$377 BILLION DEBT LIMIT

1947-2

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIRST CONGRESS

FIRST SESSION

ON

H.R. 8508

AN ACT TO INCREASE THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

MARCH 24, 1969

Printed for the use of the Committee on Finance

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$377 BILLION DEBT LIMIT

MONDAY, MARCH 24, 1969

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

The committee met, pursuant to call, at 10:15 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long (presiding), Anderson, Talmadge, Hartke, Byrd of Virginia, Williams, Bennett, Dirksen, Miller, Jordan of Idaho, and Fannin.

The CHAIRMAN. This hearing will come to order.

This morning we are pleased to have with us the Honorable David M. Kennedy, Secretary of the Treasury, to discuss the matter of increasing the public debt limit. We are also pleased to welcome the Honorable Robert P. Mayo, Director of the Bureau of the Budget, back to the committee.

Mr. Mayo, it is a dozen years since you sat before this Committee and counseled Secretary Humphrey in the grueling investigation of the financial condition of the United States. That is a long time ago but some of us still recall the very fine job you did in helping him.

H.R. 8508 passed the House on Wednesday, March 19, 1969, by a vote of 313 ayes to 93 nays. It proposes to increase the debt limit by $12 billion—from $365 billion to $377 billion for the period beginning with the date of enactment of the bill and extending through June 30, 1970. Thereafter, the debt limit would revert to $365 billion and would remain at that level until such time as Congress again changes it.

(A memorandum to the members of the committee, from Tom Vail, chief counsel, Committee on Finance, re public debt limit; and the bill H.R. 8508 follow:)

MARCH 24, 1969.

PUBLIC DEBT LIMIT

MEMORANDUM

To: Members, Committee on Finance.
From: Tom Vail, Chief Counsel.
Re H.R. 8508, $12 Billion Increase in Public Debt Limitation.

Present law.—At present the public debt limit is $365 billion for every day of the fiscal year except June 30. On that single day in every fiscal year the limit drops by $7 billion to $358 billion.

Historical 2-part limitation.—These limitations are all considered as permanent legislation, as contrasted to the dual system of debt limitation which applied from 1955 until 1968. Under this dual system there were two limitations—one permanent and the other temporary. The permanent limit of $285 billion, set in 1959, remained unchanged through 1967. The temporary additional limit, however, was progressively increased through the years and by 1967 it had reached $51 billion, for an overall limitation of $336 billion.

House bill.—The House bill provides for a single permanent debt limitation of $365 billion, coupled with an additional temporary limitation of $12 billion for the fiscal year ending June 30, 1970. For that one fiscal year the debt limit will total $377 billion.

According to data prepared by the Treasury Department (see attached table) the debt subject to the limitation is expected to exceed the present limitation ($365 billion) by $2.2 billion in April 15, 1969. Assuming the House bill is enacted the Treasury estimates no further increase in the limit would be required before fiscal 1971.

ESTIMATED PUBLIC DEBT SUBJECT TO PRESENT LIMITATION (BASED ON CONSTANT MINIMUM OPERATING CASH BALANCE OF $4,000,000,000), FISCAL YEARS 1969 AND 1970 (WITH AND WITHOUT A $3,000,000,000 CONTINGENCY ALLOWANCE)

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	
		Without $3,000,000,000 contingency allowance	With $3,000,000,000 contingency allowance
Fiscal year 1969:			
Mar. 31	$4	$362.1	$365.1
Apr. 15	4	367.2	370.2
Apr. 30	4	356.9	359.9
May 15	4	361.1	364.1
May 31	4	361.9	364.9
June 15	4	362.7	365.7
June 30	4	354.6	357.6
Fiscal year 1970:			
July 15	4	359.4	362.4
July 31	4	358.3	361.3
Aug. 15	4	362.8	365.8
Aug. 31	4	363.3	366.3
Sept. 15	4	367.6	370.6
Sept. 30	4	360.6	363.6
Oct. 15	4	365.9	368.9
Oct. 31	4	366.0	369.0
Nov. 15	4	370.7	373.7
Nov. 30	4	368.4	371.4
Dec. 15	4	373.3	376.3
Dec. 31	4	366.6	369.6
Jan. 15	4	371.7	374.7
Jan. 31	4	367.3	370.3
Feb. 15	4	370.2	373.2
Feb. 28	4	368.7	371.7
Mar. 15	4	374.0	377.0
Mar. 31	4	369.5	372.5
Apr. 15	4	373.7	376.7
Apr. 30	4	365.4	368.4
May 15	4	370.6	373.6
May 31	4	369.2	372.2
June 15	4	368.3	371.3
June 30	4	361.4	364.4

Source: Treasury Department (published in the House of Representatives Report No. 91-32, accompanying H.R. 8508).

91st CONGRESS
1st Session

H. R. 8508

IN THE SENATE OF THE UNITED STATES

March 20, 1969
Read twice and referred to the Committee on Finance

AN ACT

To increase the public debt limit set forth in section 21 of the Second Liberty Bond Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) is amended by striking out "$358,000,000,000" and inserting in lieu thereof "$365,000,000,000".

Sec. 2. During the period beginning on the date of the enactment of this Act and ending on June 30, 1970, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act shall be temporarily increased by $12,000,000,000. Section 3 of the Act of June 30, 1967 (Public Law 90–39; 81 Stat. 99), is repealed.

Passed the House of Representatives March 19, 1969.

Attest: W. PAT JENNINGS,

Clerk.

The CHAIRMAN. This bill is quite different from the recommendations originally submitted to the Congress by the administration recommendations which called for a redefinition of the debt subject to the limitation and a sharply lower limit to accompany and reflect the narrower definition. The Committee on Ways and Means did not approve those suggestions but chose to continue the present definition.

I am advised, Mr. Secretary, that today you do not intend to renew those recommendations to this committee. That being the case, hopefully we can concentrate on the relatively simple question of just increasing the debt limit. Now, this table we have before us shows that by April 15, you estimate the debt subject to the limitation will exceed the present limitation by more than $2 billion.

If that is still a good estimate, I know you must view this legislation as an urgent matter, and something on which Congress should complete action before the Easter recess.

Mr. Secretary, you may proceed with your prepared statement and then perhaps Mr. Mayo can deliver whatever statement he chooses. At that point, Senators on the committee can begin their questions and both of you will be available to answer them. I might ask that Senators limit their questions to 10 minutes on the first round so that everyone will have equal opportunity, and then we will begin another round of questions without that time limit.

STATEMENT OF HON. DAVID M. KENNEDY, SECRETARY OF THE TREASURY; ACCOMPANIED BY HON. ROBERT P. MAYO, DIRECTOR, BUREAU OF THE BUDGET

Secretary KENNEDY. Thank you very much, Mr. Chairman, and members of the committee, I appreciate this opportunity to appear before you today in regard to our request for action to raise the limit on the public debt. It is especially urgent, as you indicated, that we secure prompt action on this request as otherwise we could be above the legal ceiling during the mid-April period.

The situation is illustrated by our experience in March. On the 14th of March we had securities outstanding in the amount of $364,717 million. We were within $283 million of the statutory ceiling, not much more than a third of 1 day's expenditures. We were able to do this only by reducing our cash balance to a level of $2.4 billion, far below the daily average of $5.1 billion in the fiscal year 1968. The position has improved somewhat, but we will be going into a far tighter situation in early April. On April 15, with the conventional $4 billion cash balance assumption used in these hearings in the past, our projections indicate that we will be over the ceiling by $2.2 billion. We can stay under the existing $365 billion ceiling only by drawing down our cash balance to a level of $1.8 billion.

I might add that the ceiling is even tighter on the day before the mid-month point.

It is possible, by finer adjustment of our borrowing through daily drawings on the Federal Reserve System, that we could get through the April problem, but we will have no margin for any contingencies. With receipts and expenditures averaging nearly $750 million a day, you can see how any change in timing of either receipts or expenditures carries the risk of putting us over the statutory limit with the only alternative being a failure to pay our bills.

I hesitate to contemplate as I am sure you do, the potential harm to the Nation's economy and to our position in the world economy from a failure to pay our legal and contractual obligations. Unless the debt limit is increased promptly, we face this prospect as a real possibility.

We are asking at this time for a revision in the debt limit to a permanent ceiling of $365 billion and a temporary allowance above that permanent ceiling of $12 billion through June 30, 1970. This was the bill that passed the House of Representatives. Because the April problem is almost upon us there is little time for action.

According to our projections for fiscal year 1970, the debt outstanding on March 15 will total $374 billion with an assumed cash balance of $4 billion. The bill before you provides a minimal leeway of $3 billion above that amount. I believe that a larger allowance for contingencies than $3 billion can be justified. However, we are willing to try on this basis to meet the problems in fiscal year 1970—fully aware that we may be back before this committee a year from now with another request for an increase in the debt limit.

The debt projections used in the attached tables are based on the January budget as presented by the previous administration. As you know, that budget provided for a continuation of the surtax on individuals and corporations, which is scheduled to expire on June 30, 1969. It also included $10.7 billion of higher revenues attributable primarily to higher individual and corporate income from economic growth and inflation.

Attached to this statement, Mr. Chairman, is a table which shows the limit on a series of things in 1968, 1969, and 1970. That concludes my statement.

(The tables referred to follow:)

PUBLIC DEBT SUBJECT TO PRESENT LIMITATION, FISCAL YEAR 1969

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation
ACTUAL		
1968:		
June 30	$5.2	$350.7
July 15	5.6	354.8
July 31	5.9	354.3
Aug. 15	5.4	357.2
Aug. 31	4.5	357.5
Sept. 15	1.3	358.7
Sept. 30	8.5	357.9
Oct. 15	4.4	358.9
Oct. 31	6.4	360.4
Nov. 15	2.0	360.5
Nov. 30	2.7	360.1
Dec. 15	1.0	363.4
Dec. 31	4.6	361.2
1969:		
Jan. 15	1.8	362.9
Jan. 31	7.1	362.6
Feb. 15	4.0	362.9
Feb. 28	4.8	362.0
Mar. 14	2.4	364.7
Mar. 17	2.1	364.1
ESTIMATED (Based on Constant Minimum Operating Cash Balance of $4,000,000,000		
Mar. 31	4.0	362.1
Apr. 15	4.0	367.2
Apr. 30	4.0	356.9
May 15	4.0	361.1
May 31	4.0	361.9
June 15	4.0	362.7
June 30	4.0	354.6

ESTIMATED PUBLIC DEBT SUBJECT TO PRESENT LIMITATION (BASED ON CONSTANT MINIMUM OPERATING CASH BALANCE OF $4,000,000,000), FISCAL YEAR 1970

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	
			$3.0	$8.0
1969				
June 30	$4.0	$354.6	$357.6	$362.6
July 15	4.0	359.4	362.4	367.4
July 31	4.0	358.3	361.3	366.3
Aug. 15	4.0	362.8	365.8	370.8
Aug. 31	4.0	363.3	366.3	371.3
Sept. 15	4.0	367.6	370.6	375.6
Sept. 30	4.0	360.6	363.6	368.6
Oct. 15	4.0	365.9	368.9	373.9
Oct. 31	4.0	366.0	369.0	374.0
Nov. 15	4.0	370.7	373.7	378.7
Nov. 30	4.0	368.4	371.4	376.4
Dec. 15	4.0	373.3	376.3	381.3
Dec. 31	4.0	366.6	369.6	374.6
1970				
Jan. 15	4.0	371.7	374.7	379.7
Jan. 31	4.0	367.3	370.3	375.3
Feb. 15	4.0	370.2	373.2	378.2
Feb. 28	4.0	368.7	371.7	376.7
Mar. 15	4.0	374.0	377.0	382.0
Mar. 31	4.0	369.5	372.5	377.5
Apr. 15	4.0	373.7	376.7	381.7
Apr. 30	4.0	365.4	368.4	373.4
May 15	4.0	370.6	373.6	378.6
May 31	4.0	369.2	372.2	377.2
June 15	4.0	368.3	371.3	376.3
June 30	4.0	361.4	364.4	369.4

The CHAIRMAN. Mr. Secretary, in view of the urgency of passing this bill before Congress quits for the Easter recess I would be disposed not to offer amendments to the bill but pass it in the fashion that it was sent to us. However, through the years, I have argued for the kind of bookkeeping that you advocated before the Ways and Means Committee and, in my judgment, I would not be consistent nor would I be entirely sincere if I failed to support that position if I had the opportunity to do it.

Can you provide us, or will you provide this committee, with a copy of the statement that you prepared on this subject that supports your argument in favor of the kind of bookkeeping that you contended for?

Secretary KENNEDY. I will be glad to submit that, Mr. Chairman. I think, along with the conclusion you have reached, that this legislation should be the same legislation as passed in the House because of the time situation.

The CHAIRMAN. From my point of view there is no point in offering an amendment that you would favor if you don't regard it as favorable. I take it you like that approach and I think you advocated that even when President Johnson was President, did you not?

Secretary KENNEDY. Yes, I did, and I think it will take a longer period to get an understanding of it and debate the issues further so that the Congress can understand it and the public can understand it.

There is a lack of understanding of this, and I think more time is needed, but I welcome the oportunity to put into the record a statement which would keep the issue alive.

The CHAIRMAN. I wish you would do that.

(Material supplied by the Department of the Treasury follows:)

THE WHITE HOUSE,
OFFICE OF THE WHITE HOUSE PRESS SECRETARY,
February 24, 1969.

To the Congress of the United States:

When I took office as President of the United States, the public debt subject to limit was $364.2 billion—only $800 million below the statutory ceiling of $365 billion. Available projections indicated that borrowings needed to provide the Government with minimum cash balances essential for its operations would place the debt subject to limit at or above the legal ceiling by mid-April.

These projections have now been reviewed and updated on the basis of the latest revenue and expenditure flows. They continue to show inadequate leeway under the debt limit to meet all anticipated cash requirements through the middle of April. These facts permit me only one prudent course of action. I must ask the Congress to revise the debt limit before mid-April. The new limit should provide a reasonable margin for contingencies.

President Johnson foresaw the possible need for such action when he stated in his fiscal year 1970 Budget that "It may be necessary . . . within the next few months to raise the present debt limit."

Continuing high interest rates may add several hundred million dollars to the 1969 expenditures estimated by President Johnson. Other possible increases in outlays, including farm price support payments and a wide variety of past commitments in other programs—such as highways—may be greater than was estimated by the outgoing Administration.

All department and agency heads are now reviewing their programs in a determined effort to reduce costs. But we should not let our hopes for success in this effort deter us from the necessary action on the debt limit. Such cost reductions can have only a minor effect on expenditures in the next month or two, and it is in early March and again in early April that the Treasury will be faced with the heaviest drain on its resources.

Moreover, even if the Budget surpluses for fiscal years 1969 and 1970 were to prove somewhat larger than estimated in the January Budget, the present debt limit would be inadequate for fiscal year 1970. Thus even if an immediate increase in the debt limit could be avoided, an increase cannot be postponed very far into the next fiscal year. My predecessor also noted this fact when he presented his Budget for fiscal year 1970.

The apparent paradox of a need for a higher debt limit in years of anticipated budget surplus is explained mainly by the fact that the fiscal years 1969 and 1970 surpluses reflect substantial surpluses in Government trust funds—projected at $9.4 billion in fiscal year 1969 and $10.3 billion in fiscal year 1970. These surpluses in the trust funds provide cash to the Treasury, but only through the medium of investment in special Treasury issues. The consequent increase in such special issues is subject to the debt limit, under present definitions. Hence, *the debt subject to limit will rise even though borrowing from the public will decline.*

In addition, we must acknowledge the seasonal pattern in Treasury receipts. Net cash requirements prior to the mid-April tax date are regularly very substantial, while after that date the Treasury will be repaying a large amount of debt on a net basis.

While a small, temporary increase in the debt limit might prevent the undue restrictiveness of the present limit in the months immediately ahead, I urge that we now direct our attention to the future, and at least through fiscal year 1970.

I believe that the Congress should now enact a debt limit which will serve the needs of our Nation both for the balance of this fiscal year and for the foreseeable future.

In doing so, I also believe that the Congress should take this occasion to redefine the debt subject to limit to bring it into accord with the new unified Budget concept developed by a distinguished Commission that was headed by the present Secretary of the Treasury and included leaders from both Houses of Congress, officials of the previous Administration, and distinguished private citizens. The recommendations of this Commission largely have been adopted in the last two Budget presentations and in the new form of Congressional budget scorekeeping. These have been major forward steps toward better public understanding of the budget. The concept of the debt limit should also be redefined as suggested in the Commission's report.

Under the unified Budget concept, attention is focused on the total receipts and expenditures of the Federal Government, including the trust funds. The surplus or deficit thus reflects the net of revenue and expenditure transactions between the Federal Government and the public, and the net debt transactions between the Government and the public are thus the relevant basis for a proper understanding of the Federal borrowing requirements. To conform fully with this Budget presentation, only those Federal obligations which are held by the public—all debt except that held by Federally-owned agencies and by the trust funds—should be subject to the statutory limit on the public debt. Debt of Federally-owned agencies held by the public would be included as well as direct Treasury debt.

This change would in no way affect the integrity of the trust funds. This Administration recognizes, as the Commission on Budget Concepts emphasized, the firm obligation of the Government to maintain proper, separate accounting for the trust funds. This can and will be done without including obligations held by the trust funds in the total debt subject to the debt limit.

I therefore propose that the Congress establish a new debt limit defined to accord with the unified Budget concept. On this basis, a limit of $300 billion should be adequate to permit efficient and responsible handling of the Government's financing for the foreseeable future. This compares with an outstanding debt on the unified Budget concept of $293.7 billion on January 21, 1969.

On the present public debt limit concept, the debt outstanding on January 21, 1969 was $364.2 billion as compared with the current debt limit of $365 billion. An increase in that limit to approximately $382 billion would correspond in the next fiscal year to the $300 billion limit I am proposing on the unified budget basis.

RICHARD NIXON.

THE WHITE HOUSE, *February 24, 1969.*

TREASURY DEPARTMENT

WASHINGTON, D.C.

FEBRUARY 24, 1969

MEMORANDUM ACCOMPANYING DEBT LIMIT MESSAGE

The President has asked the Congress for a revision of the debt limit. This revision will take care of the Treasury's immediate needs and, looking ahead, provide an adequate margin for financing the Federal Government for the foreseeable future. The President's recommendation will also bring the debt limit into conformity with the unified budget concept now utilized in all budget presentations.

The present debt limit corresponds closely to the administrative budget concept formerly used in budget analyses. The proposed revision will bring the debt limit into accord with the financing analyses presently shown in the monthly Treasury statements and the budget under the headings of "borrowing from the public" or "debt held by the public." The debt transactions reflected in these categories can be directly reconciled to the over-all surplus or deficit in the unified budget accounts.

The major differences between the proposed concept of the debt limit and the concept now used are:

(1) All debt issues of Federal agencies in which the U. S. has an ownership interest <u>are included</u> in the proposed concept.

(2) Investments of Government accounts (including trust funds) in Federal securities are <u>not included</u> in the proposed concept.

The attached table reconciles the two concepts as of the 21st of January. As may be seen, on that date borrowings from the public amounted to $293.7 billion. The President has requested a limit on that basis of $300 billion.

The debt subject to the present limit totaled $364.2 billion on January 21. If the debt limit were to be continued on the old basis, the Congress would need to provide an increase in that limit to approximately $382 billion to provide equivalent leeway through fiscal 1970. Moreover, further sizable increases would be required in subsequent years, even if balance is maintained in the unified budget, so long as the Federal trust funds realize substantial surpluses and invest those surpluses in Federal securities.

As the President's message points out, the proposed change in the debt limit has no effect on the operations or integrity of Federal trust funds. These funds will continue to operate precisely as in the past.

The inclusion of the public borrowing of Federal agencies in the total debt subject to limit will be a major step forward in promoting better public understanding of public financing. In particular, the new concept reflects the growing role of agency financing in the total public borrowing of the United States Government.

Attachment

Debt subject to limit—Comparison of present concept to the President's proposal, Jan. 21, 1969

[In billions]

Current debt limit	$365.0
Public debt	361.0
Guaranteed securities	.6
Total public debt and guaranteed securities	361.6
Deduct: Public debt not subject to present limit	.6
Add: Participation securities subject to present limit (issued by FNMA in fiscal year 1968)	3.2
Debt subject to limit, present concept	364.2
Add:	
Public debt not subject to present limit	.6
Federal agency issues (including participation certificates) not subject to present limit	11.2
Deduct:	
Federal securities held as investments by Government accounts	81.5
Special issues to IMF reflecting balance of U.S. subscription	.8
Debt subject to limit, proposed concept (borrowings from the public)	293.7

STATEMENT OF THE HONORABLE DAVID M. KENNEDY, SECRETARY OF THE TREASURY, BEFORE THE HOUSE WAYS AND MEANS COMMITTEE, MARCH 5, 1969, 10:00 A.M.

Mr. Chairman and members of the committee, the President in his message to the Congress on February 24, 1969 requested the prompt enactment of legislation to revise the debt ceiling. Specifically, he proposed a new permanent statutory ceiling for the Federal debt of $300 billion under a definition according with the unified budget concept. This new statutory debt ceiling is designed to take care of our needs indefinitely into the future for as long as we are successful in maintaining a balance in the budget.

The new ceiling is required to meet three specific objectives:

First, the proposed ceiling will enable the Treasury to meet anticipated cash requirements in an orderly way through the middle of April of this year.

Second, the proposed limit will meet requirements anticipated for fiscal year 1970.

Third, by bringing the debt ceiling into accord with the budget presentations now used by the Federal Government and by focusing attention on total borrowings from the public, the proposal will promote a better understanding of public finance and contribute to more effective control of the debt.

Under existing law the Treasury has been operating very close to the temporary ceiling of $365 billion. At the end of January and February, debt subject to the limit was within $3 to $3½ billion of the statutory ceiling and on individual days the leeway has been less than $1 billion. Assuming normal cash balances of $4 billion, our latest projections—while reflecting better-than-anticipated tax collections over the past month—still indicate financing needs that would bring us above the legal ceiling by minor amounts for six days in March and by substantial amounts for seven days in April.

By permitting our cash balance to decline below the levels required by prudent financial management, by exercising close control on those balances by borrowing from the Federal Reserve on a day-to-day basis, and by making maximum use of agency borrowing that does not come under the debt limit, we might be able to squeeze through this period without disturbing the orderly flow of expenditures or tax refunds. However, the margin in March and April is extremely tight. Unforeseen expenditure increases above projections or declines in revenues below projections, even of relatively minor proportion, would impair our ability to get through the April period without extraordinary measures to conserve cash. Essentially, we have no leeway for emergencies.

With expenditures and tax receipts running about $750 million per day, even the most careful projections need to be revised frequently, and some deviation in the actual results are normal and expected. Fortunately, recent results have indicated receipts are flowing somewhat more strongly than the projections available when I took office. But prudent management of the Government's financial affairs simply does not warrant undertaking the risk of confining our margins of flexibility under the debt ceiling to a few hundred million dollars.

After mid-April, we should readily get through the remainder of this fiscal year. The outstanding debt will be declining sharply, and our financing pattern will permit us to be comfortably below the ceiling for the rest of the year.

However, an increase in the ceiling will certainly be required in the early part of fiscal 1970. The situation can be illustrated by using the numbers in the Budget Message submitted by the prior Administration. As you remember, that Budget forecast a surplus on the unified budget basis of $2.4 billion in fiscal year 1969 and $3.4 billion in fiscal year 1970. Assuming these projected surpluses can be realized, our estimates indicate that at the seasonal peak in fiscal 1970 the debt subject to the limit under its current definition will be $374 billion, far in excess of the present seasonal limit of $365 billion.

As the Budget Director will explain in more detail, we have some reservations concerning the expenditure figures in the budget and anticipate spending in some categories will be greater than estimated by the outgoing Administration. Because our review is not yet completed, we cannot now tell the extent to which urgent efforts to achieve further economies will offset these higher costs. But it is evident that no practical savings can avoid the need for an increase in the debt ceiling next year.

Our debt projections have been constructed on the basis of an assumed $4 billion operating cash balance as is the usual practice in these hearings. That more or less arbitrary amount, I might point out, was first established for debt limit projections years ago when Federal expenditures were less than half the current annual totals. In the latest fiscal year, 1968, even with tight cash management our operating balances averaged $5.1 billion. Our average balance has not averaged $4.0 billion or less since fiscal year 1958. Nevertheless, even with no further allowance for contingencies, the current debt ceiling will be inadequate to take care of our needs.

It has long been recognized in past hearings and legislation that prudent management of the Government's finances requires adequate allowance for contingencies beyond the assumption of a $4.0 billion cash balance. In reviewing the problem this time, we are particularly conscious of several special factors in the situation.

Perhaps most important quantitatively, the surtax on individuals and corporations is scheduled to expire on June 30, 1969. As best we can now look ahead, we anticipate that this surtax will need to be retained to maintain an appropriate budgetary posture. However, we must consider the consequences of expiration. The revenues that the surtax would supply in fiscal year 1970 are estimated at $9.0 billion, and there would be an earlier shortfall of $.5 billion in fiscal year 1969. This contingency alone, were it to materialize, would be several times the projected surplus for 1970 shown in the budget.

There are also the uncertainties of revenue shortfall that could occur from a more moderate rate of economic growth. The budget for 1970 included $10.7 billion of higher revenues attributable primarily to higher individual and corporate income from economic growth and inflation. A full measure of success in our efforts to moderate rising prices could result in a reduction of this estimated gain in revenues.

These possibilities, on top of all the more or less normal uncertainties in anticipating cash needs more than a year ahead, in our judgment justify a larger than normal contingency allowance. We are, therefore, requesting a margin of $8 billion over the projected peak debt totals. We feel that this is the smallest allowance that we can, with prudence and reason, request in setting a debt limit that we hope to be able to maintain for the indefinite future. It is smaller than the contingency allowance provided in 1967. I believe a still larger allowance could certainly be justified.

With this allowance, the need for the statutory debt limit on the present basis amounts to $382 billion. The President has, however, proposed that we now change the statutory definition of the debt limit to conform to the unified budget concept. We strongly support this redefinition and urge its acceptance. On this basis we will need a ceiling of $300 billion to provide the same margin for contingencies as would be provided by the $382 billion figure on the present definition.

The statutory debt limit can, of course, be defined in any way that the Congress sees fit. As I understand it, the main purpose of the statutory debt limit and these hearings is to provide the Congress an opportunity to review in a comprehensive way the outlook for the Government's finances and to authorize the Treasury to issue indebtedness in the light of this review. It seems to me that, to facilitate this review and to best achieve the Congressional purpose, the changes in debt subject to limit should be related as nearly as possible to the net budget results. This would greatly clarify Congressional appraisal of the impact of Government finances on the debt limit and contribute greatly to better understanding by the public. Thus we do see a clear public interest in placing the debt limit within the frame of the present unified budget presentations.

The unified budget has been used in both the last two budget messages. It was designed to avoid the confusion over various budget concepts formerly given wide publicity: (1) the administrative budget, (2) the cash budget, and (3) the national income accounts budget. Each of these served a different analytical need, but the net result was confusing. The unified budget concept was designed to eliminate this confusion and to enforce a consistent discipline on budgetary presentations, thus maintaining year-to-year comparability and facilitating analysis of the economic implications of Federal finances.

I had the honor of serving as Chairman on the President's Commission on Budget Concepts. As you know, that Commission was comprised of men of different political affiliations and experience from both the public and private world. They engaged in an intensive review of all the problems and unanimously recommended the adoption of the new budget concept.

Although the President's Commission on Budget Concepts did not specifically recommend a change in the statutory debt limit itself, the Commission did suggest that the limit be re-examined with the new debt concepts in mind. That is what the President has done. He concluded that the appropriate policy would be to make the debt limit consistent with the unified budget presentation.

This consistency is achieved partly by eliminating from the ceiling Federal securities owned by trust funds and other agencies. The laws establishing various trust funds require that we invest their surplus funds in Government securities. The interest on these investments provides additional earnings for the trust funds. But this investment accounting is internal; it does not affect the net surplus or deficit on the unified budget and no funds flow from or to the public on these transactions. Nevertheless, the securities provided the trust funds are included in the present statutory definition and this results in the anomaly of the ceiling needing to be raised at a time when the overall budget is operating at a surplus.

The fact is that, so long as the trust funds are operating at a surplus and thus acquiring additional Treasury issues, the debt subject to the ceiling will increase even if the overall budget is in balance. The trust funds are projected to provide surpluses of $9.4 billion and $10.3 billion in the fiscal years 1969 and 1970 respectively. That alone is the reason why the debt on the present statutory basis will continue rising, even though the unified budget is in surplus and the debt held by the public is projected to decline.

Conversely, if at some time in the future the trust funds happened to operate at a deficit, the debt on the present definition might decline, even though the unified budget had no surplus.

Clearly, this situation could give rise to results out of keeping with the intent of the Congress in setting a debt limit. For instance, a larger-than-anticipated surplus in the trust funds, which as trustee I must invest in public debt, could result in a tigher ceiling on public borrowing than the Congress intended. A smaller surplus or deficit in the trust funds, on the other hand, would provide more leeway.

The second general way in which the new debt limit will importantly improve understanding and control of public finances is to include the debt issues of agencies in which the U.S. Government has an ownership interest. This will add the debt issues of TVA, the Export-Import Bank, Defense family housing, and the participation certificates issued by FNMA before and after the fiscal year 1968 In contrast, the present limit includes only the FNMA p/c's issued in 1968 and lesser amounts of debentures or bonds issued by the Federal Housing Administration and the District of Columbia.

