin and debt is on the other. You cannot have credit without somebody being in debt, is that correct?

Secretary DILLON. They often count various things in calculating the money supply, and one of these is short-term government debt. They do not usually count the longer-term debt.

Senator LONG. But looking at it in a larger sense, not in terms of a definition for government purposes, but in terms of the broader point of view of the economist is not your debt a part of your money supply. Debt creates credit. You have credit on one side and debt on the other. You cannot have one without the other, sort of like love and marriage. You have to have the two together.

I am corrected, you should have the two together. [Laughter.]

Now, is it not correct that as our gross national product increases, from an economist's point of view, it is absolutely essential that your money supply increase as well?

Secretary DILLON. That is right.

Senator LONG. So your credit structure as well as your debt structure must expand with your gross national product.

Secretary DILLON. That is correct. The money supply obviously has to be larger to handle a larger volume of business.

Senator LONG. Assuming that we were able to reduce or eliminate the public debt, would it not be necessary from the economist's point of view that we have a corresponding increase in the private debt?

Secretary DILLON. That is very likely true, and that is probably the reason why the very rapid increase we have had in the private debt in the last 10 years has helped to fuel the growth of the economy while the public debt has grown very slowly and actually decreased in relation to the gross national product.

Senator LONG. How much of this public debt is held in the form of bonds by the Federal Reserve Board in the Federal Reserve banks?

Secretary DILLON. About $34 billion.

Senator LONG. Is not the Federal Reserve System a Government organization to the extent that we can regard that as a debt that we owe ourselves?

Secretary DILLON. Well, the Federal Reserve System, of course, is an independent organization, but it is a part of the Government, so I do not think it would probably be worth while to enter into long arguments as to whether it is part of the executive branch or is not. But it is certainly a Government organization and certainly, this is, in a way, in that sense, owned by the Government.

Now, there is an additional, nearly $60 billion in Government investment accounts.

Senator LONG. $60 billion in Government investment accounts in addition to that $34 billion?

Secretary DILLON. Yes, the actual figure is $59.5 billion.

Senator LONG. So there is then $183 billion that the Government holds which the Government owes to the Government. Is that correct, generally speaking?

Secretary DILLON. Well, it is $60 and $34 billion, that makes $94 billion.

Senator LONG. Pardon me, you are right and I am wrong. So there is $94 billion which actually is owned by the Government, either in trust accounts which the Government holds and toward which the Government has a continuing liability, or in the Federal Reserve holdings. Look at it in terms of a man who has money in the bank and is borrowing from that same bank, who is applying his own deposit in the bank against what he owes the bank. In terms of saying what is your net liability, you would have to reduce your net liability by that $94 billion, would you not?

Secretary DILLON. It would be something lower; yes.

The CHAIRMAN. Would the Senator yield at this point?

Senator LONG. Yes.

The CHAIRMAN. That $94 billion includes social security.

Secretary DILLON. That is right.

The CHAIRMAN. Certainly that is not a debt that the Government owes to itself. It is a debt that it owes to all of these millions of people in the social security plan.

Senator LONG. The chairman is privileged to look at it that way, as I am sure he does. I look on it from a slightly different point of view, which I am privileged to do, I believe.

That is, that in any event, to make these social security payments, we must tax the public, either directly for the social security funds, or with another tax to pay the interest—one is a social security tax and the other is an income tax.

In any event, we have to extract that money from the public in order to make those social security payments.

Secretary DILLON. That is where this money comes from, because we have built up $60 billion in Government investment accounts by taxing our people more than we have paid out in social security and other trust funds.

Senator LONG. So while we owe the obligation to pay those social security payments, we shall have to tax the people to do it. I know of no desire to reduce the size of those trust funds. So as a practical matter, as far as the public debt is concerned, that is something we owe ourselves.

Now, this $34 billion held by the Federal Reserve, if I understand it, would be held on the basis that the money supply needed to be increased by $34 billion, and therefore, that the Federal Reserve bought $34 billion of bonds and put that much money in circulation. Would that be a fair statement?

Secretary DILLON. That is an absolutely correct statement over a period of time. They did not buy them all at once, but over a period of time to increase the money supply.

Senator LONG. If we were to increase the debt so rapidly that the money supply were to get too large, to get out of hand, it would be the burden of the Federal Reserve Board to sell off some of this $34 billion to tighten up the money supply, would it not?

Secretary DILLON. That is exactly right.

Senator LONG. You stated that the debt has been increased by $22 billion while you have been Secretary. That works out to an increase of about 9 percent. Will you tell me how much the gross national product has increased during that same period?

Secretary DILLON. Well, the gross national product has increased from $500 billion to nearly $625 billion now, so it has increased about 25 percent.

Senator LONG. How much has personal income increased during that same period?

Secretary DILLON. Well, I would have to get some figures here.

Personal income has increased slightly less, but it has increased from about $410 billion at the end of fiscal 1961 to nearly $490 billion now. It is about 17 percent.

Senator LONG. Has Government income increased during that period?

Secretary DILLON. The income of the Government has increased very substantially, our tax income.

Senator LONG. Can you give us the gross?

Secretary DILLON. I have it right here. Our calendar year receipts in the year 1961 were $78 billion and they are estimated this year, with the tax cut, which will be in effect for 9 months of the year, at $89.5 billion, which is an $11 billion increase, or about one-seventh, which is about 14 percent.

Senator LONG. Suppose you discount that tax cut for a moment and give us what it would be without the tax cut.

Secretary DILLON. If there had not been a tax cut this year and if the economy had moved ahead, we probably would have had $92 or $93 billion.

Senator LONG. What percent would that be over the period?

Secretary DILLON. That would be close to 20, 18 percent, something like that.

Senator LONG. Mr. Secretary, the point I am getting to is it seems to me that if you are running a business and you are in a position to see that your gross has increased by 25 percent, that your net income is up by 17 percent, that without the tax cut or without the additional payments to your stockholders that you made out, that you are making 20 percent more, but that even after you allow for paying more out to the people who are in the corporation with you, that Government receipts are still up 14 percent, but 20 percent if you disallow the dividends you have been paying out, it seems to me you have a pretty solid investment. Upon that basis, I would say that if I had to choose between a reduction in personal income, a reduction in gross income and a reduction in national income on the one hand and a small reduction in debt on the other, I would say as a growing establishment, I would rather increase my debt somewhat and increase my operation by a much larger amount than that. I would say that the economy is on a very sound operating basis. I would like to know if that is how you feel about this matter.

Secretary DILLON. Very much so, particularly because over the last 4 or 5 years we have had the best record for many years of price stability in addition to this. So this growth is a real growth, not just inflation.

Senator LONG. I read an article by Walter Lippmann this morning before I came here that said that this economy has been so stable during the past few years and is expanding so rapidly that it is bringing some of these dollars back home voluntarily without your having to take control measures to get them here.

Secretary DILLON. I think that is beginning to happen; yes.

Senator LONG. When it looks good enough that the fellow not in on our deal wants to join up, or bring it home from Europe, that means it is on a pretty sound basis, does it not?

Secretary DILLON. That is right.

Senator LONG. That is all I have.

The CHAIRMAN. Mr. Secretary, I have one question that I wanted to ask you. I ask you to furnish a memorandum, if necessary. I have been informed that the Veterans' Administration, FNMA, and the Export-Import Bank propose in the budget to sell certificates outside of the public debt.

Secretary DILLON. They have been selling their assets to the public and then reimbursing the Government. Last year, in fiscal year 1963, that was about $1 billion, and this year, it will be about the same.

The CHAIRMAN. Is that included in the public debt?

Secretary DILLON. These are not included in the public debt, their holdings, no.

The CHAIRMAN. How many different agencies of the Government had sold securities of one form or another and entered into obligations that are not included in the public debt?

Secretary DILLON. I shall have to supply that.

The CHAIRMAN. I would like you to give the committee a memorandum on that, because it seems to me that if the Export-Import Bank owes money the Government must have some liability, and someone must pay the interest and redeem the obligation.

Secretary DILLON. The Congress has never chosen to do so because they considered their assets were all very good assets, and of course, the Export-Import Bank regularly pays substantial dividends.

The CHAIRMAN. Does that apply to the Veterans' Administration, too?

Secretary DILLON. They have mortgages on houses. So far, they have made money on them when they have been foreclosed.

The CHAIRMAN. They propose to borrow their holdings in a pool this year. I would like to have a memorandum on that.

Secretary DILLON. Yes, sir.

(The following statement was supplied for the record.)

The following Federal agencies have securities outstanding that are not included in the debt subject to limit. These securities are secured by the assets of the issuing corporations but are not guaranteed by the Government.

Interest-bearing securities issued by Federal agencies not guaranteed by the U.S. Government

[In millions of dollars]

	Outstanding Apr. 30, 1964
Banks for cooperatives	$534
Federal home loan banks [1]	3,627
Federal intermediate credit banks	2,156
Federal land banks [2] [3]	2,973
Federal National Mortgage Association:	
Management and liquidation issues	None
All other issues	1,781
Tennessee Valley Authority	180
Total	11,250

[1] The proprietary interest of the United States in these banks ended in July 1951.
[2] The proprietary interest of the United States in these banks ended in June 1947.
[3] Figures do not include securities which are issued for use as collateral for commercial bank borrowing and not as a part of public offerings. They include small amounts owned by Federal land banks.

Certain Federal agencies have purchased or otherwise acquired financial assets over the years and have subsequently sold some of their holdings to non-government purchasers. These financial assets may be held by the agencies or by private investors. They are not considered obligations of the selling agency, but are sales of specific assets owned by the agency.

Under the pooling arrangements of Export-Import Bank, and the proposed pooling of FNMA and VA home mortgages, rights to interest and principal payments are pooled and participations in the pools sold to investors. The resulting dispersion of risk and more centralized servicing features appeal to a wider range of investors and permit sale of these assets on more favorable terms than would otherwise be possible. The same procedure has been followed successfully by the Commodity Credit Corporation on its crop loan program in recent years. The budget for fiscal 1965 envisages $700 million of such sales by the Export-Import Bank and, when the enabling legislation is passed, $300 million by FNMA and VA.

The current status of the asset sales programs is shown in the table below.

Sales of mortgages and other financial assets

[In millions of dollars]

	Fiscal years—				
	1963 actual	1964 estimate		1964 actual through Apr. 30	1965 estimate budget document
		Budget document	May 1964		
Housing and Home Finance Agency:					
Community Facilities Administration:					
College housing loans	....	50	42	27	50
Public facility loans	2	10	10	9	25
Federal National Mortgage Association:					
Special assistance function	293	348	85	72	348
Management and liquidating function	14	50	60	47	167
Proposed pool participation	....	....	....	....	200
Federal Housing Administration	32	....	....	....	
Public Housing Administration	....	53	50	49	....
Veterans' Administration:					
Direct loans	181	150	138	112	200
Loan guarantee revolving fund	279	222	222	174	263
Proposed pool participation	....	....	....	....	100
Export-Import Bank	336	703	432	432	900
Small Business Administration	5	7	7	4	12
Total	1,142	1,593	1,046	926	2,274

Source: Bureau of the Budget.

Senator WILLIAMS. The sale of the bonds by the Veterans' Administration and the FHA, would you say they have approximated a billion dollars in the last 2 fiscal years?

Secretary DILLON. To the public, yes, a billion dollars a year.

Senator WILLIAMS. Has this not been described as a part of the fiscally irresponsible measure that the Government has to resort to to hold down its debt? A couple of years ago, when we were speaking about holding down the debt ceiling, if I recall correctly, you said that this is one of the things you would have to resort to and you referred to it as being a fiscally irresponsible procedure. I wonder now why you are following that fiscally irresponsible procedure voluntarily on a different basis?

