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PUBLIC DEBT

STATEMENT

OF

SECRETARY OF THE TREASURY

HENRY H. FOWLER

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

ON

H.R. 8464

AN ACT TO PROVIDE, FOR THE PERIOD BEGINNING ON JULY 1, 1965, AND ENDING ON JUNE 30, 1966, A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

JUNE 15, 1965

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PUBLIC DEBT

TUESDAY, JUNE 15, 1965

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 Clinton P. Anderson presiding.

Present: Senators Long, Anderson, Douglas, McCarthy, Hartke, Ribicoff, Williams, Carlson, Bennett, Morton, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

Senator ANDERSON. Mr. Secretary, the chairman will be a little late today and has asked that I call the meeting to order. The hearing today is on the bill H.R. 8464, to temporarily increase the public debt ceiling to $328 billion during the period beginning on July 1, 1965 and ending on June 30, 1966. Won't you have a seat, Mr. Secretary, and present your views?

STATEMENT OF HON. HENRY H. FOWLER SECRETARY OF THE TREASURY; ACCOMPANIED BY FREDERICK L. DEMING, UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Secretary FOWLER. Thank you, Senator.

I have with me, at the table this morning, Under Secretary for Monetary Affairs, Mr. Frederick Deming.

We appear before you in connection with the public debt limit proposal. Action is essential before the end of this fiscal year to establish a new public debt limit adequate to accommodate our needs in the period ahead. The present temporary ceiling stands at $324 billion.

On July 1, the ceiling, in the absence of congressional action, will revert to its permanent level of $285 billion, $32.4 billion below the estimated debt subject to limit at that time. Clearly, we cannot permit the credit of the United States to come under that shadow for a single day, nor doubts arise over the authority of the Treasury to finance in an orderly way the additional needs of the Federal Government that will arise later in fiscal 1966.

You will recall that the President's budget submitted to the Congress in January of this year anticipated a deficit of $6.3 billion for fiscal 1965. As you are aware, this outlook has improved significantly since that time. Late in April, the President was able to announce an expected decrease in anticipated expenditures for the fiscal year of $500 million. Meanwhile, accumulating evidence of a larger than expected flow of taxes, particularly of individual income taxes, now indicates that receipts will total at least $1.4 billion more than anticipated in January. As a result, our estimated fiscal 1965 deficit has been reduced to about $4.4 billion.

The difference between our debt ceiling needs for fiscal 1966 and the need when the Treasury appeared before this committee a year ago is primarily accounted for by this estimated fiscal 1965 deficit, for that deficit will be reflected in an approximately equivalent increase in the debt between the start of fiscal 1965 and the start of fiscal 1966.

Every year, the Treasury faces a large seasonal shortfall in revenues during the first 6 to 8 months of a fiscal year. For instance, we typically collect less than 45 percent of our annual revenues from the end of June to the end of December. Consequently, even in years of balanced budgets, we have substantial seasonal borrowing requirements over that period, and these requirements are relatively little influenced by moderate changes in the budgetary projections for a fiscal year as a whole. The size of an anticipated surplus or deficit does, of course, determine how much of this borrowing can be purely temporary, to be paid off in the spring when revenues are seasonally flush, but it is the earlier peak seasonal needs which must be covered by the debt ceiling.

Given this recurrent seasonal pattern, it is plain that the debt ceiling must be raised not so much to take account of any prospective deficit in fiscal 1966 as a whole, but simply to take account of the fact that, as a result of the $4.4 billion deficit anticipated for the current fiscal year, we expect that we will be entering the current fiscal year with the actual debt some $4.7 billion higher than a year earlier.

I know the committee is also interested in a review of the prospects for fiscal 1966 as a whole. As you are aware, the President's January budget, in estimating fiscal year 1966 receipts at $94.4 billion, had already taken into account the $1¾ billion cut in excise taxes proposed for July 1. On the basis of recent experience, and with continued gains in economic activity, that revenue estimate, still assuming only the proposed July 1 reductions in excises, has been raised by $1.6 billion. Further allowance must now also be made for the additional cut in excise taxes of $1¾ billion on January 1, 1966, which was passed by the House of Representatives recently and upon which your committee has reported. Enactment of that additional cut will offset an estimated $600 million of the $1.6 billion improvement in the revenue outlook. As a result, we now estimate receipts in fiscal 1966 at $95.4 billion, $1 billion higher than projected in the President's January budget.

I am informed by the Director of the Bureau of the Budget that, at this stage in the appropriations process, there is no sound basis for changing the expenditure estimate for fiscal 1966 in the January budget, and that the estimated spending total of $99.7 billion still represents a fair appraisal of the spending outlook. Consequently, we now anticipate a deficit in fiscal 1966 of $4.3 billion, as compared with $5.3 billion in the President's budget.

The outlook for the public debt at midmonth and month-end dates in fiscal 1966 consistent with this budgetary outlook is shown on table I attached. The debt levels that are shown in the last column of table I are based on the same assumptions that have been used in previous debt limit discussions. The first assumption is that the Treasury's cash operating balance will be maintained at a constant level of $4 billion—a figure below our actual average balances in recent years. In practice, there is, of course, a great deal of fluctuation in our actual cash balances, and at various times during the year it is feasible and desirable to achieve cash balances smaller than $4 billion. However, that figure seems to me a necessary and prudent minimum allowance for a cash balance adequate to conduct the operations of the Treasury in an efficient manner, and it has been customary before both the House and Senate committees to use this minimum figure for advance planning.

The second assumption provides the usual $3 billion of margin for flexibility and contingencies. This is insurance against the uncertainties that inevitably exist in projections of budgetary receipts and expenditures a year or more ahead, and also recognizes the need for financing flexibility to assure maximum efficiency in debt management operations. For instance, Treasury obviously would prefer to refrain from new financing in an unfavorable market environment; conversely, it would like to anticipate future cash requirements by borrowing when markets are particularly favorable. And, clearly, with receipts and expenditures subject to sharp fluctuations from day to day and week to week, it would be impractical to schedule Treasury financings so as to avoid considerable swings in the cash balance.

As table I indicates, our peak requirement—including the allowance for contingencies—is estimated at $328.9 billion at the middle of March 1966. Consequently, a debt ceiling of $329 billion, $5 billion higher than the present temporary limit for the current fiscal year was presented to the House Ways and Means Committee as the amount that was necessary to carry the Treasury through the fiscal year 1966. That committee suggested that this figure instead be rounded down to $328 billion, and the House has since completed action to provide a new temporary ceiling at the $328 billion figure for fiscal 1966. I stated before the House committee that our study had been carefully done and that we believed it would be prudent to fix the ceiling at the requested figure of $329 billion. I added that the process of shaving the assumptions could entail some measured risks. Nevertheless, I told the House committee that I would not enter any strong objection to their then proposed action. In consequence, I appear before you with the same data and estimates as were presented to the House committee, but with a specific request for the $328 billion ceiling as voted by the House rather than the $329 billion we had requested.

I should emphasize, in requesting your concurrence in this action, that our peak needs have not been significantly affected by the second stage of the excise tax program recommended by the President. The estimated $600 million revenue impact of the excise tax cuts scheduled for January 1, 1966, will appear in our actual collections only with a lag of 2 to 3 months, with virtually all of the effect coming after our peak debt needs on March 15 have already passed. In fact, substantial reduction of the debt is anticipated during the spring of 1966.

I would also like to call your attention to table II, comparing our projections of the debt subject to limitation submitted to this committee last June with actual results. It can be seen that the actual debt in most recent months, adjusted to the assumed cash balance of $4 billion (col. 5) fluctuated close to our earlier estimates. While the unexpected increases in the revenue flow have permitted us to remain under our estimates by a wider margin in April and May, at the peak requirement period of mid-March the debt was only $800 million less than that which was estimated a year ago. It is, of course, this peak seasonal requirement that must be anticipated almost a year ahead. I believe the record is also clear that the $3 billion leeway implicit in the temporary ceiling of $324 billion provided for the current fiscal year has, as intended, been properly reserved as a margin for flexibility and emergencies—a margin that, fortunately, we did not need to draw upon this year.

It can also be seen that as a practical matter the operating cash balance has rarely been at or below $4 billion, and that the substantial, and not entirely predictable, monthly variations in our cash flow have occasionally resulted in considerably higher balances for brief periods. These variations, I believe, are a normal consequence of an orderly financing program designed to assure adequate balances over peiods of peak cash drains, adequate flexibility in scheduling our borrowing operations, and our ability to meet the broader economic objectives of our debt management program.

It is not the intent of the Treasury to ask for any more borrowing power than is necessary and prudent. To the contrary, our firm objective is to maintain no more debt outstanding than that which is absolutely required to effectively and economically discharge the financial responsibilities of the Government.

TABLE I.—*Estimated public debt subject to limitation based on constant minimum operating cash balance of $4,000,000,000*

[Fiscal year 1966, in billions]

	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
1965				
June 30	$4	$310.2	$3	$313.2
July 15	4	313.1	3	316.1
July 31	4	314.3	3	317.3
Aug. 15	4	314.7	3	317.7
Aug. 31	4	315.7	3	318.7
Sept. 15	4	318.8	3	321.8
Sept. 30	4	313.1	3	316.1
Oct. 15	4	316.2	3	319.2
Oct. 31	4	318.7	3	321.7
Nov. 15	4	319.7	3	322.7
Nov. 30	4	319.6	3	322.6
Dec. 15	4	321.3	3	324.3
Dec. 31	4	319.6	3	322.6
1966				
Jan. 15	4	322.8	3	325.8
Jan. 31	4	321.5	3	324.5
Feb. 15	4	321.6	3	324.6
Feb. 28	4	321.9	3	324.9
Mar. 15	4	325.9	3	328.9
Mar. 31	4	319.5	3	322.5
Apr. 15	4	323.0	3	326.0
Apr. 30	4	319.0	3	322.0
May 15	4	318.3	3	321.3
May 31	4	320.1	3	323.1
June 15	4	322.8	3	325.8
June 30	4	315.2	3	318.2

TABLE II.—*Comparison of debt projections of June 23, 1964, with actual results*

[In billions]

Fiscal year 1965	Projections of June 23, 1964		Actual			Difference (col. 5 compared with col. 2)
	Operating cash balance (excluding free gold) (1)	Debt subject to limitation (2)	Operating cash balance (excluding free gold) (3)	Debt subject to limitation (4)	Debt subject to limitation after adjusting cash balance to [1] $4,000,000,000 (5)	
1964						
June 30	$4	$307.9	$10.1	$312.2	$306.1	−$1.8
July 15	4	311.0	5.9	311.2	309.3	−1.7
July 31	4	311.8	5.3	311.6	310.3	−1.5
Aug. 15	4	313.5	6.1	313.2	311.1	−2.4
Aug. 31	4	314.2	6.0	314.6	312.6	−1.6
Sept. 15	4	316.9	3.8	315.7	315.9	−1.0
Sept. 30	4	311.2	9.3	316.1	310.8	−.4
Oct. 15	4	315.0	5.1	315.6	314.5	−.5
Oct. 31	4	316.3	4.8	316.1	315.3	−1.0
Nov. 15	4	318.1	4.8	317.0	316.2	−1.9
Nov. 30	4	317.7	7.2	319.0	315.8	−1.9
Dec. 15	4	320.5	3.3	318.7	319.4	−1.1
Dec. 31	4	316.0	6.2	318.5	316.3	+.3
1965						
Jan. 15	4	318.9	2.8	317.9	319.1	+.2
Jan. 31	4	318.0	4.5	318.4	317.9	−.1
Feb. 15	4	319.1	4.6	318.4	317.8	−1.3
Feb. 28	4	318.2	6.8	320.3	317.5	−.7
Mar. 15	4	321.0	4.2	320.4	320.2	−.8
Mar. 31	4	315.4	8.1	318.1	314.0	−1.4
Apr. 15	4	319.2	4.5	318.0	317.5	−1.7
Apr. 30	4	315.6	7.9	316.9	313.0	−2.6
May 15	4	316.7	8.9	316.1	311.2	−5.5
May 31	4	317.1	9.7	319.5	313.8	−3.3
June 15	4	319.9				
June 30	4	313.9				

[1] Adjustment to $4,000,000,000 cash balance places data on basis comparable to estimates given on June 23, 1964, as shown in col. 2.