This change to a uniform treatment of all agency issues side-by-side with direct Treasury debt will for the first time relate the debt ceiling to the total of Federal borrowing demands in the financial markets. This is the total appropriate for governing and controlling these aggregate demands.

Your Committee in prior hearings has focused intensively on the problems generated by use of agency and p/c financings as a substitute for direct financing by the Treasury. Under the proposed concept, the choice between agency issues and direct Treasury issues has no effect on the debt limit. Thus, the appropriate financing mechanism, whether by direct Treasury issues or agency borrowing, can be considered entirely on its own merits without any suspicions that the choice has been affected by a desire to finance in ways that will not show in the debt limit. There have been allegations in recent years that the Government was using agency financing to get around the statutory debt limit and for budget "gimmickry". Whether true or false, the important thing is to eliminate the possibility and provide for the treatment of the debt that best assures public confidence in the integrity of the Government's financial arrangements.

I would emphasize that the exclusion of the holdings of Government accounts, including trust funds, from the debt ceiling in no way affects the operations or investments of the Federal trust funds. These funds operate under statutory provisions covering their revenues, benefit payments and investments. The statutes thus assure that these funds will continue to operate as they have in the past and, as the managing trustee of many of these funds, I pledge that their investment management will be carried out in full accordance with the law and the intent of the law. Indeed, removal of these securities from the debt limit should provide an additional element of protection for the trust funds, for it assures that a Secretary of the Treasury will never be faced with a conflict between his statutory duty to remain within the debt ceiling and his responsibility to maintain full investment of the monies in the trust funds.

In conclusion, we have examined the need for prompt debt limit action and the need for a redefinition of the debt subject to the limit. We urge the prompt enactment of legislation providing a new permanent ceiling of $300 billion as recommended by the President.

Attached is a table showing our estimates of the semimonthly debt totals through June 1970 on the new basis consistent with the January budget presentation.

PUBLIC DEBT SUBJECT TO PROPOSED NEW LIMITATION, FISCAL YEAR 1969

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation
ACTUAL		
1968		
June 30	$5.2	$290.6
July 15	5.6	294.8
July 31	5.9	294.6
Aug. 15	5.4	296.6
Aug. 31	4.5	297.5
Sept. 15	1.3	297.7
Sept. 30	8.5	292.9
Oct. 15	4.4	293.0
Oct. 31	6.4	296.1
Nov. 15	2.0	295.1
Nov. 30	2.7	295.4
Dec. 15	1.0	296.6
Dec. 31	4.6	291.9
1969		
Jan. 15	1.8	291.9
Jan. 31	7.1	293.5
Feb. 15	4.0	291.6
Feb. 28	4.8	291.7
ESTIMATED (Based on constant minimum operating cash balance of $4,000,000,000)		
Mar. 15	4.0	293.6
Mar. 31	4.0	291.2
Apr. 15	4.0	294.8
Apr. 30	4.0	285.1
May 15	4.0	287.5
May 31	4.0	287.1
June 15	4.0	286.8
June 30	4.0	278.4

ESTIMATED PUBLIC DEBT SUBJECT TO PROPOSED NEW LIMITATION (BASED ON CONSTANT MINIMUM OPERATING CASH BALANCE OF $4,000,000,000), FISCAL YEAR 1970

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	
			$3.0	$8.0
1969				
June 30	$4.0	$278.4	$281.4	$286.4
July 15	4.0	282.3	285.3	290.3
July 31	4.0	282.0	285.0	290.0
Aug. 15	4.0	285.3	288.3	293.3
Aug. 31	4.0	285.0	288.0	293.0
Sept. 15	4.0	288.3	291.3	296.3
Sept. 30	4.0	281.9	284.9	289.9
Oct. 15	4.0	286.3	289.3	294.3
Oct. 31	4.0	287.8	290.8	295.8
Nov. 15	4.0	291.3	294.3	299.3
Nov. 30	4.0	288.9	291.9	296.9
Dec. 15	4.0	291.4	294.4	299.4
Dec. 31	4.0	286.8	289.8	294.8
1970				
Jan. 15	4.0	290.3	293.3	298.3
Jan. 31	4.0	287.8	290.8	295.8
Feb. 15	4.0	290.0	293.0	298.0
Feb. 28	4.0	287.6	290.6	295.6
Mar. 15	4.0	291.1	294.1	299.1
Mar. 31	4.0	288.4	291.4	296.4
Apr. 15	4.0	291.7	294.7	299.7
Apr. 30	4.0	283.5	286.5	291.5
May 15	4.0	286.3	289.3	294.3
May 31	4.0	284.5	287.5	292.5
June 15	4.0	282.5	285.5	290.5
June 30	4.0	274.4	277.4	282.4

[Excerpts from the Report of the President's Commission on Budget Concepts]

THE PUBLIC DEBT LIMIT

Since the statutory public debt limit is likely to continue to be used by the Congress, the Commission suggests that the executive branch may wish to ask that consideration be given to changes that will make the debt limit consistent with the Federal budget concepts herein recommended.[1]

The Commission's recommendations revising the concept of the budget deficit and the parallel revision of debt concepts have a bearing on the structure of the debt limit. The Commission points out that a debt limit which is parallel in structure to the new concept of Federal securities held by the public will make it possible for the Secretary of the Treasury and the Budget Director to relate their Congressional debt limit testimony to the recommended concept of budget receipts, expenditures, and deficit much more understandably. The administrative budget has traditionally and necessarily dominated debt limit hearings, regardless of which budget concept the President has emphasized in January. This has been one of the more confusing aspects of budget presentation.

In reviewing the debt limit structure, the Commission is hopeful that the definition of the public debt subject to limit can be set up in a manner consistent with recommendations in this chapter and outlined in Table 3, which shows both gross debt outstanding and debt held by the public. There could be an advantage in separating the two basic types of Federal securities for debt limit purposes since they have a different legal basis of issuance and the degree of Treasury control varies. The public debt limit could be confined simply to direct borrowing by the U.S. Treasury, with another limit reflecting Federal agency borrowing. (The Commission has suggested, in Chapter 5, the closer surveillance of the Government guaranteed and insured loan programs, which do not directly affect the debt.)

The Commission notes that the concept of what the Congress has seen fit to include in the debt limit has undergone substantial revision over the years. It has moved from individual issues to classes of securities, from classes of securities to overall public debt, to inclusion of those Federal agency obligations guaranteed by the Government as to principal and interest, and to a redefinition of savings bonds from face to current redemption value. A further revision now seems logical in line with the Commission's recommendations on concepts of the budget and Federal securities held by the public.

[1] While they do not, of course, have any objection to the Commission's suggestion that the executive branch may wish to recommend that the structure of the statutory public debt limit be re-examined in the light of the Commission's proposed new budget and debt concepts, the congressional members of the Commission would not want to be understood as now subscribing to the thought of any change in the overall debt limit in advance of careful study by the appropriate committees of the Congress.

Financing of Budget Deficits

TABLE 3.—*Reconciliation of various major concepts of Federal borrowing*

[In billions of dollars]

	As of June 30		
	1966 actual	1967 estimate	1968 estimate
1. Present debt concepts:			
A. Public debt	319.9	326.8	334.8
Plus guaranteed obligations	.5	.5	.6
B. Federal securities (public debt and guaranteed obligations)	320.4	327.3	335.4
Less pre-1917 debt not subject to limit	.3	.2	.2
C. Debt subject to limit	320.1	327.1	335.2
2. Development of new debt concepts:			
A. Public debt (1-A above)	319.9	326.8	334.8
Less noninterest bearing notes to international organizations	3.8	3.3	3.3
Gross public debt (revised)	316.1	323.5	331.6
Less holdings by Federal agencies and trust funds	64.3	72.9	77.9
Public debt held by the public	251.7	250.6	253.6
B. Plus: Federal agency securities:			
Bonds, notes, and debentures	7.7	10.1	11.7
Participation certificates	3.5	6.5	11.1
Gross Federal agency debt	11.2	16.6	22.8
Less holdings by Federal agencies and trust funds	.2	.7	.8
Federal agency debt held by public	11.0	15.9	22.0
C. Equals: Federal securities (recommended concept):			
Gross Federal debt	327.2	340.1	354.3
Less holdings by Federal agencies and trust funds	64.5	73.6	78.7
Federal securities held by the public	262.7	266.5	275.6
Memorandum: Federal land bank and Federal home loan bank securities held by the public	10.4	11.7	11.6

BUDGET CONCEPTS AND THE PUBLIC DEBT LIMIT

Staff Paper

President's Commission on Budget Concepts

June 21, 1967.

At first glance, the question of the public debt limit—even with regard to its conceptual problems—may seem somewhat foreign to the charge which the President has placed upon the Commission "to advise me on budgetary concepts and presentations." However, as the Director of the Bureau of the Budget aptly pointed out, in his statement to the Ways and Means Committee in its hearings on the public debt limit on May 15, 1967, "the conceptual and accounting treatment of debt is closely related to the conceptual and accounting treatment of budget receipts and expenditures." Both the Budget Director and the Secretary of the Treasury referred to the future work of the Commission in regard to debt concepts in the February 6, 1967, hearings on the public debt limit before the Ways and Means Committee as well as in the May hearings. In his most recent testimony, the Secretary stated:

> Our conclusion is that by far the preferable course at this time is to make no change in present debt limit coverage. This is not because we feel the present arrangements are incapable of improvement, but because the proposals that have been discussed do not appear to us to offer the prospect of significant improvement, and because this is a topic that deserves careful, unhurried consideration. . . . I do not believe one should merely sit back and expect this Commission [on Budget Concepts] to supply easy answers to this complex question, but since the matter *can* be deferred, it seems appropriate to continue studying this question, and particularly to consider it in light of comments or recommendations that the Commission might have.

Although the Ways and Means Committee, in reporting out its most recent bill on the debt limit increase, changed the definition of the public debt to include all FNMA participation certificates that will be sold in the fiscal year 1968, the Committee made it clear that this action "is not intended to imply that your committee necessarily believes this represents the appropriate treatment for future issues of such certificates. Your committee reiterates the statement contained in its report the last time it considered the debt limit (H.R. 4573) that the question of what amounts should properly be included in the debt subject to limitation is a debatable issue which should be studied carefully, and it is an issue which the committee will consider in the future when it has the benefit of the recommendations of the President's Commission on Budgetary Concepts."

It is clear, therefore, that the Commission is expected to delve specifically into the problem of debt limit concepts by both the Congress and the executive branch. This seems appropriate also on the substantive ground that regardless of how the Commission comes out in its deliberations about a "best" budget deficit concept, that concept will either have a positive effect on the redefinition of public debt or will make the relationship of the deficit to changes in debt more complicated.

Is the debt limit useful?—It can be argued that the public debt limit serves no useful purpose and should be abolished. Those who take this point of view note that the entire process is very time-consuming and embarrassing to the Secretary of the Treasury. By the time the spending process gets down to the question of paying specific bills, the Treasury has no alternative but to ask for an increase in the debt limit and the Congress has no alternative but to grant it, although it may be very reluctant. It can also be argued that the whole process is embarrassing to individual Congressmen who recognize that they must eventually vote for an increase in the debt limit so that bills are paid even though it is interpreted by their constituents as a vote for higher Government spending. At least one Secretary of the Treasury has told the Chairman of the Senate Finance Committee that if he thought the debt limit saved one dollar of Federal expenditures, he was sadly mistaken. Most economists and journalists have also taken the point of view that the public debt limit serves no real purpose since it is merely a feverish attempt to lock the barn after the horse has been stolen.

Continued support for the idea of a public debt limit is basically a reflection of frustration on the part of both the executive branch and the Congress. They feel that there is no other place under the present organization of the Government where the entire Federal budget picture can be brought into focus for review. No one will deny that such a review is very important; yet no one has come up with an acceptable plan of congressional overall budget review as a substitute for the debt limit performance, which has gone through the entire legislative process 16 times in the last 9 years.

Many attempts have been made to find an effective alternative, including the idea of a single appropriation bill which died a-borning. Perhaps the continued efforts in recent years of the Appropriations Committees and the Treasury Secretary and Budget Director to get together before appropriations hearings start will produce somewhat better control of the spending side of the budget, particularly if they were to include a review at the close of the session as well as at the beginning of it, but even here the picture is a partial one. In the meantime, the Ways and Means Committee is still a logical place for overall budget review because of its initiating powers on tax, trust fund and public debt legislation. And no one can argue that the entire process of debt limit legislative action is without meaning after witnessing the refusal of the House to pass the most recent debt limit bill approved by the Ways and Means Committee in June 1967. The debt limit hearings may be said to have another advantage, from the point of view of the Commission's desire to have more frequent interim budget reviews, in that it forces the Executive Branch to produce and defend more up-to-date projections.

The Commission may very properly feel, therefore, that a recommendation as to whether there should or should not be a public debt limit is outside of its area of responsibility to the President. Given the existence of the debt limit as part of the fiscal environment, however, the Commission can make a positive contribution—as a direct outgrowth to its conclusions on budget concepts—to a proper definition of public debt (and debt subject to limit).

How the present definition of the public debt ties into present budget concepts

The present concept of public debt is tied in much more closely with the administrative budget than with either the cash consolidated budget or the national income accounts. As noted in the table below, there is a fairly close relationship, subject to changes in Treasury cash balances, between the administrative budget deficit and the net increase in public debt:

TABLE 1.—*Administrative budget deficit and changes in public debt outstanding*

[Billions of dollars]

	Fiscal Year		
	1966	1967 estimate	1968 estimate
Budget deficit	2.3	9.7	8.1
Plus: Net miscellaneous expenditures [1]	.6	.5	*
Plus: Net increase in Treasury cash	−.1	−3.4	......
Equals: Net increase in public debt	2.6	6.9	8.1
Public debt outstanding: End of year	319.9	326.8	334.8

*Less than $50 million.

[1] Includes clearing account for outstanding checks and public debt accrued interest, etc.

The reconciliation between public debt outstanding and public debt subject to limit has two further steps, so there are 4 major reconciliation items (one of which is a catchall of a great many items) between the administrative budget deficit and the public debt limit.

In the first place, public debt subject to limit includes fully guaranteed securities of Federal agencies held outside of the Treasury—currently consisting almost entirely of Federal Housing Administration debentures and District of Columbia Armory Board Stadium bonds. Adding these in produces a concept called "Federal securities" or "Securities Issued or Guaranteed by the United States Government," which is the basis for overall debt figures used in Treasury, Federal Reserve, and other Government publications.

In the second place, however, the concept of public debt subject to limit excludes those public debt obligations which were incurred by the Treasury prior to the enactment of the statutory debt limit in April 1917 and are still outstanding as noninterest bearing debt.

TABLE 2.—*Public debt outstanding and debt subject to limit*

[Billions of dollars]

	June 30		
	1966	1967 estimate	1968 estimate
Public debt outstanding	319.9	326.8	334.8
Plus: Guaranteed securities of Federal agencies	.5	.5	.6
Equal: Federal securities	320.4	327.3	335.4
Less: Public debt not subject to limit	.3	.2	.2
Equals: Debt subject to limit	320.1	327.1	335.2

Despite the confusion growing out of these four conceptual differences between the budget deficit and changes in debt subject to limit, it is understandable why the executive branch continues to make all of its presentations to the Congress on the debt limit with a direct tie-in to the administrative budget. The Secretary is responding to a concept defined for him by the Congress, rather than its being of executive branch creation. If he were to pick another existing budget concept (cash or NIA) he would merely add fuel to the fire of confusion.

Let us try the reconciliation of the present consolidated cash deficit to changes in the present debt subject to limit.

Table 3.—*Cash deficit and changes in debt subject to limit*

[Fiscal year billions of dollars]

	1966 actual	1967 estimate	1968 estimate
Cash deficit	3.3	6.2	4.3
Less: Seigniorage	−.6	−1.1	−.5
Less: Net increase in Treasury and agency cash	−.1	−3.4	......
Equals: Cash borrowing from the public	2.6	1.7	3.8
Plus: Debt issued in lieu of checks	.5	.5	.6
Plus: Net investment of trust funds and agencies in public debt and agency securities	3.6	8.6	5.5
Equals: Increase in public debt and agency securities	6.7	10.8	9.9
Less: Net sales of agency securities (except guaranteed)	−4.2	−3.8	−1.8
Less: Increase in public debt not subject to limit	......	.1	......
Equals: Increases in debt subject to limit	2.5	7.0	8.1
Debt subject to limit, end of year	320.1	327.1	335.2

The complicated reconciliation involved in translating the cash deficit into changes in the present concept of debt subject to limit is obvious.

But there is more than confusion involved in the use of the present cash deficit as the introductory step to the debt ceiling calculation. There is an absurdity involved in the present cash budget accounting, which is the principal reason why neither the Treasury nor the Bureau of the Budget has ever published a table on *outstanding* debt consistent with their figures on "net borrowing from public." This absurdity relates to the fact that a literal interpretation of the cash borrowing concept requires that U.S. savings bonds, retirement bonds and Treasury bills—all of which are sold at a discount—be included at issue price rather than at their current redemption value. This produces an understatement of about $11½ billion of accrued interest on appreciation type savings bonds (mostly E bonds), and another $1½ billion on Treasury bill interest (difference between discounted issue price and face value), even though the only difference between these and other Treasury interest payments is that the other securities pay interest in cash semiannually on their face value.

Nevertheless, such a table on "cash" debt held by the public can be constructed, and it is shown below.

TABLE 4.—*Federal borrowing [1] outstanding in the hands of the public, June 30, 1966*

[In billions of dollars]

		Less		Equals
	Gross debt	Debt issued in lieu of checks	Debt held by Government agencies and trust funds	Debt in hands of public
I. Federal securities:				
A. Subject to debt limit:				
1. Public debt:				
Marketable	209.1	1.4	13.4	194.3
Nonmarketable	55.2	11.5	2.1	41.6
Special issues	51.1	......	51.1	.....
Noninterest bearing [2]	4.2	2.6	....	1.6
Total	319.6	15.5	66.6	237.5
2. Guaranteed obligations	.5	......	.1	.4
3. Total	320.1	15.5	66.7	237.9
B. Outside limit	.3	......	....	.3
C. Total Federal securities	320.4	15.5	66.7	238.2
II. Federal agency securities	17.7	......	....	17.7
III. Total Federal and Federal agency securities	338.1	15.5	66.7	255.8

[1] Includes securities of Federal agencies and federally sponsored enterprises.
[2] Includes matured debt.

There seems no need to pursue for the Commission's benefit the even more tortured and elaborate reconciliation which would trace the path from the deficit in the national income accounts to changes in public debt subject to limit.

Where do we go from here?

It appears to be a tremendous challenge to suggest that a budget concept could be defined which would produce a figure on the Federal deficit *exactly* equal to changes in the public debt subject to limit even if Congress had no inhibitions about redefining its concept of debt subject to limit. It is possible, however, that the Commission can come very close to recommending this identity—or at least with fewer items than now exist even in the reconciliation of the administrative budget deficit to the present public debt limit concept.

To accomplish a perfect identity of the budget deficit and the change in debt (and debt subject to limit), the following six questions would have to be answered in the affirmative:

1. Should the budget deficit, as proposed by the Commission, be essentially the presently defined cash deficit but perhaps (a) with expenditures (and/or receipts) redefined on an accrued basis and/or (b) with loan transactions excluded?

2. Should the present concept of debt subject to limit be expanded to include: (a) old public debt now outside the limit; (b) securities issued by Federal agencies and federally sponsored enterprises?

3. Should the present concept of Federal debt (and debt subject to limit) be contracted to exclude securities held by Federal Government agencies and trust funds, the investments of which are considered as intragovernmental transactions in calculation of the budget deficit?

4. Should the present concept of Federal debt (and debt subject to limit) be contracted to exclude those noninterest-bearing notes issued to various international organizations which are essentially a line of credit rather than securities?

5. Should the present concept of Federal debt (and debt subject to limit) be redefined on a net basis to deduct all financial assets (net of liabilities) implicit in any new definition of budget deficit (including cash, loans outstanding, and receivables)?

6. Should the urge to expand the definition of Federal debt (and debt subject to limit) be restricted to securities issued by Federal agencies, without including (a) securities and other evidence of debt issued privately even though they are insured or guaranteed by an agency of the Government, or (b) other contingent liabilities?

Each of these six issues should now be examined carefully.

1. The first question here relates directly to whether or not interest accruals on savings and retirement bonds, and on Treasury bills, are properly included in a concept of Federal expenditures and, therefore, the deficit. They are so included in the present administrative budget. They are deducted, however, as "debt issued in lieu of checks" in working to the present cash consolidated budget totals. In this instance, the administrative budget treatment seems preferable. An investor who owns an accrual-type Series E Savings Bond is surely receiving income on it at the end of each 6-month accrual period although he has the option for income tax purposes of treating it as current income or deferring the tax until he cashes the bond. As was noted in the introduction to Table 3 the exclusion of accrual of interest on Series E savings bonds becomes rather farfetched when a table is constructed showing "cash" debt held by the public and all accrual type bonds are shown only at issue price which, of course, understates seriously their present value to the owners and the present liability of the Federal Government. Treasury bills, like accrual type savings bonds, are also sold at a discount from their

face value. The law specifically provides that the difference between the purchase price and the maturity value of Treasury bills is considered income for tax purposes. So to exclude such interest accruals from Government expenditures or from the total of debt outstanding is just as extreme as in the case of savings bonds. The volume of such accruals outstanding on June 30, 1966, was $11.5 billion for savings and retirement bonds and $1.4 billion for Treasury bills, with additional accruals for types of securities combined estimated at $1.1 billion for fiscal 1967 and $.6 billion for 1968.

If the budget deficit is defined to include all loan transactions, no further debt question arises under this subheading. If a capital budget for loans is adopted, however, a further step in reconciliation is required as discussed in Question 5.

2. Expansion of the definition of public debt (and debt subject to limit) to include *all* public debt outstanding has obvious merit simply on the though under present law it will go on forever. The detail is as follows: grounds of good housekeeping. As of June 30, 1966, there were only $266 million in this category. The figure will get smaller year after year even

Public Debt Excluded from Debt Limit, June 30, 1966

[Millions of dollars]

Matured debt on which interest has ceased:	
Debt issued prior to April 1, 1917	1.5
2½% postal savings bonds and First Liberty Bonds	.8
Debt bearing no interest:	
Fractional Civil War currency	2.0
Legal tender notes (issued under laws before 1901)	166.5
Old series currency and redemption accounts for National bank notes and Federal Reserve Bank notes (big bills)	91.9
World War I thrift and savings stamps	3.7
Total public debt excluded from debt limit	266.4

These figures are interesting to the historian, but are, of course, exceedingly minor.

At the time that the original debt limit legislation was passed in 1917, there was good reason to exclude debt issued before April 1, 1917, on grounds that it would technically involve retroactive legislation to include them. Half a century has now passed. Although there might still be some obscure legal grounds for keeping them out of the debt limit, the passage of time has probably cured the "problem." There is no interest-bearing debt in this category, and it is safe to assume that almost all of this debt has been long since lost or destroyed. There is no law which provides that the Treasury can write off any of this debt. There is even $27,869.77 Treasury 6% stock of 1790 and a $500 bond of the 8% loan of 1800 outstanding. In the absence of such a law which would permit debt of such ancient vintage to be removed completely from the Treasury debt rolls it seems simpler to include the small amount which is involved to eliminate one minor reconciliation item between public debt and debt subject to limit.

The big issue in this question relates to the inclusion in the debt limit of securities issued by federally sponsored enterprises or Government agencies. In any overall summary of Federal borrowing, the extent of inclusion of Government agency borrowing will, of course, depend upon the extent of inclusion of the agencies involved in the coverage of the new budget. At present, those agencies whose securities are widely accepted by investors as being Federal agencies include one wholly owned agency (Tennessee Valley Authority), three mixed-ownership agencies (Federal intermediate credit banks, banks for cooperatives, and Federal National Mortgage Association secondary market operations), and two privately-owned agencies where all original Government capital has been repaid (Federal home loan banks and Federal land banks). If participation certificates issued by the FNMA as trustee for other Federal agencies or issued by the Export-Import Bank are to be reflected in a new budget presentation as means of financing rather than as negative expenditures, they, too (along with Commodity Credit Corporation certificates of interest) should properly be included in such a concept of Federal and Federal agency securities. The volume of such Federal agency bonds, notes, and debentures on June 30, 1966 was $18.1 billion (growing to $24.0 billion in 1968) plus participation certificates of $4.4 billion on June 30, 1966 (growing to $13.0 billion in 1968).

3. Since the whole principle of a consolidated budget rests on the elimination of all intragovernmental transactions, this suggests that all holdings of public debt or Federal agency securities by any Government account, trust fund or agency, should be eliminated. The volume of such intragovernmental security holdings as of June 30, 1966, for example, was $66.7 billion so this becomes the single most important item in terms of size involved in these six questions.

Arguments for leaving the debt definition on a gross basis at this point, rather than allowing these deductions, go along these lines. Critics of the social security and other Government retirement systems over the years have continuously argued that the Government has taken the money and spent it for general Government purposes, and has merely given the trust fund an IOU as a bookkeeping transaction. The Treasury has countered this argument with the positive statement that the securities sold to Government trust funds are no different than those sold to private investors, so there has been no more "diversion of funds to other purposes" than through the sale of an E bond to an individual or a Treasury bill to a corporation or a bank. The Treasury might find its point harder to make if the statement of the public debt were to "demote" securities sold to trust funds to a sort of second-class obligation under the heading "intragovernmental transactions." On the other hand, the Treasury would still be able to use the argument that the trust funds and agencies hold billions of dollars of regular public marketable and nonmarketable securities ($15.6 billion as of June 30, 1966) and a Treasury 4% bond maturing in February 1990 has exactly the same value in the market or at maturity regardless of who holds it. The answer to that argument, of course, would follow that if it is exactly the same, why take it out of a broad statement of public debt just because it happens to be held at a particular point in time by a Government agency rather than by the public. In broad principle, however, the proponents of exclusion of trust fund and agency holdings will argue that this exclusion should be no more difficult to swallow than in the case of the initial receipts and expenditures which have been used for years in the cash budget and which the Commission may very well embrace itself. Again, this principle (either on the receipt and expenditure or the investment side) can be accepted without violating the trust fund structure in any way.

4. The present Treasury concept of public debt outstanding includes approximately $2½ billion of noninterest-bearing debt (payable on demand) issued to the United Nations, the Inter-American Development Bank, the International Development Association, and the International Monetary Fund. These are, in effect, lines of credit rather than debt outstanding and are more in the nature of an account payable than a security. As a practical matter, these international organizations are now working with the Treasury toward the eventual substitution of letters of credit for the existing public debt obligations when they mature. Some of this substitution has already taken place and all of the U.S. Government's new increase in its quota for subscriptions to the capital of the International Monetary Fund in 1965 was placed on this basis.

The treatment of commitments of this nature as letters of credit rather than as budget expenditures is not unique to these international organizations except insofar as direct issuance of public debt obligations is involved. It is only part of a broader Government-wide effort to encourage the use of letters of credit in grant-in-aid and other Federal programs to obviate the need for advance payments and the practical limitations of Government Accounting Office policing of the Government's requirement that no recipient of grant-in-aid funds can employ them to earn income while awaiting final disbursements. If this letter of credit trend continues, the exclusion of these noninterest-bearing notes to international agencies may be automatically achieved some time down the road and any recommendation by the Commission to exclude them from the current debt figures would merely serve to anticipate future developments.

5. The idea of deducting net financial assets from debt outstanding to arrive at a concept of *net debt* outstanding is not a new one in terms of either Government or corporate finance. It ties indirectly with the Commission's desire to present a prominent means-of-financing section in its new budget presentation.

To many, it may seem strange to deduct cash, for example, because cash is not debt. To others, however, the idea makes a great deal of sense in that this in very real terms defines precisely where the Treasury stands at a given point of time with regard to its most obvious current asset—cash—as a partial offset, small though it may be, to the public debt. It seems clear that if the public debt is $300 billion on a given date and the Treasury has $10 billion in cash, it is indeed in a better financial position than if it has a debt of $297 billion and only $2 billion in cash. A net debt concept would show this.

The point should also be made that a concept of net debt defined in this manner would give the Treasury considerably more flexibility in the timing of debt operations in the market than it has at present. A tight debt ceiling, for example, may mean that the Treasury is completely unable to offer a new issue of securities at a time when market acceptance appears to be quite favorable because the issuance of the new securities would put the debt over the debt limit. It could, however, take advantage of such an opportunity under a net debt limit concept since the new issue of securities would be accompanied, of course, by an inflow of cash so that the net debt would not change at all at first and the later effect would be much more gradual.

The same arguments for exclusion of cash can also be extended logically to the net excess of Treasury accounts receivable over accounts payable. This would be true regardless of whether the present "cash" budget is used (which still has to reflect checks issued but not paid and accrued interest) or that concept is expanded to more of an accrual basis generally.

To the extent that the budget deficit is redefined to exclude loans on the theory that they are financial transactions rather than spending the case is strong for deduction of loans outstanding in calculating net debt. The dollar value of loans so deducted would be exclusive of any capitalized subsidy reflected in the budget as spending rather than lending.

In a sense, the definition of net debt offered here is a concept of financial balance quite akin to corporate finance (debt outstanding plus accounts payable less cash and accounts receivable). The most likely objections to such a concept of net debt would presumably relate to the feeling that debt is debt and the most effective congressional control over the amount of debt outstanding relates to a summation of specific securities and that any attempt to reflect cash or other financial claims is too confusing and theoretical.

