Copy 1

$336 BILLION DEBT LIMIT

1787-1

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETIETH CONGRESS

FIRST SESSION

ON

H.R. 4573

AN ACT TO PROVIDE, FOR THE PERIOD ENDING ON JUNE 30, 1967, A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

FEBRUARY 15 AND 16, 1967

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

74-487 WASHINGTON : 1967

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

GEORGE A. SMATHERS, Florida
CLINTON P. ANDERSON, New Mexico
ALBERT GORE, Tennessee
HERMAN E. TALMADGE, Georgia
EUGENE J. McCARTHY, Minnesota
VANCE HARTKE, Indiana
J. W. FULBRIGHT, Arkansas
ABRAHAM A. RIBICOFF, Connecticut
LEE METCALF, Montana
FRED R. HARRIS, Oklahoma

JOHN J. WILLIAMS, Delaware
FRANK CARLSON, Kansas
WALLACE F. BENNETT, Utah
CARL T. CURTIS, Nebraska
THRUSTON B. MORTON, Kentucky
EVERETT McKINLEY DIRKSEN, Illinois

TOM VAIL, *Chief Counsel*
EVELYN R. THOMPSON, *Assistant Chief Clerk*

CONTENTS

$336 BILLION DEBT LIMIT

WEDNESDAY, FEBRUARY 15, 1967

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

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

Present: Senators Long, McCarthy, Hartke, Ribicoff, Metcalf, Williams, Carlson, Bennett, Curtis, and Morton.

The CHAIRMAN. The hearing will come to order.

Today's hearing was called to enable administration spokesmen to present the case for a $6 billion increase in the $330 billion debt limit for the remainder of this fiscal year.

(The text of the bill H.R. 4573 follows:)

[H.R. 4573, 90th Cong., 1st sess.]

AN ACT To provide, for the period ending on June 30, 1967, a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, during the period beginning on the date of the enactment of this Act and ending on June 30, 1967, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) shall be temporarily increased to $336,000,000,000.

Passed the House of Representatives February 8, 1967.

Attest: W. PAT JENNINGS,
Clerk.

The CHAIRMAN. From the statement submitted by the Director of the Bureau of the Budget, it appears the rising cost of prosecuting the Vietnam war is the principal reason for the higher debt limit. However, I note that interest on the national debt this year is $650 million more than was anticipated when the 1967 budget was prepared, and the full impact of the Federal Reserve's tight money, high interest rate policy has cost the American people $3 billion extra in this fiscal year.

We are pleased to have the Honorable Henry H. Fowler, Secretary of the Treasury, and the Honorable Charles L. Schultze, Director of the Bureau of the Budget, with us today. Gentlemen, we know the Business Council is meeting in Washington at the same time this hearing is going on, and that group is making demands on your time. I hope we can proceed with this hearing in such a way as to expedite consideration of this bill, yet accommodate the added pressures on you.

Mr. Secretary, perhaps we could move most expeditiously if you and Mr. Schultze would complete your prepared statements first and then we will proceed with any questions that the members of the committee may desire to ask.

STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY

Secretary FOWLER. Thank you, Mr. Chairman.

I have a short statement here which I will go over with the members of the committee.

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before this committee and to press our request for prompt action to raise the limit on the public debt. This request is for a $6 billion increase in the temporary debt ceiling, to raise that ceiling level to $336 billion for the balance of fiscal year 1967.

Let no one mistake the realities, and the urgency of our present situation. If congressional authority permitting additional cash borrowing is not provided before the end of February—less than 2 weeks from today—the Treasury will be in the untenable position of having to reduce sharply the outpayments for goods and services approved by the Congress and vital to the Nation's well-being. For the first half of March we will be able to pay only about one-half of the total amount of the anticipated bills.

The potential harm to this Nation's economy and to our position in the world economy which would result from a failure to honor our legal and contractual obligations is self-evident. Unless the debt limit is increased by the end of February, at which time our outstanding obligations will exceed that which we could legally borrow, the possibility of an economic and monetary derangement could be a grim reality.

Because of the short time available we are asking at this time only for a revision of the debt limit applicable to the remaining months of fiscal year 1967. I would prefer, of course, to have sufficient leeway to cover these months and the ensuing fiscal year 1968 but I do not believe I should burden the present request with anything that could delay speedy and favorable action on the immediate need for a higher ceiling.

For this reason, as well as the other reasons referred to, I believe I am justified in urging that the Congress in committee or in floor action not burden the present request with anything that could delay necessary action by introducing highly controversial amendments or proposals.

I am aware that there are some aspects of the present state of law and Government practice relating to the debt limit and budgetary accounting that many members would like to see the subject of legislative proposals, hearings, and possible changes in law or practice. Many of these proposals are highly controversial. To handle them adequately and with full legislative process would take much time both here and in the other body.

For example, there have been Members in both Houses who have urged from time to time that the practice of periodic extension of the temporary debt limit be abandoned and that the permanent limit at its present figure of $285 billion should be modified.

It is clear from examination of the record of sessions of this committee that this is a subject which, if it is to be handled, should not be disposed of in haste and without searching appraisal.

We are all aware that there is, and continues to be, a good deal of contention about the way in which the budget is presented. Statements continue to be made about so-called budget gimmickry. A good deal of this attaches to the running dispute about participation certificates and the sale of assests—how they should be treated in the budget presentation. They are now, under standard procedures followed by administrations for the last 12 years, treated as reductions in expenditures. Some would propose that they be included under the debt limit.

Let me suggest the proper approach to this problem. On page 36 of the budget message presented on January 24, the President said:

> For many years—under many Administrations—particular aspects of the overall budget presentation, or the treatment of individual accounts, have been questioned on one ground or another.
>
> In the light of these facts, I believe a thorough and objective review of budgetary concepts is warranted. I therefore intend to seek advice on this subject from a bipartisan group of informed individuals with a background in budgetary matters. It is my hope that this group can undertake a through review of the budget and recommend an approach to budgetary presentation which will assist both public and congressional understanding of this vital document.

This Commission has been proposed by the President partly in response to the concern of Members of Congress regarding budgetary practice, and partly because it is desirable in any event to seek improvement in our governmental operations from a bipartisan or nonpartisan point of view. Its establishment, and a study of the results of its efforts, offer a clearly preferable alternative to any attempt to reform the budget in connection with this debt limit extension, where timing is a vital factor.

This is equally true of efforts to include the participation certificates under the debt limit, or proposals to change the permanent debt ceiling, and of suggestions to modify the 4¼-percent ceiling on issues of Treasury bonds—much as I sympathize with the need to take some steps on this latter point.

Now let me move to the question of why we are here today asking for an increase in the debt limit when the Congress acted last June, presumably to take care of this matter for this fiscal year.

Last May, the administration requested a $4 billion increase in the existing $328 billion temporary debt ceiling to a level of $332 billion, to carry through fiscal 1967. Congress reduced that request by $2 billion, voting the current limit of $330 billion. We pointed out that this reduction cut severely into our margin for contingencies and that, as a result, it might be necessary fo return to the Congress for an increase in the debt limit applicable to this fiscal year.

Indeed, my specific comment on the $330 billion ceiling, when I appeared before this committee last June, was as follows:

> Our estimates show that this will give us a very tight squeeze in early 1967—and as I said earlier the current uncertainties are more than normal at this time of year—but I believe we may be able to operate within this more circumscribed limit. I must tell you, however, that if this should not appear to be working out, because of one or another of the various uncertainties that I have mentioned, we would have to come back before the end of fiscal 1967 for a revision of this limit. (Senate Finance Committee, hearing on the public debt limit, June 13, 1966, p. 7.)

The likelihood that this provision would not be adequate was also faced squarely by this committee. The report of the committee carefully reviewed the debt projections presented by the Treasury last

June and concluded that the $330 billion ceiling would be "tight" but would allow the flexibility which is required in the management of the debt. The report recognized that on three dates projected ahead—December 15, 1966, and March 15 and April 15, 1967—the $330 billion ceiling would not be sufficient to provide both a $3 billion contingency allowance and the normal $4 billion cash balance, but it was anticipated that the cash balance could prudently be drawn down on dates just before large taxpayments were due to flow in. The committee report went on to say:

> Should the somewhat higher receipt estimates of the staff of the Joint Committee on Internal Revenue Taxation be realized, there will, of course, be further leeway in the ceiling of $330 billion. Should this ceiling prove to be too low, because of various contingencies which may arise, it will, of course, be possible to reconsider the debt ceiling at a later time. (Report of Senate Finance Committee on public debt limit, June 15, 1966, pp. 8 and 9.)

The request last May for a debt ceiling of $332 billion was based on a projected budget deficit in fiscal year 1967 of $1.8 billion. Mainly because of the greater costs to Vietnam, and despite a much larger inflow of tax revenues than was projected earlier, we now expect a budget deficit in this fiscal year of $9.7 billion.

Revenues are now expected to reach $117 billion in this fiscal year, compared with a projected level of $111 billion in the budget message a year ago.

Our expenditures projections, however, now point to a total administrative budget outlay of $126.7 billion compared with the initial estimate of $112.8 billion. Of the $13.9 billion difference, $9.6 billion is a direct result of larger defense expenditures, $9.1 billion of it directly due to Vietnam. Three billion dollars reflect the impact of tight money markets which have raised our interest costs, impeded the sale of financial assets, and placed a heavier burden on Federal credit programs.

There can be no question as to the urgency of the present request. The debt subject to limit has remained very close to the statutory ceiling since late November 1966, hovering between $329 billion and a peak level—reached on January 18—just $75 million short of the $330 billion limit. At the same time our cash balance has been on the low side, ranging at times down to less than $1 billion—compared with the $4 billion level generally regarded as a normal working balance in figuring our debt limit needs. And a working balance of $4 billion, I might mention, is less than half a month's expenditures.

For comparison with the debt projections made last May and June, let me direct your attention to the table attached to this statement. At the end of December 1966 the debt was $329.5 billion, while the operating cash balance was $4.5 billion—up temporarily because of corporate tax receipts after December 15. With the normal cash balance of $4 billion the debt would have been $329 billion.

As the same table shows, the projection presented to this committee last June was for a debt at the end of calendar year 1966 of $323 billion, with the normal $4 billion cash balance. The actual level was thus $6 billion above the projection, on the basis of which the Congress provided a ceiling of $330 billion.

The $4.5 billion cash balance we enjoyed at the end of 1966 did not stay with us for long. By January 15 it was $2.6 billion, with the debt, also on January 15, at $329.8 billion. If we had held a $4 billion cash balance on that day, the debt subject to limit would have been $331.2 billion—$1.2 billion over the ceiling.

On January 18, the debt subject to limit reached a peak level of $329,925 million, just $75 million short of the limit. Our operating balance that day was $2.5 billion. With a $4 billion cash balance the debt would have been $331.4 billion.

There was another temporary improvement at the end of January. Our cash level was back to $4.5 billion and the debt was $4.5 billion above the level projected last June—based on the constant $4 billion cash balance. The cash level drops sharply during February, however, and by the end of the month, without additional borrowing above the current level, our usable cash will be exhausted.

If we did borrow up to a hair's breadth of the limit—which I prefer not to do—our cash at the end of February is projected to be an inadequate $1.5 billion. And net outpayments in the first few days of March would more than exhaust that meager supply. Quite clearly, in order to pay our bills and manage our cash properly, we must be able to borrow additional funds by the end of February.