Secretary DILLON. That was for a different purpose. It depends on what your purpose is. If your purpose is to raise money to pay other Government bills and it costs you more than by the Government borrowing, itself, then that is not responsible, I do not think.

On the other hand, basically it has been our feeling—and I think that this is generally concurred in by the whole financial community of the country—that it is advisable to turn over to the private financial community as much of the credit operations as it is possible to do; in other words, not to have the Government overly competing with private enterprise to do things which they are willing to do.

So for that reason, the Federal National Mortgage Association, the Veterans' Administration, and so on, take the mortgages which they own and offer them for sale, and anyone who wants to buy them permanently does buy them and then these funds return into the pool and these organizations do not need to draw on the Government for additional financing during whatever that current year may be.

Senator WILLIAMS. Am I correct in recalling that the budget proposes that these certificates, to the extent of nearly $1 billion, are to be offered to the public?

Secretary DILLON. Assets have been sold; they are not certificates. What has been sold this year has been just the actual mortgages, individual mortgages on individual houses. They have made a proposal in the budget that some special authority be given to pool these, and that is what I was going to furnish the memorandum to Senator Byrd about. That requires legislation, though.

Senator WILLIAMS. As I understand it, you consider it is sound financing when you do it voluntarily and fiscally irresponsible when Congress puts you in a position where you have to do it?

Secretary DILLON. If you have to do it to raise money for the debt limit, I do not think that is fiscally responsible and neither did my predecessor, who had been forced to do it, and neither does the Comptroller General of the United States who has criticized it. When it is just a question of getting rid of these mortgages and allowing a private sector of the economy that wants to invest in them to have them and carry them, I think that is fiscally sound.

Senator WILLIAMS. I can follow your reasoning in one direction, but I cannot get across the fence as fast as you can.

Now, I am inclined to agree with you on one statement that you are making in your remarks that the proper place to control expenditures is in the appropriation process, and the Federal agencies which spend the money.

As I understand it, you feel that once Congress appropriates this money, you have no choice except as Secretary of the Treasury to finance this by borrowing the money if there is not enough revenue.

Secretary DILLON. Of course, the President has certain authority, very wide authority in the defense field and less wide authority in other areas, not to spend money that has been appropriated by the Congress. But to the extent that it is actually spent, the role of the Treasury is merely to pay the bills. We do not control the spending by the various other departments of the Government after money has been appropriated to them by the Congress.

Senator WILLIAMS. I am inclined to agree with you on that point, that while the executive branch can hold down expenses and has a responsibility, the Congress likewise should hold down its appropriations.

Secretary DILLON. Right.

Senator WILLIAMS. I think the President has suggested that these appropriations be held down to last year's level and that we not add extra money on the appropriations this year, is that not correct?

Secretary DILLON. Yes, he submitted a budget that showed less expenditures next year, and I think in the new obligational authority, about the same amount.

Senator WILLIAMS. Therefore, if Congress is sincere in its pronouncements of economy, as it approves these appropriation bills, it should hold them down not to exceed last year's appropriations. Do you not think this is our responsibility?

Secretary DILLON. I think in the total appropriation for all departments and agencies. That does not apply to every bill. Some go up and some go down.

Senator WILLIAMS. Of course, in Congress, we run into the situation, where you can always justify something as being meritorious and we have the painful task of telling the respective agencies that overall, your appropriations have to be within last year's limits. But each agency tries to justify its own increase. But does not Congress have a responsibility to look at these objectively and say to each of these agency heads that you have to live within last year's income and go back and cut your pattern a little bit lower?

Secretary DILLON. I do not think we can do that to each agency. I have always felt that there is a fault in the budgetary process in that there is not an opportunity for the Congress to look at the overall budget as a whole at any point. There is a provision in law for that, but Congress has not followed it for some years. Therefore, you miss that opportunity.

Now, certainly, there are some agencies such as the Post Office, where the volume of mail just increases, the Revenue Service where the volume of tax returns increases, where you do need additional personnel. Overall, however, there are going to be some decreases, some substantial ones in the defense area, and that will take up whatever the necessary increases are, so the budget as a whole came out with slightly less expenditures next year than this year.

Senator WILLIAMS. Of course, our great trouble is everybody talks economy for the other fellow. Each agency comes down and, as you say, they tell us that the overall cut should be made, but do not cut mine. I notice that this afternoon, we are acting on your appropriation. The Treasury Department is asking for 3.5-percent increase over last year. Yesterday, the Secretary of the Interior asked for a 7.5-percent increase.

Each one said, cut the other one, but do not cut me.

Secretary DILLON. No, I do not think I said cut the other one there. I think the Interior Department is justified, too. The only one who has an opportunity, the way we operate our present system, to look at the budget as a whole is the President and his Director of the Budget. They submit the budget as a whole and they came out even. But they decided certain things should go up and other things go down.

Senator WILLIAMS. If we adopt the budget as submitted by the President this year without any increases or reductions, we shall be appropriating $6.5 billion more than was appropriated last year?

Secretary DILLON. I do not think so.

Senator WILLIAMS. Well, get the figures. How much was appropriated last year, $92.4 billion, was it not?

Secretary DILLON. I shall have to submit a memorandum, but I have been told that the present estimate of new obligational authority voted by the Congress during this fiscal year is about $100 billion.

Senator WILLIAMS. Last year, President Kennedy asked for $98.8 billion. This year President Johnson asked for $97.9 billion, and boasted about the fact that that is about $900 million less. That is correct. But President Kennedy's $98.8 billion was cut by $6.4 billion last year. If we give President Johnson what he is asking for this year, you will get $5.5 billion more and every agency is doing exactly what you are doing this afternoon, asking for an increase in their budget but not the others.

Would you support or recommend that Congress recommit these bills with instruction to cut them back to last year's appropriations on each of the agencies, and would you accept that, beginning with your own?

Secretary DILLON. No.

Senator WILLIAMS. That is the answer we get from all of them.

Secretary DILLON. No, the Defense Department is asking for a billion dollars less than they did last year.

Senator WILLIAMS. But if we follow your percentage, then you will have $3.5 to $5 billion more.

Secretary DILLON. No, I do not think you would. As I said, I would like to submit a memorandum on that. Congress must have appropriated considerably more than $92.4 billion for this fiscal year—fiscal year 1964—because we are spending $98 and we could not spend $98 if you did not have it appropriated.

Senator WILLIAMS. Oh, no, you have carryover authority.

Secretary DILLON. It does not work that way. I do not have the figures here.

Senator WILLIAMS. What is the estimate of the loss in revenue next year?

Secretary DILLON. Here is the figure in the January budget document, which shows the revised 1964 estimate of new obligational authority of $102.6 billion. So it is just a difference in figures. I do not know where that $92 billion came from, but it appears to be approximately the amount of the appropriations enacted in the last session of Congress not including the permanent annual appropriation, such as interest on the public debt.

Senator WILLIAMS. I am speaking of the actual appropriations.

Secretary DILLON. There are some permanent appropriation that require action in the regular appropriation.

(The following statement was supplied for the record:)

In the budget submitted to the Congress on January 21, 1964, new obligational authority for the fiscal year 1965 was recommended in the amount of $103.8 billion. This recommendation was $1.2 billion above the 1964 new obligational authority of $102.6 billion (including additional recommendations in the 1965 budget document). The table below shows the original recommendations for 1964 and 1965, the amount enacted by Congress in the first session, and the additional recommendations that would affect 1964.

New obligational authority, 1964–65

[In billions of dollars]

Fiscal year 1964:	
Original recommendation, January 1963	[1] 107.9
Enacted by Congress in 1st session (Dec. 30, 1963)	98.3
With revisions and additional recommendations through January 1964	102.6
Fiscal year 1965:	
Recommendations, January 1964	103.8

[1] This amount was amended downward during the year by more than a billion dollars. An official amended figure as of Dec. 30, 1963, is not available.

Detail on the differences between the new obligational authority for 1964 enacted by the Congress in the first session ($98.3 billion) and new obligational authority for 1964 as carried in the 1965 budget document ($102.6 billion) is shown below.

New obligational authority, 1964–65

[In billions of dollars]

I. Supplementary appropriations	2.2
1. To carry out legislation enacted at the last session of Congress	1.6
(a) Uniform Services Pay Act of 1963	.9
(b) Loans and grants to assist in the construction of facilities for higher education	.8
(c) Assistance to school districts in areas affected by Federal activities	.8
(d) Other (including changes in the manpower development and training program and beginning of a program to rehabilitate the territory of Guam)	.1

New obligational authority, 1964-65—Continued

[In billions of dollars]

I. Supplementary appropriations—Continued	
2. Congressional reconsideration of reductions made in the President's original 1964 recommendations	.5
(a) To maintain the average military strength approved by the Congress and to meet requirements for retired pay	.2
(b) To permit the development and procurement of long leadtime items needed to achieve the goal of a manned lunar landing within this decade	.1
(c) For public assistance grants to meet the requirements for payments to beneficiaries	.2
3. Other (to meet uncontrollable and emergency requirements such as those for the payment of unemployed compensation benefits for Federal employees and ex-servicemen, the fighting of fires in the national forests, parks, and rangelands, the payment of wage increases set by wage boards, payments to sugar producers as required by the Sugar Act, and miscellaneous interfund items)	.2
II. Housing legislation	1.4
III. Other (including cropland conversion, youth employment opportunities, Mexican land settlement)	.2
IV. Contingency funds	.2
Total	4.2

Senator WILLIAMS. What do you estimate will be the loss in revenue of fiscal 1965 as a result of the tax reduction which we enacted last year?

Secretary DILLON. Loss in revenue as a result of the tax reduction, I think, in 1965, about $4.5 billion. That is on the basis that the economy would have continued to advance at the same moderate rate that it had been advancing for the preceding 2 or 3 years. Now, if we had not had the tax reduction, and we had had a turndown sometime during this year—and it would have been very likely without the tax reduction—then there would not be any loss of revenue at all.

Senator WILLIAMS. This is an "iffy" answer. If we get to the moon and we find out it is made of gold and can bring it back, we have no gold shortage.

Now I will ask the question again. You answered it up here earlier and I want the same answer now on the record. How much is being pumped into the economy next year as a result of reducing taxes?

Secretary DILLON. That is different. You said how much is our net loss in revenue.

The gross, the question you ask me now, which is different from what you asked me before, is what is the gross effect of the tax cut.

Senator WILLIAMS. That is right, of cutting these taxes.

Secretary DILLON. The best estimate of that is that it was about $1.6 billion in the fiscal year that ends on June 30, and a total of about $8.5 billion on the fiscal year ending in 1965, which means an additional nearly $7 billion in that fiscal year, about $6.9 billion in that year.

Then, in the following fiscal year, which is the fiscal year 1966, when it will be fully in effect, there will be an additional billion and a half, for a total revenue effect of $10 billion, which is the total revenue loss.

The revenue act reduced taxes by about $11.5 billion, but as you will recall, they also accelerated the payments of taxes by corporations, so the revenue loss to the Government is less and its highest point is $10 billion.

Senator WILLIAMS. You have answered my question, but it was lost in the middle, so I shall ask it again. How much of the reduction will be pumped into the economy as a result of this tax reduction for fiscal year 1965?

Secretary DILLON. No; $1.5 billion of that came this year, and there will be about $7 billion more next year. So there will be $7 billion next year, for a total of $8.5 from the beginning of the tax cut to the end of the next fiscal year, which will be a period of about 16 months.

Senator WILLIAMS. Is there any way to separate that to say how much is the reduction for fiscal year 1965?

Secretary DILLON. Yes; I said $7 billion.