Senator LONG (presiding). May I ask you, Mr. Secretary, what is your reaction to this what I call the Martin slump in the stock market that was set off after——

Senator ANDERSON. Still going on.

Senator LONG (continuing). After Federal Reserve Board Chairman Martin said it. I didn't say it wasn't still going on. Most people attribute that statement to him.

Senator WILLIAMS. Is that the Martin slump to the Johnson market? [Laughter.]

Secretary FOWLER. Mr. Chairman, I don't think my reactions to the situation have changed in any appreciable degree from those that I voiced to this committee some days ago, I think in response to questions from Senator Williams and Senator Smathers. We had a thorough roundup analysis of the current situation as it relates to the economy, as was reported in the press last Thursday at the White House, with Chairman Martin and the Chairman of the Council of Economic Advisers and the Director of the Budget. Under Secretary Deming attended, and another member of the Council—I believe Mr. Okum. As the press reported the President's statement, I think it was the unanimous view of that group that the present outlook for the economy is a favorable one.

I think we all recognize that it is too much to expect that the economy will maintain the tremendous pace it had in the first quarter, when the gross national product increased about $14.2 billion due to some nonrecurring factors—the carryover of automobile demand from the fourth quarter when there had been some interruptions due to strike and the steel inventory buildup in anticipation, or in fear of, a steel strike at the time of the May closing of the contract. I think we all expected the second quarter to continue to show a healthy rate of increase but not nearly at the pace that the first quarter had shown. We expect the third and fourth quarters of this calendar year to continue to show a healthy and appreciable expansion.

Any forecasting is attended by a good deal of risk, but it is certainly very difficult to see beyond the first of the year in any meaningful way although I must say we were all of the opinion that there is nothing on the horizon in the way of data or trends about the economic situation that indicate any substantial difficulties in 1966.

Now, of course, one could say that the stock market break, itself, is an indicator of some possible difficulty ahead.

As a matter of fact, I was asked that question after the meeting by the press, and I commented that the stock market is only one of a great number of indicators that the economists and analysts use in predicting psychological changes, and forecasting psychological changes, and that it has no more or less importance than 20 other economic indicators.

So, as far as we were able to see the situation, after an hour or so of fairly free and intensive discussion, I see nothing that I can add to the comments I made last week.

Senator LONG. Well, now you say you see nothing on the horizon to be a substantial threat, that is to be—anything aside from the fact that there is something of a break in the stock market itself at the moment, you see nothing on the horizon to indicate that the economy is in any trouble.

Could you put that the other way around in the affirmative and say that all factors indicate that the economy is not in trouble?

Secretary FOWLER. Yes, sir.

Senator LONG. I am not a speculator and can't afford it but if I had something to speculate on I would assume that this would probably be a good time to buy some stocks at the time some of them went down.

Secretary FOWLER. Mr. Chairman, I have never allowed myself to be involved in any advice about the stock market and I don't think I want to begin now.

Senator LONG. I don't blame you. As a matter of fact, it is kind of like somebody betting on a horse, you can't guarantee he is going to win.

But the question of our balance-of-payments question keeps coming up.

Would you mind telling us what is the latest indication with regard to our balance-of-payments problem?

Secretary FOWLER. I would like to answer that in two parts, and this is a pattern that I have found it necessary to follow in frequent discussions of this topic. First, insofar as the early returns from the balance-of-payments situation are concerned covering the months since the President's February 10 program was announced and the so-called voluntary program primarily affecting the banks and direct industrial and business operations abroad, our balance-of-payments picture has shown a very steady and encouraging improvement.

However, I think one must always add to that that there have been a number of factors at work in the March and April and May figures, particularly the March and April figures, which might have involved some reflect action from the situation that existed in the last quarter of last year, and the early months of this year. There was the reflect action from the interruption to exports due to the dock strikes early this year. There was a reflect action due to the fact that undoubtedly during the last quarter and the first month and a half of this calendar year, a good deal of money went overseas somewhere in anticipation, or in concern, as to whether or not there would be anything like a complete stoppage of transfers of capital overseas.

So the improvement which we have been able to notice in the figures for March and April and May to some extent perhaps reflects the so-called voluntary program and to some extent reflects these reflect actions.

I myself have taken the position consistently that I think we are in a much sounder position if we wait until the second quarter figures are all available—which would be around August 20, covering the months of April, May, and June—to attempt to appraise what the improvements have amounted to as a result of the program, and to what extent the improvements in a given sector, such as foreign bank loans tend to be countered by losses in certain other sectors.

In other words, you have to look at this picture in its totality rather than taking too much early encouragement and too much early optimism from the known favorable results that we are getting in certain isolated sectors, however important they may be.

Governor Robertson, of the Federal Reserve Board, which is administering the bank program—the bank phase of the voluntary program—made a speech earlier this week indicating that very substantial progress is being made there.

Secretary Connor, who is in charge of coordinating the voluntary program as it has to do with direct business operations abroad, has indicated that the expectations of the 600-odd major companies that are cooperating with this program promise considerable improvement in that sector.

But we don't know what the impact is going to be, for example, in the import sector. We don't know what the impact is going to be in some of the additional requirements as a result of increased military operations, for example, in South Vietnam.

So, I would prefer to reserve any solid comment on whether we have this situation in hand until we see these second quarter figures, and then I would like to add a third point which I have tried to emphasize in speaking, particularly to industrial and banking groups, that coming into a balance or approaching a balance or equilibrium in any one quarter is not going to be an answer to this problem. We have been in deficit, and in substantial deficit, in this area for a period since 1958. So we are going to have to get into a balance, or an equilibrium as it is called, not for just one quarter, but for two, three, and four. And as long as one can see, we must try to maintain that balance because the dollar, as a key reserve currency, is going to have to continue to play a major role in our international monetary affairs.

So I simply utter this note of encouragement, but caution against assuming that we have the problem completely licked until we know the figures.

Senator DOUGLAS. Mr. Chairman, would the Senator yield?

Senator LONG. I am through.

Senator DOUGLAS. I don't wish to interfere but merely follow up the question. What are the figures for the first quarter, Mr. Secretary?

Secretary FOWLER. Well, the figures—Senator, we get into the problem of seasonal adjustment, and the figures for the first quarter showed that—taking into account the seasonal adjustments factors—we were running a deficit on an annual basis of better than $3 billion.

Senator DOUGLAS. There would have been no improvement then?

Secretary FOWLER. That is accounted for by the fact that the first month, January, and really the second month, we were running at a very substantial deficit. The figures for March were of an entirely different order after the program had gone into effect. The figures for April on a seasonal adjusted basis showed a surplus as have the figures for May.

Senator DOUGLAS. Surpluses, there has been a surplus for March, April, May.

Secretary FOWLER. Yes, sir.

Senator LONG. You are actually showing a surplus for those 2 months?

Secretary FOWLER. Yes; that is right. But how much of that surplus is a reaction from the reaction before and how much is improvement I can't say.

Senator LONG. Let me get this straight. The indicators you have indicate that you are showing a surplus for 3 months, March, April, and May.

Secretary FOWLER. That is right.

Senator LONG. But you don't want to rely upon that as yet because you would rather wait until more figures come in and so you have a complete overall showing?

Secretary FOWLER. That is right.

We have had in the past quarters in which we have been in surplus or approaching surplus and I don't think we are safe in assuming we have this problem in hand, while we have two, three, or four quarters running in a row showing pretty much a consistent pattern.

Senator LONG. Senator Anderson?

Senator ANDERSON. I was very serious to get at that situation because one of the Senators last night said:

> Fowler appeared before the Senate Committee on Foreign Relations 2 months ago and asked him if he did expect improvement in the balance of payments. He said he did. He asked them what they were on the day he appeared, he could not give the answer.

The answer is now the balance-of-payments problem is now worse than it was. Unfortunately some of us didn't have ways of getting to our information last night, the people in my office who keep track of those things had gone home. I had figures showing the situation was not worse than it was. Is it your information that the situation is worse than it was?

Secretary FOWLER. No, sir; my information is that there has been an encouraging improvement covering the months of March, April, and May. I see no reason to believe that that situation shouldn't continue but I much prefer to wait until we have the second quarter figures thoroughly in hand to give, I think, a more complete appraisal of the picture.

What we have up to now is encouraging, Senator Anderson.

Senator ANDERSON. Well, I agree with you we have to wait a while to be sure of it but the facts are right now it looks better even though there are factors that might maybe make it later look worse.

Secretary FOWLER. It does indeed and I would suggest, perhaps I would like to provide for the record, if the chairman permits, some excerpts from the recent statement by Gov. J. L. Robertson of the Board of Governors of the Federal Reserve System in which he outlined the clear, very clear, evidence of the effect of the voluntary program among the banks which have been engaged in foreign lending activities.

Senator LONG. I will instruct the reporter to put that in the hearings when you provide it.

(The information referred to follows:)

EXCERPTS FROM THE RECENT STATEMENT BY GOV. J. L. ROBERTSON OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The basic objectives of that part of the President's program assigned to the Federal Reserve System are, I hope, fairly well known. We aim to reduce the expansion of bank credit from a rate of over $2 billion a year—which it attained in 1964—to something in the neighborhood of $500 million in 1965. To achieve comparable results in the area of nonbank financial institutions, we asked them to reduce, in an orderly manner, their holdings of liquid funds abroad to the December 31, 1963, level, to refrain from increasing their holdings of short- and medium-term investments by more than 5 percent during 1965, and to exercise considerable restraint in increasing their long-term investments.

Barely 3 months have passed since the guidelines were distributed and we have data on actual transactions only for March and April, and that only for banks. It is already clear, however, that there has been a sharp reduction in the rate of expansion of bank credit; from over $2 billion in 1964, and about $400 million in just the first 2 months of 1965, the flow was reduced to $40 million in March and converted into a reflux of $140 million in April. We do not yet have specific data (but soon will) on capital flows through the nonbank financial institutions this year (their foreign credits increased 9.4 percent in 1964, from over $8 billion to over $9 billion), but the information we do have leads us to believe that they, too are cooperating wholeheartedly with the program.

We are keeping in close touch with all these financial institutions. Regular reports and hundreds of face-to-face meetings with top management give us every reason to believe that the guidelines are being followed, and that the program will be effective in achieving a substantial reduction in the rate of capital outflow while providing adequate financing not only for U.S. exports but also for the needs of the less developed countries of the world.

The reaction of the financial community to the program has been an encouraging example of the way in which American institutions can place the national welfare above their own shortrun economic interests. It is true that financial institutions recognize that their welfare is inextricably entwined with the preservation of a sound dollar and an effective international monetary system. Nevertheless, their willingness to cooperate and to refrain from taking competitive advantage of the situation exhibits an admirable sense of public responsibility.

Secretary FOWLER. The bankers have done a great job in the early months.

Senator ANDERSON. In your statement you say, "General reduction of debt is anticipated in the spring of 1966."

Do you mean a reduction?

Secretary FOWLER. That is a reduction from the peak level during this particular year.

Senator ANDERSON. It always reduces the peak level, doesn't it?

Secretary FOWLER. Sir?

Senator ANDERSON. It always reduces from the peak level?

Secretary FOWLER. That is right, as the money comes in. This doesn't represent a long-term reduction.

Senator ANDERSON. You don't think anybody now living in America will ever see a reduction in the public debt, do you?

Secretary FOWLER. Yes, sir.

Senator ANDERSON. You do?

Secretary FOWLER. Yes, sir.

Senator ANDERSON. Well, I want to put down on the record that I don't. I tried one time to take off the word "temporary" and I think Senator Williams has mentioned it again.

Secretary FOWLER. Did you say permanent debt?