Using the normal method for projecting minimum debt limit leeway for the balance of this fiscal year—including the usual $4 billion cash balance and $3 billion contingency allowance—we would request a debt ceiling of $339 billion for the current fiscal year. With the period of peak need only a month or two away, however, rather than a year away as is normally the case when we make these requests, it is possible to plan much more closely and to anticipate that we can get through without the same contingency allowance that would be needed otherwise.

Accordingly we requested a ceiling of only $337 billion in our presentation to the House Ways and Means Committee. I characterized that ceiling as "adequate but scarcely comfortable or roomy." Since that committee approved an increase of only $6 billion, I can only conclude that their estimate of our skill and luck is more generous than our own.

I want to emphasize that this $336 billion ceiling is just as tight as it can be—without risking a fair likelihood that we would have to make still another appearance on this matter.

You will note that the projected level of debt for March 15, with a $4 billion cash balance, is $336.3 billion. That is without any allowance for contingencies. I believe we can reasonably plan for a low cash balance on March 15, since taxes will flow in immediately afterward, but the lack of a contingency allowance means that this is drawn down tight.

A delay in approving this minimum necessary increase would be very damaging. The Government's credit must be maintained by prompt payment of outstanding financial obligations, the trust funds in its charge must be administered properly, and the bills incurred in providing the goods and services for Government programs operating with appropriated funds must be paid promptly. I urge that favorable action on our request be taken without delay.

Thank you, Mr. Chairman.

(The attachment to the Secretary's statement follows:)

Comparison of debt projections of June 13, 1966, with actual results

[In billions of dollars]

Fiscal year 1967	Projections of June 13, 1966: Operating cash balance (excluding free gold) (1)	Projections of June 13, 1966: Debt subject to limitation (2)	Actual: Operating cash balance (excluding free gold) (3)	Actual: Debt subject to limitation (4)	Actual: Debt subject to limitation after adjusting cash balance to $4.0[1] (5)	Difference col. (5) compared with col. (2)
1966						
June 30	4.0	313.3	10.8	320.1	313.3	
July 15	4.0	316.6	7.2	319.0	315.8	−0.8
July 31	4.0	316.8	6.4	319.5	317.1	+0.3
Aug. 15	4.0	318.4	3.6	319.2	319.6	+1.2
Aug. 31	4.0	320.3	5.6	324.6	323.0	+2.7
Sept. 15	4.0	323.4	2.1	324.7	326.6	+3.2
Sept. 30	4.0	318.1	7.2	325.0	321.8	+3.7
Oct. 15	4.0	321.9	2.3	323.8	325.5	+3.6
Oct. 31	4.0	322.2	5.0	327.1	326.1	+3.9
Nov. 15	4.0	324.4	2.3	327.1	328.8	+4.4
Nov. 30	4.0	324.6	3.3	329.6	330.3	+5.7
Dec. 15	4.0	327.8	.9	329.9	333.0	+5.2
Dec. 31	4.0	323.0	4.5	329.5	329.0	+6.0
1967						
Jan. 15	4.0	325.3	2.6	329.8	331.2	+5.9
Jan. 31	4.0	324.1	4.5	329.1	328.6	+4.5
			Estimated			
Feb. 15	4.0	325.2			330.9	+5.7
Feb. 28	4.0	324.7			332.5	+7.8
Mar. 15	4.0	328.7			336.3	+7.6
Mar. 31	4.0	323.5			331.7	+8.2
Apr. 15	4.0	327.5			334.8	+7.3
Apr. 30	4.0	318.6			327.8	+9.2
May 15	4.0	319.8			330.3	+10.5
May 31	4.0	320.4			330.3	+9.9
June 15	4.0	324.7			333.6	+8.9
June 30	4.0	314.9			323.5	+8.6

[1] Adjustment to $4.0 billion cash balance places data on basis comparable to estimates given on June 13, 1966, as shown in col. (2).

STATEMENT OF HON. CHARLES L. SCHULTZE, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. SCHULTZE. Mr. Chairman and members of the committee, I also appreciate this opportunity to appear before you in presenting the administration's request for an increase in the statutory debt limit. Secretary Fowler's statement has explained the basis for our request, and underlined the urgency of the situation. I would like to discuss with you the outlook for Federal expenditures, indicate the factors which led to the increase in fiscal 1967 expenditures compared to our estimates of a year ago, and outline the measures we have taken to hold that increase to a minimum.

In his budget message last year, the President pointed out that the estimate of expenditures was particularly uncertain, in view of the wide range of possible developments in Vietnam. In appearing before this committee last June, when the debt limit was being discussed, both Secretary Fowler and I underlined that uncertainty.

Since that time, the outlook for Federal expenditures, revenues, and the deficit has changed substantially, as reflected in last month's budget message. For fiscal 1967, we now project revenues in the administrative budget of $117 billion and expenditures of $126.7 billion, resulting in a deficit of $9.7 billion. The corresponding deficits in the cash and national income accounts budgets measures are significantly smaller—$6.2 and $3.8 billion, respectively.

The increase in the administrative budget deficit for fiscal year 1967, compared to the estimate of a year ago, is the net result of a rise of $13.9 billion in expenditures, partially offset by a $6 billion increase in receipts. I do not believe it is generally appreciated that last January's underestimate of the deficit followed 3 consecutive years in which the actual budget deficit turned out to be smaller than anticipated. Indeed, if we take all 4 years together—fiscal 1964 through fiscal 1967—the overestimates and underestimates almost exactly cancel each other out.

The $13.9 billion increase in expenditures can be divided into three parts:

First, and by far the largest, is a $9,650 million rise in military spending—$9,084 in support of our operations in Vietnam, and $566 million primarily for increased military and civilian pay.

Second, an increase of $3 billion as the direct outcome of stringent monetary conditions in the private sector.

Third, a net remaining increase of $1.3 billion arising from other reestimates of fiscal 1967 expenditures, reflecting three things:

—The effect of congressional action on budgeted spending for civilian programs;

—The actions directed by the President to defer and reduce expenditures in fiscal 1967 as part of the economic program he proposed to Congress last September; and

—Changing workloads and more recent program experience which have caused revisions in the estimates for such outlays as public assistance, the postal service, the space program, and general revenue payments for medicare.

Let me describe each of these elements of the 1967 expenditure revision in turn.

DEFENSE SPENDING

The 1967 estimates of military expenditures were developed in the latter months of calendar 1965, when—

—Our buildup in Vietnam was really just beginning—and we were moving more than 100,000 men 10,000 miles in 120 days.

—Our measurable expenditures for Vietnam were growing explosively—there was a 50-fold increase in such expenditures from 1965 to 1966.

—Enemy reaction was uncertain—

—to our buildup, which radically altered the military balance;

—to major diplomatic initiatives then underway.

In these rapidly changing circumstances, we did not know how fast or how far our buildup in forces would have to go. Reasonably accurate military requirements for the more distant future could not be established. As a consequence, the volume of long-leadtime items, which would have to be ordered in advance during fiscal 1967, if the war were to continue beyond the year's end, could not be determined. Therefore, rather than submit appropriation requests for such items based upon pure speculation, military requirements were forecast and budgeted only through June 30, 1967—a date which was itself almost 2 years away at the time the budget was formulated.

We did forecast large increases in expenditures, both absolutely and relatively, for 1966 and 1967, even without the inclusion of these long-lead items.

The many uncertainties in these estimates were stressed in the budget message, in other Presidential statements, and in testimony of administration witnesses before congressional committees, beginning with January 1966. Similarly, the specific palnning assumptions behind the Defense budget were outlined by Secretary McNamara in his appearance before the Senate Armed Services Committee a year ago. He explicitly pointed out that "if it later appears that they [combat operations in Vietnam] will extend beyond this date [namely, June 30, 1967], it will be necessary to supplement the fiscal year 1967 budget." On August 1, 1966, Secretary McNamara advised the Senate Appropriations Committee that a supplemental appropriation request for 1967 was "very likely." Supplemental appropriations for the conduct of a war are, of course, nothing new. During the Korean war, for example, there were seven supplemental appropriation requests, totaling $45.1 billion.

As the need for a 1967 supplemental became clear, we chose to handle it in the regular 1968 budget and programing process then underway, rather than to transmit hurried and partial estimates to the Congress late last year, while attempting to run two budget/program cycles at the same time. Many of the decisions which were involved in preparing a 1967 supplemental were also involved in preparing the 1968 budget. The 1968 budget, for example, is based upon decisions about the level of troop strength and the nature of their operations. But part of the long-leadtime procurement and pipeline requirements which are needed for those operations is financed in the 1967 supplemental. Had we gone forward with an amendment or supplemental last fall, it is quite probable that another drastic adjustment would have had to be made in the 1967 financing requests on the basis of decisions taken on the 1968 budget.

It is important to note that:

—Our military effort in Vietnam has not suffered in any way from a shortage of funds. We have provided every plane, every gun, and every cartridge needed to support operations in Vietnam.

The most immediate needs have been covered through reprograming actions, which have been reported to the appropriate committees according to established procedures.

—The supplemental now before the Congress will take care of additional needs.

The alternative to this course of action would have been to present last year an appropriation request not based on firm requirements. This would have been extremely wasteful. In the first place, it would have courted the danger of the kind of overfunding which occurred during the Korean war, when the Defense Department requested far more funds than were actually needed, created a huge unfilled backlog of industrial orders, and ended up with billions of dollars in unneeded material and supplies. Indeed, in the Korean war the appropriations were so far out of line with reality that expenditures consistently fell far below forecasts, simply because it was impossible to produce what had been ordered, even with all-out production runs. Moreover, the available balances were so large that in the Army procurement account, for example, the military were able to run their operations for 4 years after the end of the Korean war without requesting any additional appropriations. This is hardly conducive to effective control over the defense budget.

Second, it is an exceedingly valuable practice, in military budgeting, to request funds only when justified by specific requirements. This practice is one of the important tools a Secretary of Defense has at his disposal to avoid unnecessary and wasteful spending. To have requested billions in appropriations not based on firm requirements, could, in my view, have risked destroying an effective budgetary control technique, painfully developed over many years.

While there continue to be uncertainties in our current estimates, we are now on much more solid ground than a year ago. Specifically:

—We now have more than 18 months of combat experience behind us.

—The data base necessary for realistic forecasting is being augmented every day.

—Although our buildup continues, the rate is far more gradual—we are no longer doubling our deployments in a period of a few months.

For these reasons it is now possible to determine future needs more accurately. As a consequence, the 1968 defense budget—unlike the 1967 budget—provides for financing Vietnam requirements on a continuing basis, and will assure the availability of long-lead-time items until fiscal 1969 funds are provided.

The 1967 supplemental, which is now before the Congress, requests $12.3 billion in appropriations for the support of our operations in Vietnam. Expenditures for those operations will be $9.1 billion higher than estimated a year ago. Taking into account increases in military and civilian pay and similar items, the total increase in defense spending will be $9.6 billion.

I am attaching, as an exhibit to my statement, the first several pages of Secretary McNamara's statement last month before a joint session of the Senate Armed Services Committee and the Subcommittee on Defense Appropriations. It covers, in somewhat more detail, the points I have made with respect to the 1967 defense expenditure estimates.

Let me turn now to the impact of monetary conditions on the 1967 budget.

The second major factor in increasing the current expenditure estimate as compared with the original 1967 budget a year ago was the condition of the money market during the past year. We estimate that the increasing shortage of credit funds and rising interest rates experienced last year are adding approximately $3 billion to the Federal budget for fiscal year 1967 as a whole, although monetary conditions are fortunately now easing.

First, interest on the public debt will be $650 million higher than originally anticipated, mainly on account of a rise in interest rates.