6. The question of propriety of inclusion only of securities *issued* by the Federal Government or Federal agencies as defined in the Commission's recommendation of its preferred budget concept may be attacked in some quarters. Some observers maintain that in any comprehensive definition of debt, the extension of private credit should be included when it is backed directly by a guarantee or an insurance program run by a Federal agency. In this category would fall obligations guaranteed by the Farmers' Home

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Administration, the Maritime Commission, the Federal Housing Adminstration, the public housing and urban renewal programs, AID loans guaranteed by the State Department, guaranteed loans of the Veterans Administration, of the Export-Import Bank, the Small Business Administration, and a large group of others. These add up to $94.9 billion as of June 30, 1966, and are expected to grow to $102.9 billion in the ensuing two years.

These are all in a sense contingent liabilities of the U.S. Government, but the opponents of their exclusion from comprehensive debt totals argue that a clean line should be drawn between debt *issued by* the Government or those Government agencies included in the Commission's proposed budget concept, as against debt issued by any private lender outside of this concept even though there is a Federal guarantee or insurance program involved. One recommendation might be to accept the degree of grossness suggested here for purposes of constructing statements on Federal Government and agency borrowing and show prominently, but strictly as a memorandum item, the degree of Federal involvement through its guarantee and insurance programs. Any defaults or losses growing out of these programs are, of course, already reflected in budget expenditures.

Another point that can be made on exclusion of the guarantee and insurance programs is that it becomes difficult to stop at potential Government liabilities relating just to loan insurance and guarantee programs. It would seem easy, conceptually at least, to extend the idea of contingencies to include nondebt items such as insurance of bank deposits and the unfunded liabilities of the various retirement funds, all of which offer new complications of calculation, theoretical justifications, and almost certain misinterpretation.

To summarize, although reservations can be expressed on each of the six questions which pose obstacles to a perfect identity of the Commission's eventually agreed-upon concept of the budget deficit and its definition of net changes in the Federal debt, the case for identity seems very strong, not only in the detailed analysis of the specific issues involved but also because of the overwhelming appeal of its simplicity. Table 5 has been constructed just as a "teaser" to put the various components in some perspective.

This would not be the first change in concept in the history of the public debt limit. In its fifty-year history, it has already shifted from new debt to debt outstanding, from specific issues to classes of issues, from classes of issues to total debt, and from a basis of face value to current redemption value of savings bonds.

Again, it should be mentioned that the Ways and Means Committee has encouraged the consideration of just the sort of exercise spelled out in this staff paper by suggesting that the question of what "should properly be included in the debt subject to limitation is a debatable issue which would be studied carefully, and it is an issue which the [Ways and Means] Committee will consider in the future when it has the benefit of the recommendations of the President's Commission on Budgetary Concepts."

TABLE 5.—*Reconciliation of Federal debt concepts*

[Billions of dollars]

	As of June 30		
	1966	1967 estimate	1968 estimate
I. Reconciliation of present definition of public debt subject to limit to new concept:			
A. Present public debt and guaranteed obligations subject to limit	320.1	327.1	335.2
B. Plus: Public debt now outside limit	.3	.3	.2
C. Less: Certain noninterest-bearing debt issued to international organizations	−2.6	−2.1	−2.1
D. Plus: Securities issued by Federal agencies:			
1. Bonds, notes, & debentures	17.7	21.5	23.3
2. Participation certificates	4.4	7.2	13.0
E. Equals: Total Federal securities	339.9	354.0	369.6
F. Less: Federal securities held by Government investment accounts	−66.7	−75.3	−80.8
G. Equals: Federal securities publicly held	273.2	278.7	288.8
H. Less: Federal financial assets [1]	−12.9	−9.6	−9.6
J. Equals: Net Federal debt publicly held [2]	260.3	269.1	279.2
K. Memorandum: Private credit guaranteed or insured by Federal programs	94.9	98.3	102.1
II. Reconciliation of present definition of cash borrowing outstanding to new concept:			
A. Present concept of debt outstanding tying to cash budget	255.8	257.5	261.2
B. Plus: Accruals on public debt interest	12.9	14.0	14.6
C. Plus: Participation certificates	4.4	7.2	13.0
D. Less: Federal financial assets [1]	−12.9	−9.6	−9.6
E. Equals: Net Federal debt publicly held [2]	260.3	269.1	279.2
F. Memorandum: Private credit guaranteed or insured by Federal programs	94.9	98.3	102.1

[1] Assumes $0.5 billion cash held outside Treasurer's account; includes net excess of receivables over payables by definition but no figures have been included.

[2] Changes are exactly equal to budget deficit.

The CHAIRMAN. If some of us were disposed to fight for that position now you would prefer that we didn't. You would feel, would you not, that you have this increase in the debt limit and that being the case you would rather settle for the bill as the House passed it?

Secretary KENNEDY. The most important thing right now, Mr. Chairman, is getting an increase so that we can live within the law and meet our obligations according to the statutory requirements. I think because of the time situation and the fact that the Congress would want more time to consider the revised concept that we should go just with the present legislation.

The CHAIRMAN. May I say, Mr. Secretary, my thought in looking at your request is that if I were you I think I would be asking for more. I think when you first come into office you can say—without making any individual comparisons or pointing a finger of scorn—"Well, looking at the situation we inherited here, we feel we need a little elbow room to operate with and, therefore, we would like to ask for *x* figure." I think you can ask for and have confidence of getting more when you first come before the committee than you can after we have given you your initial request. But I hope you realize that if you don't ask for it you are not likely to get it. That is about what you are stuck with, the thing that you asked for.

Secretary KENNEDY. Well, we asked, as you know, in the House for a $17 billion leeway rather than $12, but they wanted us to come back at an earlier date. We can slide through with this if we live within the contingencies. It is a smaller leeway than was voted a year ago. At that time we had a larger leeway than we now have for contingencies. There is only $3 billion in here for contingencies. And we may be back before you earlier than we indicated.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. No questions.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Secretary, in line with the suggestion of the chairman about this new definition of the debt, would not the mathematical result of the Congress, congressional approval of that new definition be that the administration could in the next 4 years spend about $40 billion more than it has taken in and still report a surplus and still report a balanced budget?

Secretary KENNEDY. Senator Williams, that would, of course, depend on trust accounts.

Senator WILLIAMS. That is correct. But I mean based on the projections of these trust accounts that is a reasonably accurate appraisal of the new definition, is it not?

Secretary KENNEDY. I believe that is right, yes.

Senator WILLIAMS. Do you believe that is fair to the American people to give them the impression that we would be living within our ceiling for the next 4 years when, at the same time, we would be spending $40 billion more than we are taking in. Don't you think we need a little more accurate method of accounting for the people? Don't you think they are entitled to that?

Secretary KENNEDY. I think that the debt limit, as such, Senator, is not a definition of debt. It is a definition that the Congress has fixed for these hearings. It does not now include all debt. What we are trying to do here is to get a review of receipts and expenditures so that you can have some control over expenditures. The debt limit is a matter of definition. I don't think that either one necessarily accomplishes a limitation of expenditures.

Senator WILLIAMS. I agree.

Secretary KENNEDY. When you get into that situation you have to change it as is being done here. The history of debt limits is that when you come up against a ceiling you have to raise the ceiling.

Senator WILLIAMS. I agree we have to have more control, but what bothers me is that if we adopted this new definition which we heard of for the first time a couple of weeks ago, we would have lost control over $40 to $45 billion in the next 4 years. I can assure you that that won't slide through too fast in the Congress.

Now, one other question—you were quoted yesterday on the program of "Issues and Answers" to the effect that, as I get it here, that we would have around a $4 billion surplus in 1970. In other words, you are expecting a larger surplus even than projected by the last administration, is that correct?

Secretary KENNEDY. That is correct. I didn't give a number, Senator. I said we would have a surplus larger than shown in the President Johnson's budget because we are going to make further cuts in expenditures to accomplish that.

Senator WILLIAMS. I don't claim to be an economist, I just ran a small business before I came down here, but it was always my experience that when we were building up a surplus or profit we didn't have to go to the bank to negotiate a larger line of credit in order to finance that surplus. Could you explain at least to me and, perhaps, to some others why if you really have got a true surplus that you have to increase the debt.

Secretary KENNEDY. It is because of the trust accounts and, as you know, they are in excess of their expenditures, so they are put into Government securities and that increases the debt limit.

Senator WILLIAMS. I understand that but, Mr. Secretary, the money that is owed to these trust funds—and they can be invested only in Government bonds—they are obligations of the Government just as much as though those same bonds were bought by one of the banks or individuals, are they not? They have to be paid.

Secretary KENNEDY. They are obligations, right. Receipts and expenditures are according to the provisions of law.

Senator WILLIAMS. And based upon the accounting principles that we operated under prior to the last 3 or 4 years, you actually are confronted with a prospective deficit in 1969 and 1970 of around $7 billion instead of a surplus, isn't that a fact?

Secretary KENNEDY. Well, I don't know what definition you are using of——

Senator WILLIAMS. I am using the same definition we have used for 175 years before this Great Society came in and before your definition, your confirmation of it.

Secretary KENNEDY. You have had three kinds of budget surpluses and deficits before, and now with a unified budget we use the one that has the impact on the economy, as you well know. If you want to relate it to the figures you are quoting that are in the budget message, Mr. Mayo has them.

Senator WILLIAMS. And they are a prospective $17 billion?

Mr. MAYO. They show a current deficit $6,962,000,000 and for the year beginning July 1, $6,848,000,000. Together that would be a total of $13.8 billion.

Senator WILLIAMS. That is correct, and then when you take the manipulation of Commodity Credit it brings it up to $17 billion. It is a fact that is where you got your $17 billion request raising the debt ceiling, was really in recognition of the fact that you do have and are confronted with a $17 billion deficit—that is assuming we don't cut back or change anything.

Secretary KENNEDY. I know, I don't think that is completely correct, Senator. We got our $17 billion request by taking a look at the figure you have on the table and having a contingency. Instead of the $3 billion we are now using we used a contingency of $8 billion.

Senator WILLIAMS. Well, I still am having a job to understand why you need a $17 billion additional increase in the debt to finance a surplus of, as you claim now, of around $6 billion for the 2 years but I will pass for the moment; I don't want to exceed my time.

Has the administration made a decision yet of what it is going to do with the surtax?

Secretary KENNEDY. The President will be coming with a message on this, I think, fairly soon.

Senator WILLIAMS. Well, in order to project your figures through the year, as you did, you had to make an assumption as to what you were going to do with the surtax; did you not?

Secretary KENNEDY. We projected that on the basis of the continuation of the surtax.

Senator WILLIAMS. Has there been any thought given or concern on the part of the administration about the rapid acceleration of private investment capital, plant capacity, and so forth? I understand it is about a 14-percent increase projected. Is there any concern on that?

Secretary KENNEDY. Yes, there is great concern. Inflationary pressures are continuing and it is quite evident that after 4 years of continuous inflation that there is a psychology of inflation on the part of the public. I think as a result of that if there were any question about the extention of the surtax that would end it.

Also it requires further action on Government or budget expenditures.

Senator WILLIAMS. Well, I agree with you on expenditures but on investment credit when Congress reinstated the investment credit about a year or so ago, at the time, it reinstated it about 60 days after they asked for a tax increase. Was there a reversal of policy? I noticed in a report that was in yesterday's financial papers that the investment in private industry has increased substantially since that time. Is there any thought being given as to whether the suspension of that investment credit should be considered at this time to take some of the heat off?

Secretary KENNEDY. There has been consideration of it. I think that that tax, along with other incentives, should be under review and are under review. It is not the kind of a tax that should be turned on and off. The purpose of any kind of a tax like that, as you well know, Senator, is to provide a longrun competitive position for our industry in keeping up with technology and the cost of moving to more modern plants and equipment. It is not the kind of a thing that should be turned on or off for inflation control.

Senator WILLIAMS. I criticized the turning on and off, particularly the turning on again. Do you think that, looking back, a mistake was made when the investment credit was reinstated about a year ago at a time when we were confronted with an overheated economy?

Secretary KENNEDY. No. I feel that the tax might be too high or there might be some better way of accomplishing the purpose. But I would not have turned it off when it was turned off before, I would have continued it on and taken other anti-inflationary measures rather than moving in one field.

We have a tendency whenever the plant and expenditure figure goes up or some other area to get out of focus and to put a control on that one sort of thing. I think in a free market society we ought to take a longer run view rather than moment-to-moment or based on inflationary-deflationary positions at that time.

Senator WILLIAMS. Well, my time is about up. I will want to pursue that a little further later, but I will ask you just one question. We are hearing a lot of concern about the low rate of yield on savings bonds, 4¼ percent savings bonds. I think that we can agree that it is morally wrong to try to sell these at 4½ percent to the small investors at a time when anyone with $1,000 more to invest can get 6 to 6¼, maybe 6½ percent on Government investments. Is there any consideration being given toward bringing those in line?

Secretary KENNEDY. Yes, definitely, there is. It is not an easy thing to do, as you well know, but the 4¼ ceiling is being looked at and I think we will be back before you on this.

Senator WILLIAMS. Don't you think that if that was brought in line where a small investor could get a reasonably comparable yield to what is available to the larger ones that it would siphon off into savings a part of that which is now going into consumer spending?

Secretary KENNEDY. Well, I think it would substantially encourage saving. It would be good for the economy today in this inflationary condition. One of the things we are seeing is not only the difficulty in selling savings bonds but savings are not increasing at the rate we would like.

Senator WILLIAMS. I thank you. My time has expired.

Senator TALMADGE. The Senator from Delaware got into some of the areas I wanted to discuss with you.

From what I read in the press, despite the increased social security taxes and despite the surtax which was imposed and the possibility of extending it, the inflationary spiral seems to continue and, as Senator Williams pointed out, the principal area seems to be the corporate private investment for new plants. We seem to be feeding the inflationary spiral with investment credit and trying to cure it with the surtax and monetary policy.

What is the rate of operation of plant capacity now? Isn't it about 80 percent?

Secretary KENNEDY. It is in that area. I couldn't give you the exact figure.

Mr. MAYO. Between 80 and 85, below 85.

Senator TALMADGE. Why would the corporations want to expand their plants at this critical time of inflationary spiral with only 80 to 85 percent operating capacity?

Secretary KENNEDY. Well, that is overall operating capacity. There are many plants that are under, and operating at very tight capacity.

There is another factor and that is this cost factor. The wage increases can be offset by modernization and newer equipment. I do not know what part of that total is in the equation, but it is a very large part of the total.

I think there is another point. There is longrun thinking and planning on the part of corporations. They are working not only for today's market but they are working for tomorrow's market, for increases in population growth.

Then, of course, there is the inflationary psychology and it is not just the investment tax credit. There are many who are not getting the investment tax credit that are actually pushing ahead with plans to expand. They will tell you, if you talk to them, it takes a long time to prepare a plan. Boards of directors have to be considered. They look at their markets, their sales are good, the profits are carrying on, so they go ahead with expansion. So that there are many factors in it, Senator.

Senator TALMADGE. Undoubtedly many of them expanded now because they are fearful if they delay it will cost more later.

Secretary KENNEDY. That is the inflationary psychology, they know it will cost more.

Senator TALMADGE. What does the investment credit amount to annually in the way of taxes? What is anticipated for this fiscal year?

Secretary KENNEDY. Senator, we will have to submit that figure because I don't have it in mind.

(The following information was received from the Department of the Treasury:)

The estimated effect on fiscal year 1969 receipts of the investment credit is as follows:

[In billions]

Individuals	−$0.5
Corporations	−2.3
Total	−2.8

Senator TALMADGE. Counsel for the committee stated it was about $2.8 billion. If we suspended that, don't you think some of this inflationary spiral, particularly in plant investment, would be curtailed?

Secretary KENNEDY. I think it would have an effect.

Senator TALMADGE. Wouldn't it be a better way to fight inflation rather than raise the prime rate to 7½ percent, with the discount rate going up all the time, and putting a lot of these little builders and small operators out of business. In other words, it seems to me that the Government is working at cross purposes between monetary policy and the investment credit, both at the same time. If we are going the route of hard and tight money it looks to me the Government ought to go the whole way and suspend this incentive for people to go out and borrow more money and build more plants. What is your view on that?

Secretary KENNEDY. I think it is a longrun problem. We have a competitive position in the world to maintain, and we can't for an inflationary need just turn that on and off.

Senator TALMADGE. I would agree that tax policy ought not be shifted——

Secretary KENNEDY. If this was wrong as an incentive it should be looked at. That is why I say all of these incentives, this is not the only one, should be looked at.

Senator TALMADGE. These major corporations with lines of credit and huge resources can go in and borrow sums regardless of how tight money gets and how high interest rates are. But a small operator trying to build homes or something like that is not in that fortunate position. And if there is $2.8 billion in taxes involved, at a time when apparently it is going to be the policy of the administration to recommend increasing the surtax, I think the time has come to give serious consideration to the possibility of suspending this investment credit until our inflationary spiral gets more under control.

What is the rate of inflation at the present time? I see statistics from time to time, and it doesn't look as though we are making too much progress in controlling it.

Secretary KENNEDY. We are making very little progress in controlling it. I think that for 4 years we have been on an inflationary binge, we had a very large deficit, $25 billion, the Vietnam war continuing and social programs expanding. That has been changed now, and we have a budget that is in relative balance depending on which figures you want to use, but it is in better balance, and we think we will cut expenditures further.

Senator TALMADGE. The rate of inflation for calendar year 1968, I seem to recall—4.7 percent—is the most generally accepted figure, is that about right?

Secretary KENNEDY. Well, that is about right. It depends upon what you mean by rate of inflation.

Senator TALMADGE. I believe that was the cost of living increase.

Secretary KENNEDY. Compare the price levels, consumer price increases or the wholesale price increases. I think it is running now higher on wholesale prices which will be translated to consumer prices later.

Senator TALMADGE. Is it running about the same level now? Is it greater or less?

Secretary KENNEDY. Running about the same level.

Senator TALMADGE. About the same level. Thus far our policies have not been very successful.

Secretary KENNEDY. That is right.

Senator TALMADGE. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Mr. Secretary, I am interested, as I know we all are, in this question of definition of the debt, and the problem that Senator Williams has raised concerns me. Aren't we dealing here with the fact that there are two or, I think you said three, methods of figuring a budget, and each of those methods will turn up a different figure in either the profit or the surplus or deficit because those methods do not include, or the elements in making up the budget are different in the three methods?

Secretary KENNEDY. Well, we have, Senator, the receipt and expenditure side, and you can come to a total of that.

Senator. BENNETT. Isn't that called the administrative budget?

Secretary KENNEDY. Well, in part, yes.

Senator BENNETT. All right.

Secretary KENNEDY. Then you have the lending programs of the Government, various agencies. The receipts are reductions there, net lending, and then you have the trust accounts. You have all of those segments in a budget of the Federal Government, and even after that, you have the means of financing it as another section in the budget—how you finance. Then you come to a debt as a result of those figures.

Senator BENNETT. We have been operating for 180 years, on the basis of receipts and expenditures applying to the normal operation of the Government, and using appropriated funds. Am I making an accurate statement?

Secretary KENNEDY. I don't know about that period of time.

Senator BENNETT. I think the statement is right.

Mr. MAYO. If I may interpose, years ago when the trust funds were small they were included in the budget.

Secretary KENNEDY. I think so.

Mr. MAYO. And we have shifted around to include or exclude Government corporations. We went through this in the early forties. We have had quite a few definitions, even under the old administrative budget.

Senator BENNETT. Well, I have felt that when the suggested change created so much discussion that what we are really dealing with here is a public relations problem rather than a financial problem because the figures are still there no matter which way you turn. I have wondered if it wouldn't be wiser for the administration to have stated two figures on the old method, the method used over the recent past, the deficit would have been so much, but under the unified budget concept including the trust funds, the surplus would have been so much, and I think that lies at the heart of Senator Williams concern.

Secretary KENNEDY. I think probably, Senator, the words "surplus" and "deficit" are at fault but we have been using them for 100 years, too. It is really not in a sense a surplus or a deficit.

Take a trust fund, they are not surplus, it is just what they have accumulated over and above their present expenditures, but in the law they have the payment. It is an actuarial thing. So maybe it is semantics we are talking about.

Senator BENNETT. It is an increase in the trust funds rather than a surplus.

Secretary KENNEDY. It surely is.

Senator BENNETT. Yes.

The thing that I always come back to is this interesting problem: If we could reach a day when there was no deficit, when we were able completely to wipe out the debt represented by the operation of the Government, the administrative side of the budget, we had been operating so long at a surplus that we had actually wiped out the debt, wouldn't we, unless the present law was changed, have to create a debt for the purpose of creating debt instruments to be deposited in the trust fund?

Secretary KENNEDY. I think that would be right. Of course, it is a fantastic assumption.

Senator BENNETT. I know it is a fantastic assumption, but it satisfies me in the understanding of the difference between the two types of debt. So when we throw in the volume of Government bonds that are held in the trust funds because they have to be held there, and that increase is created by a type of tax that has nothing to do with the appropriated side of the Government, I can understand, first, why there is confusion and, second, why with the new unified budget we turn up a theoretical surplus based on the increase in the trust funds which are not available to us in operating the administrative side of the Government. And why under the old system those were out of the picture and we had a surplus or deficit represented on the administrative side.

So it seems to me that this whole discussion is on the basis of the method of our stating a set of figures which do not change. The figures are there whether we call them a surplus or a deficit, they are still there, and I wonder if we shouldn't be considering or be concerned more with the method of stating our financial position rather than arguing whether we have suddenly moved from a deficit position to a surplus position, and this is somehow dishonest. It is simply a different method of stating the same set of figures.

Secretary KENNEDY. I wish we could get to a point where we don't argue the figures. You have them all in the budget. We should go to the basic concern as to whether you authorize the debt to be increased, whether we can sell to the public additional obligations and be within our legal statutory limit.

Senator BENNETT. My feeling is this might have been done if you had stated both figures with parallel phases, but by shifting over to the new method and ignoring the figure that existed in the previous method in your public statement, I think you helped create the problem that we face today.

Secretary KENNEDY. I have made a review of some of the past hearings and it seems to me that a good share of discussion over many years has been on the figures in the old concept, so what we are trying to do is eliminate that kind of discussion and get to the issue of whether we are——

Senator BENNETT. Now, we are going back to discussing the figures on the old concept.

Secretary KENNEDY. We are back on the old concept, but we are not recommending we go to that concept, so we are having an academic discussion I should think.

Senator BENNETT. I have no further comment, Mr. Chairman.

The CHAIRMAN. Senator Dirksen.

Senator DIRKSEN. Mr. Secretary, the budget we are operating on does reflect the return from the surtax.

Secretary KENNEDY. That is right.

Senator DIRKSEN. What is the estimated take?

Secretary KENNEDY. It is about $9 billion on an annual basis, is that right, Mr. Mayo?

Mr. MAYO. Right.

Senator DIRKSEN. $9 billion. If they let the surtax expire on June 30, that would mean that would cause a gap in the year of $9 billion?

Secretary KENNEDY. Right.

Senator DIRKSEN. Unless we get revenues from some other source, but it would certainly mean a deficit, wouldn't it?

Secretary KENNEDY. It surely will.

Senator DIRKSEN. On the basis of present figures?

Secretary KENNEDY. Any way you interpret the figures.

Senator DIRKSEN. So if we are going any place, where can we go? There is scarcely anything else to do except to continue that surtax.

Secretary KENNEDY. That is precisely right, and I think we ought to take action right away on this.

Senator DIRKSEN. And it is a fair assumption, without putting any words in the mouth of the President, that when he does report to the Congress and the country that he will recommend the retention of the surtax.

Secretary KENNEDY. That is a good assumption.

Senator DIRKSEN. That is all.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. Mr. Secretary, personally it would be very difficult for me to support any increase in the debt limit unless I first had some knowledge that the administration is really serious about tax reform, or whether it plans to continue using the present tax system which allows some people to escape from carrying there fair share of the costs of running this Government. And secondarily, it would be very difficult for me to do so unless I had some clarification from the Treasury, or from the administration, as to exactly why the present surtax and the present tight money policy of the monetary authorities is not working, and I think it is quite evident from your answers to questions that as of now, and since it has gone into effect, the tight money policy is not working.

Can you give me any reason why I should change my mind and support such a measure in view of these serious questions which confront most Americans?

Secretary KENNEDY. Well, I think on the first question, Senator Hartke, there will be some tax legislation presented. You know and I know how difficult it is to get tax legislation through in a short period of time.

Senator HARTKE. Why?

Secretary KENNEDY. I don't know why. That is a legislative problem but my experience has been——

Senator HARTKE. Have you tried us?

Secretary KENNEDY. Well, it was tried in 1953 when I was in the Government, and it went through in 1954. It was tried with the surtax, and it took a couple of years to get that through.

Senator HARTKE. I know, but let me say this to you, why don't you try that?

Secretary KENNEDY. We are.

Senator HARTKE. I mean I would like to see the direction of your tax policy, where do you plan to go?

Secretary KENNEDY. We will be before the House Ways and Means Committee with tax proposals soon after the Easter recess.

Senator HARTKE. In other words you are going to submit your tax reform proposal soon after the Easter recess, is that right?

Secretary KENNEDY. Precisely.

Senator HARTKE. Is this a comprehensive reformation?

Secretary KENNEDY. As comprehensive as could be done in the time frame. I think it will have to be followed by further and more basic changes later on.

Senator HARTKE. Are you basically in agreement, disagreement, or noncommittal concerning the tax reform recommendations made by the Treasury report which was submitted as a result of the legislation we passed last year and which was finally borken loose in the closing days of the last administration.

Secretary KENNEDY. We have those proposals and we have been studying them, and they, of course, cover many, many areas of the tax system, and they are being appraised.

Senator HARTKE. Do you consider those recommendations basically to be sound, responsible?

Secretary KENNEDY. I think they are responsible; yes. They are good viewpoints. I am not giving a commitment in favor or against because it is on a specific item-by-item consideration you have to go.

Many of them will be followed precisely. There will be others that will probably be varied.

Senator HARTKE. Let me ask you, Has the administration indicated to you that they intend to seriously cut back on certain programs? I understand yesterday you made a statement that the SST program would have to be——

Secretary KENNEDY. Deferred.

Senator HARTKE. Temporarily withheld from further funding, is that right?

Secretary KENNEDY. I did.

Senator HARTKE. All right, in other words, you do not intend to ask for any further implementation of the SST program; is that correct?

Secretary KENNEDY. For the hardware part, the prototype; yes. I think there should be a continuation in the research and the areas of planning but not on the building.

Senator HARTKE. Now, you know that as far as the SST is concerned that the Concorde is now flying and that the Russians have an SST.

Secretary KENNEDY. Yes.

Senator HARTKE. And as far as we are concerned we have come to the place where we no longer can compete with the French, the British, and the Russians in the field of planes; is that right?

Secretary Kennedy. No, I wouldn't say that. They have to market their planes. We have the technology and the ability to build the planes. It is not a question of developing new technology here. It is a question of economics, and I recall about 4 or 5 years ago that this was a matter of urgency. It had to be done that year or a very serious situation would have developed.

Senator HARTKE. How much do you think you can save next year by the cutback on the SST?

Mr. MAYO. There is nothing in the budget as such for hardware for SST in the Johnson budget. As to what that figure might be, we have not developed a current one.

Senator HARTKE. How much do you plan to allocate to it, the same amount as the Johnson administration?

Mr. MAYO. The decision hasn't been made specifically on that, Senator.

Senator HARTKE. Really though, this is not a savings in Government expenses in relation to the proposed budget. What you are just saying is you do not intend to expand the cost in this field; isn't that really what you are saying?

Mr. MAYO. Basically; yes.

Senator HARTKE. So this does not relieve the pressure on costs.

As I understand, there are four specific items in the campaign which President Nixon said could be cut back. For your information I will repeat them: SST, the highway program, space program, and the beautification program. Is it your intention to make substantial cuts in these areas or is it your intention to follow President Johnson's recommended budget as to those areas?

Mr. MAYO. Well, all of the areas in the budget, Senator Hartke, not just these four, are under careful analysis right now. As the Secretary indicated yesterday, defense is one of those areas, space is one of those areas. I could list for you all the programs of the Government and give you the areas that we are looking at right now. No area is exempt at the moment.

Senator HARTKE. Well, is there any area in which a substantial reduction in the budget can be expected?

In other words, you are asking us to increase the debt limit here?

Mr. MAYO. Yes.

Senator HARTKE. You are asking us to say that all programs are under study. That is very well and I accept this as being a factual statement, but what are you really doing? In other words, what action do you propose, of a congressional nature, which could encourage me to change my mind which, at the present time, is to vote against this debt limit increase?

Mr. MAYO. Well, let me make two points. In the first place the January budget estimates were understated in several areas as events since then have proved out. For example, on fiscal year 1969 which ends, as you know, on June 30, 1969, we expect now that there will be $300 million more of interest on the public debt than was allowed for in the budget. We expect that higher price support payments may amount to something like maybe as much as three-quarters of a billion dollars. That would include the advanced payments on the feed grain program, that were not allowed for.

Senator HARTKE. $750 million.

Mr. MAYO. About that.

We are also losing maybe another $350 million, Senator, on offshore oil lease payments largely because of leases that have not been negotiated.