Senator ANDERSON. Yes. I regard the $324 billion as permanent.

Secretary FOWLER. Oh, yes.

Senator ANDERSON. It will be permanent for the next hundred years anyhow.

Secretary FOWLER. My comments reflect the view that I think it is quite practicable and probable that we should have, sometime, a surplus to contend with rather than to be constantly confronted with debts.

Senator WILLIAMS. I think what the Secretary is stating is he is expecting a reduction from a higher plateau to a higher foundation.

Senator MCCARTHY. I would suggest we make it all temporary but raised to $350 billion, would that make people feel better?

Senator ANDERSON. I assure the Senator from Minnesota he would favor that because I tried it several years ago. I tried to boost up to $315 billion and I didn't get but two or three votes. That was fantastic.

Secretary FOWLER. For the information of the committee on that subject there was considerable discussion in executive session in the House about whether to change the permanent ceiling at this time and it was decided, after much weighing of the problem, not to include a recommendation to that effect.

However, the Treasury and the Budget were instructed to conduct a study during the months ahead of what criteria should be considered in the event the Congress did at some later time wish to change the so-called permanent debt ceiling figure.

Senator ANDERSON. $325 billion would be a very conservative figure for a permanent level, wouldn't it? I am going on the basis we rode the dollar a little each year and, therefore, it is an easier burden to carry, perhaps.

Secretary FOWLER. I would say in a range between $315 and $325 billion would be a reasonable figure.

Senator ANDERSON. I don't blame you for saying that.

Secretary FOWLER. It depends on what your objectives are and how high you wish to make them. The figure $315 billion was discussed in the House committee.

Senator ANDERSON. There is nothing about the excise tax cut that would indicate that is going to contribute to the reduction of the deficit, is there?

Secretary FOWLER. We view, as I think I indicated in the hearing before, the economic effect of the excise tax cut to be roughly comparable to an income tax cut of the same general proportions. Most economists seem to support that point of view. I found very few that differentiated in their appraisal of the economic impact of the two—the income tax cut and the excise tax cut.

Senator ANDERSON. I do not question the economic value of it. I think it may throw us out of balance and it might be valuable. I would like to have taken some time on your comments on Mr. Martin's statement. Can you imagine anything more influential and better for the bear operators in Wall Street than Mr. Martin's statement?

Secretary FOWLER. I am not sufficiently familiar with that segment of Wall Street, Senator Anderson, to have much judgment about it.

Senator ANDERSON. I appreciate that answer.

You referred, however, to what you called psychological changes being involved in this. When they had a wave of selling because of the report that President Johnson has suffered another heart attack, it wasn't psychological selling, was it?

Secretary FOWLER. No, that was kind of scare selling.

Senator ANDERSON. Scaresmanship.

A man is not allowed to make a bad statement about a life insurance company under the laws of most States. But he can make a bad statement in Wall Street and get rid of it in fine state. I am not going to ask you but I hope if someday a man in Mr. Martin's position can make statements to influence the stock market as such——

I have no further questions.

Senator DIRKSEN. May I ask a question?

Mr. Fowler, I would like to know what was wrong with Bill Martin's statement? He has been Chairman of the Board for the last 14 years or more. He is a very cautious and a very knowledgeable and a very skilled person and in his statement he had to say something even though it was unpopular, and so in the fore part of his statement he just indicated the conditions that existed pre-1929 crash and their similarity to conditions that exist at the present time. And he couched it in terms of a warning so that what he called an orderly expansion or an orderly boom did not become a disorderly flop of some kind. A man of his age, who is 59 and he has been Chairman of the Board for 14 years doen't talk very lightly and in my judgment he doesn't talk for Wall Street and he was only doing what his conscience told him he ought to do by way of a warning because of the responsibility he carries as Chairman of the Federal Reserve System.

Was there anything essentially wrong with his statement?

Secretary FOWLER. No, Senator Dirksen. I have consistently taken the position in commenting on this privately and publicly that I read Chairman Martin's speech the following morning very closely and I have been quite surprised—Chairman Martin will have to speak for himself, but I judge him to have been surprised also—at the press handling and the market reaction to his statement.

Of course it is all in the eyes of the beholder—Chairman Martin had told me previously he expected to make a talk at which he wanted to support very strongly the position I had taken on the seriousness of the balance-of-payments problem and the necessity for consistent maintenance of and carrythrough of the President's balance-of-payments program. So, when I read the speech I focused, you might say, on the last two-thirds of the speech, the part that began on page 6 in which he said whatever differences economists may have about what were the factors that led to the depression in 1929–33, and these are matters of persistent dispute, there is little or no disagreement that we cannot allow to happen to the dollar what happened to the pound in 1931, and then the remainder of his speech was a strong and consistent plea that we have the national will and determination to take the necessary measures in line with programs that have been announced to deal with the balance-of-payments problem.

I make no judgment about the use of the 1929 factors. I do think that the emphasis was all given to the so-called similarities between the two situations and very little press emphasis, at least immediate flagging, of the dissimilarities. A good deal of attention is now being given, I think, to the dissimilarities between the two situations, and men like Martin Gainsborough of the National Industrial Conference Board and many other economists are bringing out now day after day analyses of the dissimilarities between the two situations. But that instantaneous reaction was one that I don't think Chairman Martin anticipated and I have not been publicly critical of him or privately critical of him.

Senator DIRKSEN. Would you yield further?

Senator ANDERSON. Surely.

Senator DIRKSEN. My concern was this: The sharp and severe criticism of Chairman Martin.

Now, the Federal Reserve has been doing business for over 50 years. It was created back in 1913, and gave him some explicit powers, their open market operations, the rediscount rate, margins on stock purchases, interest, and other items. Suppose he failed and didn't issue a warning and then something happened, why he would be castigated from hell to breakfast if he hadn't exercised the responsibilities that the Congress put on the Federal Reserve System.

Secretary FOWLER. Well, Senator Dirksen, I don't know whether you were here at the time last week when I said that we are in a period of very long and sustained expansion and I, for one, think it is the better part of prudence in a period such as this for business forecasters and commentators and public officials to look at business prospects and keep a somewhat open-eyed view to find any emerging imbalances or trouble spots and attempt to deal with them to some extent in advance. The way to deal with a recession is to avoid having it, if you can.

I think, therefore, the continued examination of the ways in which we can sustain an expansion is a healthy exercise. I believe it is the duty and responsibility of those of us who are concerned to realize that it is the balanced character of this particular expansion which has given it its durability and its sustained effect over a long period of time. The retention of such a balanced character to the expansion requires us to be concerned with seizing additional opportunities to remove obstacles and burdens to further growth such as exemplified in the excise tax bill which was then pending before the committee, and it is important to have that continued emphasis on further expansion.

It is also important to have the emphasis which Chairman Martin was giving the other day that it is possible to lose an expansion by having it go so far so fast that inflationary tendencies overtake it, and in effect it falls forward. I think both of these points of view are ones that all of us should keep in front of us. It is very healthy a thing to have them and I, for one, think it is perfectly natural when an economy is catching its breath, following very large increases in sales and production in the first quarter, that we return to a more normal growth pattern and recognize this as something which has been fully anticipated.

I don't believe I can add any more to that in response to your questions, sir.

Senator DIRKSEN. Will you yield for one more question?

Senator ANDERSON. Surely.

Senator DIRKSEN. I thought I detected, of course, when he put the emphasis on maintaining the value of the status of the dollar that he was looking abroad a little because of Britain's continuing trading balance which was running, I think, some $90 million a week and if that continues very long I assume it is going to have real difficulty over there and then you will get a strain on your dollar.

Secretary FOWLER. Well, I think we could go into the British situation to some extent. I think I would prefer to withhold any further comments on it now. The Chancellor of the Exchequer, Mr. Callaghan, will be over here the latter part of this month and we expect to have a full and detailed exchange with him on a variety of problems of which obviously the British situation is one.

Senator ANDERSON. Do you have any estimates as to how long you feel it will be before we have a balanced budget?

Secretary FOWLER. I would not want to make any prediction as to when we will have a balanced budget.

I would make a comment as to when it would be possible and feasible to have a balanced budget, and I think in that connection I should like to associate myself with the comments that Secretary Dillon made before this committee—not before this committee but before the House Committee on Appropriations earlier this year—because I think the situation is very much the same, and he put it very properly.

Senator ANDERSON. I would also be happy to review what he said to this committee in 1961, 1962, and 1963.

Secretary FOWLER. I have the 1963, 1964 here. I don't believe I have gotten back as early as 1961.

Senator WILLIAMS. I think it is pretty much all the same thing, he has been looking for it all the time but never has found it.

Secretary FOWLER. Sir?

Senator WILLIAMS. I think it is pretty much the same; he has been looking for it, searching for it, but never found it.

Secretary FOWLER. I hope I will take a leaf out of his book. I am not predicting when we would have it, but I am discussing when it would be feasible to have a balanced budget. Many factors enter into a balanced budget and involve the President's budget for 1967, 1968, the action of the Congress on his requests, the action of the Congress on matters that he does not request—all these—and more particularly and more importantly than anything else, the outlook for the economy, which is the revenue-producing mechanisms we have, these are all imponderables. Senator Williams and Senator Anderson, I would say, in answer to your question, that as Secretary Dillon said in connection with the discussions of the tax cut, he indicated 1968 would appear to be the earliest time because the additional tax cut will be taking place in the intervening years.

Senator ANDERSON. That is a perfectly satisfactory answer. I only ask you to say if it is going to have several years of deficits what would be wrong with raising the permanent ceiling to $325 billion?

Secretary FOWLER. I see nothing wrong in that, except I think you would have to have also a temporary ceiling along with it, at the figure we have here.

Senator ANDERSON. We would like to have that. As the motto of my State, "It Grows as It Goes,"

Secretary FOWLER. One would not preclude the other.

Senator ANDERSON. All right.

Secretary FOWLER. But just to elaborate for a moment, on the possibilities of a balanced budget, it would be feasible in 1968, 2 years hence, if the economy continues to advance on its present trajectory and we have the benefit of additional revenues each year, taking into account the excise tax cuts that the committee has voted. If you assume that the increase in budget expenditures were around \$2½ billion to \$3 billion each year and that the economy continued to advance at its present trajectory, yielding this \$5 billion increase, it would be quite feasible to have a balanced budget in 1968.

Senator ANDERSON. Thank you.

The CHAIRMAN. I have two tables which I think are pertinent to consideration of this bill raising the statutory limit on the Federal debt.

They deal with the debt, gross national product, and the fiscal-monetary conditions in the United States.

Table I is entitled "Total Gross Debt (Public and Private) and Gross National Product, 1948 to 1964, inclusive."

Table II covers the fiscal situation, the value of the dollar, balance of payments, gold stock, and reserves.

Both tables are compiled from official figures. I will not comment on either at this time, but they are submitted for information.