Second, sales of financial assets are now projected for fiscal 1967 at $3.9 billion—$800 million lower than the estimate carried in the budget a year ago.

Third, a decreasing availability of credit in the private money and credit markets led to additional outlays of $1.5 billion in various Federal credit programs—the major instances of which are as follows:

—Large amounts of crop loans under the price support program, normally made by commercial banks with CCC guarantee, will instead have to be made by CCC itself—this is estimated to add $550 million to expenditures.

—Sales of properties, acquired by the Federal Housing Administration under its mortgage guarantee program, are normally financed with private mortgages—an additional $500 million in expenditures will occur because these mortgages will be picked up by the Federal National Mortgage Association.

—Some $200 million additional disbursements will have to be made by the Export-Import Bank to finance export loans which, under more normal monetary conditions, would have been made by private lenders.

—Additional net budget expenditures of $130 million will occur as a result of a reduction in the flow of savings into savings and loan institutions which in turn led to lower-than-estimated payments of advance insurance premiums to the Federal Home Loan Bank Board.

Let me turn to other expenditure reestimates.

Finally there is a net increase in expenditures of $1.3 billion—apart from changes in defense outlays and changes stemming from money market conditions. This increase is the net result of three factors; reestimates in expenditures reflecting changes in workload or program conditions; congressional changes in the 1967 budget; and presidentially ordered reductions and deferrals.

The effect of congressional action on appropriations and authorizations during the last session of Congress would have raised 1967 administrative budget outlays by some $2.6 billion. However, this increase will be approximately offset by the reductions, deferrals, and postponements ordered by the President to help restrain inflation. Although these two categories roughly cancel each other in total, this is not the case for each individual agency. The most significant reestimates are for:

—The Department of Health, Education, and Welfare, up $0.7 billion. Here the most significant factors are increases for relatively new medical programs in which the estimating experience is so far very limited. The largest single increase is for the medical assistance grants under the public assistance program, as State expenditures which earn Federal matching have risen above the level expected last year. In addition, about 2 million more elderly people than expected enrolled in ths supplementary medical insurance program under which the Federal Government matches their $3 per month premium payment. These two items account for $0.4 billion of the HEW reestimate.

—The National Aeronautics and Space Administration, up $0.4 billion. While the NASA program was not increased, contractors performed more work under existing contracts than had been anticipated.

—The Veterans' Administration, up $0.3 billion aside from money market changes. The increase reflects the cost of the GI bill enacted last session.

—The Post Office Department, up $0.3 billion (excluding the cost of last year's pay raise). This increase is primarily for the cost of handling and transporting 2 billion more pieces of mail than estimated in the original budget figure for the Department, even though that estimate itself projected an almost record increase in mail volume.

The largest decrease estimated is in the Department of Agriculture, for which the reestimates amount to a reduction of $0.4 billion compared with last year's estimate. The major factors here are lower than estimated production of cotton and increased domestic consumption and exports of feed grains.

CONGRESSIONAL ADDITIONS TO THE 1967 BUDGET

Congressional action on the President's budget requests last year would result in an increase in expenditures during the fiscal year 1967 of about $2.6 billion.

Although there were a variety of ups and downs, the total of appropriations enacted was not far from the President's budget recommendations, except for a few instances in which the appropriations covered more liberal legislation than the President had proposed—notably the new GI bill. However, it is now clear that several appropriation reductions were made in uncontrollable formula programs—such as public assistance and vocational rehabilitation—simply on the basis of workload estimates which cannot be sustained. Such cuts will have to be restored. Allowing for these cases, we estimate an increase of $0.6 billion in expenditures this fiscal year over the amounts originally budgeted.

The Congress last year also provided new obligational authority in substantive law—that is, "backdoor financing"—not requested by the administration. Increased expenditures from such authority, particularly for the purchase of mortgages on low-cost housing, would amount to $0.6 billion, if the President had not placed some of these funds in reserve.

Additional 1967 budget costs of $0.7 billion stem from actions fixing benefits or pay rates—such as the advance in the effective date of the military and civilian pay raise to July 1, 1966, instead of January 1, 1967, as proposed, and increases in military medical and veterans benefits.

An increase of $0.2 billion in expenditures results from legislation which would have permitted certain reductions to be made. Examples include user charges for such services as meat and poultry inspection and authority to guarantee private loans to some students who now qualify for direct loans.

Finally, the Congress enlarged program authorizations by an amount which would have added $0.5 billion to 1967 expenditures. The administration, however, has not and does not intend to seek supplemental appropriations to cover these items. Four-fifths of the amount involved relates to increased authorizations in the Elementary and Secondary Education Act.

I would like to discuss for a few moments the 1967 program deferrals and reductions.

In his September 8 economic message, the President stated his intention of deferring, stretching out, and otherwise reducing contracts, commitments, and obligations. He indicated at that time that he had already ordered $1.5 billion of such deferrals and reductions, and estimated that another $1.5 billion would probably be required, for a total program reduction approximating $3 billion. With normal timelags this would have led to expenditure reductions of $1½ to $2 billion for the year.

The actual program reductions which have been undertaken exceed the target set out last fall. Reductions and deferrals in program obligations, commitments, and contracts total $5.2 billion. We estimate the expenditure effect of those actions to be $3 billion. Of that $3 billion, $2.6 billion is reflected in the administrative budget. The other $400 million is the expenditure reduction, during the 12-month period beginning October 31, which results from the $1.1 billion reduction in highway contracts. This reduction shows up in the trust funds, of course, not in the administrative budget.

In the President's September message, and in my testimony before this committee last October on the suspension of the investment credit, three specific means of achieving those reductions and deferrals were outlined:

—Requesting appropriations for Federal programs at levels below those authorized by the Congress, where additions to the President's budget were involved,

—Withholding appropriations provided above the President's budget recommendations, and

—Reducing or delaying programs requested by the President in his 1967 budget.

Each of these types of action was undertaken in reaching the reductions of $5.2 billion in programs and $3 billion in expenditures.

As the President indicated in his September message, and I pointed out in my testimony before this committee, a very large part of the reductions stems from delays, postponements, and stretchouts in contract awards and program commitments. These contracts will, in most cases, eventually be let. But the delay and deferral of awards were designed to and succeeded, we believe, in moderating inflationary pressures.

I have attached to my statement a table summarizing the major types of reductions or deferrals and the major Federal agencies involved. These overall summaries are the result of some 150 individual program actions, a detailed compilation of which has been printed in the hearings of the House Ways and Means Committee on extension of the debt limit. I have copies of that tabulation and would be glad to furnish it for the committee.

Illustrative of the kinds of actions involved are:

—A reduction of $1.1 billion in obligations under the highway trust fund. These funds will not be lost to the trust fund, but will be available for later obligation as budgetary and economic conditions warrant.

—A postponement from 3 to 6 months of every new start in the Corps of Engineers program for fiscal 1967—both the 25 requested by the President and the 33 added by the Congress. To avoid price speculation, we are allowing land acquisition to proceed. These projects are not canceled, but deferred.

—A withholding of $750 million of the $1 billion in housing special assistance provided by the Congress. These funds will remain available. Should conditions require, it may be necessary to release some of these funds at a later date.

—A deferral and postponement of 1967 new starts on Federal buildings.

—A reduction in Public Law 480 shipments during fiscal 1967.

—A reduction in the outflow of loans under various loan programs of the Agriculture Department.

These examples give the flavor of the actions we have taken. The administration is continuing to review 1967 programs with an eye to finding additional areas where stretchouts or postponements can be made. At the same time the delays and reductions already ordered are also being reviewed. If economic conditions should require, some funds that are now being withheld may have to be released. Consequently the size and composition of the reductions may and most will change likely as the year progresses.

As I indicated, I have available an itemized list of some 150 individual program actions.

Senator WILLIAMS. I wonder if it might not be well to put those in the record. We hear so much about them

Mr. SCHULTZE. I have copies of them and they will be submitted.

The CHAIRMAN. It will be so received without objection.

Mr. SCHULTZE. They are available, as I say, now, in the printed hearings in the House Ways and Means Committee, the printed hearings on the extension of the debt limit.

(The document referred to follows:)

SUMMARY ANALYSIS OF 1967 BUDGET REDUCTIONS AND DEFERRALS

Attached are summary tabulations and a detailed table on the 1967 budget deferrals, postponements and reductions.

There are several factors which should be kept in mind in reviewing these actions.

First, the President in his September 8 economic message, and the Budget Director in his subsequent testimony before the Ways and Means Committee, stated that the program deferrals and reductions would be accomplished in three areas:

—by requesting appropriations for Federal programs at levels below those authorized by the Congress;

—by withholding appropriations provided above the President's budget recommendations; and

—by reductions or delays in programs requested by the President in his 1967 budget.

As the attached tables indicate, reductions were made in each of these areas.

Second, the Budget Director's statement before the Ways and Means Committee last September referred to a determination to reduce Federal *programs* by at least $3 billion. Because of lags in expenditures, such a reduction in *program levels* would have produced expenditure reductions of about $1½ to $2 billion. The total delays, postponements, and reductions outlined in the attached papers actually total $5.2 billion in program levels, significantly higher than the amounts indicated in the September statement before the Ways and Means Committee. The expenditure effect of these program actions is estimated at $3 billion, rather than $1½ to $2 billion.

Third, as both the President and the Budget Director stated last fall, a very large part of the reductions stems from delays, postponements, and stretchouts in contract awards and program commitments. These contracts will, in most cases, eventually be let. But the delay and deferral of awards has helped and will help to moderate inflationary pressures.

Fourth, the Administration is continuing to review 1967 programs with an eye to finding additional areas where stretchouts or postponements can be made. At the same time the delays and reductions already ordered are also being reviewed. If economic conditions should require, some funds that are now bieng withheld may have to be released. Consequently, the composition of the attached list may change as the year progresses.

1967 Budget Reductions

Attached is the listing of 1967 cutbacks and deferrals. As shown in the following summary (Table 1), they amount to reductions of $5.2 billion in program levels and $3.0 billion in expenditures. The detail supporting the second line (b) of that table is shown in Table 2 attached. (Not submitted.) The remaining details are shown in the attached Table 3. The cutbacks and deferrals are shown in the last two columns of Table 3 and do not include reestimates resulting from actions other than those taken specifically to reduce the budget. These reestimates, expenditures estimated in the January 1966 budget, and the expenditure effects of Congressional action are shown in separate columns of the table.

TABLE 1.—*Summary of 1967 budget reductions*

[In billions of dollars]

	Program level	Expenditures
Administrative budget:		
(a) From funds provided by the Congress	3.3	2.1
(b) Increased congressional authorizations for which we do not plan to request appropriations	.8	.5
Trust funds (nearly all highway trust fund)	1.1	[1].4
Total reductions	5.2	3.0

[1] Expenditures effect is for the year beginning Oct. 31, 1966.