Senator WILLIAMS. How much are you asking to increase this debt, by $9 billion?

Secretary DILLON. By $9 billion.

Senator WILLIAMS. Then $7 billion of this $9 billion can be said to go to offset the tax reduction loss of revenue?

Secretary DILLON. Not at all, because the tax reduction increased the economy, and out of that increased economy, we get substantial new taxes.

Senator WILLIAMS. That is an assumption.

Secretary DILLON. No, it is a fact. It was an assumption before; it is a fact now.

Senator WILLIAMS. It may be a reasonable assumption, but you have no way of knowing what will happen beyond July, do you?

Secretary DILLON. We have no way of knowing what will happen beyond July, but it has already had that effect so far.

Senator WILLIAMS. How much has the debt been increased since you have been in office?

Secretary DILLON. I think it was—I will have to look at those figures again. About $21 or $22 billion.

Senator WILLIAMS. What was the debt 4 years ago, at the end of the fiscal——

Secretary DILLON. Fiscal 1960? That was $286.5 billion.

Senator WILLIAMS. It is around $313 billion today, is it not?

Secretary DILLON. Yes, so it is an increase of around $25 billion in the last 4 years.

Senator WILLIAMS. And it is costing around $1 billion per year interest charges, is it not, to finance this deficit of the last 4 years?

Secretary DILLON. Not quite.

Senator WILLIAMS. What would you estimate that it is costing to finance the deficit created in the past 4 years?

Secretary DILLON. The average cost is about 3.5 percent, so if you take $25 billion and 3.5 percent, it comes to $875 million, roughly.

Senator WILLIAMS. To finance this deficit.

Secretary DILLON. Annual interest cost.

Senator WILLIAMS. What is the estimated interest charge for next year?

Secretary DILLON. About $11.1 billion.

Senator WILLIAMS. What were the interest charges the first year you came into office?

Secretary DILLON. About $9 billion, I think.

Senator WILLIAMS. It is costing the taxpayers $2 billion more to finance the debt today than it did 4 years ago, is that correct?

Secretary DILLON. That was not 4 years ago.

Senator WILLIAMS. Then three and a half, when you came in.

Secretary DILLON. At that point, we were in a recession, and as a result, the short-term interest rates were at a very low level. We were having a very substantial gold outflow as a result, and that had to be reversed. So I would say a great part of this increase in interest is due to the increase in the average interest cost of the Federal debt.

Senator WILLIAMS. It is interesting to hear you say that a substantial part of the increased interest charges of this administration is due to raising the interest rate. I recall a lot of criticism about the high interest rates in the preceding administration.

Secretary DILLON. Well, they went much higher in the year 1959 and early 1960 than they have ever gone since. I think that is what the talk was about, that sudden sharp increase in interest rates. But the average level of rates on outstanding governments now is overall higher than it was in 1961 by nearly half of 1 percent.

Senator WILLIAMS. I have one further question.

Do I understand that notwithstanding all the press reports to the contrary, you would be opposed and would not recommend that Congress give any standby authority to the President to cut taxes?

Secretary DILLON. Well, I did not say I would be opposed to it if Congress wanted to do it. I said I did not recommend it. Actually, I think the best system would be a system whereby the Congress, by previous study, had an understanding that a request by the President on an emergency basis would be handled in emergency fashion so that it would be handled in a rapid period of time through the normal processes of committee work and so forth, and acted on and voted up or down by the Congress. I think that would be the best way to do it.

Senator WILLIAMS. We would be back where we are now. Congress can always make a recommendation for a quickie cut.

Secretary DILLON. That is right.

Senator WILLIAMS. It does not embrace us giving any advance authority to the President?

Secretary DILLON. No; I do not think that is necessary at all. I just think it is necessary that Congress ought to fix its own procedures so that it could act rapidly if circumstances require.

Just to complete the record it should be mentioned here that even the proposal recommended by President Kennedy in 1962 did not involve any exclusive authority in the President, since even under that proposal Congress would have had 30 days in which to disapprove any reduction.

The CHAIRMAN. Senator Smathers?

Senator SMATHERS. Mr. Secretary, first I hope you never do recommend to us that we turn over to the President the authority to cut taxes. I do not think you will.

Let me ask you a couple of questions briefly. With respect to the increase in the debt ceiling, is this a matter that just has arisen since you have been the Secretary of the Treasury, or has the debt ceiling been rising rather regularly and periodically, even under previous Secretaries of the Treasury?

Secretary DILLON. Yes; it has been rising rather steadily for quite a period.

Senator SMATHERS. Do you recall how many times, for example, from 1958 to 1960 that the request was made of the Congress and the Congress did in fact raise the debt ceiling?

Secretary DILLON. I would say three or four times. I have the exact figures here.

Senator SMATHERS. The last figure is that it was six times, six or seven times.

Secretary DILLON. Well, you are probably right.

The CHAIRMAN. I think that includes the Korean war, does it not?

Senator SMATHERS. Well, the Korean war occurred during that time.

The point is that the debt ceiling was, as I recall even sitting as a member of this committee, Secretary George Humphrey and Secretary Bob Anderson, both of whom I have the greatest respect, recommended to us that we raise the debt ceiling in order that they could properly handle the affairs of the Government.

Senator Talmadge has given me information that it was raised four times from 1958 to 1960.

In any event, you do not have that figure there?

Secretary DILLON. No; I can find it. It was four or five times.

Senator SMATHERS. Well, in the House, I noticed on the floor in the debate that Mr. Boggs of Louisiana stated categorically that it was seven times and nobody disputed it.

Senator WILLIAMS. Suppose he furnishes for the record what it was and how many times it has been raised since he has been Secretary of the Treasury.

Secretary DILLON. I would be glad to.

(The following statement was supplied for the record:)

When Secretary Dillon took office on January 21, 1961, the statutory debt limit under the Second Liberty Bond Act as amended was $293 billion. Since that date, Congress has taken six actions affecting the limit. Of these, five increased the total debt authorization and one continued an existing authorization. The legislative record is as follows:

Date and statute	Action taken	Ceiling on debt subject to limit
June 30, 1961, 75 Stat. 148	Increased sec. 21 limitation by $13,000,000,000 during period beginning July 1, 1961, and ending June 30, 1962.	$298,000,000,000
Mar. 13, 1962, 76 Stat. 23	Increased sec. 21 limitation by $2,000,000,000 (in addition to temporary increase of $13,000,000,000 in act of June 30, 1961) during period beginning Mar. 13, 1962, and ending June 30, 1962.	300,000,000,000
July 1, 1962, 76 Stat. 124	Increased sec. 21 limitation during the periods:	
	(1) Beginning July 1, 1962, and ending Mar. 31, 1963, to.	308,000,000,000
	(2) Beginning Apr. 1, 1963, and ending June 24, 1963, to.	305,000,000,000
	(3) Beginning June 25, 1963, and ending June 30, 1963, to.	300,000,000,000
May 29, 1963, 77 Stat. 50	Increased sec. 21 limitation during the periods:	
	(1) Beginning May 29, 1963, and ending June 30, 1963, to.	307,000,000,000
	(2) Beginning July 1, 1963, and ending Aug. 31, 1963, to.	309,000,000,000
Aug. 27, 1963, 77 Stat. 131	Increased sec. 21 limitation during the period beginning Sept. 1, 1963, and ending Nov. 30, 1963, to.	309,000,000,000
Nov. 26, 1963, 77 Stat. 342	Increased sec. 21 limitation during the periods:	
	(1) Beginning Dec. 1, 1963, and ending June 29, 1964, to.	315,000,000,000
	(2) Ending June 30, 1964, to	309,000,000,000

Senator SMATHERS. Of course, we know that since you have been in, last year we had three different requests. You were over here three different times.

Secretary DILLON. Three different times, one of which was just to hold it level, and two of which were for increases.

Senator SMATHERS. Suppose we had a balanced budget in fiscal 1965, would you still have to come before us and ask for an increase in the national debt?

Secretary DILLON. At this time, yes, for a very substantial one because of the fact that we have run a deficit, under the latest estimates, of something just under $9 billion, which means that our cash position, our debt position of the Treasury, is $9 billion, roughly, worse on June 30 of this year than it was a year ago.

So then, to take care of the seasonal flows of revenue which I mentioned earlier, we would have had to have a very substantial increase. I think that if we were to have a balanced budget next year, the difference in the increase, we would probably have to ask for an increase of about $7 billion instead of $9. It is only about $2 billion, reflecting the $6 billion deficit that is being thought of next year.

Senator SMATHERS. So the net of what you are saying is that even with a balanced budget, the Government would still have to have an increase in the debt ceiling?

Secretary DILLON. A very substantial one, because the debt level in any given fiscal year largely reflects what happened in the preceding fiscal year.

Senator SMATHERS. I notice on the actual public debt and statutory debt limitation shown on a semimonthly basis for fiscal years 1963 and 1964, you reached the top figure of debt of $313.2 billion.

Secretary DILLON. That was this year, just about the middle of June, yes.

Senator SMATHERS. And you had a statutory debt limitation during that time of $315 billion.

Secretary DILLON. That is right.

Senator SMATHERS. So there was a net difference of $1,800 million?

Now, why did you not borrow more money and reach that debt ceiling?

Secretary DILLON. Because we borrow just as little as we can. Actually, when I came before this committee last October, we estimated that our top figure would be about $314 billion and we were able, primarily because of lower expenditures, to reduce that figure so that the top figure was only $313 billion. We do not, just because we had a debt limit, we do not go and borrow all the money that we can. We try our best to be prudent and we only borrow what we need.

Senator SMATHERS. So we can conclude from the fact that you had a $1,800 million leeway, which you could have reached borrowing and you did not do it, that this year if we raise the debt ceiling to the requested figure, if you do not need it, you will not borrow it?

Secretary DILLON. Oh, yes; and if the figures work out as we hope and expect them to and there are no problems, unforeseen problems that arise, we would not use that $3 billion leeway which we request for safety purposes. So, therefore, the actual debt probably would not go above about $321 billion.

Senator SMATHERS. Let me ask you this question. Suppose we did not raise the debt ceiling or we restricted it to a lower figure then that which you have asked and some emergency in South Vietnam or Cuba or Brazil or wherever these emergencies might happen to arise, what would be the consequences of that emergency with respect to its effect on the operation of your Department, the Treasury?

Secretary DILLON. Well, if we could not get the Congress back to properly raise the debt limit at that time, and if this is a restriction that is one that it is impossible to live within without defaulting, you would have to raise money by unorthodox methods, as has been done in the past, which we talked about earlier, which would bring a certain amount of criticism and would cost us more money.

The second thing would be to stretch out and not pay your bills. That is what was done, I think in the late fall of 1957 and the early part of 1958, when there was too tight a debt ceiling and defense contracts were stretched out, bills just not paid and the results were not very happy for the economy. It helped to push us into a recession and we suffered for that.

Senator SMATHERS. What year was that?

Secretary DILLON. The end of 1957 and early 1958. The Congress, when they came back in 1958, promptly raised the debt limit but during an attempt to live through that period, they had to be slow in paying their bills when they were due and just tell the defense contractors that they would have to wait.

Senator SMATHERS. So, Mr. Secretary, from what you say, I gather you could categorically state that if the Congress does not provide you with a sufficiently high debt ceiling, and if some emergency should arise, or if it is not sufficiently high for you to meet the bills, the normal bills of the operation of the Government, actually, it costs the taxpayer and the Government more money and does not, in effect, result in any savings.

Secretary DILLON. Undoubtedly, that is true.

Senator SMATHERS. So that is why, as I gather, you are here now asking for a rise in the debt ceiling to $324 billion?