TABLE I.—*Total gross debt (public and private) and gross national product, 1948 to 1964, inclusive*

[Calendar years; dollars in billions]

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1948–1964 percent increase
Gross national product	259.4	258.1	284.6	329.0	347.0	365.4	363.1	297.5	419.2	442.8	444.5	482.7	502.6	518.7	556.2	583.9	622.6	140.0
Total gross debt	498.6	520.3	566.4	607.5	646.0	683.9	714.1	786.4	831.1	867.3	916.8	986.1	1,037.2	1,100.5	1,178.9	1,262.9	1,346.4	170.0
Percent of GNP	192.2	201.5	199.0	184.6	186.1	187.1	196.6	197.8	198.2	195.8	206.2	204.2	206.3	212.1	211.9	216.2	216.2	----------
Federal and agency debt	258.0	266.1	266.4	270.2	279.3	289.3	294.4	301.8	300.5	301.7	310.6	321.9	322.1	330.2	340.1	347.6	356.3	38.1
Percent of GNP	99.4	103.0	93.6	82.1	80.4	79.1	81.0	75.9	71.6	68.1	69.8	66.6	64.0	63.6	61.1	59.5	57.2	----------
State and local debt [1]	18.7	20.9	24.2	27.0	29.6	32.7	37.9	43.2	48.0	52.5	57.2	62.4	67.1	72.5	80.9	86.7	92.2	393.0
Percent of GNP	7.2	8.1	8.5	8.2	8.5	8.9	10.4	10.9	11.5	11.9	12.9	12.9	13.4	14.0	14.5	14.8	14.8	----------
Total private debt	221.9	233.3	275.8	310.3	337.1	361.9	381.8	441.3	482.6	513.1	549.0	601.8	648.0	697.8	757.9	828.6	897.9	304.6
Percent of GNP	85.5	90.3	96.9	94.3	97.1	99.0	105.1	111.0	115.1	115.8	123.5	124.6	128.9	134.5	136.2	141.9	144.2	----------
Corporate debt	138.8	139.5	167.1	190.7	201.5	211.5	216.3	251.0	274.9	292.1	309.5	337.7	361.6	387.5	416.3	449.7	480.3	246.0
Percent of GNP	53.5	54.0	58.7	57.9	58.0	57.8	59.5	63.1	65.5	65.9	69.6	69.9	71.9	74.7	74.8	77.0	77.1	----------
Consumer debt	14.4	17.3	21.4	22.6	27.4	31.4	32.5	38.8	42.5	44.8	45.1	51.5	56.0	57.7	63.2	69.9	76.8	433.3
Percent of GNP	5.6	6.7	7.5	6.9	7.9	8.6	8.9	9.8	10.1	10.1	10.1	10.7	11.1	11.1	11.4	12.0	12.3	----------
Mortgage debt (nonfarm)	45.1	50.6	59.4	67.4	75.2	83.8	94.6	108.7	121.2	131.6	144.6	160.8	174.5	190.4	210.6	234.0	259.3	474.9
Percent of GNP	17.4	19.6	20.9	20.5	21.7	22.9	26.1	27.3	28.9	29.7	32.5	33.3	34.7	36.7	37.8	40.0	41.6	----------
Farm debt [2]	10.8	12.0	12.3	13.6	15.2	16.9	17.6	18.8	19.5	20.3	23.4	23.0	25.1	27.5	30.2	33.2	35.7	230.5
Percent of GNP	4.2	4.6	4.3	4.1	4.4	4.6	4.8	4.7	4.7	4.6	5.3	4.8	5.0	5.3	5.4	5.7	5.7	----------
Commercial-financial debt	12.9	13.9	15.8	16.2	17.8	18.4	20.8	24.0	24.4	24.3	26.5	28.7	30.8	34.8	37.6	42.0	45.8	255.0
Percent of GNP	5.0	5.4	5.6	4.9	5.1	5.1	5.7	6.0	5.8	5.5	6.0	5.9	6.1	6.7	6.8	7.2	7.4	----------
Addenda information:																		
Population as of July 1 (in millions)	147.2	149.8	152.3	154.9	157.6	160.2	163.0	165.9	168.9	172.0	174.9	177.8	180.7	183.3	186.7	189.4	192.1	30.5

[1] Data for State and local governments are for June 30.
[2] Farm mortgages and farm production loans; farmers' financial and consumer debt included elsewhere.

Source: Department of Commerce: Statistical Abstract of the United States, 1964 and Survey of Current Business, May 1965; and Council of Economic Advisers 1965 Annual Report.

NOTE.—Data from sources indicated, compiled by Tax Foundation, Inc., upon request.

TABLE II.—*Federal debt, interest on the debt, budget surplus or deficit, value of the dollar, balance of payments, U.S. gold stock, and total reserves, note liabilities, and deposits of Federal Reserve banks, showing reserve ratio, 1930 to date*

Year	Gross public debt and guaranteed obligations (fiscal year; in millions)	Interest on the public debt (fiscal year; in millions)	Budget deficit or surplus (fiscal year; in millions)	Value of dollar (calendar year) 1939=100 cents (in cents)	Balance of international payments (calendar year; in millions)	U.S. gold stock [1] (fiscal year; in millions)	Total reserves, note liabilities, and deposits of Federal Reserve banks, showing reserve ratio				
							Total reserves [1] (all gold since June 12, 1945) (in millions)	Liabilities subject to reserve requirements			Reserve ratio (percent)
								Federal Reserve notes (in millions)	Federal Reserve bank deposits (in millions)	Total, note and reserve liabilities (in millions)	
1930	$16,185	$659	+$738	83.2	+$598	$4,535	$3,174	$1,424	$2,455	$3,879	81.8
1931	16,801	612	−462	91.4	+1,132	4,956	3,576	1,723	2,504	4,227	84.6
1932	19,487	599	−2,735	101.7	+726	3,919	2,777	2,795	2,028	4,823	57.6
1933	22,539	689	−2,602	107.4	+323	4,318	3,813	3,093	2,494	5,587	68.2
1934	27,734	757	−3,630	103.8	+1,140	7,856	5,022	3,101	4,138	7,239	69.4
1935	32,824	821	−2,791	101.2	+1,174	9,116	6,426	3,258	5,406	8,664	74.2
1936	38,497	749	−4,425	100.2	+896	10,608	8,385	4,034	6,585	10,619	79.0
1937	41,089	866	−2,777	96.7	+1,053	12,318	9,159	4,206	7,278	11,484	79.7
1938	42,018	926	−1,177	98.5	+1,482	12,963	11,041	4,149	9,247	13,396	82.4
1939	45,890	941	−3,862	100.0	+1,915	16,110	13,874	4,511	11,701	16,212	85.6
1940	48,497	1,041	−3,918	99.2	+2,890	19,963	18,120	6,199	15,213	20,412	88.8
Depression years		8,660	−27,643								
1941	55,332	1,111	−6,159	94.4	+1,119	22,624	20,583	6,724	15,863	22,587	91.1
1942	76,991	1,260	−21,490	85.3	−205	22,737	20,830	9,376	13,957	23,333	89.3
1943	140,796	1,808	−57,420	80.3	−1,979	22,388	20,582	13,872	14,022	27,894	73.8
1944	202,626	2,609	−51,423	79.0	−1,859	21,173	19,287	18,899	15,386	34,285	56.3
1945	259,115	3,617	−53,941	77.2	−2,737	20,213	18,055	23,019	17,188	40,207	44.9
1946	269,898	4,722	−20,676	71.2	+1,261	20,270	18,103	24,191	18,206	42,397	42.7
World War II years		15,127	−211,109								
1947	258,376	4,958	+754	62.2	+4,567	21,266	20,039	24,154	17,748	41,902	47.8
1948	252,366	5,211	+8,419	57.8	+1,005	23,532	22,258	23,752	20,176	43,928	50.7
1949	252,798	5,339	−1,811	58.3	+175	24,466	23,245	23,373	19,246	42,619	54.5
1950	257,377	5,750	−3,122	57.8	−3,580	24,231	22,982	22,921	18,316	41,237	55.7
Post-World War II years		21,258	+4,240								

1951	$255,251	5,613	+3,510	53.5	−305	21,756	20,514	23,630	20,508	44,228	46.4
1952	259,151	5,859	−4,017	52.3	−1,046	23,346	22,143	24,826	20,559	45,385	48.8
1953	266,123	6,504	−9,449	51.9	−2,152	22,463	21,286	25,831	20,396	46,227	46.0
1954	271,341	6,382	−3,117	51.7	−1,550	21,927	21,239	25,588	20,808	46,396	45.8
Korean war years		24,358	−13,073								
1955	274,418	6,370	−4,180	51.9	−1,145	21,678	20,994	25,868	19,268	45,136	46.5
1956	272,825	6,787	+1,626	51.1	−935	21,799	21,109	26,367	19,575	45,942	45.9
1957	270,634	7,244	+1,596	49.4	+520	22,623	21,945	26,682	19,630	46,312	47.4
1958	276,444	7,607	−2,819	48.1	−3,529	21,356	20,767	26,705	19,883	46,588	44.6
1959	284,817	7,593	−12,427	47.7	−3,743	19,705	19,416	27,402	18,832	46,234	42.0
1960	286,471	9,180	+1,224	46.9	−3,881	19,322	19,029	27,505	19,126	46,631	40.8
1961	289,211	8,957	−3,856	46.4	−2,370	17,550	17,256	27,778	17,694	45,472	37.9
1962	298,645	9,120	−6,378	45.9	−2,203	16,435	16,158	29,021	18,445	47,466	34.0
1963	306,466	9,895	−6,266	45.4	−2,644	15,733	15,457	30,670	18,188	48,858	31.6
1964	312,526	10,666	−8,226	44.8	−2,761	15,461	15,185	32,835	18,250	51,085	29.7
Post-Korean war years		83,419	−39,706								
Total, 1930-64		153,822	−287,291								
Latest	[2] 319,609			[3] 44.3	[4] −3,010	[3] 14,293	[5] 14,019	[4] 35,296	([5])	[3] 34,871	[3] 39.7
Estimates: [6]											
1965	316,900	11,200	−6,281								
1966	322,500	11,500	−5,287								

[1] The difference between U.S. Treasury gold stock and Federal Reserve bank reserves represents gold held in Treasury cash, of which $156,000,000 constitutes a reserve against U.S. notes.

[2] June 9, 1965 (Treasury Department).

[3] April 1965.

[4] Preliminary, 1st quarter, 1965.

[5] June 9, 1965 (Federal Reserve Board). Reserves now cover liabilities of Federal Reserve notes only pursuant to removal of reserve requirements for Federal Reserve bank deposits in accordance with Public Law 89-3.

[6] Budget document for fiscal year 1966; figures do not reflect revisions since January 1965.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. I notice you had three "ifs" in that.

Secretary FOWLER. Yes.

Senator WILLIAMS. And if we get to the moon and find a supply of gold our problems will be over temporarily and our problems will be over.

Secretary FOWLER. I think these "ifs" are a little more likely than the one you suggested, Senator.

Senator WILLIAMS. Table 1, as I understand it, is your projected debt ceiling, I mean the projected amount of the debt, is that correct?

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. Do you think that the debt on June 30 this year year will be $310 billion, your outstanding debt, or are you expecting a debt actually higher than that by $4 billion to $5 billion?

Secretary FOWLER. I think the $310 billion is the figure we expect, taking into account the operating cash balance of $4 billion.

Senator WILLIAMS. That is what I am getting to. What is your debt now—$319 billion, isn't it?

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. And what you are doing, you are subtracting your cash on hand from your actual debt to make your debt seem lower than it is, and the debt ceiling we have to put out is the amount of outstanding bonds, is it not, and you have today, I think, you are carrying $9.7 billion in cash?

Secretary FOWLER. That is correct, sir.

Senator WILLIAMS. What you are doing, you are writing $5 billion of that in cash and saying if we paid it on our debt our debt would be *x* figure, $313 billion, isn't that what you are doing?

Secretary FOWLER. That is right, sir.

Senator WILLIAMS. So in reality the figures you are giving us as to your actual debt are not the actual debt which you expect to be outstanding, but about $4 billion below?

Secretary FOWLER. I think if you look at table 2, Senator Williams——

Senator WILLIAMS. That is what I am looking at.

Secretary FOWLER. Under the column "Actual," you see there the picture that is the actual picture.

Senator WILLIAMS. The actual debt outstanding is higer than your projected debt figures you are carrying over.

Secretary FOWLER. That is correct, sir.

Senator WILLIAMS. Wouldn't it be more realistic to carry your actual debt figure because that is what we have to act on here is the debt ceiling, is it not?

Secretary FOWLER. I think all the figures are in front of you here. This type of presentation that has appeared in table 1—that assumes the operating cash balance of $4 billion and the $3 billion allowance for flexibility and then measuring the limitation that is required in the light of those two allowances—is the customary presentation that has always been made.

Senator WILLIAMS. I understand what you are doing, but it is the first time I have seen it attempted. But the fact of the matter is, as I see it, you are giving the impression that you are expecting your debt to be down here June 30 to $310.2 billion when in reality, both you and I know the debt is going to be around $314 billion on that same date or $315 billion.