TABLE 3.—*1967 budget reductions*

[In millions of dollars]

Agency, item, and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Effect of—: Congressional action	Effect of—: Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
Agriculture:					
Agricultural Research Service and Library:					
Slowdown on research construction	12.6	1.8	7.4	−10.9	−11.8
Reduction in fire ant eradiction program		4.2		−1.7	−2.0
Cooperative State Research Service: Construction grants, delay allocation of grants for facilities requiring provision of matching funds	47.7	13.2		−3.6	
Soil Conservation Service:					
Watershed protection, flood prevention and resource conservation and development programs, slowdown rate of construction	102.9	1.3	−1.3	−4.1	−1.1
Great Plains conservation program: Hold program to 1966 level	15.0	.9		−.4	−2.3
Consumer and Marketing Service: Sec. 32, reduction in purchases of surplus commodities	185.9			−40.0	−40.0
Commodity Credit Corporation: Public Law 480—food for freedom, reduction in shipments for 1967	3,755.0		−140.0	−100.0	−100.0
Rural Electrification Administration: Loans, electric and telephone—hold down loans to minimum essential needs	184.0	89.5		−27.0	−125.6
Farmers Home Administration: Direct loan account, operating loans—reduction in farm operating loans	300.0	50.0		−75.0	−75.0

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item, and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Estimated 1967 expenditures: Effect of—Congressional action	Estimated 1967 expenditures: Effect of—Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
Agriculture—Continued					
Agricultural credit insurance fund: Action to speed up sale of loans, including changing discount	−102.6		[3] 122.9	−86.0	
Rural housing insurance fund (above moderate income loans): reduction in relatively low priority loans made to persons with adequate incomes					−25.0
Additional items reduced or deferred since the 1968 budget estimates were prepared:					
Special milk and food stamp programs:					
Stop reallocation of special milk grants	169.6	73.0	−1.0	−3.5	−3.5
Delay inception of food stamp programs in new areas				−8.6	−8.6
Farm labor housing grants: Reduce 1967 program by postponing grants	3.0		[4] 3.0	−1.0	−1.0
Commodity Credit Corporation: Cut back shipments further under food for freedom program	(5)	(5)	(5)	−25.0	−25.0
Rural Electrification Administration: Further postpone advances on prior loan commitments	(5)	(5)	(5)	−10.0	
Soil Conservation Service: Further deferral of contracts and loans	(5)	(5)	(5)	−3.3	−3.3
Forest Service: Postpone planned land acquisition under land and water conservation fund	11.7	4.5	[6] 10.2	−5.0	
Commerce: Ship construction subsidy: Deferment of contract awards for approximately four ships until fiscal year 1968	91.5		−19.5		−47.2
Corps of Engineers:					
Construction:					
New starts—delay initiation by 3 to 6 months of 56 projects; land acquisition would proceed as originally scheduled	1,046.0	26.0	−6.1	−8.8	[7] −161.3
Continuing construction—defer award of contracts by 1 to 12 months on 67 projects initiated prior to 1967; slow down, where possible, other continuing contracts				−50.2	[7] −275.0
General investigations:					
Transportation studies—defer studies and await action by new Department of Transportation	31.9	.2		−.2	−.2
Texas water plan and gulf pollution study—portion of funds withheld pending clarification of study purposes and requirements				−.3	−.3
Great Lakes deicing study—study deferred because of low priority				−.1	−.1
Small equipment replacements: $400,000 cutback reflects a 5-percent reduction from normal small equipment replacement expenditures of $8,000,000 spread over 37 Corps districts. Reductions will take place averaging $50,000 per month for 8 months beginning November 1966 through June 1967				−.4	−.4
Health, Education, and Welfare:					
Food and Drug Administration:					
Defer procurement, supplies, travel, and printing and reproduction	64.9	−4.1	−3.0	−.1	(−1.2)
Defer construction starts				−2.0	
Education:					
Higher education loan fund: Program level reduced from $300,000,000 to $200,000,000. $100,000,000 is carried over for use in 1968 program	4.0		−20.2	−30.8	−100.0
Academic facilities construction, research construction, and research and training project grants: Defer construction and new project grants	365.2	−5.0	−40.9	−61.7	−94.3

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item, and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Estimated 1967 expenditures: Effect of—Congressional action	Estimated 1967 expenditures: Effect of—Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
Health, Education, and Welfare—Continued					
Education—Continued					
Libraries, handicapped and salaries and expenses: Stop reallocation of formula grants for libraries, defer new projects for handicapped research, and defer purchases, travel, etc.	95.9	−2.2	....	−1.3	−2.2
Work-study, educational opportunity grants, university community services:					
Limit continuation grants	195.4	−8.0	....	−1.4	−1.8
Limit reallocation of formula grants				−8.6	−14.2
Student loan program: Stop reallocation of formula loans	30.0	160.8	....	−2.0	−5.0
Elementary and secondary education activities:					
Title 1, education of disadvantaged: Stop reallocation of formula grants	970.0	−12.0	[3] 119.0	−34.0	−55.0
Title 3, supplementary centers and services: Defer new project grants until later in year	110.0	−7.0	−19.8	−18.2	(−22.7)
Titles 2, 4, and 5: Stop reallocation of formula grants	120.0	21.3	−3.7	−1.3	−3.5
Federally impacted areas: Defer new projects	267.0	167.8	....	−13.2	−17.4
Vocational education: Defer Appalachia vocational school construction, defer new project grants for research, limit continuation costs and stop reallocation of formula grants	214.7	15.2	....	−8.6	−10.2
Vocational rehabilitation—research and training and project grants other than State formula support: Defer initiation of new projects within year and limit cost of continuations	42.0	....	....	−2.0	.8 (−1.8)
Public Health Service—hospital construction activities:					
Defer construction starts	240.0	....	[3] 43.4	−55.9	(−107.0)
Defer Appalachian health grants				−2.3	(−2.5)
Defer procurement of equipment, supplies, travel					(−.1)
Public Health Service—construction of health education facilities and NIH grants for construction of health research facilities:					
Defer $15,000,000 for obligations in 1968	86.8	5.0	....	−2.0	−15.0
Defer construction starts within the year				−6.8	(−10.0)
NIH—regional medical program:					
Slow down planning and operating regional medical program	35.0	....	−16.0	−10.0	−30.0
Defer funding projects within the year				−1.4	(−1.8)
NIH—other:					
Hold back continuation grants	862.9	27.7	−.2	−3.7	−5.5
Restrict procurement of equipment, supplies, travel, and reproduction for internal use				−1.1	−1.5
Defer major expansion on the artificial heart program until late in 1967				−2.0	(−10.0)
Defer procurement of equipment, supplies, travel, and reproduction within the year				−1.1	(−4.8)
Defer start of new research projects until later in the year				−5.2	(−6.6)
NIMH (exclusive of construction):					
Defer procurement of equipment, supplies, etc.	195.9	9.0	−6.7	−.1	−.5
Defer new project starts				−2.4	−3.0
Restrict procurement				−.1	−.2
Stop reallocation of formula grants				−.1	−.2
National Library of Medicine:					
Defer until 1968 grants for the construction of medical libraries	.6	....	....	−.5	−7.5
Restrict procurement of equipment, supplies, travel and reproduction				....	−.1
Defer procurement of equipment, supplies, travel, and reproduction				−.1	(−.2)

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item, and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Effect of—: Congressional action	Effect of—: Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
Health, Education, and Welfare—Continued					
Construction of community mental health centers, Public Health Service: Defer construction starts	25.0		−7.0	−15.2	(−18.0)
Public Health Service—other public health:					
Defer procurement equipment, supplies, travel, and reproduction	584.7	28.9	−3.4	−1.2	(−4.9)
Stop reallocation of formula grants				−1.4	−2.3
Defer new project starts				−3.0	(−3.7)
Limit cost of continuation grants				−1.1	−1.5
Restrict procurement, equipment, supplies, travel and reproduction				−1.3	−1.8
Other				−2.9	−3.0
St. Elizabeths Hospital:					
Defer procurement of equipment, travel, supplies, and reproduction	10.5	1.1	.2	−.1	−.7
Defer construction starts				−.8	(−.8)
Social Security Administration: Defer construction starts (trust funds)	[11.4]		[.4]	[−3.3]	[−3.9]
Welfare Administration (except public assistance): Defer initiation of new project grants and contracts	281.1			−5.3	−7.5
Coordination and development of programs for the aging: Stop reallocation of formula grants	8.5		−.6	−.4	−.6
Special institutions: Howard University: Defer construction starts	26.8			−.9	
Housing and Urban Development:					
Low rent public housing (loans for new units): Reduction in new annual contributions contracts by 8,000 units below the budgeted level. This reduces loan obligations in the first year by $1,333 per unit (January 1966 estimate for 1967, 60,000 units); (January 1967 estimate for 1967, 52,000 units)	(10)		−.2		−10.7
Open space land programs: Reduction in grant approvals	30.0	−.1	−.6		−2.5
Neighborhood facility grants: Reduce grant reservations	13.5		−9.5		−3.6
Grants to aid advance acquisition of land for public facilities: Reduce grant approvals	.4		−.4		−4.0
Urban mass transportation: Only $5,800,000 is now estimated for the new authorities. Use of remaining authority has been deferred until 1968	68.0	.1	−11.9		−13.2
FNMA construction financing of certain multifamily housing: New authority is not to be used		75.0		−75.0	
Urban renewal program (reestimate results from tight money market):					
Reduction in commitments to be made in 1967 for grants for demolition of condemned structures	412.5	−.2	12.0	−2.0	−5.0
Reduction in grant and loan disbursements resulting from holding local public agency working balances to very low level				−10.0	
FNMA—low cost housing mortgages: Only $250,000,000 of the authority is now being used for mortgage purchases. The remainder is reserved for use if it should prove necessary		350.0		−280.0	−750.0
FNMA—preferred stock purchase (net): Restrictions on FNMA secondary market mortgage purchases have been maintained to avoid the necessity of any net purchase of preferred stock this year	35.8	140.2		−176.0	−176.0
Rehabilitation loans: Reduce loan reservations	17.1	−.2	−5.5		−34.2

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item, and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Estimated 1967 expenditures: Effect of—Congressional action	Estimated 1967 expenditures: Effect of—Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
Interior:					
Appalachian region mining area restoration: Defer programs to 1968	13.0	−1.3		−9.5	−10.0
Solid waste disposal: Slow down grant program; limit junk auto disposal demonstration to one site	3.2		−1.3	−.5	−.6
Bureau of Indian Affairs:					
Buildings, utilities, and road construction—defer some starts and slow down construction rate	236.1	.3	−1.0	−9.8	−13.5
Irrigation—slow down Navajo project construction				−1.6	−1.6
Loans—reduce commitments				−0.4	−.4
National Park Service:					
Buildings and utilities—slow down construction projects	28.8		9.8	−8.8	−8.8
Roads and trails—defer construction projects	22.5		1.3		−6.7
Parkways—defer construction projects	7.5		.6		−2.5
Federal Water Pollution Control Administration:					
Grants for waste treatment works—defer to 1968 grants for demonstration of alternatives to separating combined sewers	98.0		−11.0	−1.0	−10.0
Water supply and water pollution control—defer some program increase	50.0		−11.7	−2.4	−2.4
Bureau of Outdoor Recreation: Land and Water Conservation Fund (State grants)—cutback in the State grant program	43.9	1.0		−20.0	−21.5
Office of Saline Water: Slow pace of research and development	19.2	−.6	−3.3	−3.0	−3.5
Bureau of Commercial Fisheries:					
Anadromous and Great Lakes fish conservation—reduce grants to States for conservation projects		2.0		−1.5	−1.5
Fisheries loan fund—slow down rate of loan approvals	.2		4.1	−2.5	−2.5
Bureau of Sports Fisheries and Wildlife:					
Sport fish construction—delay on starting construction of District of Columbia aquarium	10.0	4.0		−5.0	−8.7
Federal aid in fish restoration—slow down approvals of proposed State development projects	5.0		[11] 2.8	−1.3	−1.3
Federal aid in wildlife restoration—slow down approvals of proposed State development projects	15.0		[11] 10.7	−7.1	−7.1
Anadromous fish—establish reserve of $1,500,000 against 1967 appropriation		2.0		−1.5	−1.5
Bonneville Power Administration: Defer contracts for continuing work in construction of Northwest power grid	103.0		−.5	−2.5	−2.2
Bureau of Reclamation:					
Construction and rehabilitation—defer contracts on continuing construction	176.3	18.8	−1.6	−4.5	−57.1
Upper Colorado River Storage Project (including recreation and fish and wildlife facilities)—defer contracts on continuing construction	45.4	10.7	−.9	−4.9	−28.7
Loan program—defer loans on continuing projects	14.0	1.4		−.8	
Bureau of Land Management:					
Construction and maintenance—defer maintenance items	2.0	.1		−.1	−.1
Public lands, roads and trails—defer construction of roads of lower priority	2.0		.2	−.5	−.5
Oregon and California grant lands fund—defer part of roads program to 1968	7.0		2.8	−.8	−.8
Transportation:					
Federal aid to highways (trust fund): Reduction in program level during 1967	[3,970.0]	[166.0]	[−10.0]	[12] [−420.0]	[−1,100.0]