Secretary DILLON. That is right.

Senator SMATHERS. I have no further questions.

The CHAIRMAN. The Chairman would like to say that Secretary Humphrey requested an increase in the debt ceiling and it was defeated by this committee.

Senator Curtis?

Senator CURTIS. Mr. Chairman.

Mr. Secretary, what is the Government paying for money on an average now, on the debt?

Secretary DILLON. Actually, the rate is 3.55 percent.

Senator CURTIS. According to my calculation, if we increase the debt by $1 billion, the amount that we add to the interest load is $35,500,000?

Secretary DILLON. That is right.

Senator CURTIS. So every time the Government runs behind $1 billion, that $35.5 million has to be paid in interest every year until the overall debt is reduced by $1 billion?

Secretary DILLON. As long as the average interest cost stays the same.

Senator CURTIS. It is interesting to note that in fiscal 1963, the cost of running the U.S. Senate was $29,310,000. In fiscal 1964, it was $29,910,000. It is estimated that in fiscal 1965 it will be $29,825,000.

In other words, every time we increase the debt by a billion dollars, we place a burden on the taxpayer in the way of interest in excess of the cost of running the U.S. Senate. These costs include the salaries of Senators, compensation for the Vice President when we have one, the mileage, the expense allowances for Members and majority and minority leaders, the salaries of all of office employees and legislative accounts, contingency expenses, policy committees, automobiles and maintenance, furniture, inquiries and investigations, folding documents, mail, transportation, miscellaneous items, postage stamps, stationery and communications, payments to widows of Members, our deficit in the restaurant—which I am not proud of—and our share in paying for joint committee expenses.

The comparable cost figures for the House are larger. They spent $52,988,000 in 1963, $57,114,000 in 1964; and an estimated $58,070,000 will be required in 1965.

So, if we run behind, say, $5 billion a year on an average and it looks like that is about what we are doing, maybe it is a little more—a quick calculation indicates an increase in interest of about $177.5 million a year.

Secretary DILLON. That is correct.

Senator CURTIS. Added to the current cost of Government. It would figure about twice the cost of the Senate and the House of Representatives. I am not defending these costs; I think we should keep those down.

Now, I want to get something a little bit more clear about the effect on debt when we dispose of assets that we own, such as the Veterans' Administration-owned mortgages and other agencies' mortgages. Is it not true that while selling these mortgages lessens the need for borrowing, it does not actually improve our financial position because we have parted with something of value? Is that not correct?

Secretary DILLON. Yes, you exchange a mortgage that is of value for cash. So you now have cash instead of the mortgages. The reason that we count that as a receipt is that we also count it as an expenditure when the administration pays out money, even though it acquires something of value, as you mentioned, at the same time.

Senator CURTIS. I want to make a comparison, and if I oversimplify it, I want you to correct me.

Secretary DILLON. Yes.

Senator CURTIS. Suppose a boy has expenses of $1,000 a year and he is self-supporting. He has income of $900. So he goes in debt $100. But he owns a bond that is worth $50. He sells that bond, so his actual need for cash to pay his debts is only $50 but he has still run behind $100.

Secretary DILLON. That is correct.

Senator CURTIS. And that is what happens in our calculation of the Federal debt when we use assets, when we sell assets; is that not right?

Secretary DILLON. Well, I think that is probably correct when you sell assets on a net basis. In each year, you are always purchasing some and selling others. But to the extent that your overall is a net sale, I think that is probably a fair statement because the Government, at the end of the year, has less assets.

Senator CURTIS. Now, I notice in your statement you point out that the real factor in creating debts and expenditure is appropriations.

Secretary DILLON. That is right.

Senator CURTIS. Is there not a very real step that occurs prior to appropriations in the way of authorizations?

Secretary DILLON. Yes, the authorization legislation is equally important, and in many cases there cannot be appropriations without authorizations, although some types of expenditures have permanent authorizations.

Senator CURTIS. Now, it is possible for an administration to recommend and a Congress to enact authorizations that will become very significant in expenditures, but there will be quite a timelag between authorization vote or recommendations and actual flow of cash from the Treasury; is that not right?

Secretary DILLON. Well, that is true in many cases, even with appropriations. The money is actually appropriated; it is not, as you know, all spent in the year for which it is appropriated, particularly, say, when you appropriate money to buy a piece of expensive military equipment such as a nuclear submarine.

We appropriate all the money, but it may take 3 years to build the submarine, so the money is only paid out over a 2-year period. What you are saying is, in the construction of a great dam, for example, it might take 6 or 7 year for them to build it. In that case, sometimes you appropriate all the money for it, sometimes only part of it.

In our roadbuilding program that we are embarked on now, although the money is coming in to finance it, when that was authorized, it started very small and has become very large.

Senator CURTIS. Yes, but even in appropriation, it does not affect the debt until some disbursing officers writes a check and the money flows out of the Treasury.

Secretary DILLON. That is exactly correct.

Senator CURTIS. When we appropriate a certain sum of money for a department, that money is not taken out of the Treasury and turned over to the department for that appropriation.

Secretary DILLON. Oh, no.

Senator CURTIS. But as that appropriation is spent and these Government checks are presented to the Treasury, money flows out for the first time.

Secretary DILLON. That is correct.

Senator CURTIS. So the lag between the recommendation and the enactment of a Government program can be many years, can it not?

Secretary DILLON. Oh, yes.

Senator CURTIS. Now, there is some new legislation recommended, say, for instance, in the war on poverty; is that not right?

Secretary DILLON. That is right.

Senator CURTIS. Were those recommendations to be authorized this year the impact of them so far as money flowing from the Treasury would be sometime later, depending upon the type of program and how long it took to get it in motion.

Secretary DILLON. That is right. It depends on the type of program.

Senator CURTIS. Do you feel as a practical matter that once a program is authorized, it is quite difficult for the department to fail to make a budget request for money to implement it and also quite difficult for the Congress to say, "We are not going to appropriate money to implement this program that we have authorized?"

Secretary DILLON. As long as this program is still necessary and believed in, I think you are quite correct, although there is always latitude for the amount.

Senator CURTIS. Legally, it can be done.

Secretary DILLON. There is latitude in the amount which we——

Senator CURTIS. But there is no binding obligation in those cases, unless there is a contract, of course?

Secretary DILLON. That is right. And actually, it does work out so that there is more money one year and a little less in another. And of course, Congress may be asked for a little more or a little less, depending on circumstances.

Senator CURTIS. It is so difficult to comprehend the impact of large programs that I take an illustration of a smaller one, not to single it out as being more evil than many of the others, but because we can understand it.

A few years ago, I think maybe 6 or 7 years ago, the Federal Government injected itself into the problem of providing library service in the country. The argument was put up that the Federal Government had an obligation to rural areas and isolated areas and depressed areas to see that they got books. The first year, that program cost only $7.5 million. I think it has been about 6 or 7 years in existence. The last figure that I saw was $45 million, or an increase of exactly six times. That often happens in connection with the growth of a program.

Secretary DILLON. I think it can often happen. I am not familiar with that particular program, but when a program is started on an experimental basis, it can grow very rapidly, as that apparently has.

Senator CURTIS. I agree with you in your premise of placing emphasis on the appropriations, that that is what creates expenditures and debts and not necessarily the authorization to borrow. But the point is that the growth of revenue comes from recommendations by the Executive and the voting of authorizations by the Congress, or the voting of authorizations by the Congress against the recommendation of the Executive. That is where your growth in government comes, is that not right.

Secretary DILLON. That is where it begins, yes.

Senator CURTIS. Now, incidentally, in this small program that I used as an illustration, within recent months, the Congress extended the Federal Library Service Act. They did two very significant things. They no longer confined it to the isolated or remote or depressed areas, they extended it to every place, including the metropolitan cities, and they also had another section in it which authorizes the Federal Government to appropriate money for library buildings. And if there are 100 towns in a State that want a library building and four or five of them get one, we can anticipate pressure from maybe half the rest of them, is that right?

Secretary DILLON. Well, I can imagine that that would have the possibilities of growing into quite a substantial program.

Senator CURTIS. I think that as people who are quite concerned about the Federal budget, the place to put the emphasis in this particular case was way back there when we injected the Federal Government into the business of providing library service in the country, making the decision that that was not a local or private responsibility but a responsibility of the Federal Government.

How far in advance—2, 3, 4, or 5 years—would it be fair to ask to project the estimated cost of the interest on the national debt? I want to ask that question before I ask you to do it.

Secretary DILLON. I think you can do it for the coming year on the assumption that the deficit that we have assumed for that year, and if you wanted to assume, take an assumption such as I gave to the chairman, that there would be a deficit which, in the following year, would be cut in half, you could also make an assumption for that. But beyond that, I think it would be very, very difficult to do.

We do know that there will be gradually, over the next 8 years or so, some increase in average cost of the debt, because we still have outstanding a certain number of bonds with a very low rate of interest, 2.5 percent, that were issued in the war, at the end of the war or shortly after the end of the war, before capital markets were free from control, and they were at that very low rate, and they now sell at a big discount. And obviously, when they come due and are replaced, interest costs on those bonds will increase. But except for those, I would say that the general level we have of interest rates now is probably one which will not tend to increase.

Senator CURTIS. Well, this figure of 3.55-percent interest we pay now, is that on new money or is that an average of all obligations?

Secretary DILLON. That is an average of all obligations, all outstanding obligations.

Senator CURTIS. What is the highest rate we are paying?

Secretary DILLON. 4.25 percent.

Senator CURTIS. And one of the reasons this rate is going to go up is because we are going to have to finance some low-interest-bearing securities?

Secretary DILLON. Yes; the average rate, actually, of all outstanding bonds, which means by definition all debt that was originally issued for more than 5 years, is only 3.47 percent, so that is lower than the average of the total interest-bearing debts, which is not a normal situation. That would probably rise to a higher level later on.

I made a mistake when I said 4.25 percent is the highest rate we are paying. That is the highest we have paid on any new issues. There are outstanding some securities that were issued before my time that have a higher rate. There is one 5 percent that is due in August, to be paid off them. There is also a $4\frac{7}{8}$.

Senator CURTIS. Are those relatively short-term bonds?

Secretary DILLON. They were less than 5 years. They were issued at the time when interest rates were relatively high. I think they were issued 4 years and 9 or 10 months ago, which would be in 1959.

Senator CURTIS. This can be supplied for the record, because I want to save time. I would like to have the dollar amount paid out in interest on the national debt for the past 10 years and have it projected for 2 years in advance.

Secretary DILLON. We can do that.

Senator CURTIS. Now, I would like to have the total debt which is subject to this limitation, year by year for the last 10 years, and projected for a couple of years.

Secretary DILLON. At the end of each fiscal year. I think you have to take one period, which is the same period.

Senator CURTIS. It should be the same period and that would be as convenient as any.

Secretary DILLON. Yes.

(The following statement was supplied for the record:)

[In billions of dollars]

Fiscal year	Public debt interest expenditures	Total debt subject to limitation (end of fiscal year)
1953	6.5	265.5
1954	6.4	270.8
1955	6.4	273.9
1956	6.8	272.4
1957	7.2	270.2
1958	7.6	276.0
1959	7.6	284.4
1960	9.2	286.1
1961	9.0	288.9
1962	9.1	298.2
1963	9.9	306.1
1964 [1]	10.6	312.2
1965 [1]	11.0	317.4
1966 [2]		

[1] Estimate as shown in January 1965 budget document, released Jan. 21, 1964.

[2] On the assumption of a budget deficit for the fiscal year 1966 one-half the size of 1965, the public debt at the end of fiscal 1966 would be roughly $320 billion reflecting the financing of that deficit. On this basis and assuming that interest rates are unchanged from present levels, interest expenditures on the public debt in fiscal 1966 would be increased approximately a half billion dollars over fiscal 1965.