Secretary FOWLER. That is correct.

Senator WILLIAMS. Isn't that correct?

Secretary FOWLER. That is right.

Senator WILLIAMS. So when you project this figure out you are projecting a figure out to the American public $3 billion to $5 billion lower than the actual debt is going to be, and I think it would be much better if you cut out this extra table that embraces these two or three "if's," and called the debt exactly what it is.

Secretary FOWLER. Well, Senator, I don't—I see your point, but I think table 2 gives you all of the figures. There ought to be no confusion about what the actual debt is. It is indicated right here in the columns.

Senator WILLIAMS. I will admit it is clear enough if you put the two together, but I am wondering how many would put the two together, because it is more or less giving the impression, you start out on the first page of table 1, the first item you are expecting your debts $310.2 billion, when we all know that is an unrealistic figure, that the debt is going to be around $315 billion. I won't debate it further, but I just don't see why you go through it this way.

One other question: I notice you are carrying $8.7 billion cash on hand and you project over on the other side that you really only need $4 billion. A question has been raised that you are carrying this extra $3 billion to $5 billion cash on hand as a method of subsidizing the interest rates in this country to keep them at a lower level. Is that true?

Secretary FOWLER. No, sir; it is not. The figures as I indicated in my statement, the April figures and the May figures, do reflect some very substantial increase in revenues and receipts that had not been anticipated. However, you will find—as the column on actual operating cash balances indicates over the last several years—that it is perfectly normal at times to have cash balances in excess of the $4 billion.

I would like to say something in that connection about the $4 billion figure as an assumption. That figure was arrived at in deliberation by this committee and the House Ways and Means Committee, I think, back in 1961 or 1962, when the revenues that move in and out of the Treasury were running at a level of about $80 billion per annum. I believe it was $80 billion per annum. So we are operating on the same cash balance assumption today as we did at that time, although the amount of inflow and outflow in the Treasury is running about $100 billion.

So, in fact, as a practical matter, I think most of the year we do need a larger operating cash balance than the $4 billion figure assumption figure reflects.

Senator WILLIAMS. Mr. Secretary, under article I, section 8 of the Constitution, only Congress is empowered to borrow money on the credit of the United States. Now, prior to World War I, the Government contracted debts only for specific purposes as authorized by separate acts of Congress.

Recently, in recent years, Congress has been exercising its control under this article by the use of the debt ceiling.

Do you approve of the present practice of authorizing the Treasury to issue bonds and other evidences of debt when necessary in amounts up to a limit fixed by statute enacted by Congress?

Secretary FOWLER. Yes, I do approve of the present system.

Senator WILLIAMS. Their increase in the debt ceiling is approximately the same amount. I think you are asking for $5 billion is what you actually are asking for.

Secretary FOWLER. We asked $324 billion to $329 billion, $5 billion. The House has provided $328 billion, and we are now asking this body to go along with the House figure of $328 billion which is a $4 billion increase.

Senator WILLIAMS. Last week you were here authorizing or recommending a $4.8 billion tax cut, so this increase in the debt is almost mandatory if you are going to cut taxes, is it not?

Secretary FOWLER. Well, I have two comments on that, Senator. We were here, in fact, asking for an excise tax cut of about $3.8 to $3.9 billion. It was the House action that led to the $4 billion figure.

On your other point, what really requires the increase in the debt limit now is primarily the deficit which has already occurred in the fiscal year 1965, as my statement tried to indicate.

Senator WILLIAMS. I understand. This increase in the debt ceiling today that you are asking for is to finance last year's tax reduction, and next year you will be asking for another increase to finance the tax reduction this year.

Secretary FOWLER. That is probably the case, if you want to put it that way, sir.

Senator WILLIAMS. Yes.

Secretary FOWLER. I would say to finance the operations of the Federal Establishment in toto, taking into account a large number of actions which included the tax actions you have indicated.

Senator WILLIAMS. Your way of putting it sounds better, but the actual facts of life are exactly as I have expressed them.

Secretary FOWLER. No; I would not accept that statement, sir.

Senator DIRKSEN. Will the Senator yield?

Senator WILLIAMS. Yes.

Senator DIRKSEN. Just to be sure. Then you do anticipate a deficit for next year.

Secretary FOWLER. In my statement, Senator Dirksen, I indicated that whereas the January budget, the President's January budget, estimated for fiscal 1966 a deficit of $5.3 billion, due to increases in revenues that we are now anticipating as a result of our experience in April with the 1964 returns, we now project a deficit for fiscal 1966—assuming the same expenditure figure but an increased revenue figure—of $4.3 billion.

Senator WILLIAMS. To put that in different terms, in January you were expecting a monthly deficit of $525 million a month that you would be spending above your income. You have now reduced that down to where you are only expecting to keep spending in the next 12 months an average of $375 million a month more than you are taking in; is that correct?

Secretary FOWLER. I think that would be correct.

Senator WILLIAMS. Based on this slower rate of going broke you figure you can cut taxes and accelerate the economy.

Secretary FOWLER. No, I would not say that it reflects a slower rate of going broke at all, Senator Williams. There are many, many answers to that. I would invite the committee's attention—you perhaps heard enough from me on this subject—to a current article in U.S. News & World Report representing their views with a large number of well-known bankers throughout the country who do not take the view you have just voiced that a measured expansion in the dimensions that are involved here represents any march on the road to national bankruptcy.

This must be related, Senator Williams, to what is happening to the country's wealth-producing capacity at the time, and, as you well know, there are many people who take great comfort out of the fact that the ratio of our debt to gross national product has been on a very steadily declining scale until now it has come from roughly 120 percent at the end of World War II to around—it is now projected at 48 percent for the fiscal year you are concerned with here.

Senator WILLIAMS. I was not suggesting that this in itself would be the contributing factor. But I think you will agree with me that this trend, unless it is reversed at some future date, would inevitably have that result. I mean you cannot continue to keep coming year after year here and keep increasing your debts $5 billion to finance a debt of a government for some indefinite future. At some time you have to balance this budget, do you not?

Secretary FOWLER. Senator Williams, I would like very, very much to be able to come before this committee and it is one of my objectives to be in a position if I am around long enough to come before this committee with a balanced budget or, as I indicated earlier, with an economy which would provide a surplus. However, I do not take the view, that you have indicated, I believe, that this pattern of additional deficits is or has the disastrous implications. I think it depends a great deal upon the capacity of the country to carry the debt that is involved, and I take some comfort out of the fact that, although quite undesirable and although I would much prefer that we would not have had them in the last few years, nonetheless this process has been accompanied by a very steady and satisfactory growth in the economy. It shows its ability to carry a debt of this proportion.

Senator WILLIAMS. Yes. You referred to the interviews in the U.S. News & World Report, and I have read those interviews. Did you also read the U.S. News & World Report outline on the various increases in debt and the various categories?

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. In the last few years. Did that give you any concern?

Secretary FOWLER. The private debt and State and public debt.

Senator WILLIAMS. Private and public debt. Did that give you any concern or do you think that trend is a constructive step in the right direction and would encourage an expansion in this debt?

What are your feelings on that?

Secretary FOWLER. No, I would not—to answer your questions in order, it does give me some concern, and I would not encourage it as necessary. Since this question came up last week at the excise tax hearings, I have asked my staff to examine the question of private debt, and we have an analysis here of what has happened since, in commenting on the Wall Street Journal article, and I would be glad to give you our tentative conclusions if they would be at all useful to you.

This is just the beginning of a much more intensive study that we hope to make of this subject because I think it is an important one to examine the implications of the growth of debt, both in the public area and State and local debt as well as private debts.

What I have here really are just tentative comments. I think the investigation we made up to now suggests the following conclusions: that the postwar rise in the ratio of private debt to gross national product primarily reflects the restoration of a more normal relationship between those two things after a wartime discontinuity. That private debt has not grown more rapidly in the 1960's than it did in the 1950's, and the overall ratio—I would not say today—is excessive.

What would be an excessive ratio, I think, is still a matter of some considerable examination between the various economists who are studying the problem. There is a change in the composition of the private debt that is noticeable. Corporate debt is becoming a smaller part of the total, and individual debt is expanding. It is encouraging to note that what the economists called discretionary income—that is income over and above that which is necessary for the so-called essential needs—has continued to rise, although it has not risen to the same proportion as the consumer debt.

At the moment I would just conclude on this, that there is no compelling reason to believe that the growth in private debt has significantly altered the economy's ability to deal with the economic problems ahead.

Senator WILLIAMS. That is all.

Senator LONG. Senator Dougas.

Senator DOUGLAS. Since we have heard statements that the country is going broke, I wondered if you are acquainted with the annual report of the House Committee on Government Operations giving the annual survey of federally owned and controlled real and personal property?

Secretary FOWLER. I am not familiar with that, Senator Douglas.

Senator DOUGLAS. I think it is rather interesting. It is a very careful volume, and it shows that on the 1st of July, 1964, the real and personal property owned and controlled by the Federal Government was valued at $324 billion and a large fraction of these items the valuation was at acquisition cost, not at current valuations, and with the rising price level, therefore the $324 billion figure would be an understatement.

The public debt at that time was $310 billion, so that the assets, even on a conservative basis of the House Committee of the Government were in excess of liabilities by $14 billion.

Would you say that a private corporation which had a $14 billion surplus over liabilities was going broke?

Secretary FOWLER. No. Just in the same way that looking at American Telephone & Telegraph's annual report showing the increase in debt that that company is experiencing in order to have the money to finance the services that it supplies, I would not say that A.T. & T. is in any impaired condition.

Senator DOUGLAS. As a matter of fact, the yearly valuations show a steady increase. In 1961 valuation came to $283 billion. In 1962 at $299 billion, an increase of $16 billion, 1963 to $315 billion, another increase of $16 billion; 1964, $324 billion, or an increase of $9 billion. The increase in assets in each year was in excess, was it not, of the increase in public debt?

Secretary FOWLER. I would expect that to be the case, sir.

Senator DOUGLAS. Does this not follow from the fact that our budget does not differentiate between current operating costs and capital investments, but includes them both?

Secretary FOWLER. That is correct, sir.

Senator DOUGLAS. I had the Bureau of the Budget make some studies years ago—shows that if we used the budgetary system of Great Britain, for instance, which does differentiate between captial investment and current outlays, we would not have had a deficit except, I think, 1 year over the last 10 years, and that we would have had a surplus.

Therefore, if we used the accounting system of big private corporations or the British Government, we would not have a deficit. Is that not true?

Secretary FOWLER. I would expect that to be the case, Senator.

Senator DOUGLAS. Because you would have investments in military construction. You have the investments in natural resources and the rest.

Secretary FOWLER. Yes, sir. I might say that coming back to what Senator Williams has said in connection with your questions, that looking at the general run of economic opinion, there seems to be more concern today about the question of increases in private debt and State and local debt than in the national debt.

Senator DOUGLAS. I will come to that in a minute. But you referred to the ratio of the debt to the gross national product. In 1946 the debt was $266 billion, the gross national product in that year, as I remember it, was $200 billion. The ratio therefore of the debt to the gross national product was as 133 to 100; is that correct?

Secretary FOWLER. My figures show—did you say 1946?

Senator DOUGLAS. Yes.

Secretary FOWLER. The figures we have indicate the ratio of debt to GNP was 125.5.

Senator DOUGLAS. Mine would be 133. Those are rough estimates.

Secretary FOWLER. Yes.

Senator DOUGLAS. Now, the debt now is how much, $324 billion?

Secretary FOWLER. Yes, sir, and the projected figure——

Senator DOUGLAS. Let us take the present debt. I have here economic indicators for May, and on page 2 it gives the gross national product in current prices for the fiscal year of 1965 was $649 billion. So that would be a ratio of 50 to 100; your figure, I think, is 49.

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. So that relative to the gross national product the debt has diminished from a ratio of 133 to a ratio of slightly less than 50.