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item, and description of deferral or cutback	Estimated 1967 expenditures			Deferral or cutback	
	January 1966 budget	Effect of— Congressional action	Effect of— Revision in workload and other reestimates [1]	Expenditures	Program level [2]
Transportation—Continued					
State and community highway safety programs: Hold obligations to $50,000,000 in 1967.	12.0	10.0	−3.0	−12.0	−17.0
Federal Aviation Administration:					
Defer SST long-lead-time items				−16.0	−20.0
Defer facilities and equipment and R. & D.	960.0	−3.0	−60.0	−14.0	−30.0
Defer grants-in-aid for airports				−5.0	−21.0
Coast Guard construction: Stretchout and deferral of Coast Guard construction	70.0			−2.6	−10.8
Treasury:					
Mint, salaries and expenses (coinage program) reduction in level of coinage production	31.6	−5.0		−5.0	−5.0
Mint construction	16.4			−3.4	−5.0
Atomic Energy Commission:					
Nuclear safety test facility: Cancel scheduled construction of facility for reactor safety program, Idaho	.9			−.9	−1.8
Project Rover facilities: Defer miscellaneous plant construction projects for Project Rover (nuclear rocket) program	.5			−.5	−2.0
Weapons miscellaneous plant construction: Deferral of a portion of a project under the weapons program	2.5			−1.0	−2.2
Alpha fuels facility: Defer construction of isotopic fuels development facility, Mound Lab, Ohio	.3			−.2	−2.3
Fast reactor core test facility: Terminate construction project, Los Alamos, program is being reoriented to more promising R. & D.	1.3			−1.3	−2.7
Environmental test facility: Deferral of construction of weapons development facility, Livermore, Calif	1.4			−1.2	−1.9
General equipment purchases: Deferral of purchases for 6 months within fiscal year 1967.	141.4			−6.4	(−7.6)
MIT linear accelerator: Defer construction of the housing for the MIT medium energy physics accelerator	.9			−.5	−2.9
Sodium pump test facility: Defer construction of facility for fast breeder reactor development program, California	1.2			−1.0	−6.2
Naval reactor facility mods: Defer construction (funds retained for design), Idaho	1.5			−1.0	−8.5
Argonne advanced research center: Defer construction until fiscal year 1968	2.5			−2.5	−21.8
Plowshare excavation program: Defer part of program (principally cratering excavation experiments)	8.2			−3.2	−3.2
New biology lab, Hanford, Wash.: Defer construction of facility	.5			−.5	−4.5
Computer for Stanford accelerator: Deferral of procurement	2.4			−2.4	−4.5
Other:					
Deferral of headquarters computer				−1.0	−1.5
Deferral of university accelerator				−.6	−1.5
Deferral of moderator purification improvements at Savannah River, S.C.				−.4	−1.2
Deferral of miscellaneous modifications to reactors				−.5	−.8
Reduction of construction funds for Tandam Van de Graaff, Brookhaven National Laboratory, N.Y.				−1.0	−1.0
	13.5			−1.0	−1.0
Deferral of construction planning and design funds				−.7	−3.7
Deferral of modifications to Elk River reactor, Minnesota				−.2	−.5
Deferral of portion of the construction of the Thorium-Uranium Fuel Cycle Development Facility, Oak Ridge, Tenn				−.5	−.6
Deferral of a community disposal project				−.5	−.5
Deferral of equipment procurement				−3.0	−3.0

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Effect of—: Congressional action	Effect of—: Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
General Services Administration:					
General supply fund, motor vehicle procurement: Deferral of replacement of sedans and station wagons with new vehicles originally scheduled for 1967	12.8			−7.3	−7.8
Sites and expenses, public buildings projects: "Stretchout" of site acquisition and building design program	23.0	1.3	1.9	−2.2	−6.2
Construction, public buildings projects: Deferral of new starts until 1968	165.0	−9.0	[13] 15.0	−21.0	−27.0
National Aeronautics and Space Administration:					
Administrative operations: Elimination of 613 positions planned for in 1967 budget, plus reductions in overtime and other economies	660.0	−23.0	[14] 9.2	−7.0	−8.0
Provision for extended lunar exploration: Development activity delayed	137.0			−7.0	−17.3
Sustaining university program: Reduction in predoctoral training and facility grants	50.0			−4.0	−10.0
Voyager: Funds reduced to allow proceeding at pace originally planned in budget for 1967	10.0	8.0	−3.5	−4.5	−8.0
Orbiting solar observatory: Deferral of experiment development	11.0		−.5	−.5	−1.0
Lunar orbiter: Reduction in planned test and checkout activity at launch site	23.0		3.0	−1.0	−1.2
Launch vehicle procurement: Rephase production orders to shorten launch vehicle delivery leadtimes	173.0		−20.0	−3.0	−4.7
Selected supporting research programs: General reduction of the level of effort in space related supporting research	208.0		−1.6	−2.0	−8.0
Advanced mission studies (manned space flight): Reduced study effort on future manned space flight programs	8.0			−1.0	−1.8
Veterans' Administration:					
Construction of hospital and domiciliary facilities: Construction slowdown	73.0		−7.5		−10.0
Medical care: Reduction in medical equipment procurement and in staffing for their operation	1,245.0		−8.2	−13.0	−13.0
General operating expenses: Employment restriction	158.7	13.4		−1.1	−1.1
National Science Foundation:					
Construction of mounting and housing for 150-inch telescope: Defer 2d stage funding until 1968	2.0			−2.0	−6.5
Graduate research facilities: Defer obligations for graduate research facilities until 1968	26.5	−2.0		−3.0	−5.5
Small Business Administration: Hold down business and investment loans	250.0		−10.0	−33.0	−54.0
Tennessee Valley Authority: Defer ongoing projects: Tims Ford, Tellico, Nickajack, Bear Creek, Land Between the Lakes, and related reductions in support	69.0			−5.5	−6.0
Economic assistance:					
Contingency fund:					
Reserve of $25,000,000 has been placed against 1967 enacted appropriation	56.0		[15] 40.0	−10.0	−25.0
Defer loan commitments and grant projects, and delay contract awards				−14.0	(−260.0)
Office of Economic Opportunity:					
Limit advance payments:					
Neighborhood Youth Corps, administered by Department of Labor				−21.6	
Headstart program				−60.0	
Defer initiation of new programs:					
Work experience, administered by Department of Health, Education, and Welfare	1,600.0	−64.0	[16] 185.0	−6.5	−32.0 (−127.0)
Neighborhood Youth Corps, administered by Department of Labor				−27.6	
Community action programs				−25.3	

See footnotes at end of table, p. 21.

TABLE 3.—*1967 budget reductions*—Continued

[In millions of dollars]

Agency, item and description of deferral or cutback	Estimated 1967 expenditures: January 1966 budget	Effect of—Congressional action	Effect of—Revision in workload and other reestimates [1]	Deferral or cutback: Expenditures	Deferral or cutback: Program level [2]
Pay increases:					
Civilian	(17)	300.0		[18] −240.0	[18] −240.0
Military	(17)	200.0		[18] −45.0	[18] −45.0
Grand total, 1967 reductions:					
Administrative budget				−2,069.3	−3,273.4 (−590.2)
Trust funds				−423.8	−1,103.9

[1] Effect of expenditure slippages from 1966 into 1967, tight money conditions, workload changes and other expenditure reestimates. The effects of the 1966 Pay Act are excluded.
[2] Amounts in parentheses are for contracts and related items which are being deferred without effect on the obligations for 1967 as a whole. These items are primarily deferrals within the fiscal year 1967 which do reduce expenditures for the year as a whole.
[3] Results from money market conditions which cause private investors to redeem low interest rate loans.
[4] Unanticipated delays in getting this program underway in 1966 resulted in all $3,000,000 of expenditures estimated a year ago for 1966 falling into 1967.
[5] See above.
[6] Commitments for land purchases made later in 1966 than anticipated result in expenditures of $10,200,000 falling in 1967 rather than in 1966.
[7] Face value of contracts scheduled to be awarded in 1967.
[8] Reflects State approvals of local school district projects imposing mandatory Federal expenditures.
[9] Reflects deferral of obligations and contract awards originally schedule for 1966, and revised estimate of progress on construction already underway by grant recipients.
[10] Less than $50,000.
[11] Increase due to higher receipts which led to a higher spending rate for these earmarked (dedicated) funds prior to the 1967 cutbacks.
[12] Expenditure effect is for the year beginning Oct. 31, 1966.
[13] Results from higher rate for ongoing construction initiated in prior years.
[14] Results from transfer of funds into administrative operations.
[15] Increase reflects faster spending rate in Vietnam.
[16] Results from slippage of 1966 expenditures into 1967; 1966 actual expenditures were $200,000,000 less than estimated in the 1967 budget.
[17] Recommendations for pay raise effective Jan. 1, 1967, covered by allowance for contingencies.
[18] Approximate, pending analysis of details now underway. Pay raise was enacted effective July 1, 1966, with a somewhat different structure than recommended.

Mr. SCHULTZE. Let me make a point Secretary Fowler has already covered, but which I would like to emphasize again. This has to do with budgetary concepts, and I am speaking about the matter of budgetary accounting rules and presentation, particularly with respect to the treatment of Federal lending programs and receipts from sales of loans and loan participations.

The rules governing the classification and treatment of the various types of Federal expenditures and receipts are not established by law. Rather, they are based upon generally accepted rules of accounting, and upon tradition and precedent. Repayments and other receipts from loan programs which are revolving funds, for example, have always been treated as an offset to expenditures. Only the net outflow or inflow of payments is shown in the total budget expenditures. The detailed budget presentation, of course, shows the gross outlays and the inflows in each of these programs.

This practice has been universally followed for many years and applied to regular loan repayments, to sales of individual loans, and to sales of participation certificates or similar instruments. In the case of the participation certificates, for example, these were introduced in

1954, when RFC loans were pooled, "certificates of interest" sold against the pool and the receipts credited against expenditures in the revolving fund. In that same year, fiscal 1954, the Commodity Credit Corporation began issuing "certificates of interest" in pools of commodity loans to commercial banks, and netting the proceeds against gross loan expenditures. In the subsequent 14 years, 1954 through 1967, some $8 billion of such certificates have been issued—over $3 billion in the first half of the period.