Senator CURTIS. Just one more area of inquiry, and that is these expenditures that you are talking about. Are they exclusive of trust funds?

Secretary DILLON. That is right.

Senator CURTIS. What are the major trust funds?

Secretary DILLON. The unemployment fund, the old age fund, the railroad retirement fund, the disability fund.

Senator CURTIS. Are the highway funds regarded as a trust fund?

Secretary DILLON. Yes, the highway fund is a trust fund, but in the case of the highway trust fund, funds generally come in and go out in about equivalent amounts. They are not very large or long investments.

Senator CURTIS. In this year that has just about ended what are the total expenditures estimated to be, exclusive of trust funds?

Secretary DILLON. The total expenditures this year?

Senator CURTIS. Yes.

Secretary DILLON. Counting trust funds?

Senator CURTIS. No, exclusive of them.

Secretary DILLON. Exclusive of, they were estimated in the administrative budget at $98.3 billion on May 22. But as I mentioned in my statement, our experience since then has been that expenditures are running lower than the Budget Bureau expected at that time, so it is likely that the year-ending total will be somewhat below that figure. Somewhere, say, in the neighborhood of, around or just a little less than $98 billion.

Senator CURTIS. $98 billion?

Secretary DILLON. Or probably less. Probably somewhere between $97 billion and that.

Senator CURTIS. For the same year, what is the total of the trust funds expenditures?

Secretary DILLON. The nearest is $29.5 billion.

Senator CURTIS. How much of that $29.5 billion is highway?

Secretary DILLON. It is $3.5 billion, about.

Senator CURTIS. And the rest is primarily social programs?

Secretary DILLON. That is right.

Senator CURTIS. Old age and disability, survivors' insurance, compensation——

Secretary DILLON. That is right, and railroad retirement.

Senator CURTIS. Do any of the trust funds have any source of income other than taxes plus interest on the Government bonds they hold, which of course, must be paid by tax?

Secretary DILLON. That is where they get most of their revenues.

Senator CURTIS. That is right, unless some unusual gift is made.

Secretary DILLON. That is generally correct.

Senator CURTIS. So the total impact on our economy, the total takeout in taxes, from that standpoint we could well include the trust funds?

Secretary DILLON. That is correct. The administration, from that point of view, is trying to give greater emphasis to what is called the cash budget, which does include the trust funds each year. That is what I mentioned in passing in my statement when I was talking about the cash balance, our cash expenditures ran over $10 million a month. That included the trust funds. That is what we have to pay out, so we have to take account of that in our cash balance, because our total payments to the public were estimated in the budget at $122½ billion, or $122.7 billion, to be exact, for fiscal 1964.

Senator CURTIS. Adding $98 billion and $29 billion gives me $127 billion.

Secretary DILLON. Some intergovernmental payments are in there, interest payments between trust funds and so on. For instance, in the administrative budget figure of $98 billion, we had the full interest on the public debt. But a portion of that goes to the trust funds. So the actual payments out to the public are only about $122.7 billion.

Senator CURTIS. Just one more questtion, then I shall stop, because I do not want to take all the time.

In the last year, has the income from the trust funds exceeded the payment?

Secretary DILLON. It has, yes. They are building up steadily and slowly.

Senator CURTIS. That is all, Mr. Chairman.

Senator TALMADGE. Mr. Secretary, Senator Smathers inadvertently asked you earlier in the day how many times the debt ceiling had been raised from 1958 through 1962. What he had in mind was the period from 1952 to 1960.

Secretary DILLON. Oh.

Senator TALMADGE. Would you state for the record how many times the debt ceiling was raised during that period?

Secretary DILLON. I think it was about seven times, but I would like to be sure I am right. I shall have to supply the details of it. I think it was raised, it looks to me like it was raised—it was acted on seven or eight times. It was raised about five times, I think.

Senator TALMADGE. I was looking here at the Ways and Means Committee report on page 15. That indicates that it was raised some seven times.

Secretary DILLON. That must be correct.

Senator TALMADGE. Will you supply for the record the number of times, including dollar amounts of each raise, the total for the series of raises for Senator Smathers, please?

Secretary DILLON. Yes.

(The following statement was supplied for the record:)

Under the Second Liberty Bond Act as amended, Congress took seven separate actions affecting the statutory debt limit during the period 1952-60, inclusive. Of these, four increased the total debt authorization, two reduced it, and one continued an existing authorization. The legislative record is as follows:

Date and statute	Action taken	Ceiling on debt subject to limit
Aug. 28, 1954, 68 Stat. 895	Increased sec. 21 limitation by $6,000,000,000 during period beginning Aug. 28, 1954, and ending June 30, 1955.	$281,000,000,000
June 30, 1955, 69 Stat. 241	Amended act of Aug. 28, 1954, extending increase in limitation until June 30, 1956.	281,000,000,000
July 9, 1956, 70 Stat. 519	Increased sec. 21 limitation by $3,000,000,000 during period beginning July 1, 1956, and ending June 30, 1957.	278,000,000,000
	Temporary increase terminated July 1, 1957, and limitation reverted to.	275,000,000,000
Feb. 26, 1958, 72 Stat. 27	Increased sec. 21 limitation by $5,000,000,000 during period beginning Feb. 26, 1958, and ending June 30, 1959.	280,000,000,000
Sept. 2, 1958, 72 Stat. 1758	Amended sec. 21, increasing limitation to $283,000,000,000, which, with temporary increase of Feb. 26, 1958, made limitation.	288,000,000,000
June 30, 1959, 73 Stat. 156	Amended sec. 21, increasing limitation to $285,000,000,000, and increased sec. 21 limitation by $10,000,000,000 during period beginning July 1, 1959, and ending June 30, 1960.	295,000,000,000
June 30, 1960, 74 Stat. 290	Increased sec. 21 limitation by $8,000,000,000 during period beginning July 1, 1960, and ending June 30, 1961.	293,000,000,000

Senator TALMADGE. I have just one more brief question.

Mr. Secretary, how much gold do we have at the present time?

Secretary DILLON. About $15.5 billion.

Senator TALMADGE. What are the short-term claims against that gold?

Secretary DILLON. Excluding the claims in international organizations, in the Monetary Fund and the World Bank, I think it is somewhere around $21 billion.

Senator TALMADGE. So we would be about $6 billion shy if all of them claimed their gold at once, is that correct?

Secretary DILLON. That is correct.

Senator TALMADGE. Over and above the gold, we must have to support our currency, so we would really be about $18 billion shy, would we not?

Secretary DILLON. If you count the 25 percent reserve requirement for currency and Federal Reserve deposits as required. But as far as payments to meet our international obligations are concerned, the Federal Reserve has the authority, of course, to waive that requirement and the Chairman has stated they would do so if they had to.

Senator TALMADGE. How much of that dollar asset could be handed to France, for instance, for which gold could be immediately demanded?

Secretary DILLON. The French at present have about a billion and a quarter dollars in dollar deposits. They would need for their ordinary running of their business, to keep a dollar deposit, because dollars are what are used internationally for trading purposes, and I do not think that they can convert all of that balance of gold, so they have about $1 billion of funds that could be converted.

As against that, they owe us, as a result of loans we have made to them when they were in financial difficulty after the war, about $650 million.

So I would not think that they would ever, as an honorable thing, ever ask for that $1 billion without first paying off what we had loaned them after the war, which is $650 million.

Senator TALMADGE. How much does West Germany have?

Secretary DILLON. West Germany has a larger amount. They have about $3 billion, something like that.

Senator TALMADGE. What would happen if De Gaulle and Erhard made up their minds to embarrass us and decided to cash in their dollars?

Secretary DILLON. Well, it would embarrass them just as much as it would embarrass us. I think that is one of the things that has come to be recognized around the world in all these various countries, that since world trade depends on the dollar, anything that would tend to destroy or weaken the value of the dollar for political purposes would also deal an equal economic blow to all the trading nations of the world. Since the countries of Europe rely on trade, on foreign trade to a much greater extent than we do, the economic damage to them could well be greater than it would be to us in the long run. So for that reason, I do not think any of them would consider taking that sort of action for political reasons.

Senator TALMADGE. Well, you might be right about your general logic, but I fail to understand how it could be more embarrassing to a fellow to cash in his chips than it would be for someone who could not pay his chips.

Secretary DILLON. I just mean if you had a devaluation of the dollar, which I am absolutely certain will not happen, but if you did have it, it would right away bring a great contraction in international liquidity, which would restrict world trade. Therefore, countries that depend on exports would be severely damaged and their whole economy would go down and they would have a worse effect on their own internal economy than it would have on even ours. That is what I am talking about. They are all well aware of that, and, therefore, there is no desire to use this as a political weapon.

Senator TALMADGE. Should we not take some very stringent steps to avoid that drastic possibility in the event it should arise?

Secretary DILLON. Oh, most certainly. We could take all sorts of strong steps, like limiting imports, doing all sorts of things of that nature, which would again affect them, too.

Senator TALMADGE. How much gold will we lose this year?

Secretary DILLON. So far this year, we have not lost any. We have gained some, actually.

Senator TALMADGE. What will be the dollar deficit this year?

Secretary DILLON. You cannot foretell something like that. All I can say is that the dollar deficit for the 12 months ending the end of this month looks like it will be something under $2 billion, and I would think——

Senator TALMADGE. $2 billion?

Secretary DILLON. Something less than that, and I would think that for the calendar year, there is no reason why it should be any worse. It should be in that same order of magnitude, probably something less than $2 billion.

Senator TALMADGE. Mr. Chairman, other Senators have been waiting patiently for a long time and I shall not detain the Secretary any further.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. Some questions were asked about the budget and making it some $6.5 billion larger than last year. I just want to call your attention to page 14070 of this morning's Congressional Record. There we talk about the Interior appropriation. It sets the ceiling on the appropriation for fiscal year 1965 at about $60 million less than the appropriation for 1964, so it is coming down.

Then we move to the Space Committee, in which I also have some interest. The committee agreed to a reduction in the NASA authorization to a figure of $5.246 billion, and last year, Congress authorized about $5.350 billion for 1964. So they are down very substantial amounts.

Mr. Secretary, you understand my favorite objection, why do we not quit talking about a permanent limit of $285 billion and recognize that the ceiling is above $300 billion? Why do we keep calling this temporary? Nothing is as permanent as the national debt, is it?

Secretary DILLON. That is correct. My only answer is the same one I made before, that this legislation always originates in the House, and in the House, they seem to prefer to do it this way. I have made it perfectly clear that as far as the Treasury is concerned, as long as we have an adequate limit, we can operate under it, no matter what it is called. In the present circumstances, I do think that we are again in the difficult position of having to complete the legislation so it can be enacted by the President on the 29th so that the debt limit will be adequate for the 30th, so under these circumstances, I would support the House bill as it is now, calling it a temporary limit. But that is not fundamental, only tactical.

Senator ANDERSON. I have tried that two or three times, to recognize that $285 billion is not the debt limit at all. The testimony this morning would indicate that it is not going to be wiped out next year or the next year or the next year. I do not believe anybody in this room will ever see it below $325 billion, or not much. But anyway, we can hope.

I just want to say I recognize whe have to have the debt limit and we are going to have to vote it through. I would hope that someday we could get to the question early enough so we really struggle with whether there is a permanent ceiling of $325 billion or whether there is not.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Mr. Secretary, I hope you will forgive me if I raise a series of background questions.

As I understand it, in 1933, the public debt amounted to $23 billion.

Secretary DILLON. I have a figure of $22.5 billion.