Secretary FOWLER. I think those are—that is the range.

Senator DOUGLAS. As a matter of fact, it has shown a steady decrease during this period.

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. It is not an indication that the country is going broke, is it?

Secretary FOWLER. It certainly would not seem so.

Senator DOUGLAS. You spoke of the increase in private debt which has various ingredients. Let us take personal debt consisting of consumer debt and real estate debt. Economic indicators for May show—page 2—show an increase in consumer credit from 1955 of $38 billion to March of 1965 of $76 billion or virtually doubling consumer debt during this time.

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. An increase in the public debt during this period was about 15 percent, was it not?

Secretary FOWLER. That is correct.

Senator DOUGLAS. If you take real estate debt, it has increased from $88 billion to $198 billion or an increase of approximately $110 billion or 125 percent, an increase of 125 percent, is that not true?

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. Now, would you say—I am not saying this is a bad thing.

Secretary FOWLER. No.

Senator DOUGLAS. But if people are worried by the increase in debts, should they not be more worried by the increase in personal debt than the increase in governmental debt?

Secretary FOWLER. That is certainly the case, particularly of Federal Government. The State and local government debt is somewhat of a different problem.

Senator DOUGLAS. I am simply speaking of personal.

Now, State and local debt presumably are under the local government, which has been the increase there.

Secretary FOWLER. It has been very, very substantial. I do not know whether I have the exact figures here with me. Just a moment I do have them here.

On State and local debt, taking again 1946 as a benchmark——

Senator DOUGLAS. 1946?

Secretary FOWLER. 1946. State and local debt was $16 billion. December 1964 it is $95 billion.

Senator DOUGLAS. There is an increase of $79 billion or almost 500 percent.

Secretary FOWLER. That is right, sir.

Senator DOUGLAS. What about corporate debt?

Secretary FOWLER. Corporate debt in December 1946 was $110.5 billion, and in December 1964, $492.5 billion.

Senator DOUGLAS. Or an increase of $382 billion, or an increase roughly of 360 percent.

Secretary FOWLER. Yes, sir.

Senator DOUGLAS. Well, I think these facts should be pondered by the public, both informed and uninformed public, and they should serve to restrain the prophets of gloom and doom who speak of the catastrophic increase in the Federal debt. Do you not agree with that, Mr. Secretary?

Secretary FOWLER. I do, Senator. As I have indicated before, I should like to come into an era of surpluses because I think they would be coincident with a very healthy and vigorous economy. But I am not fearful of continuance of deficits of the order of magnitude we have had given utilization——

Senator DOUGLAS. If we could have a capital budget, would it not show a surplus rather than a deficit?

Secretary FOWLER. Well, it would. I do not want my assent, however, to indicate that I am advocating a capital budget. I think that also——

Senator DOUGLAS. I wish you would, sometimes.

Secretary FOWLER. That is a much larger order.

Senator DOUGLAS. I wish you would. Why an investment should be counted as a deficit is beyond me. No reputable set of accountants would recommend that for a private corporation. I think you are too timid, Mr. Secretary.

Secretary FOWLER. Well, perhaps so, sir.

Senator DOUGLAS. Lest you yield simply for honey, let me ask you a question whether or not you think you are keeping too large a cash balance in the bank. The Senator from Virginia, Mr. Byrd, and I have had a running battle with the Treasury for many years. What is your current cash balance in the banks?

Secretary FOWLER. Our current cash balance is high, Senator Douglas. As I indicated earlier, it is partially due to the fact we had some unexpected receipts of April and May.

Senator DOUGLAS. Yes. How much does it amount to?

Secretary FOWLER. It amounts to $7 billion.

Senator DOUGLAS. $7 billion.

Secretary FOWLER. $6,896 million on June 10.

Senator DOUGLAS. These are short time deposits. These are demand deposits.

Secretary FOWLER. They are deposits in banks; yes, sir.

Senator DOUGLAS. Do they draw interest?

Secretary FOWLER. No, I think we have been over this ground before.

Senator DOUGLAS. These are interest-free deposits of approximately $7 billion. What is the lowest point which these deposits have ever gotten? What is their lowest point?

Secretary FOWLER. Well, let us see, last year, on January 15, 1965, they were $2.8 billion.

Senator DOUGLAS. Is not the reason why you keep these interest-free deposits as a compensation to the banks for the so-called unpaid services which they perform for the Government?

Secretary FOWLER. That is the way in which it is described, sir. I think Secretary Dillon submitted a fairly full and extensive report on these services to you some time ago as I recall.

Senator DOUGLAS. Is not—have you ever gone into interest-free deposits by State governments, by local governments over the country?

Secretary FOWLER. No, sir; I have not, sir.

Senator DOUGLAS. Well, I think you would find staggering amounts deposited without interest. Fortunately there is an increasing tendency to invest in short-time governments.

Senator CARLSON. Will the Senator yield at that point?

I would like the record to show the State of Kansas does collect interest on deposits in their banks.

Senator DOUGLAS. They did that when you were Governor?

Senator CARLSON. That is right.

Senator DOUGLAS. I congratulate my colleague.

I think it would be very interesting if you made such a study of the amount of interest-free deposits. You will find it would be a staggering total.

Collection of interest on a larger fraction of these deposits would appreciably reduce the deficit.

Secretary FOWLER. It would have that effect. I do not know how much we would have to pay for the services, but there could be some net gain.

Senator DOUGLAS. The amount deposited is then loaned out, is it not, at—well, certainly at interest rates, either invested in short time governments, is that true?

Secretary FOWLER. I would think that the bank investing policy would try to reap a good profit on those.

Senator DOUGLAS. Assuming minimum needs of $2.8 or $3 million, even on the short time deposits, if you invest $7 billion, that $4 billion would be invested in governments; would it not?

Secretary FOWLER. Certainly some of it would.

Senator DOUGLAS. Well, would not all of it?

Secretary FOWLER. Well, I would think they would try to get the best returns.

Senator DOUGLAS. If not in Government then something else which drew a higher rate of interest.

Secretary FOWLER. That is what I had in mind. You might well search——

Senator DOUGLAS. You could say the Government loans the banks money which the bank then lends back to the Government and collects interest; is that not true?

Secretary FOWLER. And for which the bank provides certain other uncompensated services.

Senator DOUGLAS. That is right.

Well, I think sometime you should address yourself to that report which was prepared by Mr. Dillon to see whether you really think it holds up under scrutiny.

Secretary FOWLER. I will do that, Senator Douglas.

Senator LONG. Senator Carlson?

Senator CARLSON. Mr. Secretary, taking the projection of our income from 1966, does the Treasury have any figures as to the amount of paper profits that have been wiped out in the stock market during the last 3 or 4 weeks?

Secretary FOWLER. I do not have such figures. I have seen them quoted in the press, Senator Carlson. I will be glad to supply a figure for the record as of yesterday's market. It is quite an appreciable figure. I think the loss has been about 6 to 7 percent of values, as I recall it.

Senator CARLSON. I believe I read a statement last week that it had reached at least $15 billion and with yesterday's drop could it reach somewhere between $15 and $25 billion.

Secretary FOWLER. I would think that would be a reasonable range.

Senator CARLSON. Will that not——

Secretary FOWLER. Perhaps $15 to $20 billion or more.

(The following statement was supplied for the record:)

DOW JONES CLOSING PRICE ON MAY 14, 1965, AND JUNE 14, 1965

The Dow Jones actual closing price on May 14 was 939.62. The closing price on June 14 was 868.71, representing a decline of 70.91 points, or 7.5 percent. The total value of shares on the New York Stock Exchange at the close May 14 was estimated to be $505 billion. Consequently, it can be interpolated that the total paper loss during this 30-day period would be $37¾ billion. It should, however, be pointed out that the average daily trading is a very small percentage of the total number of shares outstanding. The average number of shares traded in the past 30 days was 5.5 million, and this would represent 0.059 percent of the estimated 9¼ billion shares outstanding of the 1,247 listed companies on the New York Stock Exchange. Thus, this interpolation is not necessarily a valid projection, since, in the first instance, it is only an average and not representative of the value of all the stocks and, secondly, it would assume that all the shares would trade at the average price.

Senator CARLSON. Can we not anticipate an effect of that loss of paper profits in the revenue for 1966? Will that not have some effect on it?

Secretary FOWLER. This gets into, I would say, Senator Carlson, one of the most difficult aspects of revenue estimating that we have, and that is a calculation of returns from capital gains. I think perhaps the more indirect but tangible effect on revenue could be if the losses, the paper losses, as you indicated, had any restraining effect on expenditures by the individuals or persons involved, it might have a very real indirect effect. I would not believe that it would have much of an effect on our revenue estimates apart from that rather intangible impact.

Senator CARLSON. Well, is it not reasonable to assume that there will be real tangible effects on these paper losses?

Secretary FOWLER. I don't believe we experienced anything of that consequence. I would like to check the record on that, but we did have an experience, of course, in 1962 in which there was a much more substantial dropoff in the market prices, far in excess of anything we have experienced up to date in this. I do not recall and cannot give you an accurate answer on what impact it had on our revenue realities as compared to our estimates but it is an interesting and worthwhile inquiry.

Senator CARLSON. Would it not be dependent somewhat on how rapid a recovery is made?

Secretary FOWLER. Rapid recovery, that is right.

Senator CARLSON. In the situation?

Secretary FOWLER. Yes. I think last week in discussing this with the press—the impact of the market problem—I made the observation that it was not so much a concern as to its actual direct impact on the economy, as it would be on what its impact might be on confidence generally of investors, consumers, those who are spending, you might say, keeps the economy moving. This is why the indicator is as such of such importance but its indirect and intangible effect could if it continues and if it deepens could be a factor affecting confidence.

Senator CARLSON. Is it not a fact that our entire financial operation operates pretty much on confidence?

Secretary FOWLER. Very much so, Senator.

Senator CARLSON. I noticed you made the comment you did not care to get into a discussion of the British pound which I think myself has some impact on the present situation, and I shall not go into it because I don't want to get you into a subject like that but I was interested to read this and I think it is rather interesting that at the present time the British are now quietly liquidating their $1¼ billion of stocks and bonds in private American companies, a Government asset that is left over from the Second World War.

Now, if that is a true statement——

Secretary FOWLER. It is, sir.

Senator CARLSON. Would you contend that that adds to our confidence?

Secretary FOWLER. Well, it involves an element of confidence. It represents a policy on the part of the British Government of building up its readily available reserves to resist and to combat any tendency later on this year to speculate against the pound.

In other words, they are fitting themselves out in a "Be Prepared" program for any resumption of the speculations of late March or last November.

So, it works both ways. It certainly is moving from a long-term asset into a short-term rather liquid position, but I think it is an encouraging sign that the British authorities are alive to their problems and are doing their best to meet them.

Senator CARLSON. Well, I sincerely hope that we can, of course—that the British can maintain their pound because if my figures are correct because about 40 percent of the world's trade depends on sterling.

Secretary FOWLER. Yes, the sterling area trade is still a very, very substantial and material factor in the total.

Senator CARLSON. That is all, Mr. Chairman.

Senator LONG. Senator McCarthy?

Senator Morton?

Senator Hartke?

Senator HARTKE. Mr, Secretary, what do you really think about this situation about the stock market? Are we going back to 1957 or 1929?

Secretary FOWLER. Senator Hartke, before you came in I was questioned on that and I said I never ventured into either the area of public or private prediction about the course of the stock market. I have no view as to its future. I have only a view as to the basic soundness and the very healthy and encouraging outlook for the economy and I assure ultimately some day stock prices will relate to that rather than to other more passing factors.

Senator HARTKE. The stock market, though, is not just an isolated item. You don't feel it is something we shouldn't pay any attention to, the stock market prices?

Secretary FOWLER. No, it is one of the 20 odd economic indicators that economists look to and it is compiled and the records are kept in the monthly publication of the Department of Commerce called "Business Cycle Developments" and, it is studied very carefully along with orders, wage income, housing starts, backlogs, plant equipment expenditures, all the other factors that are important.