My point in citing this history is not to use it as a defense of any particular practice but simply to indicate that our present procedures follow longstanding rules of budgetary accounting. As the President pointed out in his budget message, however, some of our traditional budgetary concepts do not adequately portray the Federal Government's activities. The conventional administrative budget, for example, excludes the large and growing expenditures and receipts of the trust funds. Both the administrative and cash budgets treat repayable loans in the same way as nonrepayable grants or purchases. While the national income accounts budget has been used for many years as the best single measure of the Federal Government's impact on the flow of national income and output, it too has its shortcomings. It does not easily lend itself to a detailed analysis of individual programs. Moreover, its treatment of certain items—such as the shipment of agricultural commodities under Public Law 480 agreements and inventories held by private firms under Defense contracts—might well be improved from the standpoint of analyzing the overall economic effect of Federal fiscal policy.

For many years, under administrations of both parties, particular aspects of general budget representation or individual accounts have been called into question. In the light of these facts, the President has announced his intention to appoint a bipartisan commission on budgetary concepts and presentation. This commission can review carefully the budget as a whole and make whatever consistent set of recommendations it deems proper. Such an approach, I believe, offers a fair and dispassionate means of dealing with questions of budgetary accounting and presentation.

In conclusion, Mr. Chairman, I believe we have taken major and difficult steps to defer and reduce expenditures in order to hold the 1967 increase to the lowest possible amount. As Secretary Fowler has explained, an increase in the debt limit is imperative and urgent. Overly restrictive action on the debt limit at this time cannot effect further savings in the costs of Government. It can only lead to chaotic management of the Government's finances and to dislocations and disruptions in the affairs of those who do business with us. Accordingly, I join the Secretary in recommending adoption of the $336 billion debt limit passed by the House.

Thank you, Mr. Chairman.

(The attachments to the prepared statement of Mr. Schultze follow:)

1967 budget reductions

[In billions]

	Program level	Expenditures
Administrative budget:		
From funds appropriated	$3.3	$2.0
Deferrals within 1967	(.6)	.1
Increased congressional authorizations for which we do not plan to request appropriations	.8	.5
Trust funds (chiefly the highway trust fund)	1.1	.4
Total	5.2	3.0

1967 reductions from appropriated funds

[In millions]

Agency	1967 program level		1967 expenditures
	Reduction	Deferrals within the year	
Administrative budget:			
Economic assistance	25.0	(260.0)	24.0
OEO	32.0	(127.0)	141.0
Agriculture	424.2		405.1
Commerce	47.2		
Corps of Engineers	437.3		60.0
HEW	385.3	(195.6)	313.6
HUD	999.2		543.0
Interior	193.5		90.0
Transportation	98.8		49.6
Treasury	10.0		8.4
AEC	78.8	(7.6)	31.0
GSA	101.0		31.0
NASA	60.0		30.0
VA	24.1		14.1
NSF	12.0		5.0
SBA	54.0		33.0
TVA	6.0		5.5
Across-the-board absorption of pay raise costs:			
Civilian	240.0		240.0
Military	45.0		45.0
Total, administrative budget	3,273.4	(590.2)	2,069.3

ADDENDUM

STATEMENT OF SECRETARY OF DEFENSE ROBERT S. MCNAMARA BEFORE A JOINT SESSION OF THE SENATE ARMED SERVICES COMMITTEE AND THE SENATE SUBCOMMITTEE ON DEPARTMENT OF DEFENSE APPROPRIATIONS FISCAL YEAR 1967 SUPPLEMENTAL FOR SOUTHEAST ASIA, JANUARY 23, 1967

Mr. Chairman and Members of the Committee:

Last year when I appeared before this Committee in support of the FY 1967–71 program and the FY 1967 Budget I said:

"With regard to the preparation of the FY 1967–71 program and the FY 1966 Supplemental and the FY 1967 Budget, we have had to make a somewhat arbitrary assumption regarding the duration of the conflict in Southeast Asia. Since we have no way of knowing how long it will actually last, or how it will evolve, we have budgeted for combat operations through the end of June 1967. This means that if it later appears that the conflict will continue beyond that date, or if it should expand beyond the level assumed in our present plans, we will come back to the Congress with an additional FY 1967 request."

Throughout the spring and summer of last year in my appearances before various Congressional Committees, I reiterated the fact that the FY 1967 Budget was based on the arbitrary assumption that the conflict would end by June 1967, and that additional funds would be required if the conflict continued. I also repeatedly stated, both before the Congressional Committees and in public statements, that defense spending would rise above the Budget level if we had to take actions to provide for the continuation of the conflict beyond June 30, 1967.

For example, on February 25, 1966, I explained to the Senate Armed Services Committee and the Subcommittee on Department of Defense Appropriations:

"If it later appears that they [i.e., combat operations in Vietnam] will extend beyond that date, it will be necessary to supplement the fiscal year 1967 Budget.

"The reason why that planning assumption [i.e., that the conflict would end June 30, 1967] causes the 1967 total obligation authority to drop below 1966 is that there are long lead items that may have to be used in combat, let's say in the period January–June 1967, which can't be financed in the fiscal year 1967 Budget and be delivered in time. Therefore they must be financed in the fiscal year 1966 Budget, if we are to have them on hand when we need them. That is why the total obligational authority for 1966 is higher than 1967.

"Now, if later this year it appears that combat will extend beyond June of 1967, at high levels, then in the case of similar long lead items it will be necessary for us to come back to the Congress and ask for additional appropriations."

I said a little later:

". . . I think it would be irresponsible for us to come forward, now, today, with a higher figure, because it is extremely difficult to estimate the level of combat operations 18 months in advance, and very wasteful if we are to estimate on the high side, and quite unnecessary because the lead times don't require financing now."

On August 1, 1966, when I appeared before the Senate Subcommittee on Defense Appropriations in support of our appeals on the House action on the 1967 Appropriation Bill, I noted again that the FY 1967 Budget was based on the FY 1967 Appropriations Bill, I noted again that the FY 1967 Budget was based on the arbitrary assumption that combat operations would terminate June 30, 1967. I went on to say:

"As we get closer and closer to that date, it becomes more and more necessary to plan on the possibility of that not happening. We are considering that possibility. We, at present, however, do have sufficient funds to carry us on for several additional months.

"At the moment I would not recommend a supplemental, although I think one some time during 1967 is very likely. The reason I would not recommend it today * * * is that there are still many uncertainties not only as to the duration of the conflict, but also with respect to the level of operations that needs to be financed."

I pointed out that we had just completed a review of our air ordnance production programs and were reviewing our production plans for ground ordnance and aircraft. I concluded by saying:

"* * * To the extent that we can finance our operations with the presently requested funds and push the timing of the submission of a supplemental into the future, I think we will be able to come forward with a more precise estimate of our total requirements * * *"

With regard to the additional $569 million added by the House for active duty military personnel, I pointed out that our military presonnel strength estimates were still fluctuating widely. I suggested that rather than coming forward with one personnel estimate today and a different one tomorrow, and constantly changing our funding requirement, we would be better advised to use the special authority we have in the Appropriation Bill to expend whatever funds are necessary for military personnel. I pointed out:

"* * * that almost surely we will expend the additional $569 million that the House inserted in the bill."

And I added later:

"More likely it will be higher than that level rather than lower."

What we were trying to do was to avoid the overfunding which occurred during the Korean War when the Defense Department requested far more funds than were actually needed. For example, the Defense Department requested a total of about $164 billion for the three fiscal years 1951–53; the Congress appropriated a total of $156 billion; the amount actually expended was $102 billion; and the unexpended balances rose from $10.7 billion at the end of FY 1950 to $62 billion by the end of FY 1953. It took about five years to work the unexpended balance down to about $32 billion; and we were able to support a defense program of about $50 billion a year during FY 1962–64 with about $30 billion of unexpended balances.

The excessive unexpended balances built up during the Korean War were duly noted by the Appropriations Committees. Mr. Mahon, for example, commented in February 1953:

". . . that will cause our colleagues and the press and the public who have not had a chance to study this to say, 'Are the members of the Appropriations Committee crazy in appropriating $41 billion, more or less, when they already have an unexpended balance of $62 billion?' "

Although we still have no way of knowing when the conflict will end, it is perfectly clear that we must take whatever measures are necessary to ensure our ability to support our forces in the event the conflict does continue beyond June 30, 1967. Indeed, when it became apparent last summer that this was likely to be the case, we continued the build-up of our military personnel strength beyond the level anticipated in the FY 1967 Budget and took action to ensure that deliveries of long lead time items would continue beyond June 30, 1967 without interruption. The Congress was informed of these actions through the reprograming process and related hearings.

But, while it was clear even last summer that additional funds would be required for FY 1967 if the conflict in Southeast Asia were to continue, the timing and the amount of the additional request posed a problem. With regard to timing, we had essentially two alternatives: (1) request an amendment to the FY 1967 Budget in the summer of 1966, while it was still before the Congress; or (2) wait until early the following year and request a Supplemental appropriation. Each of these alternatives had certain advantages and disadvantages.

First, we still could not see clearly last summer the full dimensions of our requirements for Southeast Asia. There was at that time a wide range of uncertainty concerning the size of the forces required, their composition, and their tempo of operation. Consequently, we could not determine with any degree of precision how many more men we would need through the balance of the fiscal year, how much more ammunition and other supplies we would consume, how many more aircraft we would lose as a result of enemy action, and how much more construction we would need in Vietnam and elsewhere to support the larger forces that might be required. Without these data, we could only guess the amount of the additional funds which would be needed for the balance of the fiscal year.

Second, many of the decisions which would have been involved in preparing an amendment to the FY 1967 Budget would also have been involved in preparing the FY 1968 Budget, and these decisions could be made with much greater assurance of accuracy later in the year. Indeed, I am convinced that had we gone forward with an amendment last summer, the FY 1967 Budget would have had to undergo still another drastic adjustment because of the decisions made in connection with the FY 1968 Budget. In other words, an FY 1967 Supplemental would have been needed in any event.

The major disadvantage of waiting for a Supplemental has been the need to reprogram, on a rather large scale, available FY 1967 funds to meet our most urgent longer lead time procurement requirements, pending the availability of the additional funds. We recognize that this extensive reprogramming has placed an extra burden not only on the Defense Department but on the Armed Services Committees and the Defense Appropriations Subcommittees as well. Some of these reprogramming actions required the prior approval of this and other interested Committees; all of them have been reported to the Committees concerned. However, in order to facilitate your consideration of the FY 1967 Supplemental request we have prepared a recapitulation of all of the major procurement program adjustments affecting that fiscal year, which will be furnished separately.

Now, with a year and a half of combat experience in Southeast Asia behind us, I believe that we have a much better understanding of our future requirements. In October 1965, when the FY 1967 Budget was being developed, we were in the midst of an explosive build-up in South Vietnam, it was then that we moved over 100,000 men 10,000 miles in less than 120 days. The future was impossible to predict with accuracy. In contrast, in October 1966 at the time of the preparation of the FY 1968 program, we could look ahead to the time when our forces in Southeast Asia could be expected to level off. Moreover, we have acquired a significant amount of data on actual consumption rates for individual items of ground and air munitions and on combat attrition rates for the various types of rotary and fixed-wing aircraft, and we can now project our requirements for these two very important categories of materiel much more accurately than was possible even last summer. And, I might point out that the rates of consumption and attrition actually experienced for many specific items have turned out to be quite different from those we projected last year—lower as well as higher.

Since we can now project our requirements for the conflict in Southeast Asia with far greater confidence than last year, we have changed our basic approach in preparing the FY 1967 supplemental as well as the FY 1968 Budget. Sufficient funds are being requested in both the FY 1967 supplemental and the FY 1968 Budget to protect the production lead time on all combat essential items until FY 1969 funds would become available. For example, in the case of ammunition, which is perhaps the category of materiel most affected by combat operations, we are requesting funds to cover the full production lead time beyond the end of FY 1968. Because ammunition reorder lead time averages about six months, this means that the FY 1968 Budget provides funds to finance ammunition deliveries at rates sufficient to support operations in Southeast Asia through December 1968. Thus, if it later appears that the conflict will continue beyond June 30, 1968, we would be able to use FY 1969 funds to order additional ammunition for delivery after December 1968 and keep the production lines going without interruption.