Senator DOUGLAS. Yes.

At the end of 1939, it was $47 billion, an increase of $27 billion, primarily due to fighting the depression and taking care of the people who were in great economic difficulty.

Then, am I right that we began to rearm in late 1939 and at the end of World War II the public debt amounted to $278 billion, which was an increase due to the war of $230 billion?

Secretary DILLON. That is probably correct. I do not have the same figures. My figures are only as of the end of the fiscal year, and they show that the peak debt—yes, in February, it was $279.8 billion. But at the end of that fiscal year, it was down to $269.9 billion.

Senator DOUGLAS. So we spent $230 billion to prevent Hitler from dominating the world. We spent $24 billion—had a deficit—to protect the people of the United States from depression. That accounts for $254 billion of debt.

During the Korean war, the debt was increased by $19 billion more.

Secretary DILLON. It increased by $15 billion.

Senator DOUGLAS. So the two wars were responsible for $249 billion of the present debt, and depression measures $24 billion more, so the major portion of the debt, the overwhelming portion of the debt, was incurred to fight both foreign aggression and domestic depression.

Now, the House Committee on Government Operations is publishing each year the value of the real and personal property assets which are held by the Federal Government. Am I correct that as of the 30th of June 1963 they fix a value of $315 billion on these assets, with the understanding that real estate is quoted at cost of acquisition?

Secretary DILLON. I know that is the way they value most of it and I know the figure is approximately that and I am willing to accept that as the right figure. I am sure it is.

Senator DOUGLAS. In other words, using acquisition costs, which is an understatement of current market value, the assets of the Federal Government exceed the obligations by approximately $8 billion?

Secretary DILLON. That is right.

Senator DOUGLAS. Is it true that many of these Federal assets actually produce money income, that the TVA pays back not only the principal but the interest, that royalty rights to the Federal tidelands oil reserve return revenues to the Government, that the Federal Reserve Board pays into the Treasury 90 percent of the interest which it earns on Federal bonds?

Secretary DILLON. That is correct.

Senator DOUGLAS. Is it true that the REA pays back the principal and some interest, 2 percent, on the funds which it loans?

Secretary DILLON. That is right.

Senator DOUGLAS. So the assets of the Federal Government clearly are understated in the figure of $315 billion? Some of this produces income, but even if the estimate of the value of assets is understated, it exceeds the debt of the Federal Government.

Secretary DILLON. That is right.

Senator DOUGLAS. Now suppose we were to have a balance sheet on the Federal Government similar to that of General Motors, or Du Pont, or Ford, or United States Steel. You have been an investment banker. If you found that the assets of a company exceeded its liabilities by approximately $9 billion, would you be able to make a loan to it, as the former head of Dillon, Read?

Secretary DILLON. I certainly would. But certainly the high standard of U.S. Government securities, endorsed by the fact that they are treated and sell on a lower interest basis than any other security, indicates the soundness of the Government financing.

Senator DOUGLAS. In other words, the investment bankers regard the U.S. Government as a good investment?

Secretary DILLON. That is right.

Senator DOUGLAS. There is no fear on the part of investment bankers that the Federal Government will go bankrupt?

Secretary DILLON. No.

Senator DOUGLAS. That is your private judgment as well as your official judgment?

Secretary DILLON. It certainly is.

Senator DOUGLAS. Now, am I correct in understanding that as of the end of 1946, and I am speaking now of the calendar year, the national debt was approximately $260 billion, and that the gross national product was at that time $204 billion? I am taking the year as a whole now, the average indebtedness for the year as a whole, not at the end. Therefore, is it not true that in 1946 the ratio of the national debt to the gross national product was as 128 to 100?

Secretary DILLON. Yes, it is about that.

Senator DOUGLAS. In other words, at that time, the national debt was 28 percent greater than the gross national product?

Secretary DILLON. That is right.

Senator DOUGLAS. Am I correct that, as of the first 10 months of the fiscal year 1964, the national debt has been $308 billion but that the gross national product has been slightly over $600 billion?

Secretary DILLON. Something over $600 billion, yes.

Senator DOUGLAS. So that now the national debt is only approximately 50 percent of the gross national product?

Secretary DILLON. Right, as of now.

Senator DOUGLAS. In comparison with the 128 percent in 1946—would you regard this as an improvement in the fiscal situation of the Government, narrowly considered?

Secretary DILLON. Yes, I think it is a very dramatic improvement.

Senator DOUGLAS. Now, it is interesting to make a comparison between the growth of the national debt and the growth of other forms of debt. I happen to be greatly interested in consumer credit. I find that in 1946, consumer credit in this country amounted to about $8.4 billion, but that as of the spring of this year it amounts to $69 billion, or eight times now what it was then. Is that approximately correct?

Secretary DILLON. I do not have the figures on consumer debt. I do have it on other things, but I am sure that is right, because all individual debt as a whole increased by six times.

Senator DOUGLAS. And take mortgage debt. My figures show an increase over the same years from approximately $42 billion to $281 billion, or a figure only slightly less than seven times as great.

Now, on corporate debt. You have handled a lot of corporate flotations, have you not?

Secretary DILLON. When I used to be an investment banker I did.

Senator DOUGLAS. Am I right that in 1946, the total corporate debt was approximately $93 billion and it is now approximately, as of the end of 1963, $372 billion?

Secretary DILLON. I think that is right, yes.

Senator DOUGLAS. Or it is now four times, approximately, what it was 17 years ago?

Secretary DILLON. Yes.

Senator DOUGLAS. But if you add together all forms of private debt—consumer, mortgage, corporate, what have you—total private debt was $154 billion in 1946, and was $753 billion at the end of 1963, or an increase of 489 percent.

Secretary DILLON. Yes.

Senator DOUGLAS. In comparison with this, the increase in the national debt has been 19 percent; is this not true?

Secretary DILLON. That is right.

Senator DOUGLAS. People talk about State and local debt. My figures show that at the end of 1946 this amounted to $13.6 billion, but now amounts to $82 billion, or six times now what it was at the end of 1946. Is that correct?

Secretary DILLON. Yes; that is right.

Senator DOUGLAS. In other words, the national debt has increased by less than any other form of debt.

Secretary DILLON. Oh, very much so.

Senator DOUGLAS. As a percentage of the gross national product, it has fallen from 128 to 50 percent.

Secretary DILLON. That is right.

Senator DOUGLAS. And in per capita terms, divided in the total amount by the population, it has gone down from $1,909 per person on June 30, 1946, to $1,627 per person as of May 31, 1964, or has decreased by approximately $280 per capita.

Secretary DILLON. That is right.

Senator DOUGLAS. And, of course, income has gone up; so the capacity to pay has greatly increased.

Secretary DILLON. That is right.

Senator DOUGLAS. Now, there is a lot of talk about the country going to the dogs and inflation and so on. Is it not true that in 1958 the wholesale price index, using 1957–59 as 100, was 100.4?

Secretary DILLON. That is right.

Senator DOUGLAS. And as of April 1964 the wholesale price index was 100.3?

Secretary DILLON. Yes; and as of May it is 100.1.

Senator DOUGLAS. So to the degree you can measure movement in tenths of 1 percent, there has been an actual decrease in the wholesale price level?

Secretary DILLON. That is right.

Senator DOUGLAS. What about the increases in other countries in the world?

Secretary DILLON. They have increased in this period very dramatically.

Senator DOUGLAS. Could you later supply, or have one of your assistants supply for the record, what the increases have been in France, Germany, Great Britain, and Italy? Is it not true that we have had the most stable price level of any major country in the whole world?

Secretary DILLON. I think we have a far better record than any other nation.

(The following material was supplied for the record:)

Wholesale Price Indexes

[1958=100]

	1958	1959	1960	1961	1962	1963	1964
United States	100	100	100	100	100	100	100 (May).
Canada	100	101	101	102	105	107	108 (April).
Belgium	100	100	101	100	101	104	108 (March).
France [1]	100	105	107	110	113	116	118 (March).
Germany [2]	100	99	100	102	103	104	105 (March).
Italy	100	97	98	98	101	106	110 (March).
Japan	100	101	102	103	101	103	103 (April).
Netherlands [1]	100	101	99	98	99	101	106 (February).
Switzerland [1]	100	98	99	99	102	106	109 (April).
United Kingdom [3]	100	100	102	104	107	108	110 (March).

[1] Prices of home and import goods.
[2] Industrial wholesale prices.
[3] Prices of industrial output.

Source: International Monetary Fund, "International Financial Statistics," June 1964.

Senator DOUGLAS. Mr. Chairman, I think these facts need to be taken into consideration, not only in hearings on this bill but in the months ahead. I am going to ask unanimous consent that a statement I have prepared on this bill be included in the record.

The CHAIRMAN. It is so ordered.

(The statement referred to follows:)

THE DEBT IN PERSPECTIVE

Every year at this time Congress is called on to raise the temporary ceiling on the public debt. Some years it is not only done once, but two or three times. Each year there is a torrent of hand wringing. There are shrieks and wails from some groups. We are told that the country is going to the dogs. False impressions about the financial and economic position of the United States are conveyed. Some raise questions about the value of the dollar, which is fundamentally sound. I think the time has come to try to put the question of the debt in perspective.

WHERE DID WE GET THE DEBT

Most of the present national debt is the result of fighting Hitler and preserving the free world. This was a great national purpose with which almost no one disagreed, and which was necessary to the survival of the United States and the free world. When we started to rearm in 1939, the debt was $47.6 billion. At the end of World War II it was $278 billion, or an increase due to the war of $230 billion.

We added another $19 billion during the Korean conflict. Thus the great bulk of the debt was brought about because of our willingness and our duty to protect ourselves and our allies against both Hitler and the Communist threat. Surely this had to be done.

Some blame President Roosevelt for the debt, but from 1933 to 1939, it increased by only $23 billion, or from $24 to $47 billion. If President Roosevelt had not taken the actions he did, and with 14 million people unemployed and on the breadlines, both our political democracy and our competitive economy might well have given way to an alien system.

GOVERNMENT EXPENDITURES

It is also true that the great bulk of present Federal expenditures are not wasteful. There is some waste, and expenditures can always be cut and savings made, but the largest part of our budget goes for national defense. Furthermore, most expenditures are for proper purposes—including not only investment in property, but also investment in people—for health, hospitals, education, school lunches, and other worthy purposes. The Federal Government is not the enemy of the people, but, in almost all respects, the servant of the people doing those things which our safety, security, and welfare demand.

Most of the critics merely give the amount of the debt in absolute terms. In the first 10 months of the fiscal year, which ends June 30, the average debt was $308 billion. The Treasury is asking for a new limit of $324 billion. But when the ordinary business or even giant corporations talk about their fiscal arrangements, they use the double-entry system—i.e., the assets are put on one side of the balance sheet and the debt is put on the other. We all know that this balances out. But when they talk about the Government debt of $308 billion, the assets are never mentioned. If they were, there would be a great deal less concern about the Federal debt.

GOVERNMENT ASSETS EXCEED GOVERNMENT DEBT

Let us examine this. As of June 30, 1963, the real and personal property assets held by the Federal Government amounted to $315.2 billion. But the public debt for fiscal year 1963 was $306.5 billion. In other words, the real and personal property assets of the Federal Government, valued at their acquisition costs, exceeded the debt by $8.7 billion. Furthermore, by using the acquisition cost of the real estate which the Federal Government owns, we understate the value of the assets. The value of the land and real property has gone up. Thus, in this respect, the assets are higher than actually listed.