Senator HARTKE. Let me ask you, I know you talked about this, but maybe just to help me because I was late, do you agree with Martin's speech, disagree with it or just not attach much significance to it.

Secretary FOWLER. Well, I discussed this last week, Senator Hartke, here. I do not agree with the implications that the press has given to Chairman Martin's speech. I think the emphasis has all been on the similarities between the 1929 period and today and very little emphasis given to Chairman Martin's comments on the dissimilarities and, as I said last week before this committee, I find the dissimilarities so far outweigh the similarities that I don't think the comparison is valid.

Insofar as the remainder of the speech is concerned, the meat and the heart of it which begins on page 6, and I have read it very carefully several times, I agree with the thrust of it. He was trying to point out how important it is for us to bring our balance of payments into equilibrium and to keep it there and to avoid any risk to the dollar that happened to the pound in 1931. In that objective and in that approach, I thoroughly associate myself with his point of view.

Senator HARTKE. Let's take the balance-of-payments situation; what is it exactly now?

Secretary FOWLER. It is too early to make, what I would call, a basic judgment. The returns in March, April, and May are very encouraging there were factors at work in March and April particularly, reflective factors, from the very bad imbalance that characterized the last quarter of last year and the first month of January and early part of February of this year.

To what extent the improvement in March and April is a reflection of those factors that worked the other way—the rubberband snapping back, as it were—and to what extent they represent solid improvement which we could expect to continue over the months ahead. We will know better when the second-quarter figures are fully in and available to the public, as they will be around August 10–15.

Senator HARTKE. But the truth of it is at this moment, if this would continue instead of having a deficit balance-of-payments problem we would have a surplus; isn't that true?

Secretary FOWLER. We have had a surplus over the last several months.

Senator HARTKE. And a substantial one.

Secretary FOWLER. I wouldn't want to characterize it. There has been a surplus.

Senator HARTKE. Well——

Secretary FOWLER. I would like to have a bigger one.

Senator DOUGLAS. How much has it been?

Secretary FOWLER. Well, Senator——

Senator DOUGLAS. Excluse me.

Secretary FOWLER. Well, Senator, I would prefer we wait until the second quarter.

Senator DOUGLAS. Yes, but you have given the figures for the first 3 months, January, February, and March there is a deficit of $750 million, a yearly rate of $3 billion.

Secretary FOWLER. That is right.

Senator DOUGLAS. Now, there has been a surplus in April and May.

Secretary FOWLER. That is right.

Senator DOUGLAS. How much approximately has that been?

Secretary FOWLER. Senator, we do not release these figures at this time because they are raw figures; they are what we call "flash" figures; they are subject to readjustment; they are subject to a seasonal adjustment factor and I really think we would be doing the public a disservice to release so-called raw and flash figures at this time.

Senator DOUGLAS. Legislators have to make decisions as well as administrators. Excuse me, Senator.

Senator HARTKE. That is fine.

Senator DOUGLAS. Legislators have to make decisions as well as administrators, and part of the decisions we have to make hinges upon what has actually been happening on the balance of payments. Now, if we are 6 months behind—could I put it this way, has any considerable portion of the deficit of $750 million in the first quarter been reduced in the last 2 months?

Secretary FOWLER. It has, sir. A considerable proportion.

Senator DOUGLAS. So, therefore, the surplus for the last 2 months has been considerable?

Secretary Fowler. Yes, sir.

Senator HARTKE. And this is the factor, one big factor, upon which part of the so-called mouthings of Mr. Martin were based upon, the balance-of-payments problem, isn't that true?

Secretary FOWLER. What Chairman Martin was stressing is what I tried to stress the week before; namely, that it takes more than one swallow to make a spring. You have to have a surplus for not just a couple of months or a balance for a couple of months. You have to sustain it for a long, long time to come. Because we have had, Senator Hartke, we have had months or even quarters in which we have been in surplus, but then something else has happened and the situation has changed and it didn't appear to be a lasting condition.

Senator HARTKE. I am not asking you to be pessimistic or optimistic. The only thing about it is that things aren't as bad as they were and we shouldn't pretend that they are. Isn't that correct?

Secretary FOWLER. Oh, no, the present program seems to be off to a fine start. I think, however, we should not encourage people to think that we are going to abandon it very shortly because it is working so well.

Senator HARTKE. I think you put your finger on a very important factor; that is, that the voluntary program requested by the President has been complied with by the banking industry and the business communities of America, with the net result, whether this is the cause of it or not, but at least the result has been that a real gnawing wide open wound in our American economy, the so-called balance of-payments problem, at this moment, whether it is going to sustain itself or not, but at this moment, is certainly a whole lot better looking than it was when the program was instituted.

Secretary FOWLER. That is a very fair and accurate statement of the situation, Senator.

Senator HARTKE. And yet the speech of Mr. Martin was in part based upon an assumption and upon the basic concept that the balance-of-payments problem was one of our major concerns and one of the major items which linked it back to this harrowing experience that Americans had to go through called the depression in 1929, isn't that true?

Secretary FOWLER. Well, I think his statement, particularly the latter part, was, as I read it, Senator Hartke, designed to shore up the determination of all concerned to keep it that way.

Senator HARTKE. I am not trying at this moment yet to get you into a fight with Mr. Martin.

Secretary FOWLER. That will be difficult. I am not going to fight.

Senator HARTKE. I agree with Senator McCarthy on that.

Really, though, the Martin speech didn't jolt the market, did it?

Secretary FOWLER; I don't know what jolted the market.

Senator HARTKE. Well, the truth of it was that that market was moving downward long, weeks before that, and you and I had a discussion—

Secretary FOWLER. From May 14.

Senator HARTKE. That is right. What was the date of the Martin speech?

Secretary FOWLER. June 1.

Senator HARTKE. All right. For 15 days before this that market has been going down.

Secretary FOWLER. That is right.

Senator HARTKE. And you and I had a little discussion about it.

Secretary FOWLER. That is right.

Senator HARTKE. It was not the Martin speech or the Martin mouthing but it has been the actions of Martin and the Federal Reserve Board which has been in my opinion, the factor which caused all the difficulty and I would like for you to express an opinion as to whether or not we are going to continue to have this position of negative free reserves or whether we are going to go back to a position which we have had in this country since early 1960 when they were in a surplus position.

Secretary FOWLER. Well, as you know, Senator Hartke, that is a judgment which will be made by the Federal Reserve Board operating through its Open Market Committee which meets frequently to determine its policy guidelines. The Federal Reserve System operates under a mandate from the Congress directly, and it is, the governor, you might say, of monetary policy.

Senator HARTKE. What was the first week in which we went into a negative position in the free reserves this year?

Secretary FOWLER. Just one second and I will try to give you that. March is the figure I am trying to find, just a minute. I have it here. The month of March was the——

Senator HARTKE. Just to put it in its proper perspective, what is the effect of having negative free reserves on the economy generally and especially on our monetary policy? Let's just put it on the monetary policy if you don't want to say on the economy.

Secretary FOWLER. I think negative free reserves tend to restrict the quantity of credit that is available——

Senator HARTKE. And if there are negative——

Secretary FOWLER (continuing). Through the banking system.

Senator HARTKE. If we are in a so-called negative system what this means is you might have a tight money market, isn't that true?

Secretary FOWLER. I think it depends upon the degree and extent to which you have negative free reserves as to whether you characterize it as tight.

Senator HARTKE. Let me do it this way, so there is no misunderstanding between what we are discussing.

The truth of it is when you are in a surplus position, the larger the surplus position the easier the credit in the country is, and the greater negative reserves the tighter the credit is; is that a fair statement?

Secretary FOWLER. I think that is a fair statement.

Senator HARTKE. That is a fair statement?

Secretary FOWLER. Yes.

Senator HARTKE. We went into a negative position in 1965 in March. How long have we now had this negative position since that time? Has there been any week in which we have gone into a surplus position?

Secretary FOWLER. I don't believe there has been a week since March.

Senator HARTKE. So I am not asking you——

Secretary FOWLER. I could be wrong on that, Senator. I follow it week by week, and my impression is that it has been consistently in a negative free reserve position since early March.

Senator HARTKE. Really what the effect of doing this, this action by the Federal Reserve Board by creating this situation is such that it really would, and the purpose of it, because this is a controllable item by the Federal Reserve Board, is to slow down expansion, isn't that the purpose of putting it into that position?

Fred, you are smiling; from your answer it is all right. You are one of the Treasury stalwarts for Mr. Fowler.

Go right ahead and answer.

Secretary FOWLER. I think, Senator Hartke, that would not be the way those responsible for the policy would characterize it.

Senator HARTKE. I know they wouldn't characterize it that way.

Secretary FOWLER. They would not characterize it that way and this involves an assessment as to motive and intention, and what they are trying to do in their own terms, and I find it a little difficult to, sitting here, to assess the motives of the Open Market Committee.

Senator HARTKE. Yes. All right. Let's not try to assess their motives for the moment.

The point about it is that this amount of money, the amount of the negative position, if it is, would constantly stay at around $300 million. Wouldn't you, from that, come to the conclusion that we had entered into a period of relatively tight monetary or tight credit position?

Secretary FOWLER. No; I wouldn't call it tight. I would call it a little bit more—certainly some degree more—restrictive than before.

Senator HARTKE. Restrictive. All right.

Really what happens when you are in a negative position——

Senator LONG. Senator, may I suggest, I know very much how the Senator from Indiana feels about this negative reserve thing, I don't understand it. I have sat and heard him in an hour and a half discussion with the Secretary. I am convinced no matter how long we take the Secretary and the Senator from Indiana will not be in complete agreement on it.

I hope after a few more questions we can go into executive session on it because what the Senator has in mind is a subject that should be presented in a rather lengthy detailed statement. I know the Secretary will want to respond to that and the Chairman of the Federal Reserve Board, Mr. Martin, will have a rejoinder, and as for as this Senator is concerned he will be left in a complete quandry and I just hope that the Senator would let us get to executive session sometime after a while on this subject.

I don't want to cut him off. I hope he will cooperate with us in that regard. It is an important subject, I know, but this Senator is not going to understand it if we take two sessions on it.

Senator BENNETT. Will the Senator permit me to remind him we have a unanimous consent to vote at 12:30? We are fast losing committee members.

Senator LONG. The Senator is not consuming more time than other committee members.

Senator MCCARTHY. This question is more important than the $328 billion question.

Senator LONG. I understand.

Senator MCCARTHY. I think the Senator ought to say that the—he wants to get the Secretary to say that he doesn't think Mr. Martin's speech is a great speech.

Secretary FOWLER. I am not going to be drawn into any private or public quarrel. That is what the Senator is trying to push me into.

Senator McCARTHY. If I were the Secretary of the Treasury I would be concerned, at least I would try to explain a statement such as Mr. Martin said:

But while the spirit is willing, the flesh, in the form of concrete policies, has remained weak. With the best intentions, some experts seem resolved to ignore the lessons of the past.

What was he talking about?

Secretary FOWLER. I don't know. You will have to ask him these questions.

Senator McCARTHY. I would ask him. He is not talking about me, I don't think, because I am not an expert but he might be talking about you.

Secretary FOWLER. He is not talking about me, I can assure you of that. He doesn't think my flesh is weak in any particular.

Senator McCARTHY. He says:

The potentialities of monetary and fiscal policies are, we hope, better understood—

What is the source of his doubts?

Secretary FOWLER. Well, you can't get me up here on a couch and ask me to psychoanalyze Chairman Martin.

Senator McCARTHY. I think a fellow gives a speech like that, gives a bad speech, he raises a lot of questions and doesn't answer them. Look at this over here. I wouldn't mind this kind of speech on the floor of the Senate. I would hate to have a committee member of the Finance Committee, but just an ordinary run of the mill non-Finance Committee Senator might say this was a good speech.

On the question of the question of gold what he had to say about the fashionable theory about raising the price of gold at the present time. Well, these aren't fashionable theories. The only man I know he is talking about is Rueff.