In the case of aircraft, which have a production lead time of about 18 months, we have included sufficient funds in the FY 1967 Supplemental and the regular FY 1968 Budget to cover deliveries at rates sufficient to offset combat attrition in Southeast Asia to January 1, 1970. If it later appears that all of such aircraft will not be required to replace combat attrition, the production of some might be cancelled and some used to modernize the forces at a faster rate than presently planned.

Similar provisions have been made in the FY 1967 Supplemental and the FY 1968 Budget for other categories of materiel which would be affected by the continuation of combat operations in Southeast Asia beyond June 1968. Accordingly, barring a significant change in the character or scope of the Southeast Asia conflict, or unforeseen contingencies elsewhere in the world, the FY 1967 Supplemental and FY 1968 Budget should be sufficient to cover our requirements until FY 1969 funds become available, even if the conflict continues beyond June 30, 1968.

The CHAIRMAN. Mr. Secretary, you say in your statement on page 6 that we expect a deficit of $9.7 billion this fiscal year. How much inflation will we have had in this fiscal year according to the last figure you have? How much inflation have we had?

Secretary FOWLER. How would you compute inflation? What do you mean?

The CHAIRMAN. Well, I mean reduction in the purchasing power of the dollar. I would refer to the cost-of-living index.

Secretary FOWLER. The best answer I could give you would be in terms of the calendar year, Mr. Chairman. In 1966 the gross national product was up in dollar terms about 8½ percent, and in real terms, which leave out price changes, it was up 5½ percent. So the difference between the 5½ percent and the 8½ percent give you for the calendar year 1966 a rough estimate of the amount of price change in the GNP.

The CHAIRMAN. I made a few studies of our national debt sometime back, and in terms of 1967 dollars our national debt today is somewhere between one-third and one-half, on a per capita basis, of what it was in 1945 at the end of the war. That is mainly because of two factors: one, inflation; two, increase in population.

However, the burden of carrying that debt shows no such reduction as that. The reason is the level of interest rates has doubled since that time. I believe that a study of the burden of carrying this debt would show that it is almost as big as it was in 1945 even though inflation and population increase have caused the debt in terms of constant dollars to be far less than it was at that time.

Now, the thing that concerns me most about the policies being pursued under this administration, Mr. Secretary, is the fact that starting back in 1960 when John Kennedy was running for President, this Democratic Party had a platform, which I supported, saying that we were going to put an end to the tight money, high interest rate program that had been instituted under the Eisenhower administration.

I regret to say that that promise was not kept. When President Kennedy was running for office he was asked a question about the gold outflow. He looked into the television camera and said, "Oh, you must keep your gold." This gave the impression that hot money—less than $1 billion of it that moves back and forth—was more important than the interest rates which the people had to pay in this country; as between the two that would have to take precedence.

It seems to me if that is what the Democratic Party and its candidates had in mind the people should have been told that the gold outflow and the hot money were more important than the interest rates that the American people were having to pay.

Having done that, Mr. Kennedy then proceeded to reappoint Mr. Martin, who had been the Republican spokesman for this tight money, high interest rate policy when this committee investigated that subject.

In December, 14 months ago, Mr. Martin took the bit in his teeth and proceeded to put into effect an additional round of interest rate increases on top of the ones he had already given us. Your testimony here says that is $3 billion a year in additional costs on this budget.

We are going to be asked for a 6-percent surtax on individuals and on corporations. That $3 billion cost of the William McChesney Martin tight money policy appears to be just about what this 6-percent surtax would cost the American people. You are going to the Business Council, and they are going to urge you above all that the first thing that should be done is that that man should be reappointed.

Now, let me say this, Mr. Secretary, if that man is going to be reappointed, there is no use kidding about the money market and who put this $3 billion extra cost into this budget. He will be your baby from that point forward, not mine. He will be yours, because from my point of view you are buying that policy of the Chairman of the Federal Reserve Board telling the Secretary of the Treasury and the President he is going to go ahead and impose a tight money, high interest rate program whether you like it, whether the President likes it or not, or whether we like it or not.

In my judgment, $3 billion of that tax increase is due to Mr. Martin, and personally, I just find no enthusiasm in supporting a tax increase to pay for his personal policies.

I was at the New York Economic Club, and I would say that if there was one thing which brought the house down with tumultuous applause was when it was said that the finest thing that had happened in Government was that Martin had been around here advising four Presidents.

But it seems to me we should not try to play it both ways. We should not promise the American people low interest rates, and then appoint people who put high interest rates into effect—especially when the Secretary of the Treasury and the President of the United States are asking them not to do it. This administration should take full responsibility for the tight money and the high interest rates if it is going to reappoint the man who has been in charge of the policies and defended the policies that led to all this.

I hope, Mr. Secretary, that notwithstanding the fine advice you might get to the contrary from that Business Council, it might be made clear in some circles that the people in this country are, for the most part, borrowers rather than lenders. This Government itself is a big borrower.

Senator MORTON. Would you for the record spell the name because you said it almost like Morton, and you are getting me in trouble.

The CHAIRMAN. Spelled with an "i."

That, Mr. Secretary, is a part that this Senator does not care about in this program. If you must have an increase in the debt limit, I, for one, expect to vote for it, but I do hope that you will be working for a low interest rate program in the future and trying to do something about it.

May I ask if this interest figure on which you based your calculations is still as high as it was when you first estimated it?

Secretary FOWLER. The interest figure is as high as we first estimated it a year ago?

The CHAIRMAN. Yes.

Secretary FOWLER. The cost of carrying the debt in this fiscal year is now estimated to be substantially higher than it was estimated to be a year ago.

The CHAIRMAN. Well, now, you are here testifying that this would be $650 million more in one respect and $3 billion more in another respect. Are those current figures? Is that the latest figure?

Mr. SCHULTZE. Yes, sir. They relate, though, to the current fiscal year and not next fiscal year. The $3 billion figure covers the increased outlays of the Federal Government in various financial programs; it is not all for interest, of course; $650 million of it is for interest.

The CHAIRMAN. My understanding of the way you compute your interest is at the time you submit your budget you take the level of interest rates that exist——

Mr. SCHULTZE. That is correct.

The CHAIRMAN. And then you compute what your interest payments would be based on that level of interest rates.

Now, my impression is that with the reappointment of Mr. Martin pending you have had a slight amount of relief on this high interest rate program. Would you mind telling me how much that would save us, if anything?

Mr. SCHULTZE. I could not give you a figure right off the top of my head. Since the October-November 1966 period, rates have come down about three-quarters of a percent to 1 percent, depending on which rates you are looking at. We took into account the latest rates that were available in calculating the effect on interest expenditures in this fiscal year. If rates continue to move down, the expenditures may be somewhat less than our current estimate. Conversely there will be a good bit of debt refinanced at higher rates.

The CHAIRMAN. Have they gone down since you submitted this budget?

Mr. SCHULTZE. That is correct, sir.

Secretary FOWLER. Mr. Chairman, I could give you a table of figures which will show the major interest rate swings since July 1965 for Treasury issues, for Federal agencies issues, and for the double A rated corporate bonds as well as for municipal bonds, and home mortgages. The table shows interest rates as of July 28, 1965;

December 3, 1965, the date of the Federal Reserve action referred to; August and September 1966, when interest rates reached their highest levels; what they were at the end of the year; and what they are now—or as of February 10 which is the last date I have them here. I can submit that table for the record.

The CHAIRMAN. Without objection that will be printed at this point.

(The table referred to follows)

Major interest rate swings since July 1965

[In percent]

	Vietnam escalation begins, July 28, 1965	Discount rate rise, Dec. 3, 1965	Peak yields, August-September 1966	Dec. 30, 1966	Latest available, Feb. 10, 1967
Treasury issues:					
3-month bill	3.81	4.12	5.59	4.81	4.56
6-month bill	3.88	4.26	5.98	4.92	4.59
1-year bill	4.00	4.42	5.99	5.00	4.68
5-year bill	4.15	4.52	5.89	4.80	4.71
10-year bill	4.20	4.52	5.51	4.64	4.60
20-year bill	4.21	4.44	5.12	4.58	4.58
Federal agency, 1-year bill	4.28	4.60	6.36	5.49	[1] 5.05
New Aa-rated corporate bonds	4.58	4.86	6.35	5.87	5.23
New municipal bonds	3.25	3.50	4.24	3.77	3.41
New home mortgages	5.78	5.88	[2] 6.57	6.66	[3] 6.58

[1] Preliminary.
[2] Peak rate on new home mortgages, 6.69 percent on Dec. 1, 1966.
[3] As of Feb. 1, 1967.

Secretary FOWLER. This table shows that, in essence, the rates have come down very substantially for all these categories since their peaks in last August and September. It shows that in many cases they are down to the level they were early last year, 1966. It also shows that there have been some further reductions in interest rates since the first of the year, the last month and 10 days.

I would like also to include in the record at this point the statement from the President's message of last September 8 on page 7, point 4, in which he expressed his position on the desirability of achieving lower interest rates and easing the burdens of tight money.

The CHAIRMAN. Without objection, it will be done.

(The material referred to follows:)

4. *I urge the Federal Reserve Board, in executing its policy of monetary restraint, and our large commercial banks to cooperate with the President and the Congress to lower interest rates and to ease the inequitable burden of tight money.*

The Secretary of the Treasury has reviewed all potential Federal security sales and is taking action to keep them at the minimum in the months ahead. This should help reduce current pressures on the money market and on interest rates.

I urge the Congress to act promptly on pending legislation to prevent competition for deposit and share accounts from driving up interest rates.

As more of the burden of restraint is assumed by fiscal measures—by elimination of special stimulants to business investments, higher taxes and reduced or postponed Federal spending—we should take further action to reduce the burdens imposed on the American people by tight money and high interest rates. Present monetary measures impose a special hardship on homebuyers and small businessmen.

Banks should handle money and credit equitably and without extracting excessive profits. They should rely less on high interest rates to price borrowers out of the market and more on the placing of appropriate ceilings on credit.

I am responding to the requests of the financial community to ease the great pressure on money markets. The Federal Reserve Board and our large commercial banks must now recognize that we are determined to restrain inflationary pressures by fiscal and budgetary measures. I ask, in turn, that the financial community seize the earliest opportunity to lower interest rates and more fairly allocate the existing supplies of credit.

I have been assured that every effort is being made to detect any easing of inflationary pressures in order that monetary policy can be adjusted quickly and adequately to maintain stable and sustainable economic growth.

Secretary FOWLER. I would also like to include his statement in the January 10 message, and if the committee will permit I would like to include there a copy of the communique issued at the time of the meeting of five finance ministers in England, in January, where there was an effort to meet together to work out not specific understandings but at least general understandings on the desirability of all the countries avoiding further interest rate escalation, and de-escalating the pattern of interest rate increases which has occurred in the Western World over the last 3 years.

The CHAIRMAN. Again, without objection, we will print it.

(The material referred to follows:)

Our greatest disappointment in the economy during 1966 was the excessive rise in interest rates and a tightening of credit. They imposed very severe and very unfair burdens on our home buyers and on our home builders, and all those associated with the home industry.