ASSETS PRODUCE INCOME

Furthermore, many of the Federal assets actually produce income. The TVA (Tennessee Valley Authority) pays back not only the principal but interest as well. Royalty rights to the Federal tideland oil reserves return revenues to the country. The Federal Reserve Board pays into the Treasury 90 percent of the interest it earns on Federal bonds. The REA (Rural Electrification Administration) pays back the principal and some interest on the funds it loans. Thus, the assets of the Federal Government, if anything, are understated in this way, too. But, even then, they exceed the debt of the Federal Government.

If any financier were to look at the balance sheet of General Motors, Du Pont, Ford, or United States Steel, and found that the assets of the company exceeded its liabilities by $8.7 billion, they would be more than willing to make a loan to the company, to buy stock in the company, or to certify that its financial condition was absolutely sound. This is the situation with the U.S. Government because of its assets of $315.2 billion, made up of $225 billion in personal property and of $90 billion in real estate, exceeded its debt by $8.7 billion as of June 30, 1963. Today the situation is even better.

RATIO OF DEBT TO GNP GREATLY REDUCED

Another way to look at the debt is to compare it with the gross national product. The GNP is the sum of the goods and services produced in the country each year. As of 1946, the national debt was 28 percent more than the gross national product, or it was 128 percent of the gross national product. By 1952 the debt was only 75 percent of the gross national product, for while the economy grew President Truman reduced the debt by $11 billion during his almost 8 years in office. As of the spring of 1964, the national debt is only slightly more than 50 percent of the gross national product, or a $308 billion debt as compared with a $608 billion gross national product.

If we were to translate this into family terms, the situation would be as follows: If a man in 1946 had an income of $10,000 a year and a debt of $12,800 a year, he would have been in the same position as the Federal Government in that year. We all know that this is not an uncommon situation for ordinarily a mortgage company will make a loan of from 2½ to 3 times a person's annual income for a house. If, in 1964, following this analogy, the same man had an income of about $20,000 but a debt of only $10,000, certainly we would consider that he was much better off and that his debt, compared with his income, was not excessively high. This is what has happened to the debt and income of the United States since 1946.

GROWTH OF OTHER DEBT MORE THAN NATIONAL DEBT

Now, let us compare what has happened to the national debt in relation to personal debt, mortgage debt, corporate debt, and State and local debt. In 1946 the national debt was about $260 billion. As of the spring of 1964 it was $308 billion. This is an increase of 19 percent. But what has happened to other debt during this period?

CONSUMER CREDIT OR DEBT

Consumer credit was $8.4 billion in 1946, but it was $60 billion in the spring of 1964. Thus, while the national debt increased by 19 percent, consumer credit—the debt individuals owe for washing machines, refrigerators, automobiles, and personal loans—went up eight times, or by 800 percent.

MORTGAGE DEBT

Mortgage debt in 1946 was $41.8 billion. At the end of 1963 it was $281.3 billion. It had increased 6.7 times, or by 670 percent. Thus, while the national debt went up by 19 percent, mortgage debt increased by 670 percent.

CORPORATE DEBT

Now, let us look at the corporate debt. We all know that many of those who complain most vehemently about the national debt are the owners of corporate stocks and bonds, or the agents of the owners of the great bulk of stocks and bonds. Corporate debt at the end of 1946 was $93.5 billion. At the end of 1963 this had increased to $371.6 billion, or almost four times. Thus, again, while the national debt increased by 19 percent, corporate debt increased by 400 percent.

PRIVATE DEBT

If we look at the total private debt in the country, we find that in 1946 private debt amounted to $154.1 billion and that by the end of 1963 it was $753 billion. All private debt had increased by almost five times. Thus, again, while the national debt had increased by 19 percent, total private debt had increased by almost 500 percent.

STATE AND LOCAL DEBT

Many of those who most vigorously decry the Federal debt continue to say that State and local governments should handle the Federal functions because the Federal Government is in a very difficult financial situation. But the true answer is that the Federal Government has had to take on a number of needed activities because the State and local governments were unable to do them due to their very difficult financial situation.

In 1946, State and local debt amounted to $13.6 billion. By the end of 1963 this had increased to $82.1 billion, or by six times. Thus, again, while the national debt increased by 19 percent, State and local debt increased by 600 percent.

The following table summarizes these facts:

Growth of national debt compared with other debt, 1946–64

[Dollars in billions]

Kind of debt	1946	Latest figure	Percent increase
National debt	$260.0	[1] $308.0	19
Consumer credit	8.4	[2] 60.0	800
Mortgage debt	41.8	[3] 281.3	670
Corporate debt	93.5	[3] 371.6	400
All private debt	154.1	[3] 753.0	489
State-local debt	13.6	[3] 82.1	600

[1] 1st 10 months fiscal year 1964.
[2] Spring 1964.
[3] Dec. 31, 1963.

OTHER MEASUREMENTS

There are a number of other ways to measure these matters. If we compare the amount of money the Federal Government spends each year as a percentage of the gross national product, we find that this has decreased slightly from 17.4 percent fiscal year 1946 to 16.3 percent as of May 30, 1964. If we compare the amount of the Federal debt which each person in the country would owe, or the per capita national debt, we find that this has gone down from $1,908.70 as of June 30, 1946, to $1,627.83 as of May 31, 1964, or a decrease of $280.96 per person.

It should also be pointed out here that, unlike a private corporation, when the Federal Government invests in a long-term asset—that is to say, when it builds a road, constructs a building, or buys a computer—the outlay of funds in a particular year is considered as an operating expense and not a capital expenditure. In private business a distinction is made between operating expenses and long-term capital investments. The long-term investment is paid for over a long period of years. If an outlay is made in particular year for a piece of machinery or a new building, the asset is depreciated over its lifetime and only the yearly cost is counted as an expenditure. But when the Federal Government does this, the total amount is counted as an operating expense in the year it is made. The Federal Government has no capital budget.

I am told that if American Telephone & Telegraph Co., which has the highest capitalization of any company in the United States, were to treat its capital investments as does the Federal Government—the money it puts out for new wires, offices, telephones, new digit dialing machinery, and so forth—it would operate "in the red" every year. If we applied the same standard to them that is applied to the Federal Government they would always be losing money.

If those who are most critical of the national debt applied the same standard to A.T. & T. as they do to the Federal Government, they would not be willing to lend A.T. & T. a single dollar; they would pronounce it bankrupt; and the financiers of Wall Street would demand that A.T. & T. come to them, hat in hand, when they wanted a loan or desired to issue stock. But the truth is that A.T. & T. can command tremendous amounts of capital from the money markets because it can pay interest on the capital it has borrowed and because it pays large dividends on its stock.

To put it another way, if the Federal Government were to treat its capital investments in the same way as private industry, the Federal Government would have shown a huge surplus in every year since 1946.

STABLE PRICE LEVEL

There is one further point to make in all this: There are many who say that the country is "going to the dogs" because of inflation. But, if we look at the wholesale price levels in the country, we find that since 1958 there has been no increase whatsoever. The wholesale price level has remained constant. In 1958, using the period 1957–59 as 100, the index was 100.4. As of April 1964 the wholesale price index was 100.3. For more than 6 years we have had a constant wholesale price level. We have had no inflation. There has probably never been a period in our history when prices have been so constant and when we have had such a remarkable achievement. To my knowledge, no other country in the free world has done as well.

Our real problem has been excessive unemployment and an economic growth rate which has been, until recently, much too slow.

I hope very much that these facts will help to put the fiscal position of the United States into some realistic perspective. The country is not "going to the dogs." Our assets are greater than our debts. Compared with private debt, corporate debt, and State and local debt, the Federal situation is vastly superior.

While we must continue to be on our guard against the dangers from abroad, the American people need not have fear for our domestic financial situation and the soundness of our Government.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. As I listened to your reasoning, I am somewhat intrigued on this point that the more we owe, the richer we get, particularly as long as it is related to our gross national product. This reminds me, I was reading a little story about that just the other day. It was related to the industrial empire of Billie Sol Estes. What this writer pointed out was that Billie Sol Estes' debt the first day he came out of college in relation to his volume of business was larger than his debt in relation to his volume of business the day he went broke.

What happened? What is wrong? What is the difference?

Secretary DILLON. Well, the debt is important in relation to your earning power, not necessarily to your volume of business.

Senator WILLIAMS. Is it not possible that he forgot one point that was overlooked in your discussion here; namely, the contingent liabilities?

Secretary DILLON. Contingent liabilities have to be taken into account to the extent that they may become real.

Senator WILLIAMS. And what are the contingent liabilities of the U.S. Government? I do not think they were mentioned in this conversation just a few minutes ago.

Secretary DILLON. Well, they can be figured in various ways.

Senator WILLIAMS. From an actuarial standpoint, what would be the contingent liabilities of the social security fund, for example, or the retirement fund?

Secretary DILLON. I would have to furnish that for the record.

(The following statement was supplied for the record:)

The best financial statement of the social security fund is the annual report submitted to Congress, pursuant to law, by the Board of Trustees of the Federal old-age and survivors insurance trust fund and the Federal disability insurance trust fund. The annual report for fiscal year 1963, submitted to the Congress on March 2, 1964, by the trustees—who are the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health, Education, and Welfare and the Commissioner of Social Security—contains the following conclusion:

"Considering the old-age and survivors insurance and the disability insurance portions of the program together, the new cost estimates made recently show that the actuarial balance is substantially improved over what it was before the new estimates were prepared (i.e., as compared with what was shown in the previous report) so that the system as a whole continues in close actuarial balance. * * * It may be noted that under conditions of actuarial balance, the system will have sufficient income from contributions (based on the tax schedule now in the law) and from interest earned on investments to meet benefit payments and administrative expenses indefinitely into the long-range future."

Senator WILLIAMS. Will you furnish all other contingent liabilities of the Government.

Secretary DILLON. The Treasury makes a report once a year on that. I would be glad to submit that for the record.

Senator WILLIAMS. Would you submit for the record what the contingent liabilities of the U.S. Government would be?

Secretary DILLON. I would be glad to.

Senator WILLIAMS. Contingent liabilities do have to be taken into consideration with the listing of the assets.

Secretary DILLON. But you also have to take into consideration the assets. For instance, in the Federal Deposit Insurance Corporation, they have insured a lot of deposits, but then the banks owe a lot of Government securities against them. So it is on both sides.

Senator WILLIAMS. I am sure you agree that they have to take all into consideration.

Secretary DILLON. Yes.

(The following material was supplied for the record:)

FINANCIAL CONTINGENCIES OF THE U.S. GOVERNMENT

This statement deals with financial contingencies which are not recognized as legal obligations in terms of real liabilities on the central books of the Treasury or real liabilitiese and undelivered orders and contracts on the books of operating agencies. The statement is designed to supplement the Government's regular financial reports (e.g., the combined statement of receipts, expenditures and balances of the U.S. Government) in order to disclose potential claims which are not otherwise reported in a single compilation. Readers are cautioned, however, against misuse of the data since contingencies differ sharply from legal obligations.

Legal obligations fall into two categories: (1) Liabilities, and (2) "undelivered orders." Liabilities are amounts owed, representing such things as borrowings, uninvested trust fund balances, and accounts payable for goods and services received. "Undelivered orders," which include unfilled contracts, are commitments which will mature into liabilities as orders are filled by delivery of goods and services or performance is otherwise rendered under contracts. Contingencies, on the other hand, represent such things as loan guarantees and credit insurance which involve a risk of incurring liabilities, and a concomitant risk of loss, with a high degree of uncertainty as to time or amount. Whereas figures on liabilities and undelivered orders generally represent valuations of firm commitments against Government funds, accurate within a narrow range of variation, figures on contingencies represent merely the upper limit of a wide range of possible future liabilities.