Secretary FOWLER. He might have some company over there.

Senator McCARTHY. He might have, but I don't think they are very fashionable. I don't know of anybody else excepting that limited school. Yet the Chairman of the Board, the Federal Reserve, presents this as though it was being seriously considered. And goes on here:

In 1931 and 1933, an increase in the price of gold was recommended in order to raise commodity prices. Today, a gold price increase is recommended as a means to provide the monetary support for world price stability.

Well, one man is making this proposal so far as I know, the great body of economists and fiscal experts are not proposing it. Yet he sets up these contrasts between 1931 as though it ought to be taken seriously by people who ought to be concerned, by experts in the—in fiscal policy.

Senator DOUGLAS. Will the Senator yield?

Senator LONG. He hasn't got the floor to yield.

Senator HARTKE. Let me say my dear friends from Illinois and Minnesota are pretty much in agreement with this.

Senator WILLIAMS. Mr. Chairman, I suggest to satisfy all of them we ought to get Chairman Martin up here and hear his views on this debt increase and all.

Senator LONG. It seems to me we are spending enough time here to examining the Secretary of the Treasury about the Chairman of the Federal Reserve Board. I hope that we haven't got to get the Chairman of the Federal Reserve Board and have to examine him about the Secretary of the Treasury, because—

Senator DOUGLAS. Mr. Chairman, this is the only way we have—

Senator LONG. Because the Federal Reserve Board doesn't control the national debt or the debt ceiling, just like the Secretary of the Treasury does not control the policies of the Federal Reserve Board.

Senator DOUGLAS. Mr. Chairman, this is the only way we have of getting at the Chairman of the Federal Reserve Board indirectly. Mr. Fowler is a very amiable gentleman. He is drawing into his body all of the arrows which we shoot and we hate to hurt him but this is our only way of talking to Martin who lives down on Pennsylvania Avenue in a very handsome marble palace.

Senator BENNETT. Isn't the Senator a member of the Joint Economic Committee?

Senator DOUGLAS. Yes.

Senator BENNETT. Can't you get at Mr. Martin?

Senator DOUGLAS. Once in a while.

Senator LONG. We can get him. Why on this bill?

Senator HARTKE. I will say why. First let me ask you this, I am trying to set the stage for this situation. The truth of it is that Mr. Martin's speech did not cause the stock market to go down any more than Mr. Fowler's speech or the President's speech caused it to—it is still going down, I guess. [Laughter.]

Anyway, it didn't stop it from going down, I can say that; isn't that true?

Secretary FOWLER. Martin will speak for himself.

Senator HARTKE. Let me come on back to this Mr. Martin. He is a great prophet of gloom and doom, he is the man who made the statement to the Society of American Business Writers, this was some time before it, and he said here is his philosophy, and I think this is remarkable, "Don't let's think we can always have growing prosperity."

Would the Secretary agree with that statement?

Secretary FOWLER. I would say we should constantly strive for it.

Senator HARTKE. Now, the truth of it is, and this much is so, that if we are going to have a depression, and I know that the Secretary says that he wanted to ignore the first five pages of that speech, but the stock market people and the bank people and the country haven't ignored it, they have been writing, every business publication and every other magazine, every newspaper I have seen, has talked about it, if it is true they are going to go into a recession or one which is similar to the one which he created in 1957; don't you think you ought to ask for a $10 billion increase in the debt limit?

Secretary FOWLER. I am perfectly willing to stand behind the request we have here.

Senator HARTKE. I just wondered whether it is big enough.

Mr. Secretary, Mr. Carlson asked a question and I think somebody in the Treasury ought to be able to answer this: Isn't it true there is going to be a loss of revenue by these stock losses? You said it is hard to compute, but isn't there going to be a loss of revenue?

Secretary FOWLER. Not based on the paper profits that are a reflection of these losses in values. There will be losses if people sell and realize the losses and match some of them off against gains.

Senator HARTKE. People are selling. How many sold yesterday, 2 million?

Secretary FOWLER. But these estimates, Senator—what I am trying to say is that these estimates about the loss in values are estimates of the loss in paper profits, not realized losses.

Senator HARTKE. I understand. But I will try to hurry up, about two more questions here, I will try to hurry up.

Are you in position where you have to borrow money now?

Secretary FOWLER. We will have to borrow money.

Senator HARTKE. When?

Secretary FOWLER. During the fall.

Senator HARTKE. When?

Secretary FOWLER. We haven't picked the exact spot.

Senator HARTKE. Mr. Deming, you are the monetary expert.

Mr. DEMING. We will be borrowing in the first half of this fiscal year, Senator. The precise dates——

Senator HARTKE. You do not need a temporary increase in the debt limit at all now, do you?

Mr. DEMING. We will need an increase in the temporary debt limit to get through fiscal 1966.

Senator HARTKE. I am talking about now. All you need now is to keep it at the present level, is that not right?

Secretary FOWLER. We will need it early in the fiscal year, Senator Hartke. We will need it because our receipts in the first 6 months of the fiscal year, July 1 until January 1, are only a percentage, 45 percent of it, roughly.

Senator HARTKE. Could we come back here really to decide that issue maybe in September to see where we are a little better? We can just extend the present temporary ceiling and not discommode the Treasury whatsoever, is that not true?

Secretary FOWLER. You would discommode the Treasury. We want to be in position to take advantage of the situations as they develop, and we want to be in a position to take care of our financing requirements.

Senator HARTKE. But you are not pressed for cash now. You already testified to that.

Secretary FOWLER. We are not.

Senator HARTKE. You are not pressed to borrow money now.

Secretary FOWLER. It moves out awfully fast, Senator Hartke. The amount that moves out of the cashbox each month is a very appreciable amount, and the revenues that come in can fall far short of that particularly in these early 6 months.

Senator HARTKE. Let me say to you, Mr. Secretary, I am going to vote with you, but I am very thoroughly convinced that you do not need it. But I do not think the debt limit has much effect upon the overall condition of the country anyway, and I kind of agree with Senator McCarthy we ought to have a temporary ceiling.

How big was it?

Senator MCCARTHY. I do not care, $350 billion.

Senator HARTKE. I am going to accede to my chairman's wishes and cease and desist.

Senator BENNETT. Mr. Chairman, I was called out of the room when my turn came, and I am not going to keep the Secretary very long, but in his questioning Senator Douglas got some figures out of a House report that showed the total assets of the Federal Government at something like $324 billion, and a current debt of about $310 billion.

Senator DOUGLAS. That was as of June 30 last year.

Senator BENNETT. No matter what the date was.

There are two things I think we ought to get into the record. Did these include the contingent debt of the United States?

Secretary FOWLER. I am not familiar with the report, Senator Bennett. Senator Douglas had it, and therefore I cannot answer questions concerning it.

Senator BENNETT. Does the $310 billion debt include the contingent debt of the United States?

Secretary FOWLER. No, it does not.

Senator BENNETT. When the Federal Government—and Senator Douglas made it clear he considered this an asset value that he quoted as being very conservative—does the Federal Government charge off any depreciation or obsolescence on any of its assets?

Secretary FOWLER. No, sir.

Senator BENNETT. It does not.

He made the point that with the $14 billion surplus, if this were a private business, it would be a flourishing operation. Do you know of any private business that does not charge off depreciation and obsolescence?

Secretary FOWLER. Our experience in the Treasury indicates they are all rather avid to charge off.

Senator BENNETT. I would think so.

I made the record that I wanted to make.

Senator DOUGLAS. Since the Senator from Utah has raised this, I ask unanimous consent that salient pages of the House committee document, pages 1 and 11, be included in the record, and a note which gives the accounting practices followed in making the appraisals.

Senator LONG. Without objection so ordered.

(The documents referred to follow:)

FEDERAL REAL AND PERSONAL PROPERTY INVENTORY REPORT (CIVILIAN AND MILITARY) OF THE U.S. GOVERNMENT, COVERING ITS PROPERTIES LOCATED IN THE UNITED STATES, IN THE TERRITORIES, AND OVERSEAS, AS OF JUNE 30, 1964

PART I

INTRODUCTION

This Federal property inventory report represents a compilation of assigned values of real and personal property owned or controlled by the Federal Government, located throughout the world, as of June 30, 1964. This comprehensive recording of assets of the Government is the 10th such report issued by the House Committee on Government Operations. Since 1955, the committee has issued, on an annual basis, inventory reports of federally owned real and personal properties on a fiscal year basis.

The committee staff assigned to this project, aided by the experience of Government department and agency representatives, has explored inventory accounting systems employed by the Federal Government in an effort to include all assets of a department and to bring records covering such assets under accounting control. A comparison of our previous inventory reports, as listed below, shows clearly the great progress which has been made in improving accounting methods and recordkeeping operations employed in recording the amounts of real and personal property owned or controlled by the Federal Government. Constant attention is being focused on accurate and complete accounting of these assets. The utilization of up-to-date accounting systems, motivated by stimulated interest in property inventories, has strengthened the efforts of Government departments and agencies in bringing inventories under accounting control. This progress, which is being observed by the public, Members of the Congress, and especially by the membership of this committee, has been encouraging.

Comparison of reported inventory values, worldwide

[In billions of dollars]

Year	Personalty	Realty	Grand total
1955	$168	$40	$208
1956	180	56	236
1957	186	63	249
1958	195	67	262
1959	193	72	265
1960	200	76	276
1961	201	82	283
1962	213	86	299
1963	225	90	315
1964	230	94	324

GRAND RECAPITULATION OF THE PERSONALTY AND REALTY ASSETS OF THE U.S. GOVERNMENT AGENCIES, OFFICES, AND ESTABLISHMENTS OF THE GOVERNMENT, INCLUDING THE DEPARTMENT OF DEFENSE, AS OF JUNE 30, 1964, 1963, AND 1962

[In millions of dollars]

Classification	June 30, 1964	June 30, 1963	June 30, 1962
PERSONAL PROPERTY			
Cash:			
With Treasurer of the United States	$11,036	$12,116	$10,430
On hand and in banks outside the Treasury	689	738	814
Investments (other than public debt)	5,946	5,843	5,694
Accounts and notes receivable	5,179	5,269	4,487
Commodities for sale	4,673	4,942	4,670
Work in process	812	811	660
Materials and supplies	9,098	9,167	9,216
Loans receivable	30,347	28,361	26,899
Machinery and equipment	13,494	13,042	12,164
Other assets	13,660	11,815	10,344
Department of Defense (equipment, supplies, stock inventories, etc)	134,912	132,577	127,706
Corps of Engineers (equipment, etc.)	258	244	232
Total, personal property	230,104	224,928	218,316
REAL PROPERTY			
Departments and agencies (other than Department of Defense)	20,206	18,640	17,707
Department of Defense (including Corps of Engineers, civil functions)	43,599	43,043	41,473
Architect of the Capitol [1]	471	459	440
Other (including construction in progress, etc.)	10,186	9,849	8,476
Realty donated or otherwise acquired at no cost [1]	290	295	292
Public domain acreage and mineral resources [1]	19,024	18,026	17,740
Total, real property	93,777	90,312	86,128
Total, all property	323,881	315,235	299,444

[1] Computed at estimated present-day evaluation.

NOTE.—All properties reported are shown in gross amounts without deductions for allowances for losses and depreciation. Only wholly Government-owned corporation assets and other wholly owned assets are included. Assets held under trust arrangements and interagency assets, including public debt securities owned, are excluded. The properties have been valued at acquisition cost or estimated cost when the actual costs were not known. Public domain, donated property and properties under supervision of the Architect of the Capitol are shown at estimated present-day values. Properties acquired as gifts or without cost to the Government are shown at estimated present-day values.

Senator LONG. The committee had an executive session planned, so I will now declare this hearing closed. I would like to ask the Secretary of the Treasury to stick around a moment or two because there is a matter we wanted to ask him about which is not relevant to this particular bill.

(Whereupon, at 12:05 p.m., the committee proceeded into executive session.)

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