Now, just to prove that there are some things that do happen in the other direction, we expect that we will be saving some money on unemployment insurance benefits during this same period of time, and we have various other items.

Senator HARTKE. How much?

Mr. MAYO. Say $200 million.

Then we have $100 million of a great many smaller items.

So if you just take the figures I have given you, I believe you will come to the conclusion that the $183.7 billion for expenditures as President Johnson estimated is more likely to look like $185 billion by the time the end of the year rolls around.

Senator HARTKE. What about the revenue?

Mr. MAYO. What about the revenue?

Senator HARTKE. As compared to the estimates.

Mr. MAYO. In the first place, the revenue estimate assumes that the Government will receive $500 million of new revenue from corporate income tax payments because of the extension of the surtax in April, before April 15. It seems unlikely, as a practical proposition, that the surtax extension would be passed by April 15, so we will lose some of that revenue this fiscal year.

Senator HARTKE. Now, it was passed retroactively last time.

Do you not intend to ask for an extension of the surtax in direct contravention of the promise of the last campaign?

Mr. MAYO. Oh, no; this has to do with whether the collections come in this fiscal year, Senator.

Senator HARTKE. I understand.

Mr. MAYO. If the bill is not passed by April 15 many corporations are not going to guess on their tax return that it will be passed.

Senator HARTKE. I understand, but I also ask you, is it your intention to ask for an extension of the surtax and for it to be completely retroactive during that period?

Mr. MAYO. Of course, it doesn't have to be retroactive. It is in effect to June 30 now and they will be paying on the full calendar year, but my point is that collections in fiscal 1969 would lag by $500 million if it is not passed before June 15.

Senator HARTKE. Now, what you are saying here is simply that there may be a possible temporary failure of collection. But I am asking you about the revenue portion of the proposed budget by President Johnson, is it going to be higher or lower in your estimate.

Mr. MAYO. The new revenue estimates have not yet been prepared. We still don't have our April 15 data, of course, or March 15 to the extent that is relevant to presenting a revision of those estimates.

Senator HARTKE. I thought the Secretary gave a statement yesterday that he anticipated a substantial surplus in this period.

Mr. MAYO. A substantial surplus?

Senator HARTKE. Isn't that right; am I correct? Just correct me if I am wrong.

Mr. MAYO. Perhaps the Secretary would rather speak for himself.

Secretary KENNEDY. I was speaking of fiscal 1970 of a substantial surplus.

Senator HARTKE. What about 1969?

Secretary KENNEDY. In 1969 the calendar has nearly run and the figures that the Director of the Budget has just given you will show a smaller surplus, I think, than in the Johnson budget.

Senator HARTKE. Let me ask you——

Secretary KENNEDY. Because he is giving you expenses.

Senator HARTKE. You do or do not have estimates?

Secretary KENNEDY. We have the estimates of the receipts side in the President Johnson budget and we see no reason to change those estimates for the fiscal year 1969.

Senator HARTKE. Doesn't the Treasury now have a current estimate of what they anticipate revenue to be in 1969, fiscal 1969?

Secretary KENNEDY. Yes, and it is consistent with what is in the President's budget.

Senator HARTKE. What is the figure?

Mr. MAYO. It is the same figure.

Senator HARTKE. In other words you estimate the revenue is going to be the same as President Johnson's estimate, isn't that right?

Secretary KENNEDY. For fiscal 1969; yes.

Senator HARTKE. That is right.

Let me ask you this: What is your estimate at this time concerning our balance of payments? Are we in a surplus or are we in a deficit position?

Secretary KENNEDY. We do not have the first quarter figures yet.

Senator HARTKE. Mr. Secretary, let me ask you if this statement isn't correct: We have been in a substantial surplus position with respect to our balance of payments since the end of last year and that this surplus has sharply risen since that time, and frankly, we are in a position now where we are running a very substantial surplus the nature of which we have not had in the last 20 years; isn't that true?

Secretary KENNEDY. In our balance of payments?

Senator HARTKE. In your balance-of-payments account.

Secretary KENNEDY. No, I don't think it is true, Senator.

Senator HARTKE. I understand my time has expired. Can we have more time later on? Are we limited to 10 minutes?

The CHAIRMAN. We are limiting our time to 10 minutes on the first round and then we can ask questions to our hearts' content.

Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Mr. Secretary, in your statement you said on March 14 the Federal debt amounted to $364,177 million.

My question is, How is that debt broken down as to maturity dates?

Secretary KENNEDY. As to what?

Senator JORDAN. Maturity dates, as to term. What is the average term on these borrowings?

Secretary KENNEDY. The average marketable debt has a term of about 4 years maturity now. That is the lowest it has been in many years. It has gone down from about a 5½-year average to 4-year average, on the marketable debt.

Senator JORDAN. Mr. Chairman, I wonder if we could have for the record the maturity dates of all outstanding Federal obligations that comprise this $364 billion debt.

Secretary KENNEDY. I would be glad to supply it, Senator.

The CHAIRMAN. That will be made a part of the record.

(Information received from the Department of the Treasury follows:)

COMPOSITION AND MATURITY DISTRIBUTION OF THE PUBLIC DEBT, FEB. 28, 1969

[Billions of dollars]

Type of security	Amount outstanding	Remarks
Interest-bearing marketable:		
Within 1 year	$100.3	
1 to 5 years	75.8	
5 to 10 years	35.7	
10 years and over	24.7	
Total, interest-bearing marketable	236.5	Average length to maturity, 4 years, 0 months.
Interest-bearing nonmarketable:		
Public issues:		
Foreign series	4.5	Redeemable at various times at option of holder or at call by Treasury.
U.S. savings bonds and notes	52.3	The average dollar of savings bonds is outstanding 5½ years.
Investment series bonds	2.5	Callable in 1975; redeemable in 1980.
Other	.1	Redeemable at various times.
Special issues to Government agencies	60.9	Redeemable on demand or after 1 year from issue date.
Total interest-bearing nonmarketable	120.3	
Noninterest-bearing debt	2.0	Redeemable on demand.
Total public debt	358.8	

Senator JORDAN. You said the average maturity is now about 4 years, and it is getting less. Why is it getting less, Mr. Secretary?

Secretary KENNEDY. Time runs along and the debt that was put out earlier shortens up with the lapse of time. It is like the movement of time.

The other part is we have been financing through shorter term obligations, more bills, and short-term obligations. The market has been such that longer term obligations could not be sold in large amounts at times, and, of course, the 4¼ percent interest rate ceiling over a period of time has had an effect on it.

Senator JORDAN. It is to our advantage to finance this debt on as long a term basis as we can; is it not?

Secretary KENNEDY. It is to our advantage to have a good balance between long- and short-term securities. In periods when we can, we should be putting on long-term debt because it just tends to get shorter and shorter, otherwise we will have 1-day debt and we cannot afford that.

Senator JORDAN. What significance do you attach to the fact, as you have given to me, that we have gone from a 5-year average several years ago to a 4-year average in maturity now?

Secretary KENNEDY. Well, it is a combination of factors. One is, of course, the fact they are just issued for a short term instead of longer term and then the march of time.

Senator JORDAN. Does not the psychology of inflation have something to do with that? Because people fearing greater inflation are investing their savings in equities rather than in Government bonds.

Secretary KENNEDY. I think in an inflationary period people tend to get out of fixed obligations into real estate or stocks or some other area.

Senator JORDAN. Might that account in part for the trend toward a shorter average maturity date?

Secretary KENNEDY. That is right; it is a market situation in part. Apparently there is never a good time to issue large amounts of long-term bonds; that is what we are told.

Senator WILLIAMS. Would the Senator from Idaho yield?

Senator JORDAN. Yes, I would be glad to yield.

Senator WILLIAMS. Is it not true the shorter term maturity of these bonds results from a ceiling on the interest rates——

Secretary KENNEDY. Four and a quarter percent.

Senator WILLIAMS (continuing). Which a few years ago you could pay on debt issued beyond 5 years—just recently changed to 7—and we have been forcing the monetizing of our debt as a result of our ceiling?

Secretary KENNEDY. That is precisely the case.

Senator WILLIAMS. The Senator was not on the committee last year, but we got through the Finance Committee and through the Senate a proposal to repeal that ceiling, and we have had it through the Senate three or four times in the last few years, but it has been rejected in conference because the Treasury Department at that time opposed the elimination of this ceiling. I hope we will get a change of thought this time.

Senator JORDAN. I hope we do, too.

Mr. Secretary, under what circumstances is it desirable to issue 90-day Treasury bills bearing a high rate of around 6¼ percent?

Secretary KENNEDY. Well, we issued the short-term, 90-day bills to meet our money needs, and, of course, there is a great market in that, it is a liquid piece of paper that the money market needs and wants, so it does serve in the economy a useful purpose as well as to the Treasury providing a place where we can put Government securities.

Senator JORDAN. What percent of the outstanding debt would you calculate is in 90-day Treasury bills?

Secretary KENNEDY. Do you have that?

We will have to give you the figure for the record. It is about $70 billion.

(Information received from the Treasury Department follows:)

TREASURY BILLS OUTSTANDING FEB. 28, 1969

Type	Amount (in billions)	Percent of marketable debt	Percent of total public debt
Regular bills:			
90 days at original issue	$20.8	8.8	5.8
180 days at original issue	28.6	12.1	8.0
270 days at original issue	4.5	1.9	1.3
1 year at original issue	12.0	5.1	3.3
Total regular bills	66.0	27.9	18.4
Tax anticipation bills	10.8	4.6	3.0
Total bills	76.8	32.5	21.4

Note: Figures do not add because of rounding.

Senator JORDAN. Thank you.

Now, on another matter, I have been interested in the colloquy having to do with the 7-percent investment tax credit and the fact that the business community is going ahead at a very rapid rate with capital investment. In view of the fact that the prime rate is now 7½ percent and we only have an 85-percent utilization of the present plant capacity, why do you suppose they are proceeding at such a rapid rate? You have answered in part, I believe, but do you have any idea, do you share my concern that the fear of the repeal of the investment tax credit has something to do with this stimulus for building?

Secretary KENNEDY. I do not think so, Senator.

Senator JORDAN. You do not think so?

Secretary KENNEDY. No, I think that the boards of directors of these corporations, at least the ones I have sat on, take a look at their sales, their need for capacity, their cost items, and calculate out a rate of return. They can in an inflationary period calculate a fair return and I think they go ahead. I do not think that would——

Senator JORDAN. You do not think it has any influence.

Secretary KENNEDY. I do not say any effect, but there are some lines of business where it is a very important item, but in most areas it would not be.

Senator JORDAN. Now, I get letters like this from some of my constituents, and believe me there is almost a tax revolt going on throughout the country. My constituents ask how we can justify a 7-percent investment tax credit for business in a highly inflationary economy when we only have a $600 exemption for dependents. How do I answer that kind of a letter?

Secretary KENNEDY. There is no easy answer, because there are technical questions involved. I think you will have to admit that there is an interest in taxation. But I do not think we can say there is a tax revolt. I think that is an inflammatory word, it is not a true statement. I think it is more a public concern for taxation, for equity treatment, to make sure that each person in each business is paying its fair share. That is the reason for the concern we have in tax legislation that is being presented.

Senator JORDAN. You will have some recommendations for tax reform later?

Secretary KENNEDY. We shall have some in the hearings of the House Ways and Means Committee right after the Easter recess, yes.

Senator JORDAN. Will you give any thought in your tax reform to the possibility of increasing the $600 exemption for dependents?

Secretary KENNEDY. That has been one area that has been considered. The cost is very high. If you change that $100 it decreases your tax take considerably. I think at some point that should be done. I am not sure we can give up the necessary revenue that will be required at the present time because we need it to keep a very strong budget surplus.

Senator DIRKSEN. Will you yield?

Recurring for a moment, Mr. Secretary, to this question of tax reform, tax reform has always been rather fragmentary.

Secretary KENNEDY. Yes.

Senator DIRKSEN. But it runs in my mind going back to 1962 and perhaps 1964 about the only tax reform there has been has been with respect to excise taxes. So in that period of 6 or 7 years prior administrations have not done anything about tax reform and, as a matter of fact, so far as excise taxes are concerned I think I initiated the matter in this committee, and then the administration picked it up at a later time. But it has been very fragmentary, 6 or 7 years, to say the least.

Secretary KENNEDY. I think there has not been any real basic tax reform since 1953 and 1954.

Senator DIRKSEN. It could be back that far.

Senator JORDAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, since that matter came up, if you will permit me to say I think we have passed two big revenue bills that had in them the provisions that had to do with tax reform. The administration would usually start out with, say, 20 recommendations. Half of them would be dropped out by the House, half of what was left would be dropped by the Senate, and by the time we got through, only about five would survive. Meanwhile we would add an amendment to give relief to overtaxed taxpayers—we would loosen up on the tightenings while we tightened on the loosenings. Every tax bill that ever came up here wound up being an overall loss in revenue to the Government when we got through with it. So you had better keep that in mind. You will always find someone paying too much and by the time we help that fellow and try to get something out of the fellow who does not pay at all—well, if you hope to beat that record, I wish you luck. You will find that history repeats itself.

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Secretary, first I would like to get in perspective your request for an increase in the debt limitation.

Leaving out for the moment your suggested and recommended revised concept—leave that out for the moment, I want to get back in some detail to that later on—your recommendation originally was for an increase of $17 billion in that ceiling.

Secretary KENNEDY. That is right, Senator.

Senator BYRD. Now, the House approved an increase of $12 billion.

Secretary KENNEDY. That is right.

Senator BYRD. Which is of course $5 billion less than you had sought.

Now, in reading your statement of this morning, you say on April 15 without a change in the debt ceiling, you will be over the ceiling by $2.2 billion, so that $12 billion that is being considered now gives you ample leeway, ample leeway for your high peak in April.

Now, we will go to page 3 of your statement. You say on March 15 of 1970 the debt will total $374 billion, which is $3 billion less than the present bill contemplates that the ceiling will be.

Secretary KENNEDY. That is right.

Senator BYRD. So that gives you substantial leeway.

Secretary KENNEDY. It gives us $3 billion. It is not substantial in today's world.

Senator BYRD. But that is your peak, estimated to be your peak time, the closest that you will come to your debt ceiling, March 15, 1970, a year from now.

Secretary KENNEDY. Well, as I indicated in my statement, sometimes you have a peak about the March 15 or the April 15 date, and sometimes you have it a day or two before.

Senator BYRD. But in looking over all of your estimates ----

Secretary KENNEDY. But that is the figure we used in this statement.

Senator BYRD. Looking over all your estimated figures here for fiscal 1969 and 1970, the March 15 date is the one which comes the closest to the new contemplated debt ceiling of $377 billion, and it would be $3 billion under that figure. So this $12 billion increase in lieu of a $17 billion increase would seem to give you ample working room. Do you concur in that view?

Secretary KENNEDY. Yes, sir. I think we can get by with that amount. That assumes that the surtax will be extended.

If it is not, we will be back again sooner, because these figures assume that, and there are other contingencies in here.

Senator BYRD. You can get by with $5 billion less than you originally sought?

Secretary KENNEDY. That is right. We wanted to work with a larger contingency to make sure we can get by. We may not get by, and we may have to be back, but on the basis of these figures you are right.

Senator BYRD. I want to say as one Member of the Senate I feel there should be a tight ceiling; I feel there should be a tight ceiling. If there is going to be any ceiling at all, it should be a tight ceiling and let the administration, whichever administration it might be, and the Secretary of Treasury, whoever he might be, come back to Congress and give his reasons as to why there should be an increase.

Secretary KENNEDY. I think this is a tight ceiling. I do not think it is a liberal ceiling. It is a tight ceiling.

Senator BYRD. I am pleased in the sense that it is less than what it started out to be by $5 billion. I think that is very desirable, but the Congress in making—whenever it raises the ceiling to an unreasonable amount such as we did in June of 1967, in my judgment, is giving away its power, giving away its responsibility, so, so far as my vote is concerned, I expect to vote for a tight ceiling.

Now, Mr. Secretary, I would like to get to an article which is in today's New York Times on page 1 by Mr. Edwin L. Dale, Jr., the Times financial correspondent and a very able one, I feel, and it says here, "The Nixon Administration's agency by agency review of former President Johnson's budget has produced a sizable net increase rather than the desired decrease."

I wonder if either the Secretary or the Budget Director would comment on that sentence.

Secretary KENNEDY. That is right.

The CHAIRMAN. We will include that article in the record.

(The article referred to follows:)

[From the New York Times, Mar. 24, 1969]

REVIEW OF JOHNSON BUDGET BRINGS INCREASE, NOT A CUT

NIXON'S TOTAL BELIEVED $198-BILLION—PRESIDENT DETERMINED TO REDUCE IT—TREASURY CHIEF SEES DEFENSE SLASH

(By Edwin L. Dale, Jr.)

WASHINGTON, March 23.—The Nixon Administration's agency-by-agency review of former President Johnson's budget has produced a sizable net increase, rather than the desired decrease. However, Mr. Nixon is determined to cut the total below his predecessor's estimate of $195.3-billion.

This became known today in advance of an impending showdown between the President and his Cabinet officers.

Highly authoritative sources regard it as certain that defense spending, as one key example, will be cut by the President much further than the $500-million reduction already achieved by Secretary Melvin R. Laird.

Secretary of the Treasury David M. Kennedy confirmed a television interview today that there would be "substantial cuts in the defense budget."

He also said in the interview on the American Broadcasting Company's "Issues and Answers" program that he expected Mr. Nixon to ask or an extension of the 10 percent income tax surcharge in its entirety past its expiration date June 30.

The possibility of another budget saving emerged when Mr. Kennedy said that he would recommend that construction of an American supersonic transport plane be deferred.

To keep the program on schedule, an allotment of more than $200-million would be needed in the budget for the fiscal year beginning next July 1. [Details on Page 28.]

The President told a group of business leaders at a White House dinner last week that he was determined to achieve a budget total "significantly below" Mr. Johnson's figure as part of his program of "fiscal responsibility" to fight inflation.

But the job turns out to be far more difficult than had at first been supposed.

First, updated estimates of the "uncontrollable" items in the budget, such as interest on the national debt, reportedly show an increase of more than $1.5-billion over Mr. Johnson's budget estimates.

Second, budget changes proposed by various agencies are understood to have produced increases of nearly $2.5-billion, apart from the uncontrollables.

This was partly offset by decreases in other agencies, including Mr. Laird's $500-million, but the net result was an increase of about $1-billion.

Thus as it now stands the budget is reported to be about $198-billion. In the coming few weeks Mr. Nixon intends to make the decisions necessary to bring it "significantly" below $195-billion.

The chances are strong, as Mr. Kennedy indicated that even if he does so, he will still recommend extension in full of the 10 percent income tax surcharge. His ecomomic advisers believe that a sizable surplus in the budget—larger than the $3.4-billion estimated by Mr. Johnson—is essential in the fight against inflation.

The President may convey his general intentions on the budget in a meeting with the Republican Congressional leaders Tuesday.

According to reliable reports, most agencies have not yet "got the word" that the President means business about what he calls "fiscal responsibility." Some are said to cite various campaign pledges assuring support for, or even increases in, various programs.

But the only two spending areas the President is understood to regard as "sacrosanct" are support for the troops in Vietnam, as long as fighting continues, and law enforcement.

It is not known whether Mr. Nixon's budget director. Robert P, Mayo, has yet presented him with a package of options showing how the large intended reductions can be achieved.

However, decisions cannot be delayed much longer because revised appropriations bills must be presented to Congress.

A part of the difficulty is the time lag involved in Government programs in spending, as disclosed in Mr. Laird's budget review. He reduced the appropriations request by $2.3-billion, but this will achieve a reduction of only $500-million in spending in the new fiscal year.

LAST-MINUTE CHANGE

A little noticed passage in Mr. Laird's presentation last week to the Senate Armed Services Committee a passage known to have been inserted at the last minute signaled what may be in store in the defense budget. He said:

"As you know, President Nixon had not finally approved the Government-wide budget changes as of the time I submitted this statement to you. However, realizing the urgency of this committee's time requirements, I requested and received permission to present the defense changes to you in advance of final approval of the over-all budget.

"Accordingly, I must point out that the program changes and figures which I discuss today are subject to modification by the Bureau of the Budget and the President until the Government-wide budget is finally approved.

Mr. MAYO. Yes.

Senator Byrd, in January the President asked me to start the budget machinery in motion to review thoroughly the Johnson budget request. I should also say that in the process of issuing our instructions to the department and agency heads, we asked that savings be ascertained not only for fiscal 1969, where it was admittedly difficult because we were so close to the end of the year, but also, and more importantly, for 1970, to produce savings out of which we might either add to the budget surpluses as projected in January or to make room for a redirection of our programs within the administration, in our recommendations to the Congress for action which, in some instances, might absorb some of those savings.

The agency heads, in turn, have responded in most cases that response is now complete to the President's directive. The point that is referred to in Mr. Dale's article is that, by and large, the suggestion for increases were actually larger than the savings out of which they were to be paid. That is the result then. And I must say this includes a couple of suggestions that are rather costly in terms of further postponement the AFDC freeze on social security or on public assistance welfare payments, and possible military pay reform. Those are two quite sizable items. That is really, I believe, what Mr. Dale had in mind when he made his statement.

There were savings produced by almost every agency of the Government in the process of this review.

The other point I would make is that the sort of factors I was reading about to the committee earlier, which have increased the January budget, make if necessary for the President to ask me to go back again to each of the agency heads with perhaps more specific ideas as to how we can save even further in order to keep expenditures under control.

Senator BYRD. Of course, I am speaking of a net increase or net decrease. President Johnson recommended a $195 billion budget.

Mr. MAYO. Yes.

Senator BYRD. In your judgment will your proposal be for an amount less than that or an amount greater than that total?

Mr. MAYO. Less than that.

Senator BYRD. An amount less than that?

Mr. MAYO. Yes, sir.

Senator BYRD. But at this point it is Mr. Dale's article is substantially correct, it is about $3 billion more than that.

Mr. MAYO. The amount of the figure depends on what you put in and take out on the way up and down, but Mr. Dale's article is substantially correct. But we have some more work to do before we get it under the $195.3 billion.

Senator BYRD. But during the 2 months you have been working on this—I do not mean you personally, but the Government and the present administration has been working on this—it has increased rather than decreased up to this point.

Mr. MAYO. Well, part of these are estimates—like interest on the public debt of a half billion and loss of oil lease payments that are not coming in, and more from price support payments—relate to other factors that will add over a billion dollars.

Senator BYRD. Regardless of the reason, the fact is, am I correct in stating it, the fact is that up to this point, after working on it for 60 days, up to this point, there is an increase rather than a decrease in the proposed budget?

Mr. MAYO. I think that is a fair statement, yes.

Senator BYRD. I thank you.

Mr. MAYO. But there is work in process to remedy that.

Senator BYRD. I understand that, and I am hopeful that there will be a substantial change from these figures when you finally conclude your work, but up to this point—up to this point there is an increase.

Secretary KENNEDY. On that, when you say increase, these are items that are uncontrollable and they are already in. But the items that are under discussion that are being looked at very critically now will be cut, but we have not done the final work that this requires. When the thing is finally put together the expenditure total will be below.

Senator BYRD. You mentioned the uncontrollable items; the taxpayers are interested in all whether they are controllable or not controllable because they have to pay for them.

Mr. MAYO. That is right.

Secretary KENNEDY. That is right. But in adding up figures on the debt that is taken into account—

Senator BYRD. Well, the higher you raise the debt ceiling, the more you are going to pay on the debt, too.

You let me know when my time expires, because I am in no way finished. I have gone over 1 minute of my time, Mr. Chairman, but I assume we will be back.

The CHAIRMAN. Very well, Senator.

Senator Fannin?

Senator FANNIN. Mr. Chairman, and Mr. Secretary, I know that the areas which you discussed, for instance the capital investment tax credit, is a very complicated thing. I remember one of the reasons for adopting this program was to be competitive with some of the foreign nations. How does our capital investment incentive program compare with the other leading industrial nations in the world?

Secretary KENNEDY. In relation to our total GNP?

Senator FANNIN. Percentagewise.

Secretary KENNEDY. Percentagewise I think that we have been under some of the developed nations like Germany, Japan, and so on.

Senator FANNIN. Well, I agree that it would be beneficial to do something about this $2.8 billion. But at the same time taking into consideration what we have been trying to do in modernizing our plants, we know other nations in the world have more modern steel plants and have been going forward more rapidly. Do you feel that the removal of this tax credit would affect that?

Secretary KENNEDY. I think the long-run effect would be detrimental. The short-run effect would give us income, and it is a short-run against the long-term consideration.

Whether we should have incentives and try to answer the competitive problem that way is a question we should consider very carefully. But I do not think it is the kind of tax that should be put on and turned over as we meet a change in our economic status.

Senator FANNIN. I can remember that was one of the complaints that arose at the time that that was done.

Getting to another matter that you have discussed, the citizen taxpayer rebellion. From the mail I have received, from the information I have from others, many vitally concerned about this, I think many of the people perhaps misunderstand what is involved, but when they know that someone can receive a million dollars a year and a tax-free income they are annoyed and perplexed. As you know, figures have been in the news about people who make over $200,000 a year and pay little or no tax.

Would you favor or will you recommend that there be a minimum paid by all taxpayers, all citizens that have an income over a certain amount?

Secretary KENNEDY. That one we have not concluded on. It is a very difficult one, it would change our whole tax program, and it affects a lot of people that you may not want to affect to get at the ones that are making very large amounts and paying no taxes. This has been publicized in the papers. Those returns are being examined one by one to see where the income came from and see what changes could be made that could change that situation. Many of them have come through real estate or some other investment; repayment of interest is one, and that should be changed. There will be changes there.

Senator FANNIN. I know that for instance in municipal bonds as far as public services are concerned, I think it very important that we have the incentive. At the same time when municipal bonds are being used for other purposes, and they are widely used for other purposes—building plants, warehouses, merchandise stores and all—then it seems a little far-fetched that these should be protected.

Secretary KENNEDY. That is extending the tax-exempt privilege.

Senator FANNIN. And you perhaps will have some recommendations on this?

Secretary KENNEDY. That one is being looked at very carefully.

Senator FANNIN. That is all.

The CHAIRMAN. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Good morning, Mr. Kennedy and Mr. Mayo.

I would like to ask Mr. Mayo—and if I have covered something which has been asked before, please forgive me—but looking at the figures that have been given us by our chief counsel, I find that on March 31, 1969, without the $3 billion contingency allowance you expect the debt would be $362.1 billion.

Mr. MAYO. Yes.

Senator MILLER. And then looking at March 1970, $374 billion or a $12 billion increase, and there is a comparable increase when the $3 billion contingency allowance is taken into account, correct?

Mr. MAYO. Let us see, you are talking about March 31 of the 2 years. One is $362 billion——

Senator MILLER. One is March 15—I guess—I am sorry, when you get to March 31 it is $369.5 billion. So we go from $362.1 to $369.5, some $7.4 billion increase.

Mr. MAYO. Yes.

Senator MILLER. Now, I would like to get a breakdown of that increase, if possible, and let me start out this way:

Does that assume the continuation of the 10-percent surcharge?

Mr. MAYO. Yes, sir.

Senator MILLER. Does that assume a $500 million increase in postal revenues?

Mr. MAYO. Yes, sir.

Senator MILLER. Does that assume a $400 million increase in transportation user charges?

Mr. MAYO. Yes, sir.

Senator MILLER. Does that assume a $200 million accelerated excess tax revenue?

Mr. MAYO. Yes, sir; the unemployment tax.

Senator MILLER. So that the assumptions underlying the Johnson budget from the increased revenues are contained in that.

Secretary KENNEDY. That is right.

Senator MILLER. Still we go up about $7.4 billion.

Mr. MAYO. Yes.

Senator MILLER. Now, can you tell us how we go up that $7.4 billion?

Mr. MAYO. Well, basically the difference there is the accrual of excess of receipts over expenditures in the trust fund, Senator Miller. For the fiscal year as a whole, the fiscal year 1970, there is a $10 billion excess of expenditures over receipts estimated in the Johnson budget. We have not made any revision in that at this point. As we were pointing out here earlier, the trust fund surplus is—as required by law—invested in Treasury special debt securities which are part of the public debt subject to limitation under the present definition.

Senator MILLER. Well, then, in other words, are you saying there is no particular difference in your estimate of the operating budget expenditures which go up $7.4 billion in that 1-year period over what the Johnson budget proposed?

Mr. MAYO. Actually, we would have a budget surplus during that period of time consistent with the $7.4 billion increase in public debt subject to limitation because the increase in the trust fund side would be greater than that, maybe in the neighborhood of $10 billion. We do not have exact figures March to March you understand, only June to June.

Senator MILLER. I did not want to get into the trust fund. I am talking only about the operating budget as a result of which we have this definite ceiling limitation request.

Mr. MAYO. No, the debt ceiling request, if we are referring to the same document here, is on the basis of the present concept which does include the debt held by the trust funds.

Secretary KENNEDY. I think the Senator's point is we are using the President Johnson budget for these figures.

Mr. MAYO. Yes, that is correct.

Secretary KENNEDY. Not changing them to take into account any revisions that are being made.

Mr. MAYO. That is right.

Secretary KENNEDY. I think that was your point.

Senator MILLER. Maybe I was not oriented, but I was premising your presence here in support of the House-passed bill.

Mr. MAYO. Yes, that is correct.

Senator MILLER. The House-passed bill rejected your approach of using the other budget, so we are still talking about the operating budget.

Secretary KENNEDY. That is correct.