The element of uncertainty is the primary basis for differentiating contingencies from legal obligations. In the case of legal obligations, ultimate payment by the Government is virtually certain or is contingent upon conditions which are likely to occur in the normal course of events. In the case of contingencies, the extent of ultimate payments, if any, and, more importantly, the extent of ultimate losses, is contingent upon highly uncertain events such as widespread bank failures, defaults of borrowers, accelerated death rates, or war. Potential losses are further dependent upon the value of assets presently held as reserves against the contingency, the value of contingent assets which might be acquired, and future revenues generated by the existence of the contingency. Substantial losses can be predicated only on the basis of an abnormal course of events.

This statement is divided into three sections: (*a*) Loans guaranteed and insured; (*b*) Other insurance and guarantees in force; and (*c*) Other financial contingencies. The columns are arranged to show the monetary limit of the contingency or potential contingency and the amounts of public debt and U.S. agency securities held in connection with the programs giving rise to the contingencies. Certain insurance and guarantee items which are recognized as legal obligations in other reports, and therefore are not classifiable as contingencies, have been omitted from the body of this statement, but are disclosed in accompanying notes in order to have complete coverage of these programs.

The different sections of this statement, and within the sections the different columns, represent essentially different things; consequently the section totals cannot be added together, nor can line items be added across, to arrive at valid and meaningful totals. Likewise, any attempt to add data on contingencies to figures on liabilities and undelivered orders to arrive at a figure purporting to represent the Government's debt would be completely unwarranted. Not only would such a computation involve addition of unlike items; it would involve double-counting through adding public debt liabilities to contingencies against which these same public debt items are held as reserves available to cover losses.

Financial contingencies of the U.S. Government as of Dec. 31, 1963 (preliminary)

[In millions of dollars]

A. CONTINGENCIES FOR LOANS GUARANTEED AND INSURED

Agency and program	Amount of contingency for guarantees or insurance in force	Possible future contingency for commitments to guarantee or insure loans	Memorandum: Public Debt and agency securities held
Agency for International Development: Foreign investment guarantee fund	[1] 72		
Agriculture Department: Farmers' Home Administration: Agricultural credit insurance fund	480	11	
Commerce Department:			
Office of the Secretary: Aircraft loan guarantees	20		
Maritime Administration: Federal ship mortgage insurance fund	456		2
Export-Import Bank of Washington	([2])		
Housing and Home Finance Agency:			
Federal Housing Administration:			
Property improvement loans	[3] 406		104
Mortgage loans	42,554	6,031	718
Office of the Administrator: Urban renewal fund	1,112		
Public Housing Administration: Local housing authority bonds and notes (commitments covered by annual contribution)	[3] 3,529		
Interior Department: Bureau of Commercial Fisheries: Federal ship mortgage insurance fund, fishing vessels	2		
Interstate Commerce Commission	190		
Small Business Administration: Revolving fund	[3 4] 40		
Veterans' Administration	[5] 16,256		
Defense Production Act of 1950, as amended	104	15	
Total loans guaranteed or insured	65,229	6,057	824

B. CONTINGENCIES FOR OTHER INSURANCE AND GUARANTEES IN FORCE

Agency and program	Amount of contingency	Memorandum: Public debt and agency securities held
Agency for International Development: Foreign investment guarantee fund	[1] 1,071	
Agriculture Department: Federal Crop Insurance Corporation	[6] 500	
Commerce Department: Maritime Administration: War risk insurance revolving fund	5	3
Export-Import Bank of Washington:		
Medium term guarantees and insurance	[2] 322	
Insurance on exports issued through Foreign Credit Insurance Association	[2] 434	
Federal Deposit Insurance Corporation	191,900	2,791
Held by insured commercial and mutual savings banks		67,196
Federal Home Loan Bank Board:		
Federal Savings and Loan Insurance Corporation	88,481	859
Held by insured institutions		6,166
U.S. Information Agency: Informational media guarantees	4	
Veterans' Administration:		
National service life insurance	38,459	[7] 5,859
U.S. Government life insurance	1,193	981
Total other insurance or guarantees in force	322,369	83,795

See footnotes at end of table.

Financial contingencies of the U.S. Government as of Dec. 31, 1963 (preliminary)—Continued

[In millions of dollars]

C. OTHER FINANCIAL COMMITMENTS

Unpaid subscriptions, etc.:		
International Bank for Reconstruction and Development	5,715	
Inter-American Development Bank	200	
International Development Association	62	
Total unpaid subscriptions	5,977	

[1] Obligations previously reported for contracts issued under a fractional reserve basis have been deobligated.
[2] Excludes insurance and guarantees in force which are reported as legal obligations under sec. 1311 of the Supplemental Appropriations Act of 1955, as follows:

	In millions
Export-Import Bank of Washington:	
Loans sold with recourse	[a] 5
Medium-term guarantees and insurance	111
Consignment and Foreign Credit Insurance Association short-term insurance	158
Housing and Home Finance Agency: Public Housing Administration	969
Small Business Administration	29

[a] Participation certificates sold by the Bank, $487,000,000 outstanding Dec. 31, 1963, are reported in financial statements as legal liabilities and are not shown in this report of contingencies.
[3] Represents the estimated insurance coverage on loans aggregating $1,587,000,000.
[4] This amount, plus the related amount shown in footnote 2 represents the guaranteed portion of loans aggregating $91,000,000.
[5] Represents the guaranteed portion of loans aggregating $30,546,000,000.
[6] Represents estimated insurance coverage for the 1963 crop year.
[7] Includes holdings of veterans' special term insurance fund.

Senator WILLIAMS. As I understand it you keep throughout the year, a careful watch on the expenditures and the income so that you should have a reasonably good knowledge at most any time in the year as to what the deficit is going to be for the next 6 or 8 months in advance?

Secretary DILLON. We try to. We get the best information we can from the Bureau of the Budget and from other departments directly as to how their expenditures are going and we have our own estimates on income, so that with that, we try to be in as good a position as we can.

Senator WILLIAMS. I assumed that you did, and I could not conceive of your operating on any other basis. That is the reason I was somewhat surprised and disturbed by your letter of May 4 in reply to my letter of inquiry of April 30 of this year.

I asked you to furnish me an estimate as to how much of an increase you were going to have to ask for and what the next year's deficit would be. Yet on May 4, I received a reply from you which indicated that you had no knowledge of the amount needed and you made no tabulation. I was amazed that a man holding a position such as yours would not be able to project some figures, at least, for the next fiscal year.

Secretary DILLON. No. We had made no final determination and it did not seem advisable to make one until we were ready to send up our formal request. That went up at the end of May, and at that time, at the same time we sent it up, which is the same time we made the decision as to what we were going to ask for, I furnished you with the figure. But before that I could only have given you a figure within the range of, say, from $325 to $322 billion, or something like that. We did not have an exact figure. You see the Bureau of the Budget and we were reestimating expenditures and income, and they were put out by the President on May 22 with the difference from the original budget message. Budget was in the process of reestimating expenditures at that time and had not completed that work. So we did not really have any different figures at that time than the figures that were in the President's budget, although we knew they were going to be changed.

So there was no sense in giving you those figures, so we waited until May 22, when the President put out these new figures.

Senator WILLIAMS. My inquiry very clearly asked you for a reasonable estimate and I fully recognized that it would not be an exact figure. Do you not think that a member of this committee is entitled to information in this connection? Was it not a proper question?

Secretary DILLON. The difficulty with that is that every time one makes an estimate, it changes from time to time as your circumstances change. If one spent one's time giving monthly estimates, they would go up and down and I do not think it would be really terribly valuable. So if the committee wants to have monthly estimates, we can do our best to give them to them.

Senator WILLIAMS. I was not asking for monthly estimates, and this was a very proper inquiry.

Mr. Chairman, I would like the reply to be put in the record at this point, because I am surprised that any man occupying the position of the Secretary of the Treasury, 2 months before he asks for an increase in the debt ceiling, would know so little about what is going on, or at least indicates such a lack of knowledge. I feel that when a member of this committee submits such a question, it is a proper question and can at least get some reasonable estimate, rather than just close this meeting today with the understanding that we shall not be able to get another estimate from you until you appear before the committee next year to do this.

Secretary DILLON. Oh, no, because we regularly make a midyear review at the end of the session, when we have a chance to look at total appropriations, about 6 weeks after the session ends. That will be public and will contain a new estimate, both of expenditures and revenues, and then the President's budget in January will be a third one. The final one after that would be the next time that the debt limit is discussed, ordinarily.

So there are three or four different estimates made during the course of the year, normally, that involves really very careful work by the Budget Bureau, largely, in projecting expenditure rates of various departments working with them. We take those figures that are supplied by the Budget Bureau because they are the best we can get.

The Budget Bureau has not done that. We are not really in a position to furnish estimates that are worth much. I do not like to furnish an estimate that is not worth much.

Senator WILLIAMS. I thought that you had a better control and more knowledge as to what is going on. I was disappointed that just 2 months before you were scheduled to come here to ask for an increase, we could not at least get some knowledge or some information as to the Treasury's position.

Secretary DILLON. I did not realize that a range of about $5 billion would be satisfactory. We could have given you a midfigure and have said it would vary $2.5 billion either way, and that would have been it.

Senator WILLIAMS. All that I was asking for was your best estimate.

Secretary DILLON. I did not realize that. I am sorry. If I had known you wished that, I would have given it to you.

Senator WILLIAMS. From your letter, you did not even have a guess.

Secretary DILLON. No; we had no details.

(The letter referred to follows:)

THE SECRETARY OF THE TREASURY,
Washington, May 4, 1964.

Hon. JOHN J. WILLIAMS,
U.S. Senate,
Washington, D.C.

DEAR JOHN: I have your letter of April 30, inquiring as to what our debt limit proposal for next year will be, and as to our latest estimate of the deficit for the current fiscal year. We have made no new estimate as yet for the fiscal year 1964 deficit, but expect to have such an estimate completed just prior to our presentation of next year's debt ceiling legislation to the Ways and Means Committee, which I expect will be sometime during the last week of this month.

We have not yet decided on the exact dimensions of the increase that will be needed in the debt ceiling for next year, but naturally will have to come to a conclusion sometime this month. We shall be glad to advise you as soon as we have reached a final determination of what we shall propose.

Best wishes.

Sincerely,

DOUGLAS DILLON.

Senator WILLIAMS. I have one further question. Would you furnish for the record at this point a copy of the statutory authority which you think gives the Federal Reserve Board the right to release our gold reserves if it sees fit?

Secretary DILLON. Oh, yes; I would be glad to.

(The following statement was supplied for the record:)

Paragraph 3 of section 16 of the Federal Reserve Act provides that each "Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against its Federal Reserve notes in actual circulation." Provisions relating to action which the Federal Reserve might take if the reserves should fall below the required amounts are found in section 11(c) of the Federal Reserve Act, the text of which follows:

"SEC. 11. The Board of Governors of the Federal Reserve System shall be authorized and empowered:

* * * * * * *

"(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the reserve held against Federal Reserve notes falls below 25 per centum, the Board of Governors of the Federal Reserve System shall establish a graduated tax of not more than 1 per centum per annum upon such deficiency until the reserves fall to 20 per centum, and when said reserve falls below 20 per centum, a tax at the rate increasingly of not less than 1½ per centum per annum upon each 2½ per centum or fraction thereof that such reserve falls below 20 per centum. The tax shall be paid by the Reserve bank, but the Reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Board of Governors of the Federal Reserve System."

The CHAIRMAN. Senator McCarthy?

Senator MCCARTHY. No, thank you; I have no questions.

The CHAIRMAN. Thank you very much, Mr. Secretary.

This completes the hearings on the bill.

(Whereupon, at 12:25 p.m., the hearing was concluded.)