Senator MILLER. So it appears to me from an operating standpoint of the operating budget from March 31, 1969, to March 31, 1970, there is to be an increase of some $7.4 billion in expenditures.

Mr. MAYO. I see your point. You are getting to the fact again the Johnson budget has a Federal funds deficit or an operating deficit, if you please, of approximately $7 billion in the fiscal year.

Senator MILLER. Well, whatever it is, it is a $7.4 billion increase in expenditures from one year to the next to next March 31. Now the question is, What makes up that $7.4 billion increase? Do you have a breakdown, or would you rather provide it for the record?

Mr. MAYO. Well, I think I should, perhaps, provide it for the record, but the $7 billion is, for all intents and purposes here, the Johnson estimate published in the budget of $6.8 billion as the Federal funds deficit for the fiscal year—if you will grant me the difference between March to March and June to June as being essentially the reason why it does not tie up precisely.

Senator MILLER. Well, Mr. Mayo, I do not ask that you pull those figures right now.

Mr. MAYO. I have them here, sir.

Senator MILLER. You can provide them for the record and show us a breakdown of what makes up that $7.4 billion.

Mr. MAYO. Yes.

(Information received from the Bureau of the Budget follows:)

The 1970 Johnson budget, on which the Treasury Department's debt estimates were based, estimated that there would be a trust funds surplus of $10.3 billion. By law, this surplus has to be invested in Federal Government securities which are—under the definition currently used—public debt subject to limitation. There is, however, a "Federal funds" (or, in Senator Miller's words, "operating budget") deficit of $6.8 billion, so the Johnson budget for fiscal 1970 shows an overall surplus of $3.4 billion, which can be used to retire some of the debt held by the public. The public debt subject to limitation will, therefore, be increased by about $10.3 billion and reduced by about $3.4 billion and thus show a net increase of about $6.8 billion over the period June 1969 to June 1970. The net increase of $7.4 billion from March 1969 to March 1970 will result from the same causes; the difference is attributable to the fact that a different period is covered.

Senator MILLER. And I am sure, for example, increased interest on the national debt, and some of these other things will—

Mr. MAYO. Yes.

Senator MILLER. I want to get this in the record and that is your assessment of the Johnson budget. There were certainly items in there which I presume a budget evaluator could have an alternative selection on. One would be what would be called a low figure, the other would be a high figure. Is your assessment after analyzing the Johnson budget that the low figure was almost invariably selected rather than the high figure?

Mr. MAYO. Well, I would say that within all of these estimates they involve a reasonable range of opinion, and I would say that in a number of cases they picked a figure which was toward the lower end of that reasonable range.

Senator MILLER. Well, for example, on the advance payment to farmers going into the land retirement program, the Johnson budget included nothing; they decided not to include half of the regular payments, which have customarily been paid in advance.

Mr. MAYO. That is correct.

Senator MILLER. The Administration has decided to not do that and to give the farmers their regular one-half payment as in previous years.

Mr. MAYO. Yes.

Senator MILLER. But the Johnson budget assumed they would not get it.

Mr. MAYO. That is correct.

Senator MILLER. This automatically boosted your figure by roughly $200 million.

Mr. MAYO. That is correct.

Senator MILLER. That might be one item in response to Senator

Mr. MAYO. That is one item and higher price payments elsewhere in the farm program, another $½ billion.

Senator MILLER. If you could include those in the breakout of that $7.4 billion, I would appreciate it, and I think it would be very helpful for once we would have in one package here before us in some way the way this all came about, and I think it would be helpful.

Mr. MAYO. Yes, the actual break of the $7.4 billion we can tie to our table here that ties, in turn to the Federal funds deficit, and I will see that you get the figures like the ones we are talking about here of specific differences from the Johnson budget.

Senator MILLER. Thank you.

(Information received from the Bureau of the Budget follows:)

ADJUSTMENTS IN JOHNSON BUDGET ESTIMATES OF 1969 AND 1970 OUTLAYS

[In billions]

	Fiscal year	
	1969	1970
Interest on the debt	$0.3	$0.5
Effect of higher interest rates on housing programs		.3
Decline in offshore oil receipts	.4	.4
Higher price-support payments	.5	.2
Advance feed grain payments	.2	−.2
Change in accounting for certificates of interest for CCC		.5
Unemployment insurance benefits	−.2	−.2
Unbudgeted claims and judgments		.2
Other, smaller items, net	.1	

Senator MILLER. I would like to ask one further question and perhaps make a point that Mr. Kennedy would care to respond, and if he did, I would appreciate it.

When the Administration came over with the proposed budget and used the revised budget concept, my understanding was that the rationale behind it was to reflect what is held by the general public in the form of debt. Now, that is one way to look at it. But another way to look at it is to preserve the approach we have now because this reflects what is owed by the general public. It is true that under the revised concept the general public would hold a lesser amount than what is shown here; but the traditional approach I believe, reflects what is owed by the general public, because the trust fund surpluses are used to invest in Federal securities which must be paid by the public to keep the trust funds liquid. The suggested new approach reflects a reduction in the amount that would be held by the general public. But the general public, the taxpayers are going to have to make up for the difference just the same, so I am wondering why it would not be more accruate in the public mind, more informative in the public mind, to use the traditional approach so that the public will know what is owed by the public.

Secretary KENNEDY. On that, Senator, I do not believe the public really understands the precise nature of the debt limit and the amounts involved. The public, I think, does not understand because they think it includes accrued or owed liabilities. What I would like to see here is something that the Congress could understand and consider in connection with their control or survey of Government expenditures and receipts so that they can have an accounting. That is a different question from the public understanding of what is debt.

I think the public understands publicly held debt when it is explained to them. I think they understand debt held by the trust accounts, so if we get into a discussion of what the public owes or what the trust account owes, that is a separate subject to me. The subject of debt limitation for discussion in this Congress is not a question of determining what is debt or what is not debt. The hearing is to determine, it seems to me, whether you want to have further action on taxes or whether you want to have further action on Government expenditure reduction. In the end, whatever the limit you use, whatever definition you use, if the limit gets in the way of paying our bills, I think the Congress is obligated to change the debt ceiling.

It might take a very fine and close hold to it, but in the end they must change it, otherwise we cannot pay our bills.

Senator MILLER. I would agree with you, Mr. Kennedy, that among the general public there is a lot of confusion over this, but if it is going to come to any one understanding, to me the most important understanding is that the people understand how much the taxpaying public owes, and I am afraid that if we get into this revised concept, they will be confused on that point.

I will grant you that for purposes of accounting and budgeting that this makes a lot of sense, but rather than telling the general public this is what is held by the general public, I think it would be more meaningful to them and perhaps give them a little more interest in trying to hold down expenditures if they knew what the public owed.

Secretary KENNEDY. I think there is no effort here to report the public debt as just the privately held debt. All of the reports of the Treasury on the Government debt outstanding and what the public owes would have the total, and it would not be the precise total in the debt ceiling limitation either.

Senator MILLER. Well, my time is up.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, I have before me a hearing on H.R. 15202, dated 1966, before the committee and there are some charts in that, pages 63, 64, 65, 66, showing information provided by the Treasury which we would like to have brought up to date. It would seem to me that in order to improve the perspective of that data it might be well not only to bring it up to 1968 but to take it back to the turn of the century. That is a little bit more work but I know you can get the figures to give us an historic perspective. I think you have an adequate staff over there to do that for us and I would appreciate it if you would provide it so we could put the whole thing in the record.

Secretary KENNEDY. Very good, Senator. We have tables here which have been prepared bringing it up to date for you. I am not sure it has been taken back as far as you want, but we take back as far as our records permit us to take them back.

The CHAIRMAN. I would also like for you to make available to us the debt broken down both as to what the gross debt was and what the publicly held debt was during that same period. That would be a separate chart, and if you would just add to that what the conversion factor would be to put that in terms of 1968 dollars we could see about what the debt would be in constant dollars.

I believe you have that figure to provide that index now. If you would also add an additional column for the per capita debt, we could have some perspective of that debt in terms of purchasing power rather than just looking at it out in limbo without adjusting for things that are relevant.

Secretary KENNEDY. Those figures are available.

The CHAIRMAN. When you have got twice as many people to pay the debts it is not as heavy a burden as it is otherwise and furthermore while the debt looked small back in those days it involved dollars as big as a horse blanket, while dollars nowadays are not nearly that big. So if you make those calculations, I think we would have a little better perspective.

Just looking at the gross debt we were talking about, it was 22 percent of all publicly and privately held debt in 1965, and there was a time when it was as much as 62 percent of all publicly and privately held debt. Of course, that doesn't take the trust funds out of it. If you took those out you would have an even smaller percentage, and I think it would help in looking to what the overall picture was.

(The data requested follows:)

Estimated **Gross** Government and Private Debt, by Major Categories

	December 1946		December 1960		December 1967		December 1968	
	Billions	Percent of total	Billions	Percent of total	Billions	Percent of total	Billions	Percent of total
Federal debt								
Public	$ 259	58%	$ 290	29%	$ 345	21%	$ 358	20%
Federal agency	1-1/2	*	6-1/2	1	20	2	15	1
Total...........	$ 260-1/2	58%	$ 296-1/2	30%	$ 365	23%	$ 378	21%
State and local debt..	16	4	70	7	122	8	132-1/2	8
Corporate debt........	109-1/2	24	365	37	650	40	724	41
Individual debt.......	60	13	263	26	477	30	518	30
Total...........	$ 446	100	$ 995	100	$1,614	100	$1,747-1/2	100

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Note: Detail may not add to total due to rounding.

* Less than 1/2 of one percent.

Estimated **Gross** Government and Private Debt, by Major Categories

(Dollar amounts in billions)

December 31	Private: Individual	Private: Corporate 1/	Private: Total	State and local	Federal: Public	Federal: Agency	Federal: Total	Total	Percent Federal of Total
1929..	$ 72.9	$107.0	$ 179.9	$ 17.8	$ 16.3	$ 1.2	$ 17.5	$ 215.2	8%
1930..	71.8	107.4	179.2	18.9	16.0	1.3	17.3	215.4	8
1931..	64.9	100.3	165.2	19.5	17.8	1.3	19.1	203.8	9
1932..	57.1	96.1	153.2	19.7	20.8	1.2	22.0	194.9	11
1933..	51.0	92.4	143.4	19.5	23.8	1.5	25.3	188.2	13
1934..	49.8	90.6	140.4	19.2	28.5	4.8	33.3	192.9	17
1935..	49.7	89.8	139.5	19.6	30.6	5.6	36.2	195.3	19
1936..	50.6	90.9	141.5	19.6	34.4	5.9	40.3	201.4	20
1937..	51.1	90.2	141.3	19.6	37.3	5.8	43.1	204.0	21
1938..	50.0	86.8	136.8	19.8	39.4	6.2	45.6	202.2	22
1939..	50.8	86.8	137.6	20.1	41.9	6.9	48.8	206.5	24
1940..	53.0	89.0	142.0	20.2	45.0	7.2	52.2	214.4	24
1941..	55.6	97.5	153.1	20.0	57.9	7.7	65.6	238.7	27
1942..	49.9	106.3	156.2	19.2	108.2	5.5	113.7	289.1	39
1943..	48.8	110.3	159.1	18.1	165.9	5.1	171.0	348.2	49
1944..	50.7	109.0	159.7	17.1	230.6	3.0	233.6	410.4	57
1945..	54.7	99.5	154.2	16.0	278.1	1.5	279.6	449.8	62
1946..	59.9	109.3	169.2	16.1	259.1	1.6	260.7	446.0	58
1947..	69.4	128.9	198.3	17.5	256.9	0.7	257.6	473.4	54
1948..	80.6	139.4	220.0	19.6	252.8	1.0	253.8	493.4	51
1949..	90.4	140.3	230.7	22.2	257.1	0.8	257.9	510.8	50
1950..	104.2	167.7	271.9	25.3	256.7	1.1	257.8	555.0	46
1951..	114.0	191.9	305.9	28.0	259.4	0.8	260.2	594.1	44
1952..	128.9	202.9	331.8	31.0	267.4	0.9	268.3	631.1	42
1953..	142.7	212.9	355.6	35.0	275.2	0.8	276.0	666.6	41
1954..	156.5	217.6	374.1	40.2	278.8	0.7	279.5	693.8	40
1955..	179.5	253.9	433.4	45.3	280.8	1.4	282.2	760.9	37
1956..	194.8	277.3	472.1	50.0	276.6	1.7	278.3	800.4	35
1957..	206.7	295.8	502.5	54.6	274.9	3.2	278.1	835.2	33
1958..	222.0	312.0	534.0	59.8	282.9	2.4	285.3	879.1	32
1959..	244.3	341.4	585.7	64.9	290.8	5.7	296.5	947.1	31
1960..	262.9	365.1	628.0	70.2	290.2	6.4	296.6	994.8	30
1961..	284.4	391.5	675.9	77.3	296.2	6.8	303.0	1,056.2	29
1962..	311.8	421.5	733.3	84.9	303.5	7.8	311.3	1,129.5	28
1963..	345.7	456.7	802.4	90.7	309.3	8.1	317.4	1,210.5	26
1964..	380.2	497.9	878.1	97.7	317.9	9.1	327.0	1,302.8	25
1965..	416.3	550.1	966.4	104.7	320.9	9.8	330.7	1,401.8	24
1966..	447.3	607.9	1,055.2	111.6	329.3	14.0	343.3	1,510.1	23
1967..	477.0	650.0	1,127.0	122.0	344.7	20.2	364.9	1,613.9	23
1968..	517.8	724.1	1,241.9	132.3	358.0	15.1	373.1	1,747.3	21

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Source: Commerce and Treasury Departments.

1/ Includes debt of Federally sponsored agencies excluded from the Budget which amounted to $0.7 billion on Dec. 31, 1947; $9.0 billion on Dec. 31, 1967; and $21.3 billion on Dec. 31, 1968.

Table I

Estimated Gross Government and Private Debt
1929 - present

End of calendar year	Government debt: Amounts outstanding: Federal 1/	Government debt: Amounts outstanding: State & local	Government debt: Amounts outstanding: Total	Government debt: Per capita 2/: Federal	Government debt: Per capita 2/: State & local	Government debt: Per capita 2/: Total	Private debt: Amounts outstanding: Corporate business 3/	Private debt: Amounts outstanding: Individual & noncorporate business	Private debt: Per capita 2/: Corporate business	Private debt: Per capita 2/: Individual & noncorporate business	Total Gov't & private debt: Amount outstanding	Total Gov't & private debt: Per Capita
	(billions of dollars)			(dollars)			(billions of dollars)		(dollars)		(billions of dollars)	(dollars)
1929	$17.5	$17.8	$ 35.3	$ 143	$145	$ 288	$107.0	$72.9	$874	$595	$215.2	$1,757
1930	17.3	18.9	36.2	140	153	293	107.4	71.8	868	581	215.4	1,742
1931	19.1	19.5	38.6	153	157	310	100.3	64.9	805	521	203.8	1,636
1932	22.0	19.7	41.7	176	157	333	96.1	57.1	767	456	194.9	1,555
1933	25.3	19.5	44.8	201	155	355	92.4	51.0	733	404	188.2	1,493
1934	33.0	19.2	52.2	260	151	411	90.6	49.8	714	392	192.9	1,520
1935	36.2	19.6	55.8	283	153	437	89.8	49.7	703	389	195.3	1,529
1936	40.3	19.6	59.9	313	152	466	90.9	50.6	707	394	201.4	1,566
1937	43.1	19.6	62.7	333	151	484	90.2	51.1	697	395	204.0	1,576
1938	45.6	19.8	65.4	349	152	501	86.8	50.0	665	383	202.2	1,549
1939	48.8	20.1	68.9	371	153	524	86.8	50.8	660	386	206.5	1,569
1940	52.2	20.2	72.4	393	152	545	89.0	53.0	670	399	214.4	1,615
1941	65.6	20.0	85.6	489	149	638	97.5	55.6	727	414	238.7	1,779
1942	113.7	19.2	132.9	837	141	978	106.3	49.9	782	367	289.1	2,128
1943	171.0	18.1	189.1	1,242	131	1,374	110.3	48.8	801	355	348.2	2,529
1944	233.6	17.1	250.7	1,678	123	1,801	109.0	50.7	783	364	410.4	2,947
1945	279.6	16.0	295.6	1,987	114	2,101	99.5	54.7	707	389	449.8	3,197

See footnotes at end of Table II

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Table I (Continued)

Estimated Gross Government and Private Debt
1929 - present

End of calendar year	Government debt: Amounts outstanding: Federal 1/	State & local	Total	Government debt: Per capita 2/: Federal	State & local	Total	Private debt: Amounts outstanding: Corporate business 3/	Individual & noncorporate business	Private debt: Per capita 2/: Corporate business	Individual & noncorporate business	Total Gov't & private debt: Amount outstanding	Per Capita
	(billions of dollars)			(dollars)			(billions of dollars)		(dollars)		(billions of dollars)	(dollars)
1946.....	$260.7	$ 16.1	$276.8	$1,825	$113	$1,938	$109.3	$ 59.9	$ 765	$ 419	$ 446.0	$3,123
1947.....	257.6	17.5	275.1	1,771	120	1,891	128.9	69.4	886	477	473.4	3,254
1948.....	253.8	19.6	273.4	1,715	132	1,847	139.4	80.6	942	545	493.4	3,334
1949.....	257.9	22.2	280.1	1,713	147	1,860	140.3	90.4	932	600	510.8	3,393
1950.....	257.8	25.3	283.1	1,685	165	1,850	167.7	104.2	1,096	681	555.0	3,627
1951.....	260.2	28.0	288.2	1,671	180	1,851	191.9	114.0	1,232	732	594.1	3,815
1952.....	268.3	31.0	299.3	1,694	196	1,890	202.9	128.9	1,281	814	631.1	3,985
1953.....	276.0	35.0	311.0	1,714	217	1,931	212.9	142.7	1,322	886	666.6	4,139
1954.....	279.5	40.2	319.7	1,705	245	1,950	217.6	156.5	1,327	955	693.8	4,232
1955.....	282.2	45.3	327.5	1,691	272	1,963	253.9	179.5	1,522	1,076	760.9	4,561
1956.....	278.3	50.0	328.3	1,638	294	1,933	277.3	194.8	1,632	1,147	800.4	4,712
1957.....	278.1	54.6	332.7	1,609	316	1,925	295.8	206.7	1,712	1,196	835.2	4,833
1958.....	285.3	59.8	345.1	1,624	340	1,964	312.0	222.0	1,776	1,264	879.1	5,003
1959.....	290.5	64.9	361.4	1,653	362	2,015	341.4	244.3	1,903	1,362	947.1	5,280
1960.....	296.6	70.2	366.8	1,627	385	2,012	365.1	262.9	2,002	1,442	994.8	5,456
1961....	303.0	77.3	380.3	1,635	417	2,052	391.5	284.4	2,112	1,535	1,056.2	5,699
1962....	311.3	84.9	396.2	1,654	451	2,105	421.5	311.8	2,240	1,657	1,129.5	6,003
1963....	317.4	90.7	408.1	1,663	475	2,138	456.7	345.7	2,393	1,811	1,210.5	6,342
1964....	327.0	97.7	424.7	1,690	505	2,195	497.9	380.2	2,573	1,965	1,302.8	6,733
1965....	330.7	104.7	435.4	1,688	535	2,223	550.1	416.3	2,809	2,125	1,401.8	7,157
1966....	343.3	111.6	454.9	1,733	563	2,296	607.9	447.3	3,068	2,258	1,510.1	7,623
1967....	364.9	122.0	486.9	1,822	609	2,431	650.0	477.0	3,246	2,382	1,613.9	8,060
1968....	373.1	132.3	505.4	1,845	654	2,499	724.1	517.8	3,580	2,560	1,747.3	8,639

See footnotes at end of Table II

Table II

Gross Government and Private Debt
Related to Gross National Product

End of calendar year	Gross national product 4/	Ratios of debt to gross national product: Federal	State & local	Corporate	Individual & noncorporate	Total
	(in billions of dollars)			(percent)		
1929......	$ 96.7	18.1%	18.4%	110.7%	75.4%	222.5%
1930......	83.1	20.8	22.7	129.	86.4	259.2
1931......	66.9	28.6	29.1	149.9	97.0	304.6
1932......	56.8	38.7	34.7	169.2	100.5	343.1
1933......	60.3	42.0	32.3	153.2	84.6	312.1
1934......	68.6	48.1	28.0	132.1	72.6	280.8
1935......	77.4	46.8	25.3	116.0	64.2	252.3
1936......	86.5	46.6	22.7	105.1	58.5	232.8
1937......	87.6	49.2	22.4	103.0	58.3	232.9
1938......	87.6	52.1	22.6	99.1	57.1	230.8
1939......	94.8	51.5	21.2	91.6	53.6	217.8
1940......	107.6	48.5	18.8	82.7	49.3	199.3
1941......	138.8	47.3	14.4	70.2	40.1	172.0
1942......	179.0	63.5	10.7	59.4	27.9	161.5
1943......	202.4	84.5	8.9	54.5	24.1	172.0
1944......	217.4	107.5	7.9	50.1	23.3	188.8
1945......	196.0	142.6	8.2	50.8	27.9	229.5
1946......	221.4	117.8	7.3	49.4	27.1	201.4
1947......	245.0	105.1	7.1	52.6	28.3	193.2
1948......	261.2	97.2	7.5	53.4	30.9	188.9
1949......	260.5	99.0	8.5	53.9	34.7	196.1
1950......	311.2	82.8	8.1	53.9	33.5	178.3
1951......	338.2	76.9	8.3	56.7	33.7	175.7
1952......	361.0	74.3	8.6	56.2	35.7	174.8
1953......	360.8	76.5	9.7	59.0	39.6	184.8
1954......	379.8	73.6	10.6	57.3	41.2	182.7
1955......	409.7	68.9	11.1	62.0	43.8	185.7
1956......	433.2	64.2	11.5	64.0	45.0	184.8
1957......	438.1	63.5	12.5	67.5	47.2	190.6
1958......	469.2	60.8	12.7	66.5	47.3	187.4
1959......	496.8	59.7	13.1	68.7	49.2	190.6
1960......	503.4	58.9	13.9	72.5	52.2	197.6
1961......	542.8	55.8	14.2	72.1	52.4	194.6
1962......	574.7	54.2	14.8	73.3	54.3	196.5
1963......	611.8	51.9	14.8	74.6	56.5	197.9
1964......	654.0	50.0	14.9	76.1	58.1	199.2
1965......	719.2	46.0	14.6	76.5	57.9	194.9
1966......	770.2	44.6	14.5	78.9	58.1	196.1
1967......	821.1	44.4	14.9	79.2	58.1	196.6
1968......	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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Note: Debt levels estimated by Office of Business Economics, Commerce Department.

1/ Total Federal securities.

2/ Debt divided by the population of the conterminous U. S. and including armed forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.

3/ Includes debt of Federally sponsored agencies excluded from the Budget.

4/ Implied level end of year, calculated as the average of the fourth and first calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of two calendar year figures are used as the best approximation of December 31 levels.

Estimated Net Government and Private Debt Outstanding, by Major Categories

	December 1946		December 1960		December 1967		December 1968	
	Billions	Percent of total	Billions	Percent of total	Billions	Percent of total	Billions	Percent of total
Federal debt........	$ 229-1/2	58%	$ 240	27%	$ 286-1/2	20%	$ 292	19%
State and local debt	14	3	63	7	118	8	129-1/2	8
Corporate debt......	93-1/2	24	306-1/2	35	543-1/2	38	607-1/2	39
Individual debt.....	60	15	263	30	477	33	518	33
Total..........	$ 396-1/2	100%	$ 872	100%	$1,424-1/2	100%	$1,546-1/2	100%

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Note: Detail may not add to total due to rounding.

Estimated Net Government and Private Debt, by Major Categories

(Dollar amounts in billions)

December 31	Private: Individual	Private: Corporate 1/	Private: Total	State and local	Federal	Total	Percent Federal of Total
1916......	$ 36.3	$ 40.2	$ 76.5	$ 4.5	$ 1.2	$ 82.2	1%
1917......	38.7	43.7	82.4	4.8	7.3	94.5	8
1918......	44.5	47.0	91.5	5.1	20.9	117.5	18
1919......	43.9	53.3	97.2	5.5	25.6	128.3	20
1920......	48.1	57.7	105.8	6.2	23.7	135.7	17
1921......	49.2	57.0	106.2	7.0	23.1	136.3	17
1922......	50.9	58.6	109.5	7.9	22.8	140.2	16
1923......	53.7	62.6	116.3	8.6	21.8	146.7	15
1924......	55.8	67.2	123.0	9.4	21.0	153.4	14
1925......	59.6	72.7	132.3	10.3	20.3	162.9	12
1926......	62.7	76.2	138.9	11.1	19.2	169.2	11
1927......	66.4	81.2	147.6	12.1	18.2	177.9	10
1928......	70.0	86.1	156.1	12.7	17.5	186.3	9
1929......	72.9	88.9	161.8	13.6	16.5	191.9	9%
1930......	71.8	89.3	161.1	14.7	16.5	192.3	9
1931......	64.9	83.5	148.4	16.0	18.5	182.9	10
1932......	57.1	80.0	137.1	16.6	21.3	175.0	12
1933......	51.0	76.9	127.9	16.3	24.3	168.5	14
1934......	49.8	75.5	125.3	15.9	30.4	171.6	18
1935......	49.7	74.8	124.5	16.1	34.4	175.0	20
1936......	50.6	76.1	126.7	16.2	37.7	180.6	21
1937......	51.1	75.8	126.9	16.1	39.2	182.2	22
1938......	50.0	73.3	123.3	16.1	40.5	179.9	23
1939......	50.8	73.5	124.3	16.4	42.6	183.3	23
1940......	53.0	75.6	128.6	16.4	44.8	189.8	24
1941......	55.6	83.4	139.0	16.1	56.3	211.4	27
1942......	49.9	91.6	141.5	15.4	101.7	258.6	39
1943......	48.8	95.5	144.3	14.5	154.4	313.2	49
1944......	50.7	94.1	144.8	13.9	211.9	370.6	57
1945......	54.7	85.3	140.0	13.4	252.5	405.9	62
1946......	59.9	93.5	153.4	13.7	229.5	396.6	58
1947......	69.4	109.6	179.0	15.0	221.7	415.7	53
1948......	80.6	118.4	199.0	17.0	215.3	431.3	50
1949......	90.4	118.7	209.1	19.1	217.6	445.8	49
1950......	104.2	142.8	247.0	21.7	217.4	486.1	45
1951......	114.0	163.8	277.8	24.2	216.9	518.9	42
1952......	128.9	172.3	301.2	27.0	221.5	549.7	40
1953......	142.7	180.9	323.6	30.7	226.8	581.1	39
1954......	156.5	184.1	340.6	35.5	229.1	605.2	38
1955......	179.5	215.0	394.5	40.2	229.6	664.3	35
1956......	194.8	234.1	428.9	44.4	224.3	697.6	32
1957......	206.7	249.1	455.8	48.6	223.0	727.4	31
1958......	222.0	262.0	484.0	53.2	231.0	768.2	30
1959......	244.3	287.0	531.3	58.0	241.4	830.7	29
1960......	262.9	306.3	569.2	63.0	239.8	872.0	28
1961......	284.4	328.3	612.7	70.0	246.7	929.4	27
1962......	311.8	353.5	665.3	78.1	253.6	997.0	25
1963......	345.7	383.3	729.0	84.7	257.5	1,071.2	24
1964......	380.2	417.4	797.6	92.4	264.0	1,154.0	23
1965......	416.3	461.2	877.5	99.9	266.4	1,243.8	21
1966......	447.3	509.5	956.8	107.1	271.8	1,335.7	20
1967......	477.0	543.4	1,020.4	117.9	286.4	1,424.7	20
1968......	517.8	607.3	1,125.1	129.5	291.9	1,546.5	19

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Source: Commerce and Treasury Departments.

1/ Includes debt of Federally sponsored agencies excluded from the Budget which amounted to $0.7 billion on Dec. 31, 1947; $9.0 billion on Dec. 31, 1967; and $21.3 billion on Dec. 31, 1968.

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Table I

Estimated Net Government and Private Debt
1916 - present

End of calendar year	Government debt: Amounts outstanding: Federal 1/	Government debt: Amounts outstanding: State & local	Government debt: Amounts outstanding: Total	Government debt: Per capita 2/: Federal	Government debt: Per capita 2/: State & local	Government debt: Per capita 2/: Total	Private debt: Amounts outstanding: Corporate business 3/	Private debt: Amounts outstanding: Individual & noncorporate business	Private debt: Per capita 2/: Corporate business	Private debt: Per capita 2/: Individual & noncorporate business	Total Gov't & private debt: Amount outstanding	Total Gov't & private debt: Per Capita
	(billions of dollars)			(dollars)			(billions of dollars)		(dollars)		(billions of dollars)	(dollars)
1916.....	$ 1.2	$ 4.5	$ 5.7	$ 12	$ 44	$ 56	$40.2	$36.3	$391	$353	$ 82.2	$ 800
1917.....	7.3	4.8	12.1	70	46	116	43.7	38.7	420	372	94.5	909
1918.....	20.9	5.1	26.0	199	49	248	47.0	44.5	448	425	117.5	1,121
1919.....	25.6	5.5	31.1	242	52	294	53.3	43.9	504	415	128.3	1,213
1920.....	23.7	6.2	29.9	220	58	278	57.7	48.1	537	447	135.7	1,262
1921.....	23.1	7.0	30.1	211	64	275	57.0	49.2	522	450	136.3	1,247
1922.....	22.8	7.9	30.7	205	71	277	58.6	50.9	528	459	140.2	1,263
1923.....	21.8	8.6	30.4	193	76	269	62.6	53.7	554	475	146.7	1,298
1924.....	21.0	9.4	30.4	183	82	264	67.2	55.8	584	485	153.4	1,334
1925.....	20.3	10.3	30.6	174	88	262	72.7	59.6	623	511	162.9	1,397
1926.....	19.2	11.1	30.3	161	93	254	76.2	62.7	639	526	169.2	1,419
1927.....	18.2	12.1	30.3	152	101	253	81.2	66.4	678	554	177.9	1,485
1928.....	17.5	12.7	30.2	144	105	249	86.1	70.0	711	578	186.3	1,538

See footnotes at end of Table II

Table I (Continued)

Estimated Net Government and Private Debt
1916 - present

End of calendar year	Government debt: Amounts outstanding: Federal 1/	Government debt: Amounts outstanding: State & local	Government debt: Amounts outstanding: Total	Government debt: Per capita 2/: Federal	Government debt: Per capita 2/: State & local	Government debt: Per capita 2/: Total	Private debt: Amounts outstanding: Corporate business 3/	Private debt: Amounts outstanding: Individual & noncorporate business	Private debt: Per capita 2/: Corporate business	Private debt: Per capita 2/: Individual & noncorporate business	Total Gov't & private debt: Amount outstanding	Total Gov't & private debt: Per Capita
	(billions of dollars)			(dollars)			(billions of dollars)		(dollars)		(billions of dollars)	(dollars)
1929.....	$ 16.5	$ 13.6	$ 30.1	$ 135	$111	$ 246	$ 88.9	$ 72.9	$ 726	$ 595	$ 191.9	$1,567
1930.....	16.5	14.7	31.2	133	119	252	89.3	71.8	722	581	192.3	1,555
1931.....	18.5	16.0	34.5	149	128	277	83.5	64.9	670	521	182.9	1,468
1932.....	21.3	16.6	37.9	170	132	302	80.0	57.1	638	456	175.0	1,396
1933.....	24.3	16.3	40.6	193	129	322	76.9	51.0	610	404	168.5	1,336
1934.....	30.4	15.9	46.3	240	125	365	75.5	49.8	595	392	171.6	1,352
1935.....	34.4	16.1	50.5	269	126	395	74.8	49.7	585	389	175.0	1,370
1936.....	37.7	16.2	53.9	293	126	419	76.1	50.6	592	394	180.6	1,405
1937.....	39.2	16.1	55.3	303	124	427	75.8	51.1	585	395	182.2	1,407
1938.....	40.5	16.1	56.6	310	123	434	73.3	50.0	562	383	179.9	1,379
1939.....	42.6	16.4	59.0	324	125	448	73.5	50.8	559	386	183.3	1,393
1940.....	44.8	16.4	61.2	337	123	461	75.6	53.0	569	399	189.8	1,429
1941.....	56.3	16.1	72.4	420	120	540	83.4	55.6	622	414	211.4	1,576
1942.....	101.7	15.4	117.1	749	113	862	91.6	49.9	674	367	258.6	1,903
1943.....	154.4	14.5	168.9	1,122	105	1,227	95.5	48.8	694	355	313.2	2,275
1944.....	211.9	13.9	225.8	1,522	100	1,622	94.1	50.7	676	364	370.6	2,662
1945.....	252.5	13.4	265.9	1,795	95	1,890	85.3	54.7	606	389	405.9	2,885

See footnotes at end of Table II

Table I (Continued)

Estimated Net Government and Private Debt
1916 - present

End of calendar year	Government debt: Amounts outstanding: Federal 1/	Government debt: Amounts outstanding: State & local	Government debt: Amounts outstanding: Total	Government debt: Per capita 2/: Federal	Government debt: Per capita 2/: State & local	Government debt: Per capita 2/: Total	Private debt: Amounts outstanding: Corporate business 3/	Private debt: Amounts outstanding: Individual & noncorporate business	Private debt: Per capita 2/: Corporate business	Private debt: Per capita 2/: Individual & noncorporate business	Total Gov't & private debt: Amount outstanding	Total Gov't & private debt: Per Capita
	(billions of dollars)			(dollars)			(billions of dollars)		(dollars)		(billions of dollars)	(dollars)
1946.....	$229.5	$ 13.7	$243.2	$1,607	$ 96	$1,703	$ 93.5	$ 59.9	$ 655	$ 419	$ 396.6	$2,777
1947.....	221.7	15.0	236.7	1,524	103	1,627	109.6	69.4	753	477	415.7	2,858
1948.....	215.3	17.0	232.3	1,455	115	1,570	118.4	80.6	800	545	431.3	2,914
1949.....	217.6	19.1	236.7	1,445	127	1,572	118.7	90.4	788	600	445.8	2,961
1950.....	217.4	21.7	239.1	1,421	142	1,562	142.8	104.2	933	681	486.1	3,176
1951.....	216.9	24.2	241.1	1,393	155	1,548	163.8	114.0	1,052	732	518.9	3,332
1952.....	221.5	27.0	248.5	1,399	170	1,569	172.3	128.9	1,088	814	549.7	3,471
1953.....	226.8	30.7	257.5	1,408	191	1,599	180.9	142.7	1,123	886	581.1	3,608
1954.....	229.1	35.5	264.6	1,397	217	1,604	184.1	156.5	1,123	955	605.2	3,692
1955.....	229.6	40.2	269.8	1,376	241	1,617	215.0	179.5	1,289	1,076	664.3	3,982
1956.....	224.3	44.4	268.7	1,320	261	1,582	234.1	194.8	1,378	1,147	697.6	4,107
1957.....	223.0	48.6	271.6	1,290	281	1,572	249.1	206.7	1,441	1,196	727.4	4,209
1958.....	231.0	53.2	284.2	1,315	303	1,618	262.0	222.0	1,491	1,264	768.2	4,372
1959.....	241.4	58.0	299.4	1,346	323	1,669	287.0	244.3	1,600	1,362	830.7	4,631
1960.....	239.8	63.0	302.8	1,315	346	1,661	306.3	262.9	1,680	1,442	872.0	4,783
1961.....	246.7	70.0	316.7	1,331	378	1,709	328.3	284.4	1,771	1,535	929.4	5,015
1962.....	253.6	78.1	331.7	1,348	415	1,763	353.5	311.8	1,879	1,657	997.0	5,299
1963.....	257.5	84.7	342.2	1,349	444	1,793	383.3	345.7	2,008	1,811	1,071.2	5,612
1964.....	264.0	92.4	356.4	1,364	478	1,842	417.4	380.2	2,157	1,965	1,154.0	5,964
1965.....	266.4	99.9	366.3	1,360	510	1,870	461.2	416.3	2,355	2,125	1,243.8	6,350
1966.....	271.8	107.1	378.9	1,372	541	1,913	509.5	447.3	2,572	2,258	1,335.7	6,742
1967.....	286.4	117.9	404.4	1,431	589	2,019	543.4	477.0	2,714	2.382	1,424.7	7,115
1968.....	291.9	129.5	421.4	1,443	640	2,083	607.3	517.8	3,004	2,560	1,546.5	7,647

See footnotes at end of Table II

Table 11

Net Government and Private Debt Related to Gross National Product

End of calendar year	Gross national product 4/	Ratios of debt to gross national product				
		Federal	State & local	Corporate	Individual & noncorporate	Total
	(in billions of dollars)			(percent)		
1929......	$ 96.7	17.1%	14.1%	91.9%	75.4%	198.4%
1930......	83.1	19.9	17.7	107.5	86.4	234.7
1931......	66.9	27.7	23.9	124.8	97.0	273.4
1932......	56.8	37.5	29.2	140.8	100.5	308.1
1933......	60.3	40.3	27.0	127.5	84.6	279.4
1934......	68.6	44.3	23.2	110.1	72.6	250.1
1935......	77.4	44.4	20.8	96.6	64.2	226.1
1936......	86.5	43.6	18.7	88.0	58.5	208.8
1937......	87.6	44.7	18.4	86.5	58.3	208.0
1938......	87.6	46.2	18.4	83.7	57.1	205.4
1939......	94.8	44.9	17.3	77.5	53.6	193.4
1940......	107.6	41.6	15.2	70.3	49.3	176.4
1941......	138.8	40.6	11.6	60.1	40.1	152.3
1942......	179.0	56.8	8.6	51.2	27.9	144.5
1943......	202.4	76.3	7.2	47.2	24.1	154.7
1944......	217.4	97.5	6.4	43.3	23.3	170.5
1945......	196.0	128.8	6.8	43.5	27.9	207.1
1946......	221.4	103.7	6.2	42.2	27.1	179.1
1947......	245.0	90.5	6.1	44.7	28.3	169.7
1948......	261.2	82.4	6.5	45.3	30.9	165.1
1949......	260.5	83.5	7.3	45.6	34.7	171.1
1950......	311.2	69.9	7.0	45.9	33.5	156.2
1951......	338.2	64.1	7.2	48.4	33.7	153.4
1952......	361.0	61.4	7.5	47.7	35.7	152.3
1953......	360.8	62.9	8.5	50.1	39.6	161.1
1954......	379.8	60.3	9.3	48.5	41.2	159.3
1955......	409.7	56.0	9.8	52.5	43.8	162.1
1956......	433.2	51.8	10.2	54.0	45.0	161.0
1957......	438.1	50.9	11.1	56.9	47.2	166.0
1958......	469.2	49.2	11.3	55.8	47.3	163.7
1959......	496.8	48.6	11.7	57.8	49.2	167.2
1960......	503.4	47.6	12.5	60.8	52.2	173.2
1961......	542.8	45.4	12.9	60.5	52.4	171.2
1962......	574.7	44.1	13.6	61.5	54.3	173.5
1963......	611.8	42.1	13.8	62.7	56.5	175.1
1964......	654.0	40.4	14.1	63.8	58.1	176.5
1965......	719.2	37.0	13.9	64.1	57.9	172.9
1966......	770.2	35.3	13.9	66.2	58.1	173.4
1967......	821.1	34.9	14.4	66.2	58.1	173.5
1968......	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Office of the Secretary of the Treasury
Office of Debt Analysis

March 21, 1969

Note: Debt levels estimated by Office of Business Economics, Commerce Department.

1/ Borrowing from the public.
2/ Debt divided by the population of the conterminous U. S. and including armed forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.
3/ Includes debt of Federally sponsored agencies excluded from the Budget.
4/ Implied level end of year, calculated as the average of the fourth and first calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of two calendar year figures are used as the best approximation of December 31 levels.

Estimated Federal Debt Related to Population and Prices

1900 - 1968

	Federal debt			Per capita Federal debt 4/			Real per capita Federal debt 5/		
	Gross 1/	Net 2/	Privately held net 3/	Gross 1/	Net 2/	Privately held net 3/	Gross 1/	Net 2/	Privately held net 3/
	(Billions of dollars)			(dollars)			(dollars)		
June 30									
1900...	$ 1.3	$ 1.3	$ 1.3	$ 17	$ 17	$ 17	$n.a.	$n.a.	$n.a.
1901...	1.2	1.2	1.2	16	16	16	n.a.	n.a.	n.a.
1902...	1.2	1.2	1.2	15	15	15	n.a.	n.a.	n.a.
1903...	1.2	1.2	1.2	14	14	14	n.a.	n.a.	n.a.
1904...	1.1	1.1	1.1	14	14	14	n.a.	n.a.	n.a.
1905...	1.1	1.1	1.1	14	14	14	n.a.	n.a.	n.a.
1906...	1.1	1.1	1.1	13	13	13	n.a.	n.a.	n.a.
1907...	1.1	1.1	1.1	13	13	13	n.a.	n.a.	n.a.
1908...	1.2	1.2	1.2	13	13	13	n.a.	n.a.	n.a.
1909...	1.1	1.1	1.1	13	13	13	n.a.	n.a.	n.a.
1910...	1.1	1.1	1.1	12	12	12	n.a.	n.a.	n.a.
1911...	1.2	1.2	1.2	12	12	12	n.a.	n.a.	n.a.
1912...	1.2	1.2	1.2	13	13	13	n.a.	n.a.	n.a.
1913...	1.2	1.2	1.2	12	12	12	44	44	44
1914...	1.2	1.2	1.2	12	12	12	43	43	43
1915...	1.2	1.2	1.2	12	12	12	42	42	42
Dec. 31									
1916...	1.2	1.2	1.1	12	12	11	37	37	34
1917...	7.3	7.3	7.2	70	70	69	180	180	177
1918...	21.0	20.9	20.7	200	199	198	430	428	426
1919...	25.8	25.6	25.3	244	242	239	454	450	444
1920...	24.0	23.7	23.4	223	220	218	414	408	404
1921...	23.5	23.1	22.9	215	211	210	447	439	437
1922...	23.2	22.8	22.4	209	205	202	442	433	427
1923...	22.2	21.8	21.7	196	193	192	403	397	395
1924...	21.5	21.0	20.5	187	183	178	385	377	366
1925...	20.8	20.3	19.9	178	174	171	353	345	339
1926...	19.9	19.2	18.9	167	161	159	338	326	322
1927...	18.6	18.2	17.6	155	152	147	319	313	302
1928...	18.4	17.5	17.3	152	144	143	316	299	297
1929...	17.5	16.5	16.0	143	135	131	297	280	272
1930...	17.3	16.5	15.8	140	133	128	311	296	284
1931...	19.1	18.5	17.7	153	149	142	377	367	350
1932...	22.0	21.3	19.4	176	170	155	482	466	425
1933...	25.3	24.3	21.9	201	193	174	543	522	470
1934...	33.3	30.4	28.0	260	240	221	684	632	582
1935...	36.2	34.4	32.0	283	269	250	728	692	643
1936...	40.3	37.7	35.3	313	293	275	792	742	696
1937...	43.1	39.2	36.6	333	303	283	826	752	702
1938...	45.6	40.5	37.9	349	310	290	888	789	738
1939...	48.8	42.6	40.1	371	324	305	946	827	778
1940...	52.2	44.8	42.6	393	337	321	992	851	811
1941...	65.6	56.3	54.0	489	420	402	1,119	961	920
1942...	113.7	101.7	95.5	837	749	703	1,762	1,577	1.460
1943...	171.0	154.4	142.9	1,242	1,122	1.038	2,540	2,294	2,123
1944...	233.6	211.9	193.1	1,678	1,522	1,387	3,356	3,044	2,774
1945...	279.6	252.5	228.2	1,987	1,795	1,622	3,881	3,506	3,168
1946...	260.7	229.5	206.1	1,825	1,607	1,433	3,017	2,656	2,369
1947...	257.6	221.7	199.1	1,771	1,524	1,369	2,671	2,299	2,065
1948...	252.8	215.3	192.0	1,715	1,455	1,297	2,537	2,152	1,919
1949...	257.9	217.6	197.7	1,713	1,445	1,313	2,584	2,179	1,980
1950...	257.8	217.4	196.6	1,685	1,421	1,285	2,377	2,004	1,812

Estimated Federal Debt Related to Population and Prices

1900 - 1968

	Federal debt			Per capita Federal debt 4/			Real per capita Federal debt 5/		
	Gross 1/	Net 2/	Privately held net 3/	Gross 1/	Net 2/	Privately held net 3/	Gross 1/	Net 2/	Privately held net 3/
	(Billions of dollars)			(dollars)			(dollars)		
1951...	260.2	216.9	193.1	1,671	1,393	1,240	2,246	1,872	1,667
1952...	268.3	221.5	196.8	1,694	1,399	1,243	2,277	1,880	1,671
1951...	276.0	226.8	200.9	1,714	1,408	1,247	2,264	1,860	1,647
1954...	279.5	229.1	204.2	1,705	1,397	1,246	2,267	1,858	1,657
1955...	282.2	229.6	204.8	1,691	1,376	1,227	2,243	1,825	1,627
1956...	278.3	224.3	199.4	1,638	1,320	1,174	2,111	1,701	1,513
1957...	278.1	223.0	198.8	1,609	1,290	1,150	2,006	1,608	1,434
1958...	285.3	231.0	204.7	1,624	1,315	1,165	1,995	1,615	1,431
1959...	296.5	241.4	214.8	1,653	1,346	1,197	2,004	1,632	1,451
1960...	296.6	239.8	212.4	1,627	1,315	1,165	1,942	1,569	1,390
1961...	303.0	246.7	217.8	1,635	1,331	1,175	1,940	1,579	1,394
1962...	311.3	253.6	222.8	1,654	1,348	1,184	1,935	1,577	1,385
1963...	317.4	257.5	223.9	1,663	1,349	1,173	1,916	1,554	1,351
1964...	327.0	264.0	227.0	1,690	1,364	1,173	1,925	1,554	1,336
1965...	330.7	266.4	225.6	1,688	1,360	1,152	1,884	1,518	1,286
1966...	343.3	271.8	227.5	1,733	1,372	1,148	1,871	1,482	1,240
1967...	364.9	286.4	237.3	1,822	1,431	1,185	1,906	1,497	1,240
1968...	373.1	291.9	239.0	1,845	1,443	1,182	1,845	1,443	1,182

Office of the Secretary of the Treasury
Office of Debt Analysis

March 25, 1969

1/ Total Federal securities outstanding, Unified Budget concept.

2/ Borrowing from the public, Unified Budget concept.

3/ Borrowing from the public less Federal Reserve holdings.

4/ Debt divided by population

5/ Per capita debt expressed in Dec. 31, 1968 prices (Consumer Price index)

n.a. Not available.

The CHAIRMAN. Now, it has been suggested to me further, Mr. Secretary, that it might be well to amend this bill to put into the debt a number of Federal agency's loans. They have a considerable amount of loans outstanding and that would put everything under the debt, under the ceiling.

What would your reaction be if we simply took those agencies—I think there is about $9 million involved—and put them into it and increase the limit by that amount.

Secretary KENNEDY. I think that should be done at some point, Senator. I should think that this time around that we go according to the previous statutory definition rather than make the change now because of the time situation. Actually we have recommended that the agencies be included. The next time around we will take another look at that.

The CHAIRMAN. In one of his state of the Union messages President Johnson stood before us and referred to the fact that his budget would call for an increase in the national debt. He also added the fact that if you were keeping your budget the same way the average family keeps its budget that he would be reporting a surplus to you rather than reporting a deficit. That is somewhat in line with what Senator Bennett was talking about, that it might be well to report it in two fashions, one in terms of what it means as against the present debt limit, and the other in terms of what that action means if you put it in the same basis of the family keeping its budget. Perhaps the item that you have in mind might be considered on that basis, one, how you look at it when we talk about all the debts we owe, and the other how you look at it in terms of what the actual ceiling is.

Your feeling about it is that you prefer not to get into that now but you would be glad to give that to us to show what that would be if you computed it on that basis, is that not correct?

Secretary KENNEDY. That is right.

The CHAIRMAN. Well, thank you very much, Mr. Secretary.

Senator Anderson?

Senator ANDERSON. You have an investment credit of how much annually?

Secretary KENNEDY. A 7 percent investment tax credit, is that what you are referring to, Senator?

Senator ANDERSON. Yes.

Secretary KENNEDY. The amount that someone gave here on revenue is about $2.8 billion, I am not sure whether that is the right figure, I have not checked it, but we will have it for the record.

(Clerk's Note: The figure supplied by the Treasury Department was $2.8 billion.)

Senator ANDERSON. There are some elements of that credit that might be charged off. There was a period when several million dollars were calculated from utilities, public utilities whose rates are already fixed.

Secretary KENNEDY. There are some questions of accounting for public utilities that are under consideration.

Senator ANDERSON. They will have some recommendation——

Secretary KENNEDY. A flow-through method or the direct-line method but that is not involved here, I think.

Senator ANDERSON. At one time there was a great deal of discussion about that, they recommended it be eliminated. It was not eliminated, and it runs into millions of dollars.

Secretary KENNEDY. It can make quite a change with respect to individual companies, yes, depending on how they kept their books.

Senator ANDERSON. That is all.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Secretary, in an earlier discussion you referred to the Expenditure Control Act of last year wherein Congress placed a ceiling on expenditures. How has that worked?

Secretary KENNEDY. Well, I think that there is no question but what they are living within the ceiling, is that correct?

Mr. MAYO. That is correct.

Secretary KENNEDY. I think there were changes, Senator, as you know, exempting some expenditures from the ceiling. Whether there were shifts in some accounting and reporting as to Vietnam charges against the regular defense charges, I don't know. But

Senator WILLIAMS. It did result in a substantial overall reduction, is that correct?

Secretary KENNEDY. I think it resulted, yes, in a reduction.

Senator WILLIAMS. Would you place an estimate on what reduction you think was developed as a result of that?

Secretary KENNEDY. Well, the ceiling limited—

Senator WILLIAMS. The ceiling was $6 billion and then reversing exemptions later and, of course, there were a few exemptions, such as the interest on the national debt and two or three other uncontrollable items, that were eliminated in the beginning, and then Congress eliminated a few more but what were the approximate savings as a result of that?

Secretary KENNEDY. Can you report on that. I think it is—

Mr. MAYO. Yes, let me start with the figures that you are already familiar with in the Johnson budget. The excepted programs where Congress specifically excluded them from Public Law 90-364 were estimated in the Johnson budget at $98.6 billion. That is $6 billion higher than the estimate a year earlier before the ceiling law was passed.

However, the remainder that are covered by Public Law 90-364 are estimated in the Johnson budget at $85.1 billion, which is $8.3 billion below an estimate the year earlier. This is the estimate which has shown, therefore, the rather dramatic decrease, and a decrease greater, Senator Williams, than was required by the law.

Now, some of those savings over and above the $6 billion provided in the law do not appear to be materializing at the present time, but we are confident at the present time that we will be within the $6 billion expenditure ceiling by June 30.

Senator WILLIAMS. Then you feel that this ceiling did have a salutary effect and that it did result in some overall reductions, sizable overall reductions, is that correct?

Secretary KENNEDY. Yes.

I think it is fair to say, Senator Williams, that any ceiling on outlays has some creaks and groans in it. There will be some tendency of expenditures to be postponed only not really saved, and pushed into another year. There is also a tendency, as we witnessed here, for either the administration or the Congress to seek further exceptions, as has been true and I might also say that I think it is perhaps more economical in the long run to have your control at the budgeting and the appropriations stage of the spending stream rather than at the tailend when the bills are coming in. I cannot nevertheless disagree with you that it has had an effect on expenditures and has reduced expenditures.

Senator WILLIAMS. Of course, the purpose of that was that at the time the Expenditure Control Act was passed which was approved during April, as I recall it, although it was not finally enacted until about the end of June, but the appropriation bills are not handled until July, August, and September and some of them even later. Had it worked as we intended it to work, when we put the overall ceiling of $6 billion, the Congress and the administration working together or separately could have made the selective cuts in the individual appropriations to bring about this total of $6 billion rather than leaving it all to the Budget Director. That is, the opportunity was there and, of course, I agree with you fully that it would have been preferable if Congress had done that, but they didn't.

Secretary KENNEDY. Yes.

Senator WILLIAMS. And there is a question, will they do it again, and that gets up to this question that I want to ask you now. Since we agree that it worked last year by putting this ceiling on and it was effective in achieving a multibillion dollar savings, don't you think that at the time we consider any extension of the surcharge, whenever it may be, that it would be advisable to include with that another control over expenditures rolling it back from $195 billion level to at least say $190 billion or something but make it mandatory so we would know there is going to be a savings of at least $5 or $6 billion below the Johnson budget and then after writing this in as an overall ceiling similar to what we did last year, you and Congress, all of us working together, could then make the selective cuts as we saw fit, down the line. If we didn't, this ceiling would have to be put into effect and it could involve things that maybe didn't suit some of us. But don't you think it would be wise and would you support a limitation on expenditures? That is what I am getting at.

Secretary KENNEDY. Again, I cannot fault your reasoning, Senator Williams, on the effects of an expenditure ceiling. As to a specific figure, of course, at this point, it is too early. My initial reaction to a $190 billion figure would be that it is too low when we consider that the big part of the increase in spending allowed for in the Johnson budget was either social security tax benefits or the pay increase for civilian agencies which the Congress has already enacted, and if you allow that and the normal increase in workload and inflation, you have used up almost all of your—the difference in the budget between the 2 years. So I would suggest that $190 billion appeals to me as being somewhat too stringent.

As to whether a specific digit would be helpful, I would again suggest the caution that what you can do to some extent in holding your breath one year is very difficult to do in terms of a comparable record the second year around and I am sure this is something that we would all like to consider with you, but I do not rule out the possibility that another expenditure ceiling might be helpful.

Senator WILLIAMS. I am advised here that Congress did in the defense appropriation cut back $3.7 billion of that $6 billion but, of course, the rest of it was passed to the Budget Director to make the cuts which I think we should have faced up to.

Secretary KENNEDY. No.

Senator WILLIAMS. Every taxpayer as we know is having difficulty in meeting his own budget and I think the American people expect from this administration, and they expect from this Congress, some control over expenditures. While we talk about the load of increasing the debt limit or the need of extending taxes, I think that they want equal emphasis or greater emphasis put on what we are going do do about cutting down this expanding cost of Government. I want to agree also with Secretary Kennedy's remarks that you don't control spending by necessarily controlling debt. Once we create these obligations we have got to pay them. But an expenditure control perhaps would put a ceiling on the obligations we can create, and I feel very strongly that we owe it to the taxpayers and to the American people to consider seriously an expenditure ceiling as a part of any proposed extension of the surtax, and I think it wants to be one that will pinch both you and me.

Secretary KENNEDY. I think we can all share your concern about the stake that the American taxpayer has in an economical operation of our Government. The President shares this, too, and he shares it deeply. This is why we are now endeavoring to get, even with these other factors all working in the other direction, to get the figure under $195.3 billion that President Johnson estimated as recently as January 15. We feel this very strongly.

We also feel strongly that there is an element of rigidity inherent in an expenditure ceiling. If we can prove that we can do this on an administrative basis to the satisfaction of the Congress and to the satisfaction of the people, I think there is great merit in having a little more flexibility than a very tight expenditure ceiling would give, and then come back with the lesson of last year. Senator, I would hope that the Appropriations Committees, having sensed that lesson, would be even stricter in the way they go about the appropriations bill passage as we go through the year.

Senator WILLIAMS. I appreciate that, and I want to make it clear that I am not now putting the responsibility on the executive all together. I didn't before. To a large extent you can't spend any money unless we approve it down here in Congress.

Secretary KENNEDY. That is correct.

Senator WILLIAMS. I accepted it then and I accept now the responsibility on this end of Pennsylvania Avenue but it does take cooperation from the other independents if we are going to be able to do it, and that is what I am hoping we can get as we approach this problem because it is a serious problem confronting us.

Now, we speak about the increased cost of Government, part of this $195 billion is a result of inflation, and that is true. I have seen an estimate sometime back, and perhaps you would wish to comment on it, that each 1-percent increase in inflation annually adds to the cost of Government when you figure the increased interest, increased cost of products, services, wages, and everything, each 1-percent increase in inflation will add from a billion to a billion and a quarter extra cost to operating our Government.

Secretary KENNEDY. That is a reasonable figure.

Senator WILLIAMS. That is without considering the expansion of any new programs, just existing programs.

By the same token, to the extent that we can reduce this, last year I think it was 4.7-percent inflation, around that, to the extent we can reduce that inflationary spiral by each 1 percent we are automatically reducing the cost of Government, this $195 billion, by $1¼ billion.

Secretary KENNEDY. The only trouble with that, Senator, is, even if you achieve in the next year the reduction in the cost of living, you are in the process of unwinding so you get far less than a full year effect.

Senator WILLIAMS. I realize that. You couldn't get it retroactively but it would roll out into that as it was projected in the years to come.

Secretary KENNEDY. Right.

Senator WILLIAMS. And I think that that should be emphasized because that puts even greater emphasis upon the need, in fact the key to this problem is can we or can we not control inflation?

Secretary KENNEDY. Yes.

Senator WILLIAMS. And that is the reason why I have made this suggestion earlier, and I hope the administration will consider it also: the advisability of suspending this investment credit along with the extension of the surcharge.

Personally, I favor the suspension of the investment credit and making the surcharge at 7 percent rather than a flat 10 percent, not on the basis that the revenue would be the same necessarily, although that is important, but I think that the dampening effect it would have on an expanded economy at this time would help combat this inflation. I would also recommend consideration be given to an equally important part of it, that if we are going to ask private industry to curtail or hold back some of its spending programs at this time, the first order of business the Government ought to set an example and put a moratorium on public works projects that are not absolutely essential at this time either for the war effort or to our economy. You can't say 100 percent, but this was done during the Second World War by joint presidential and congressional action. It was done in the Korean war by Executive order, by Mr. Truman, and I think it should have been done long ago. We are in the midst of a war today, and I would strongly recommend that as a part of any package that is sent down to control inflation to be considered by the administration.

I will say this, when doing it no doubt this will affect some projects in any State but if it does they have got to be affected. They have got to affect them in all of the States and that goes wherever they may be. But unless we do this, I don't think we are going to bring this budget down below the $195 billion.

Secretary KENNEDY. You will be glad to know——

Senator WILLIAMS. In fact I question whether it won't be even higher.

Secretary KENNEDY. You will be glad to know such a step is being considered very seriously right now.

Senator WILLIAMS. I appreciate that, and I am glad to hear it. I don't think we can in good conscience suggest to private industry that we are going to remove the incentive for their expansion, and at the same time keep the Government programs moving full steam ahead. In that line, Mr. Chairman, I would like to ask that there be made a part of the record an article in yesterday's paper in which Mr. J. A. Livingston commented upon this fact and also an interesting article on the same lines that is in the Business Week of March 22—

both commenting upon the accelerated rate at which private investment capital, and this is, as industry expands I think it is around a 20- to 25-percent rate greater than what it was just a year and a half ago to the same effect in this earlier story from the Wall Street Journal of March 14. That is putting a tremendous demand on the investment capital that is available. It is a pressure on interest rates and, don't you think that is contributing heavily toward the demand for money and the increased interest rates that the requirements for this expanded capital to finance this plant expansion at this time. What effect do you think it had had?

Secretary KENNEDY. I think it is having a very inflationary effect and is having quite an effect on the capital markets.

Senator ANDERSON (presiding). They will be placed in the record.

(The articles referred to follow:)

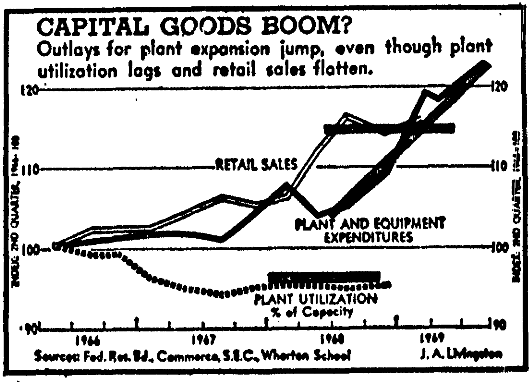
[From the Sunday Star, Mar. 23 1969]

Outlay Boom Holds Danger

By J. A. LIVINGSTON
Star Special Writer

The persistent rise in business expectations — the ever-increasing commitment of corporate executives to expansion — disconcerts President Nixon's economic advisers. The slowdown they hoped for isn't materializing.

The recent Commerce Department-Securities and Exchange Commission data on expenditures for plant and equipment indicate a capital goods boom is in the making. Therein lurks danger.



The 15 percent jump in planned outlays — from the fourth quarter of 1968 to the third quarter this year — can be interpreted in two ways:

1. Businessmen have now become permanently committed to inflation. They doubt that President Nixon will be willing or able to check it. At the first rise in unemployment, he'll repeat President Johnson's performance in 1966: React too soon.

Credit will be made easier. Spending will increase. Renewed expansion will reinstill faith in permanent inflation.

2. Businessmen are responding to immediate pessures. They can't produce and distribut goods fast enough to meet the needs of cusotmers. They can't get skilled help. Therefore, they enlarge facilities and introduce labor-saving machinery.

Two Sets of Figures

But plant utilization isn't rising. According to Federal Reserve Board data, maufacturing companies are operating at 84 percent of capacity, down from nearly 91 percent in early 1966. The inference is drawn that new installations will only add to overcapacity.

Data compiled by the University of Pensylvania's Wharton School don't corroborate this entirely. They show that the decline in utilization from the 1966 high has been moderate — less than two points. Their inference is that some industries are surely pushing against an output ceiling. Therefore, expansion plans aren't an inflation hedge — a race to beat advances in cost.

Here are the two sets of figures on percentage utilization of capacity:

Quarter		FRB	Wharton School
1966	2nd	90.8%	96.3%
	3rd	90.6	96.0
	4th	90.0	95.5
1967	1st	87.1	94.0
	2nd	84.9	93.0
	3rd	84.1	92.6
	4th	84.8	93.4
1968	1st	84.9	94.1
	2nd	84.8	93.3
	3rd	84.0	93.8
	4th	84.2	94.4

In relation to projected plant outlays, retail sales lag. For eight months dollar volume has increased very slowly. And because of price increases, merchandise actually handled may have declined.

It Happened Before

So we have these divergences: Plant and equipment outlays are up sharply, plants operating below capacity and retail sales are traveling in a straight line.

The inference here is either retail sales must rise or industry will have more plant than it can profitably use. In that event a fall in contract awards for construction and equipment will follow. And fast. This happened in 1937-38 and in 1929. And rising interest rates—tighter credit—had an impact both times.

In 1929, the stock market got out of hand. Interest rates were forced up to check speculation.

In 1937, banks had large excess reserves. The Federal Reserve Board reduced them by raising reserve requirements. The reaction was excessive. Banks had ample excess reserves and lending capacity, but the financial and business community was in a worrisome mood.

Nixon Versus Roosevelt

That man in the White House — Franklin D. Roosevelt—wasn't regarded as friendly. The stock market collapsed. Retrenchment set in. Steel operations, for example, plummeted 56 percent from 1937 to 1938.

The mood today is quite the opposite. Businessmen are sure that President Nixon won't countenance a rise in unemployment. And investors "know" that inflation is here to stay. Bonds are bad to buy, stocks are protection.

Warnings from Washington are ignored. Tight Federal Reserve policy is looked upon as a temporary restraint which will be promptly removed when it begins to work as intended.

This worries the President's advisers. Their efforts to check a boom—to head it off from rollicking into a bust—are not taken seriously.

Will the bust they're trying to prevent be the only convincer?

[From Business Week, Mar. 22, 1969]

Business loans won't slow down

Despite soaring interest rates, business borrowing shows little letup. But the Federal Reserve Board still has cards to play in effort to slow economy

Classic monetary theory holds that when money gets expensive enough, people will stop borrowing, and, in turn, reduce spending.

This week, with money more costly by far than ever before, that bit of theory was undergoing its most severe test.

If today's super-high interest rates do knife into borrowing, then the Federal Reserve probably will win its fight to slow the economy, and the rate of inflation, without triggering a recession.

If business and consumers keep on borrowing as they have been, still more restraint--monetary and perhaps fiscal as well--will be needed. Then the financial markets could wind up in trouble, with the economy pushed into a tailspin.

At midweek, it still wasn't at all clear how things ultimately will go. So far, though, it is hard to find much concrete evidence that record-high interest rates--or anything else the Fed has tried--are working out the way they are supposed to.

Going up. Interest rates haven't simply been moving up, they have been zooming:

- Commercial banks last Monday raised their prime rate from 7% to 7½%, the fourth increase since last Dec. 2. Morgan Guaranty Trust Co. of New York led the way this time.
- Bond market rates have climbed by around ¾ of 1% over the past three months, with the cost of selling a municipal bond up by more than ¼ of 1% in just two weeks.

Only Treasury bill rates have been moving down lately. But Treasury bills are a traditional haven for short-term funds when other markets turn scary--and both the stock and bond markets have looked scary lately.

Little effect. The Fed's tight money policy shows up in other areas as well.

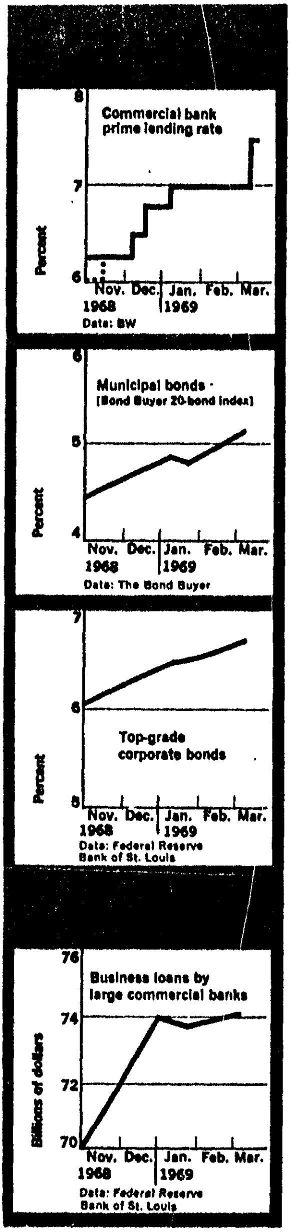
The nation's money supply--demand deposits and currency--is up by 6% over a year ago. But it has risen at only a 3.5% annual rate over three months ago. A number of economists insist that changes in the money supply, not in interest rates, really determine what happens to the economy. Fed policy would seem to be restrictive by anyone's standards.

But, as a Business Week spot-check of corporate executives shows (page 37), even this degree of restraint doesn't seem to be swaying very many people.

Some borrowers have turned away from the bond markets recently. Corporations have put off at least \$100-million of issues that were due to come to market in March. In the municipal bond markets, where the absence of bank buying has thrown dealers into a fret, more than \$250-million worth of issues have been postponed this month.

High demand. Yet, the demand for bond market money continues strong; corporations still plan to sell around \$800-million in bonds this month against \$766-million in March, 1968. Bond dealers, moreover, figure that many of the called-off issues have merely been postponed until market conditions stabilize.

The demand for bank money continues strong--bank lending to busi-



ness customers is growing at an 18% annual rate these days.

Even the mortgage market—typically the first victim of tight money—is looking perkier than most observers had expected. Housing starts still are running at a fast 1.7-million-unit annual rate. The flow of new money into savings and loan associations and mutual savings banks has slowed but not stopped as it did in 1966.

Matter of time. The situation could change, of course—and in a hurry. The new 7½% prime rate, for instance, is largely just a reflection of the growing shortage of money at the banks. Most money market rates are higher than the banks can pay; the banking system has lost $5-billion in certificate of deposit money since early December. Banks have been borrowing heavily in the Eurodollar market. But Eurodollars are costly—around 8%—and increasingly hard to get.

Banks are trying new money-raising techniques. Morgan Guaranty, for one, has started selling participations in its loan portfolio. But the pinch is still hurting.

"Homebuilding," says a New York City bank economist, "is going to be hit. It's just a matter of time."

Already, the municipal bond market is a shambles—with rates far higher now than a great many municipalities are allowed to pay. This has developed, as one bond dealer points out, "without any significant selling of municipal bonds by the banks."

Two ways out. Yet the Fed is far from being off the hook. Eventually the present degree of restraint probably will work through the economy, with some borrowers priced out of the marketplace and others turned away for lack of funds. But that will take time—how much time not even Fed policymakers can say.

The Fed does have a couple of avenues open to it. It has a good excuse now for again raising its discount rate—last raised on Dec. 18 from 5¼% to 5½%. As it is, the discount window is now a cheap source of money for banks; a higher discount rate would simply bring this rate in line with other short-term rates. At the same time, the Fed might raise its Regulation Q ceiling on what banks can pay for money—thus giving banks some room to compete for time deposits. A higher discount rate, without a higher Q ceiling, would really hurt the banks—forcing them to start dumping their holdings of municipal bonds in earnest.

Or the Fed could freeze hundreds of millions of dollars in bank money by raising the level of reserves banks must keep against deposits.

Spending spree goes on

Despite high-priced money and admonitions from Washington, companies are still raising capital investment plans. Competition and new technology are among the driving forces

Scarce money, high interest rates, and government admonition apparently are not deterring business from pushing ahead with massive capital spending plans for 1969.

This is the almost unanimous conclusion drawn from talks Business Week reporters had with top executives following Monday's hike in the prime rate. And business determination to press on with big spending plans sets the stage for the great economic drama of 1969.

The quarterly capital spending survey of the Commerce Dept. and the Securities & Exchange Commission indicates that businessmen plan to boost their expenditures by 14%—and the government wants to bring that down. Mainly through tight money (page 33), the government hopes to reduce the figure to what it sees as a less inflationary and more sustainable growth—perhaps 7%.

GNP picture. In contrast, executives see high capital spending as a way to fight inflation. It gives them the new technology needed to cut costs. And they feel they will have the financing no matter what is done to further tighten credit. The outcome of this war over capital spending has enormous implications for the business outlook.

Washington's expectation of a 1969 gross national product of $920-billion is based on a capital spending increase about half as big as the 14% figure now on the books. If this GNP figure proves out, profits would be about level, unemployment would rise slightly, and the rate of price increase would probably taper from its present 4½% to about 3½% by yearend.

A capital spending increase of around 14% would radically alter this picture. Total GNP would probably be close to $930-million for the year—profits would increase but unemployment would stay at its present level, and price increases wouldn't taper off at all. By the end of the year, the U. S. economy would still be in a roaring boom. The 14% capital spending increase implies a fourth-quarter GNP of about $955-billion, a full $20-billion above the fourth-quarter rate implied by the government's projections.

Plans can and do change, but judging by what companies are now saying about the firmness of their decisions, the government will have a hard time changing them.

Motives. The principal motives leading companies to these decisions seem to be three: the lure of expected long-term growth, the need to economize on labor costs, and the opportunities presented by new products.

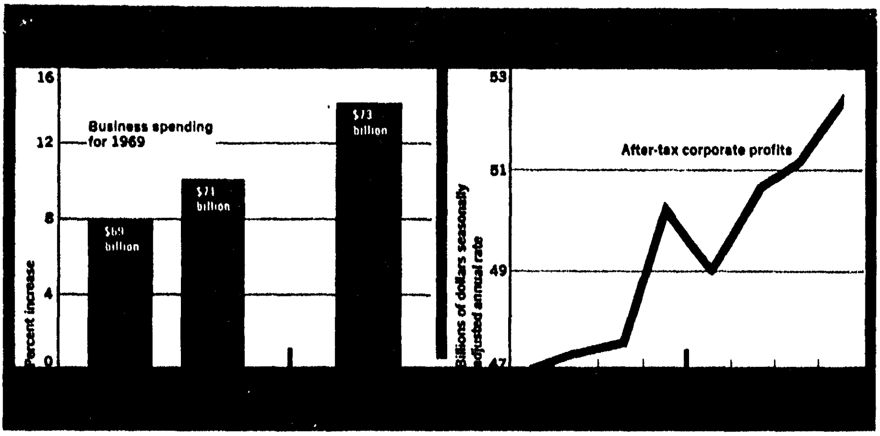
Says Harold M. Williams, chairman of the finance committee of Norton Simon, Inc.: "Historically, the capital outlays we defer turn out to be our most expensive ones. There's little to indicate the benefits of waiting."

Robert Wingerter, president of Libby-Owens-Ford Co., objects to Federal Reserve Board suggestions that high capital spending is inflationary when some capacity is idle, and says: "These figures [showing that some 17% of manufacturing capacity is now idle] are just to support the current line of propaganda. Most of the idle capacity is just not efficient. Much of the higher capital spending being forecast by manufacturers is caused by a desire to reduce costs by improving inefficient manufacturing facilities."

Says Henry G. Parks, president of H. G. Parks, Inc., "After all, there is such a thing as competition. And we're planning on a growth that will double in three years."

"Businessmen take a two-to-five year look at family formations and can't help getting pretty optimistic when they look beyond the current crop of short-range problems," says Paul Harmon, manager of economic research for Armco Steel Corp.

Scott Paper Co. plans a 10% increase in capital outlays this year, mainly to economize on labor costs. "Our plans include some labor saving equipment that might be considered marginal under slower wage increases, say about 4%," says G. L. Chamberlin, vice-president and controller. But his company is committed to a two-year labor contract



that calls for 6% annual wage hikes. This helps push the decision in favor of some new projects "like automatic packing equipment which will eliminate handlers."

New tools. For other companies, new technology, whether to cut costs or to introduce new products, is the dominant motive for spending. At Libby-Owens-Ford, President Wingerter talks of the cost savings involved in shifting over to float processing plants for glass manufacturing, "which eliminates costly grinding and polishing operations."

James F. Bere, president of Borg-Warner Corp., is scheduling a 33% increase in capital spending this year in part to update tape-controlled machine tools. The same kind of technological pressure influences Morris J. Vollmer, vice-president of finance for A.O. Smith Corp. His company plans a 30% to 40% increase in outlays this year, and most of this, says Vollmer, "is not for expansion but merely to keep abreast of advanced technology."

Vital point. But whatever their motive for capital spending, big companies are agreeing on one vital point: The financing needed to carry out plans is already in the bag.

At Bucyrus-Erie Co., capital appropriations will be about one-third higher than in 1968. "Our plan is to use cash flow," says Norris K. Ekstrom, vice-president of finance. "We look for sufficient payback so that cash flow will pay for capital improvement. If we do increase our debt in the process, it will be a very temporary increase." Eastman-Kodak Co. is planning a 24.8% increase for 1969. "We pay as we go," says Robert Miller, vice-president of finance at Kodak.

Minnesota Mining & Mfg. Co. expects to be able to finance its spending plans out of cash flow for years to come. These plans call for a 10% hike this year and "probably 15% to 20% in 1970," says Irwin R. Hansen, vice-president of finance.

Big companies that won't be able to make it out of cash flow alone say that the outside financing they need is already lined up. O. W. Armstrong, treasurer of Phillips Petroleum Co., where capital expenditures will run "15% to 20% above last year" talks of "a revolving line of bank credit utilized off and on since 1966. We are just now getting to where we'll eventually use it all up, but it will take us into 1970."

One problem. With financing already in place, companies see only one serious threat to their high capital spending plans: getting caught with excess capacity in the event of a business downturn.

This is exactly the danger that is stressed by such government officials as Council of Economic Advisers Chairman Paul W. McCracken, when talking of the need for realism in business planning for a new economic environment. But companies also know that the Administration has coupled its pledge to get inflation under control with a promise that price stability won't be purchased at the expense of high unemployment.

Companies tend to think less about the short-term slowdown (needed to get inflation under control) than about the long-term high employment pledge. "Nixon is going to tighten up some, but not enough to halt inflation," says George C. Sells, president of General Shale Products Corp. "It's here to stay forever if politicians want to be re-elected."

For these reasons, a policy designed to bring inflation under control gradually tends to focus almost wholly on the capital spending plans of business.

It's just this kind of attitude that the new Administration is trying to change. When it first came to Washington two months ago, its new policy team proclaimed that fiscal restraint coupled with tight money meant that economic policy—in McCracken's words—was "on the right track." Their forecast, moreover, was for a gradual cooling of the economy.

What has happened in the two months that followed, has shaken business confidence in this outlook. Instead of slowing down from the fourth quarter, the U.S. economy has probably accelerated in the past two months. Government officials now estimate the final sales component of GNP—the best measure of total demand in the economy—will be up $20-million or more this quarter, compared to a subdued $13.3-billion rise in the final quarter of 1968.

The upgrading of capital spending plans, from a 10% rise in December to the 14% rise now reported, is the natural response to unexpectedly good business.

Clearly, companies are upgrading plans because they still have more confidence in the forces propelling the economy up than in the measures designed to rein it in.

[From the Wall Street Journal, Mar. 14, 1969]

Tight Credit, 10% Surtax May Linger Due to Outlook for Firm's Spending

By [redacted]

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The prospect of the biggest capital-spending boom in several years is stiffening the resolve of Government authorities to persevere in a stern anti-inflation effort.

The official survey by the Commerce Department and the Securities and Exchange Commission, released yesterday, signals business plans for a 13.9% surge in 1969 plant and equipment outlays after a skimpy 3.9% rise in 1968.

Such an outlook, it's understood is reinforcing the Federal Reserve Board's convictions about the need to continue a tight-credit policy, and also is strengthening the Nixon Administration's sentiment for full extension of the 10% income-tax surcharge.

The prospect of businesses wanting to pour $72.96 billion into new facilities, up from $64.08 billion last year, is one that would make the Federal Reserve "think several times" before softening its monetary policy, an insider says, although this alone isn't deemed enough to trigger a tougher policy. And while Nixon aides have been hedging about whether the surtax might be pared somewhat after June 30, one says the surprising new report "weighs in the direction" of seeking extension at 10% for a second 12-month period.

If businessmen actually add to plant capacity as massively as they plan, some high Federal authorities worry, it will add appreciably to the risk that a recession eventually would result from a relative short-fall of consumer demand.

Other strategists, however, caution that it's far from certain that business actually will invest as much in new facilities as is suggested by the survey made in February and late January.

Sharpest Since 1966

According to one official, the slated rise of 13.9%, which would be the sharpest since the 16.7% spurt of 1966, isn't "being taken literally" within the Government. Some analysts put the actual increase somewhere between the projected 13.9% rise and the 10% addition that had been envisioned only a few weeks back by the Federal Reserve staff.

The analysts who play down the survey note that actual outlays in each of the past three quarters have fallen short of the level that had been predicted the quarter before.

Officials also say that the capital-spending report reflects many corporate decisions made before it was nearly so clear that the new Administration and the Federal Reserve would collaborate with simultaneously tight budget and monetary policies. Then, too, the officials say, the survey was made before it was widely realized that retail sales were showing only negligible growth since last summer.

Some seers even express doubt that labor supplies are ample enough to accommodate the ambitious plans for early 1969, or that there will be enough credit available to let businesses spend as much as they intend to late in 1969. "The purpose of monetary policy," a ranking economist says, "is to cause some people to be disappointed."

Especially difficult to achieve, officials say, would be the projected jump of $5.75 billion to a $71.65 billion seasonally adusted annual rate of capital spending in the current quarter. This would be more than twice as big a rise as the $2.7 billion fourth quarter advance to a $65.9 billion annual rate. The current quarter's rise, they reason, may be limited by the same sort of difficulties in mustering construction labor forces and in getting materials delivered on time that held the fourth quarter rate $1.35 billion below the level that had been forecast.

"Investment Boom Is Under Way"

Some projects, thus, may be delayed enough to head off the projected $800 million drop in outlays to a $70.85 billion rate in the June quarter, analysts add. While further quarterly rates werent broken down in the report, it shows the average annual rate for the second half of 1969 rising substantially again to $74.7 billion. "There's no question that a good-sized investment boom is under way," one expert said. It may proceed more evenly upward through the year, though, than the questionnaire responses indicate, he added.

Particularly perplexing to some analysts is that manufacturers alone plan a striking 15.9% rise in capital outlays to $30.65 billion this year, after an outright reduction of 0.9% to $26.44 billion last year. Even with the more modest rise it had been expecting, the Federal Reserve staff had forecast that U.S. factories would be running at only about 82% of capacity during 1969, down from 84.5% in 1968. That would be the widest margin of idle capacity since at least 1962.

The expectation that facilities will cost sharply more in the future underlies much of the current surge, some officials believe. Trying to dissuade a group of corporate treasurers from the expectation of continued fast inflation, Federal Reserve Chairman William McChesney Martin recently said, was "like talking to a stone wall." If those excutives were rational, he said, "they'd be cutting back rather than increasing investment."

While fiscal and monetary restraints clearly haven't proven so far to be greatly slowing the economy, a Cabinet-Level official commented yesterday, he worries that "they may grab suddenly, like brakes on a car," catching manufacturers with a dangerously high level of excess capacity that leads to heavy layoffs and possibly a general recession by early next year.

But another Nixon adviser said, "I wouldn't count on their making a mistake." He contended that much of the investment is probably to meet demands that will mount once the surtax finally is ended a year or two farther into the future. Because costs are climbing significantly, another analyst added, the increase in physical plant capacity can't be expected to rise as sharply as dollar outlays. The cost of business fixed investment rose about 3.5% in 1968, Government figures show, but analysts disagree on whether this sharply exaggerates or understates the trend.

Clearly manufacturers are counting on a sharper rise in their investment this year than in their sales, which the same survey shows are expected to advance only 7.9% after a 10.1% gain that was predicted and actually achieved in 1968. This survey is more highly regarded among Government men than another—released by the Commerce Department earlier this week—that projected a much slimmer sales gain from a sampling of a different set of executives.

Top Gain Seen in Paper Industry

The biggest sales gain expected among manufacturers, the latest report shows, is 14.4% by the paper industry, followed by a 10.3% rise in electrical machinery. The most moderate estimate is a 2.3% rise in transportation equipment, which would follow a 12.4% increase last year. Gains of more than 9% are estimated both for primary metals and nonelectrical machinery. Retailers slate a sales gain of 9% after an 8.3% gain last year, the report adds, while utilities envision a 7.3% advance after 1968's 7.5% rise.

Plans for stepped-up capital outlays, the report adds, also are widespread outside the manufacturing sector. Mining companies slate a 12.9% rise after an 0.6% decline during 1968, while railroads are highballing toward a 29.7% investment increase after a 13% slump in outlays last year. Nonrail transport industries are moving up more modestly to a 12% gain after an 11.3% advance last year, while the category of "communications, commercial and other" industries is in for a 10.3% rise after a 4.3% gain in 1968. Utilities, however, plan a more gentle 14.1% investment advance to follow their 16.7% increase last year.

The carryover ot manufacturers' projects at year-end, the Government said, was a seasonally adjusted record of \$19.79 billion, up from \$19.35 billion at the end of September and \$18.09 billion at the end of 1967. Carryover is the amount of money yet to be spent on projects already under way. Among utilities, carryover was a record \$18.23 billion at the end of

Senator WILLIAMS. If we could reduce this pressure on the demand for money at this time both from the standpoint of the Government, curtailing some of its public works programs, and private industry plant expansion, and reduce the demand for money interest rates then could really have a basis of falling back, rather than trying to reach a new ceiling. But the natural effect would be lowering interest rates, and as interest rates drop back each one-half percent that again is another large savings for the operation of the Government.

Senator KENNEDY. That is right.

Senator WILLIAMS. I hope that and express the hope that the administration will consider very seriously such a package because I don't think that we can approach this question of inflation by saying, "We can hold the debt ceiling down, that is the answer," or that, "We can extend the surcharge, that is the answer," or "We can do any one of these or even put a ceiling on Government spending, that is the answer." I think it is going to take a combination of all of these factors, all of which are going to be a little painful to us at the time. But I don't want to omit from that the suggestion that we consider a realistic rate for savings bonds, a new savings bond program, even though you limit them to $1,200 or $2,400 a year, but I think those savings bonds ought to pay at least 6 percent if you are going to ask the workingman to invest his savings and I think that that alone would siphon off hundreds of millions that are now going into the spending stream, and again it would have a salutary effect on our efforts to control inflation.

Secretary KENNEDY. I think that is so—we have to look at savings bonds.

Senator WILLIAMS. I have no further comments on this at this time, Mr. Chairman. I thank you and I am looking forward and hoping that we can get a package which all of us can get behind. I think we can pass it through the Congress and I think it would be accepted by the people provided, as I said earlier, that it is accompanied by strong evidence to the people, the American taxpayers, and to those who want these programs, that we are setting the example and tightening our own belt right here in Washington. I thank you for it.

Senator ANDERSON. Yes.

Senator HARTKE. Following up, Mr. Mayo, on what Senator Williams said, do you have any idea, or any estimate, that the $195 billion will be cut back any at all or do you say that what you are trying to do is hold the line on the expenditures to that level?

Mr. MAYO. We are trying to get under that level. I can't give you an honest guess today, Senator Hartke, as to whether under that level means two-tenths of a billion, $1 billion, $2 billion, or $3 billion, I don't think it means $5 billion.

Senator HARTKE. Does it mean $3 billion?

Mr. MAYO. I cannot answer that.

Senator HARTKE. All right.

You do propose, and the President has said that he is going to propose, certain increases in the cost of Government, has he not?

Mr. MAYO. Yes.

Senator HARTKE. And those are specific, whereas the reductions you at this moment hold out are not. You are looking——

Mr. MAYO. I am talking net, Senator, when I said below the $195.

Senator HARTKE. I understand that. But you really have not pointed out any areas in which you anticipate any reductions; isn't that true?

Mr. MAYO. The Secretary of Defense already announced that he would be something like a half billion under his budget on the basis of preliminary figures that had yet to receive the real eagle eye of the Budget Bureau.

Senator HARTKE. All right. Does that mean that is coming out of the present cost of the war in Vietnam?

Mr. MAYO. No.

Senator HARTKE. All right.

What is the cost of the war in Vietnam; about $30 billion?

Mr. MAYO. It is $25 to $30 billion depending on how you look at it; yes.

Senator HARTKE. Depending on how you look at it, isn't it more nearly $30 to $35 billion?

Mr. MAYO. Well, $29.2 billion is the figure that is actually in the budget.

Senator HARTKE. I understand that $29.2 figure, but actually it has been running more than $30 billion. It is really at the rate of $3½ million an hour.

Mr. MAYO. Well, you are pretty fast on the figures, I hadn't divided it out.

Senator HARTKE. I will give you shorthand; $8 billion is a million dollars per hour—if you take; $8 billion a year it is about a million dollars an hour, it gives you a nice shorthand way to figure it out. But let me ask you, did you in your anticipation of how you are going to handle the budget anticipate a long war or a short war?

Mr. MAYO. We are making the same assumption that was made in the Johnson budget of a continuation of the war.

Senator HARTKE. What is that?

Mr. MAYO. A continuation of the war.

Senator HARTKE. In other words, as far as the policy of the administration at this moment on the basis of the way it is figuring its money, it has now been advising the public, really, because you would have to have money to pay the war, it is advising the public that we cannot see any change of policy in the war and we anticipate a continuation of the war on the same basis.

Mr. MAYO. I think for financial planning purposes there is no alternative. This is what was wrong about the proposals of the budget several years ago, when they hoped that the Vietnam war would go away, and it didn't.

Senator HARTKE. I have criticized them for that. They were off a hundred percent on that. We brought it out in similar hearings just like this.

Mr. MAYO. I know you did.

Senator HARTKE. And we had the Secretary read his own words back and eat them in addition, but that is all right with me. I just don't want you to eat words. I just want you to be honest with the people.

I want to ask you in line with what Senator Williams said, you do propose to repeal the freeze on welfare payments; isn't that right?

Mr. MAYO. This is an assumption that I may have made in my discussion here. I don't believe that a firm policy has been established by the administration.

Senator HARTKE. That will cost about $200 million.

Mr. MAYO. That is right.

Senator HARTKE. What will be the increase in military pay?

Mr. MAYO. About a $1,200,000,000 of which we will get maybe $900 million back from revenue.

Senator HARTKE. In taxes?

Mr. MAYO. Yes.

Senator HARTKE. Is this putting in the multiplier effect or directly?

Mr. MAYO. This is direct.

Senator HARTKE. What about the proposal to increase the earnings limitation which the President has recommended on social security payments?

Mr. MAYO. I don't have a figure in mind on that, Senator.

Senator HARTKE. He did propose it. Do you intend to keep that commitment to the American people?

MR. MAYO. I am not up on that so I can give you the right answer.

Senator HARTKE. I will just tell you the President said he would increase the earnings limitation of the people who have received social security. I just want to know whether or not you plan to keep that pledge?

Mr. MAYO. For planning purposes we are still using the figure in the Johnson budget on the social security; yes.

Senator HARTKE. All right.

Then the same thing is true, there was no figuring in your contemplated amount at the present time for tying the social security benefits to the cost of living as President Nixon promised; is that true?

Mr. MAYO. There is an allowance gain in the Johnson budget for the increase in social security benefits.

Senator HARTKE. Not on a cost-of-living basis, right?

Mr. MAYO. I don't recall how it was stated, but there is certainly at least an implicit connection with the fact that the cost of living is going up.

Senator HARTKE. But let me before we leave that—isn't it true that the social security system is overfunded at the present time?

Mr. MAYO. Overfunded?

Senator HARTKE. Well, you are using social security cash to really pay for the cost of Government, are you not?

Mr. MAYO. Yes; in return for Federal securities which will be redeemed when funds are needed for social security benefit payments.

Senator HARTKE. That is one of the reasons you don't have a more serious problem on the debt limit than you have at the moment.

Mr. MAYO. Any trust fund that is at this stage of its growth and has not reached maturity should be running a surplus as a matter of actuarial standards.

Senator HARTKE. All right.

We will go through that a later time, but I want you to remember what you said today on that in relation to the present. That is a good statement of principle but as a matter of fact if you go back you will find that on an actuarial basis that social security fund is in fact overfunded at the rate of $2½ billion based on the current year's overall anticipated expenditures and on an actuarial basis and the fact is you have a tremendous $27 billion surplus in the social security fund at the present time and this is the biggest trust fund from which the Government is now robbing the poor wage earner out here on the street to pay for the costs of government while some millionaires do not pay any taxes, and you are willing to come back here and insist that we have to go ahead and overtax the wage earner and still not tax some of these other people fairly.

Let me ask you what do you propose to do about the recommendations of a 100-percent tax deduction for drugs and medical expenses; how much will that cost?

Mr. MAYO. I have no information yet as to what our recommendation on that will be, Senator.

Senator HARTKE. Well now, a promise was made that there would be a 100-percent tax deduction of drugs and medical expenses.

What about the proposal which was made—and how much will it cost in revenue—to establish a tax credit for job retraining?

Mr. MAYO. Well, I think that falls in the Secretary's realm.

Secretary KENNEDY. I don't think that the proposal on that has been finalized to give you a figure of what that will cost. It will cost money and I think it will be under limitation because it will be on a trial basis. It opens up a lot of questions and problems.

Senator HARTKE. All right.

Now, do you intend to follow the policy of a tax credit for college students, as recommended which would cost, I think, in the neighborhood of around $2 billion according to the so-called Ribicoff plan, which personally I favor.

Secretary KENNEDY. I really can't answer that, Senator.

Senator HARTKE. All right.

That was a recommendation which was made.

Secretary KENNEDY. I know.

Senator HARTKE. Did the President also say he was going to increase the technical and vocational program? How much is going to be put in the budget for that?

Mr. MAYO. There is nothing new in the budget for that at this stage.

Senator HARTKE. All right.

How about the tax advantage which was promised to the private colleges for the amount of tax advantage of donations which are made for private colleges? A promise was made to provide that tax credit for them. How much is involved in that?

Secretary KENNEDY. I have no figures on the recommendation at all.

Senator HARTKE. How much is allowed for tax incentives for businesses which locate in poverty areas?

Secretary KENNEDY. I have no figures for you, Senator.

Senator HARTKE. How much is allocated for the tax refund to local communities? Now, I introduced such a bill last year and I have introduced such a bill this year. A 2-percent rate will cost about $4 billion. In other words, this is a tax flowback to local communities. How much is going to be allocated for a decrease in revenue as a result of that?

Secretary KENNEDY. Again I have no answer but in that I think we will not give up revenue there this year in our recommendations because———

Senator HARTKE. In other words, these are promises which have been made, and some of them I want you to know I fully endorse, but

I want you to know also that these promises were made to the American people and I think promises made should in all justice, be promises kept. We had the promise that the surtax was going to be allowed to expire.

Now we have the definite statement that you are going to ask for its extension. When the surtax was asked for, it was said, and I have the President's statement here, that it represented the judgment of President Johnson "That the fiscal program we are recommending is consistent with a sound and healthy economic advance during the year ahead without tight money and soaring interest rates." Now, we have tight money, the prospect of tighter money interest rates have not reached their peak. As you well know the Federal rate is 7 percent, the Euro dollar rate is 8 percent. and the housing industry is at least 10 percent, the prime rate has just been increased again, we can anticipate an increase in rediscount rate, all of this means the cost of living is going to go up still further for the people. I am asking you do you really think we can fine tune the economy enough to take care of all these problems such as I have enumerated here in some detail, and stay within the $195 billion expenditure or the budget limit which you have indicated?

Secretary KENNEDY. Senator, I think the inflationary problems, the problems you have covered, the question of interest rates, and so on, are all part of this 4-year pattern.

Senator HARTKE. It is going to take it 4 years to get it under control.

Secretary KENNEDY. I didn't say that. I said it is 4 years getting to where it is and I think it has to be brought under control now or it will become more serious and become a real problem.

Senator HARTKE. Let me ask you something serious, I have expressed a partisan judgment, but it is all right. Is the balance of payments at this time being truly reflected by the available facts or is there some information we are not given? Let me give you some facts for your information and to check out and if I am wrong I want you to tell me about it.

The preliminary figures for the balance of payments for 1968 showed $150 million. This was on a liquidity basis. However, this was the first time since 1957 that there was a surplus in the balance-of-payments accounts on a liquidity basis. This figure, however, is the only one which is frequently commented upon. There seems also, and you know this is true, that there is an official settlement balance and I have the figures here, they are $1.616 billion, roughly about $1.7 billion. This is the largest surplus in our balance-of-payments account since the official figure began in 1960. All the years before that had a deficit with the exception of a very small surplus in 1966. And this indicates that the balance-of-payments accounts is probably not as serious a problem as had been thought and is not going to be a serious one in the future. We will probably have a deficit in 1969 but not a large one.

Also it has been said our balance-of-trade account has shrunk due to inflation, in my opinion, that is just so much rubbish because basically most of the items which we are purchasing we are purchasing from American businesses overseas and bring them right straight back to America and that is going to be the continued result as long as we are going to expand our overseas businesses. I am not saying it is bad, I am not saying it is good, I am just saying it is a fact of life we have to contend with and all this talk about the balance of payments and the need for tight money, and more high-interest rates and things of that sort in order to help our balance-of-payments account just will not really stand the light there. That is all I have.

Senator ANDERSON. Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

I address this either to the Secretary or the Budget Director, whichever would prefer to answer it.

Do you expect a substantial reduction or a token reduction below President Johnson's $195 billion budget?

Secretary KENNEDY. Well, the word "substantial" is an illusory word. I have always felt that is one that can be used very carelessly. I don't know what you mean by substantial, but there will be a reduction under the programs we have. That is what we are working on. I don't know what the figure will be in billions of dollars.

Senator BYRD. I will ask the next question of the Budget Director. President Nixon, and I am quoting now from Mr. Dale's article, and I think you can judge whether it is correct or not and it seems to me it is, "The President told a group of business leaders at a White House dinner last week that he was determined to achieve a budget total significantly below Mr. Johnson's figure as part of his program of fiscal responsibility to fight inflation."

I put the same question to the Budget Director: Do you expect a substantial reduction or a token reduction below the $195 billion?

Mr. MAYO. Again, not to parry words, Senator, but I think the President has used the word "significant reduction." He is talking, therefore, not of what I would call a token reduction under the $195.3. How we define these in terms of digits I don't think that he would be ready or we are ready to get into fine definitions to the nearest hundreds of millions or a half billion dollars, but significant doesn't mean token in my book.

Senator BYRD. Well, I still am not clear as to what you have in mind that you can achieve as a token reduction which you said means one thing or a substantial reduction which you say means something else.

Secretary KENNEDY. I would say it would be substantial.

Senator BYRD. Now, we have a clear-cut answer. You feel there will be a substantial reduction below the $195 billion?

Secretary KENNEDY. That is right.

Senator BYRD. I thank you, Mr. Secretary.

Now, do we not have a new revenue estimate later than the one submitted in the President Johnson budget which we presume was got up in December or maybe early in January.

Secretary KENNEDY. We are in the process of receiving the taxes of March and April and we are still using the revenue estimate that was used at that time. There is a change in pattern to some extent on our receipts side, that could mean we are going to get more receipts or when the April returns are in it could be the same or less.

Senator BYRD. Now, as I understand it your updated estimate as to the interests on the national debt is greater than the $16 billion which the budget carries. Could you indicate to what extent it is greater than the $16 billion?

Mr. MAYO. By approximately $300 million in this fiscal year and approximately $500 million in the fiscal year 1970.

Senator BYRD. So then if your estimate, your new estimate is correct, it would mean that the interest in 1970 would be in round figures $16.5 billion, now in round figures $16 billion, and it would be $16.5 billion and I relate that to the actual interest on the national debt for the fiscal year 1968 which was $13,744,000,000.

Mr. MAYO. Yes. $13.7 billion is the correct net interest payment figure for fiscal 1969.

Senator BYRD. Now, the Budget Director, in reply to Senator Williams, I believe, or maybe Senator Hartke—I believe Senator Williams, expressed the hope that the Appropriations Committees would be even more strict than they had been in the past. Did I understand the Budget Director correctly in that regard?

Mr. MAYO. Yes.

My point is the simple one that, after all, the President can only recommend here, as we all know in the budget, and I would hope that the Appropriations Committees would, therefore, sense the feeling of the Congress as a whole, and with regard to budget economy and take such action as they deemed appropriate to reduce the entire budget to a figure consistent with their feelings in that direction. I would hope that the committees would not then at the end of the session feel that, well, we have done our best or—as Senator Williams put it,—midway in the session before any bills are passed decide that we must, in addition, have an overall ceiling, so that if the committees don't make it with individual appropriation bills then we had better ask the executive branch to do it at the other end of the line.

Senator BYRD. I must say, I don't fully understand your desire for the Appropriations Committees to be more strict when I understand that the budget which you submit, which you draw up and you submit is based on need.

Mr. MAYO. Is based on what?

Senator BYRD. Need. In your judgment that is what is needed to run the Government.

Mr. MAYO. Yes, and my question on the Appropriations Committee being strict is whether the appropriations process faithfully reproduce what the Congress itself want to do in relation to the total budget, not just a Treasury-Post Office budget and Agriculture and so forth.

Senator BYRD. I am speaking only of the total budget.

Mr. MAYO. Yes, and this is, of course, one of the problems in our appropriations process that we don't know how faithfully the Appropriations Committee, as a whole, has responded to the overall will of Congress in this respect until the last appropriated bill is through, and they begin to total all of these things up.

Senator BYRD. It seems to me that we have a joint responsibility.

Mr. MAYO. We do, sir.

Senator BYRD. The President and the Congress.

Mr. MAYO. We do.

Senator BYRD. The Congress can't say to the President "you do it," and the President, I don't think can say to the Congress "you do it." It seems to me if we are going to get our financial problems under control we have got to work together and it is a joint endeavor, a joint responsibility, and we have to work jointly to accomplish our purpose, which means that the President has got to submit a tight budget.

Mr. MAYO. That is correct.

Senator BYRD. He has got to reduce items. He can't say to the Congress you reduce them and the Congress ought not to say to the President by the same token you reduce them, we didn't want to reduce them. We have to work together.

Mr. MAYO. That is a fine statement. I endorse it 100 percent, sir. The President will have specific recommendations and I would hope that the Congress would see the wisdom of those recommendations and act accordingly. If that is done, I think part of the pressure that has concerned the Congress and is manifested in the revenue and expenditure controls will be a little bit lessened. If we did our job in the initial two stages here then we won't feel quite the frustration when we get to the third stage wishing to have an expenditure control.

Senator BYRD. I must say from our discussion today, and I think it has been very helpful, at least it has been helpful to me, but a little discouraging to me, I can't see that there has been or that there will be any substantial reduction in the $195 billion budget submitted by President Johnson. But I am glad that Secretary Kennedy has stated that he feels there will be a substantial reduction.

Mr. MAYO. I believe there will be a significant reduction, and I think this is a difference in the spelling of the words.

Senator BYRD. I will take significant, I change my word substantial to significant, but I think they mean the same, and I am glad to get that comment, and in looking back on it a few months from now I hope that you are completely correct and I hope that my pessimism today is in error.

Secretary KENNEDY. Senator, if I might make one comment here that I think has troubled me considerably: One is trying to cut a pattern where the laws have already been passed it is almost just paying your bills, so to speak, and the other is looking ahead. I think right now we ought to be working and spending a good share of our time on the 1971 budget and the 1972 budget because what happens in this process, we get authority ahead which will have an expenditure figure in it, implied or implicit, for a current year in a small amount, and then it accumulates, and it goes on and on and we have built into each of the departments and that is what we are up against, I think in the fiscal 1970 budget right now isn't it?

Mr. MAYO. That is right.

Secretary KENNEDY. We have the obligational authority. When you look at that and realize to cut into that you have got to come back to Congress and ask them to change a law that they have already approved it puts you in a very difficult position, so you have a real problem. I think it is so important that at the appropriation end of this, we take a look not only at the long term but take a look also at the expenditure side. They should have both the cash and the expenditure effects in as well as the obligations.

Senator BYRD. I think what we are talking about, we are talking about appropriations.

Secretary KENNEDY. I know in dealing with some of the departments, the Defense Department when they talk about their savings in reporting back to the Director of the Budget, they are thinking in terms of their obligational authority. It has nothing very significantly affecting the current year or the next year; it is along the line, isn't that true?

Mr. MAYO. Yes.

Senator BYRD. You are talking today, are you not, about the amount of money you want the Congress to appropriate for this upcoming year?

Secretary KENNEDY. Well, I think we are going to make our significant cut so that the expenditure side will be down but I am also looking at the budgetary process in talking to you.

Senator BYRD. I appreciate and sympathize with the problem that you do face. Once a budget is drawn and thrown out to the public, the public feels it has a vested interest, each particular group.

Secretary KENNEDY. A vested interest.

Senator BYRD. So you have a very difficult problem; I recognize that. But I say the best way to get 1971 budget under control is to begin with the 1970 budget.

Mr. MAYO. I agree with that.

Senator BYRD. To try to get that in some sort of an——

Mr. MAYO. We want to look ahead not only 1971, Senator Byrd but also to 1972 and 1973. That is where your patch of blue sky opens up a little.

Senator BYRD. I am looking at 1970, that is what the American people are faced with now, paying taxes for the 1970 budget.

Mr. MAYO. That is right.

Senator BYRD. As well as the 1969, of course, but that is about over, but it is the 1970 budget it seems to me is so very important; unless we begin to make headway on bringing our financial house in order with the 1970 budget it is going to make it that much more difficult for the 1971, 1972, and 1973 budget that you will have a responsibility for.

Mr. MAYO. That is very clear to both of us.

Senator BYRD. I have only one other thought, Mr. Chairman. I want to state for the record, it is not in the nature of a question exactly but I do want to put it in the record: It has been the policy of previous administrations to bring in debt limit changes at the last few days of the fiscal year, and I remember in 1967 the proposal was to increase the debt limit by $22 billion, which I thought was unreasonable, and I presented an amendment on the floor of the Senate to reduce that increase by $10 billion, making an increase of $12 billion, which is what you seek today, and that amendment lost by a vote of 43 to 44, it lost by one vote, and the most effective argument against it was that the fiscal year ends in a few days, and we haven't got time to put this amendment through.

So I just want the record to show that in subsequent maturity time when proposals are made to change that debt limit so far as this one Senator is concerned I propose to use what ever parliamentary tactics I can to see that there is thorough discussion and that particularly applies to the so-called revised concept which was submitted originally by the Secretary of the Treasury and I do not favor that approach. I think it is misleading to the public and will do just as the Senator from Delaware so ably brought out, and he was the first one to bring this out, and I pay tribute to the distinguished senior Senator from Delaware. He handles his voting in the Senate and his actions in the Senate the same whether it is with a Republican administration or Democratic administration and I think that is important, but anyway he brought out and I believe, Mr. Secretary, you confirmed, that had the House approved and were the Senate to approve the revised concept in handling the debt limitation that the administration during the next 4 years would be able to spend $40 billion more than it takes in and yet that $40 billion would not show up in the public debt.

Secretary KENNEDY. I didn't say it wouldn't show up in the public debt. I said it would not be part of the——

Senator BYRD. I beg your pardon, would not be subject to the debt limitation, I am glad you corrected me on it, would not be subjected to the debt limitation, so you could spend $40 billion more than the $17 billion or the $12 billion as the case might be, which would not be subject to that limitation.

When that comes to the floor, and I assume there will be a fight on it because the distinguished and very able chairman of this committee favors your proposal. I just want to say that I expect—I almost never speak longer than 20 minutes in the Senate but I am prepared to speak for 20 hours on that. I am prepared to use whatever parliamentary tactics I am able to use as a Member of the Senate to delay and educate the public, as to what that procedure would mean.

I just want the record to show that. I now ask the chairman if I may have permission to insert in the record of the meeting at this point a statement that I made to the Ways and Means Committee of the House of Representatives when this matter was before the House Ways and Means Committee?

Senator ANDERSON. Without objection that will be done.

Senator BYRD. I thank the Senator.

(The statement of Senator Byrd before the House Ways and Means Committee follows:)

STATEMENT OF HON. HARRY FLOOD BYRD, JR., A U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator BYRD. Thank you so much, Mr. Chairman, Mrs. Griffiths, and gentlemen of the committee. I shall be very brief, Mr. Chairman.

I appear before you today not to advocate the status quo. I recognize that a good case can be made for some increase in the Nation's debt ceiling. My concern today is more with policy than with arithmetic.

President Nixon, on page 2 of his statement to the Congress, said he felt the Congress should enact a debt limit which will serve the needs of our Nation for the "foreseeable future."

The distinguished Secretary of the Treasury, Mr. Kennedy, told the committee this morning that the Nixon administration's proposal is designed to take care of our needs "indefinitely."

Now does the Congress want to grant to the administration—I am not speaking of the Nixon administration, I am speaking of any administration—a debt ceiling that will take care of the administration indefinitely?

It seems to me that it would be wiser to set the ceiling at a level which would put some pressure on the administration to hold down spending, to require it to come to Congress. I would hope that the Congress and this committee will not agree to eliminate the trust funds in computing the national debt subject to the ceiling.

To accept the President's and Mr. Kennedy's recommendation would mean that during the next 4 years the administration could spend $40 billion more than it takes in without that sum of money appearing in the national debt figures. I think that figure of $40 billion was clearly established today under questioning by Mrs. Griffiths and by Mr. Broyhill in the questions which they directed to the Secretary of the Treasury.

To get the $40 billion in perspective, I would point out that during the 8 years, 8 years less 2 or 3 months, of President Truman's administration, the increase in the national debt was $33 billion. During the 8 years of the Eisenhower administration, the increase in the national debt was $23 billion, and during the 8 years of the Kennedy-Johnson administrations the national debt increased by $70 billion.

Besides the reasons I noted above, Mr. Chairman, I feel that this proposal should not be accepted because I think it is misleading to the public. It appears to reduce the ceiling. Yet in reality it increases it by $17 billion.

So my plea today is twofold:

One, that the money which the Government borrows from the trust funds not be eliminated from the national debt, and, two, that an increase substantially smaller than the $17 billion be granted.

Why should not the Congress keep a tight ceiling on Government debt? Why should we continually give away our power and responsibility? What is lost by maintaining a tight ceiling?

It is less convenient perhaps to the administration and less convenient perhaps to the Congress, but to increase the ceiling so that it will take care of all the administration's problems for the foreseeable future impresses me as being very unwise.

Most certainly it weakens the power of the Congress at a time when Congress needs to reassert itself. If the Ways and Means Committee will take a skeptical view of this proposal and will reduce the suggested increase in the debt, I think that we might have a 50-50 chance to sustain your position in the Senate.

Mr. Vanik earlier in the day mentioned that there was a very close vote in the House in June of 1967 on increasing the debt ceiling by $22 billion which was advocated by President Johnson. I might point out that there was a very close vote in the Senate on that, of 43 to 44. It carried only by that single vote or rather the amendment which I presented to reduce the President's request by $10 billion lost only by one vote.

I appreciate, Mr. Chairman, the opportunity to be here today. I am wondering whether it would be appropriate for me to request that following my remarks that an editorial from the Wall Street Journal dealing with the debt ceiling be inserted in the record.

The CHAIRMAN. Oh, yes.

Senator BYRD. And also an editorial from the Chicago Tribune which deals at some length with the administration proposal be submitted?

The CHAIRMAN. Without objection, the two editorials will be included in the record at this point.

(The two editorials to be supplied follow:)

[From the Chicago Tribune, Feb. 26, 1969]

"THE AGE OF GIMMICKRY

"We sort of hoped the age of gimmickry had passed with the Johnson administration. It was only last week, indeed, that we commended Mr. Nixon's Council of Economic Advisers for recognizing that we can no longer rely on 'the easy way of doing things.'

"And yet, lo and behold, here is the Nixon administration proposing one of the most remarkable bits of fiscal legerdemain that we've encountered since Franklin Roosevelt undertook to persuade us that Federal borrowing was not really borrowing because 'we owe it to ourselves.'

"The problem Mr. Nixon faces is real enough. The national debt is now about $362 billion, and it is bound to go above the present temporary debt limit of $365 billion later this year. This is not his fault. It is the result of the failure of Johnsonian gimmickry. Mr. Nixon could have blamed it on the Democrats, asked for a temporary increase in the ceiling, and promised to do better than Mr. Johnson.

"But no. The Nixon administration has received a proposal made in 1967 by a commission appointed by Mr. Johnson and directed, ironically enough, by David M. Kennedy, now Secretary of the Treasury, and Robert J. Mayo, now Director of the Budget.

"The proposal is to reduce [repeat, reduce] the debt limit by $65 billion, making it $300 billion—but at the same time to exempt from this limit the $82 billion in Treasury securities held by the various trust funds, notably social security, thus reducing to $280 billion the debt subject to the limit. The argument for this is reminiscent of F.D.R.; namely that since one Government agency owes it to another, it has no effect on the country's economy and should not be regarded as debt.

"Reduce the debt limit to $300 billion and reduce the applicable debt to $280 billion, as this would do and presto, you wind up not only with a lower debt, but also with a comfortable leeway of $20 billion for more borrowing from the public.

In addition, anything that the Treasury can borrow from the Social Security Trust Fund is sheer gravy. It wouldn't even count.

"Well, when it comes to easy ways of doing things, this one is hard to beat. The social security fund happens to be running a substantial surplus, at the moment, which means that the administration would have billions of dollars at its disposal without even having to admit that it was borrowing. This is precisely what the Johnson administration had discovered. By using surplus social security funds to finance deficits in operating expenses, Mr. Johnson was able to produce paper surpluses in his budgetsfor 1969 and 1970. The new method of budget accounting, in which all government funds are lumped together, has made it possible to show a budgetary surplus even while the national debt is going up.

"Of course, this is absurd. And in a world already full of absurdities, it may seem consistent to argue that since a deficit is not a deficit, then a debt should not be a debt.

"But look a little farther ahead. What happens when, as demands on the social security fund increase, either in the normal course of events or because of a business slowdown, the fund needs its money back? It would be impossible to make restitution without pushing the national debt right through the ceiling and creating an immense deficit in current accounts. In short, this is a one-way street by which the trust funds can be easily drained of their resources while at the same time making it almost impossible for them to get their money back.

"Ponzi should be living today."

[From the Wall Street Journal]

"BUMPING THE CEILING

"As a guarantee of governmental economy, the Federal debt ceiling has hardly been a total success. Congress has continued to approve administration spending requests, sometimes even raising them, and if the debt pierces the limit, well, the limit is raised.

"The subject arises anew because the Nixon administration, through no fault of its own, already finds itself bumping against the debt ceiling. If something isn't done before long, the administration presumably will be forced to the tactics of some of its predecessors, such as stalling on payments due the Government's creditors.

"What the Treasury is considering is a plan not to merely raise the ceiling once more but to drastically remodel it. The basic idea is to exempt from the debt limit all or part of the $80 billion of Treasury securities that are held by Federal trust funds. If that were done, the ceiling could even be lowered and the Government still wouldn't hit it for years to come.

"While the suggestion may possess a certain logic, the difficulty is that it would sacrifice whatever virtue the debt limit has. Federal debt is Federal debt, after all, whether the resulting Treasury issues are sold to the public or stashed away in a trust fund's portfolio. And the only excuse for the debt limit, so far as we can see, is that it's a sporadic reminder—to Congress, the administration and the public—of just where the debt is going.

"If the debt ceiling is to be useful, in other words, it should allow the Government a minimum of headroom, not the wide leeway the Treasury is considering. Nobody likes bumps, but sometimes they can be educational."

Senator ANDERSON. Mr. Secretary, thank you very, very much for your patience.

Secretary KENNEDY. I appreciate this, thank you.

Senator ANDERSON. Mr. Jaffe. We have another witness, Mr. Jaffe. Go ahead.

STATEMENT OF MICHAEL D. JAFFE, GENERAL COUNSEL, LIBERTY LOBBY

Mr. JAFFE. Thank you, Mr. Chairman.

My name is Michael D. Jaffe, I am general counsel of Liberty Lobby appearing with me is Mr. Lou Byers, congressional assistant of Liberty Lobby. We appear today to represent the views of the 15,000 members of Liberty Lobby's board of policy on behalf of more than 200,000 subscribers to our monthly legislative report, Liberty Letter. The board of policy has overwhelmingly voted in favor of a "sound dollar," and "less government spending."

We oppose any increase in the national debt limit, either temporary or permanent. This is the position we have taken in past years, and we find it difficult to understand how a change in administrations can change the merits of astronomical Federal spending and debt.

Last November, nearly 60 percent of the American people voted for an end to the irresponsible policies of reckless spending and borrowing which marked the past several administrations. Unfortunately, it did not take long to discover that the victorious candidate apparently plans more of the same.

We commend the House Ways and Means Committee for its refusal to accept the Nixon administration's proposed "slight-of-hand" trick, which was designed to increase the debt limit by $17 billion, while appearing to reduce it by $5 billion. However, we believe that this action is not enough, and that the Senate should refuse any increase, telling the administration that, from this time forward, it will have to live within its income.

We have no argument with those who say that the way to get runaway Federal spending under control is through cutting appropriations, rather than by means of a debt ceiling. We agree that appropriations should be cut drastically, and have presented this point of view before both House and Senate committees on numerous occasions for the past 8 years. In practice, however, the previous administration showed absolutely no interest in bringing spending down to a reasonable level, and this administration gives every indication that it is following in the footsteps of its predecessor. If the Senate refuses to increase the debt ceiling, this administration will be forced to come up with practical proposals for bringing Federal spending in line with income. It will have to stop wasting money on such unnecessary and unpopular programs as foreign aid and the poverty program, just to give two examples.

We agree with the views expressed by Representative H.R. Gross, who told the House that he opposed increasing the debt ceiling because "there is no other way to protest the irresponsible spending programs that pile ever higher the staggering debt that is being passed on to the generations to come, and there is apparently no way to point up the necessity for the financial restraints that are necessary if sanity is to be restored to the conduct of the fiscal affairs of the Federal Government."

In 1967, all 10 Republican members of the House Ways and Means Committee signed a minority report opposing that year's bill increasing the permanent debt limit to $358 billion, and the temporary limit to $365 billion. The report characterized the increase as "just another gimmick." It went on to ask, "Under these circumstances, does anyone doubt that prior to June 30, 1969—before the debt limit is scheduled to revert to $358 billion—the administration will come to the Congress for an additional increase?"

This prediction has come true, although it is today a Republican, rather than a Democratic, administration which is making the request.

And there is no end in sight. If the Congress raises the debt ceiling every time the administration comes in and asks to be relieved from the consequences of its irresponsible fiscal policies, the debt ceiling is serving no purpose whatever, other than to fool the American people into thinking there is some effective control on runaway debt.

We urge the committee to take this opportunity to use the debt limit as an effective tool in the case of fiscal responsibility. The American taxpayer, suffering under an unfair and exorbitant tax system, is demanding that reckless Federal spending be brought under control. Rejection of the administration demand under consideration here today can be a vital first step.

Thank you.

Senator ANDERSON. Thank you very much. The hearing is adjourned. The committee will meet in executive session on this matter at 10 o'clock tomorrow morning.

Mr. JAFFE. Thank you, Mr. Chairman.

(Whereupon, at 12:55 p.m., the hearing was adjourned, subject to the call of the Chair.)

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