Last January, and again last September, I recommended fiscal and moderate tax measures to try to restrain the unbalanced pace of economic expansion. Legislatively and administratively we took several billions out of the economy. With these measures, in both instances, the Congress approved most of the recommendations rather promptly.

As 1966 ended, price stability was seemingly being restored. Wholesale prices are lower tonight than they were in August. So are retail food prices. Monetary conditions are also easing. Most interest rates have retreated from their earlier peaks. More money now seems to be available.

Given the cooperation of the Federal Reserve System, which I so earnestly seek, I am confident that this movement can continue. I pledge the American people that I will do everything in a President's power to lower interest rates and ease money in this country. The Federal Home Loan Bank Board tomorrow morning will announce that it will make immediately available to savings and loan associations an additional $1 billion, and will lower from 6 percent to 5¾ percent the interest rate charged on those loans.

We shall continue on a sensible course of fiscal and budgetary policy that we believe will keep our economy growing without new inflationary spirals; that will finance responsibly the needs of our men in Vietnam and the progress of our people at home; that will support a significant improvement in our export surplus, and will press forward toward easier credit and toward lower interest rates.

COMMUNIQUE

1. Ministers of France, Germany, Italy, United Kingdom and United States met at Chequers on January 21st and 22nd 1967 for informal discussions about the international interaction of their respective countries' economic and monetary policies. The Ministers taking part were M. Michel Debré, Minister of the Economy and Finances of France; Professor Karl Schiller, Minister of Economics of the Federal Republic of Germany; Signor Emilio Colombo, Minister of the Treasury of Italy; Mr. Henry Fowler, Secretary of the Treasury of the United States; and Mr. James Callaghan, Chancellor of the Exchequer of the United Kingdom. The meeting was arranged at the invitation of Mr. Callaghan.

2. The Ministers welcomed recent steps taken by some of the countries represented to ease credit and monetary stringency which in the past had played a useful part in moderating their domestic inflationary pressures. They agreed that in some countries some further easing would be helpful in the context of the development of their own economies and of the world economy as a whole.

3. The monetary policies called for in the present situation should be adapted to the different conditions obtaining in their respective countries and should have regard to their effect on other countries. The Ministers agreed that they would all make it their objective within the limits of their respective responsibilities to co-operate in such a way as to enable interest rates in their respective countries to be lower than they otherwise would be.

4. No other question was dealt with at the meeting.

Secretary FOWLER. Obviously, in dealing with the problem of the balance of payments, if one country lowers its interest rates and a gap between its interest rate levels and that of other countries is increased or magnified, if there was an already existing gap, funds have a tendency to flow out. So in order to achieve both balance-of-payments objectives of the countries and, at the same time, not interfere with the movement down of interest rates, which is desirable for the domestic economies of many of the countries concerned, it is highly desirable to achieve an increasing pattern of international cooperation in this area both between the central banks who are normally the ones who make the decisions on these matters, and also between the ministers of finance who have something to say about fiscal policy because obviously it is the interaction between monetary and fiscal policy that makes these movements of interest rates down feasible and practicable without in some cases, at least, engendering additional inflation.

The CHAIRMAN. Well, Mr. Secretary, one of the advantages of fighting a war of independence and winning it was that this country achieved control of its own destiny with regard to its own money. That is one of the advantages of being a free and independent country.

Now, we have an interest equalization tax which is to control the outflow of money that might be caused by higher interest rates in other countries. I hope you are not contending that these foreign countries, Europeans particularly, have a right to dictate the level of interest rates in the United States.

Secretary FOWLER. I certainly made no such implication. I am only pointing out we do live in a world today which is quite different in many respects from the early periods you mentioned. And as the leading financial power, because of our position as a reserve currency, as a banker, because of the role of the dollar as a transactions currency, because in many respects what we do affects the economic and financial conditions in the rest of the world, what happens in the rest of the world has a very basic effect on our situation.

As long as we follow the traditional patterns we have in the last two or three decades of international economic and financial cooperation. What we do to other people by our acts, and what they do to us have to be taken into account in the world in which we live.

The CHAIRMAN. I notice that the administrative budget estimated an increase in interest costs from $13.5 billion to $14.2 billion. What kind of an interest rate policy does that increase assume?

Secretary FOWLER. It does not assume any change, Mr. Chairman, at all. We take it as we find it as of the time of the calculation.

I might say with regard to your comment about the burden of debt interest, I have noted recent comments you made in your address in New York on that subject in which you covered the general question of whether the debt burden has been increasing or decreasing relative to the economy. You presented some very convincing figures that the level of the debt burden has been decreasing relative to the economy. I might say with regard to the interest burden that you referred to, that despite the rise in debt and interest rates, interest on the debt as a percentage of GNP declined from 2.3 percent in 1946 to 1.9 percent in 1960 and even after the sharp rise in rates it is still about 1.8 percent. It is the second largest category of expenditures in the budget. The payments on interest can be related to either expenditures or receipts. I have a chart which I have prepared for presentation to the House Appropriations Committee at a session earlier last week, which is in front of me, and it shows that the burden of debt interest as a percentage of receipts has been declining slightly in the last few years.

Let me say that both with reference to debt interest as a percent of receipts or as a percent of expenditures, the burden of the public debt has been reduced during the past two decades.

In terms of all these measures, it is clear that we are well able to bear the present and prospective burden of the public debt. This is shown in the figures you presented in New York, as well as by these I have supplemented in here on the interest burden of the debt.

In making this statement I do not want to imply that I would not welcome an opportunity to reduce the overall total of the debt if that should prove to be compatible with overall economic and financial policy, and that I would not like to see the interest burden on the debt substantially reduced by lower levels of interest rates. We are striving in that direction.

We have, as a matter of the highest priority in national economic policy, as witness the President's state of the Union message, his economic message, the statements from the Council of Economic Advisers, and earlier last September, an objective of moving down the level of interest rates in this country, and making it possible for there to be a greater availability of money and credit.

I also would like to say I think this would be a healthy trend for the entire Atlantic Community. And it was one of the purposes of the meeting at Chequers to give momentum to such a movement because it has seemed to many observers, both in and out of government, that the monetary stringency which was earlier imposed on these economies for a good reason, because of the dangers of inflation, has now, perhaps, run its course. And those dangers are not so great as to justify the continued movement upward—the interest rate escalation which has characterized the last 3 years.

The CHAIRMAN. Well, Mr. Secretary, 14 months ago the Johnson administration was pleading with Mr. Martin and the majority for whom he spoke on that Board not to take this $3 billion step, and not to put into effect his tight money, high interest rate program. This country has suffered from that policy now for the last 14 months. I say this country, I mean from which homeowners, home buyers, little people, small business people, folks buying a washing machine—they have suffered during the last 14 months.

The position of this administration, as I understood it, was that rather than this man raise interest rates and put a tight money program into effect to accompany that, that he should wait until he saw what the budget was going to be, and we should then determine a proper mix of fiscal policy and monetary matter. Instead he put his program into effect, and you had to adjust your policies to his program.

If that is how it is going to be, it seems to me it is well to understand that the reappointment of this man means he has the privilege, with the thunderous applause of the Wall Street moneylenders, to proceed to put into effect tight money, high interest rate programs, and that the fiscal policies, the tax policies and the spending plans of this administration then must be tailored to fit his program.

I do not see any other way out of it except for this administration to take the responsibility of that program when the majority of the Board had been appointed under Kennedy and Johnson administrations, and when the Chairman of that Board, who speaks for the majority, would then have been reappointed twice. That is all I have to say about it.

If you want to comment on it, you may. Otherwise, I will turn you over to Senator Williams.

Secretary FOWLER. I have no other comments.

Senator CARLSON. Mr. Chairman, I wonder if the Senator from Delaware will yield?

Senator WILLIAMS. I yield.

Senator CARLSON. Mr. Secretary, some weeks ago I accepted an invitation to speak at a luncheon at the Defense Department and this is the day. I regret to say this because I sincerely appreciate your testimony this morning, and I need not say how highly I regard you in your position and personally.

Before I leave—it is going to be necessary to leave now—I would like to remind you of a little conference or visit we had last fall in my office when you came up and suggested that I assist you in securing suspension of the 7-percent tax investment credit, and I think you will remember, if you refresh your memory, you told me at that time if I would help you do that we would come up on June 30 this year with a budget deficit of about $1.8 billion.

If you will refresh your memory, I think I stated to you that I am not a wagering man, but if it was not nearer to $5 billion on June 30, 1967, I would buy you the best dinner in Washington. I just want to remind you that it looks to me like I am going to win a bet.

Secretary FOWLER. It looks very much that way, Senator. You are right.

Senator CARLSON. Thank you.

Secretary FOWLER. I hope you will have a bon appetit. [Laughter.]

Senator BENNETT. Are you in a position to invite guests? [Laughter.]

Senator WILLIAMS. Mr. Secretary, when was the first official recognition on the part of the administration that the deficit would not truly be $1.8 billion but that it would be between $9½ and $10 billion?

Secretary FOWLER. The first official recognition—that is a difficult term for me to tackle. Perhaps Mr. Schultze can deal with this more accurately than I, because he was closer to it than I, but the statement made by the President in late November concerning the prospective levels of Defense expenditures for fiscal 1967 were the offical recognition of the fact that there would be a substantial supplemental and that a substantial deficit would be involved.

Senator WILLIAMS. That was my understanding in late November, and then the real deficit was presented to us in the budget message this year of around $9.7 billion.

Mr. SCHULTZE. Senator, might I add a little to that? While prior to November, to the best of my knowledge, nobody, in an official sense, had precise figures to offer, you will recall, I think, in the testimony and colloquy that Secretary Fowler and I had before this committee and the House Ways and Means Committee, in considering the suspension of the investment credit, we both indicated that, with respect to Vietnam, barring a cessation of hostilities, expenditures would be higher. We did not know how much, and I specifically recall—I am not sure whether it was before this or the other committee—indicating at the same time that monetary conditions were likely to cause higher expenditures, although at the time I did not know how much.

Secretary FOWLER. Senator Williams, I would like to add to that, too. On page 43 of the record of my appearance before this committee in June 1966 on the public debt limit hearing, there is a colloquy which is pertinent:

Senator Hartke commented:

> If you have peace, hopefully they would at least cut down on the amount of money that is being spent in that part of the world.

Then I commented as follows:

> I think that what the Director wanted to underline is that the assumption that combat operation would terminate on June 30, 1967, which, I believe, Secretary McNamara has indicated, is one of his underlying assumptions, that assumption can be tested and determined with much more assurance later on than right now.

Senator Hartke said:

> I did not understand that. You said his assumption was that war would be terminated on June 30, 1967?

And I remarked:

> The funds he is asking for are based on that assumption. If that proves not to be a reasonable assumption as events go on, the amount of funds requested might have to be modified.

Senator WILLIAMS. Well. the point that I wanted to make is that there is no question we are today again, and I emphasize the word "again," confronted with an emergency and a time element which you say must be met within the next couple of weeks, otherwise you cannot pay your bills. I think the record should show that the reason that you are confronted with this situation is that it was not until after Congress adjourned last year that the administration recognized that the war may go on, and that your deficit was not, as many of us were saying at that time, being realistically given to the American people.

I call attention to your own figures. For example, October 31 your projected debt was $322.2 billion. Upon that same day the debt was $327.1, which indicated you were running about $5 billion further in debt than you planned.

Now, if you go back to September 30, there was a $318.1 billion projection against an actual of $325 billion. I point out that your failure to recognize this point when you had adequate warning, while Congress was in session, is the reason you are here on the deadline now.

I am going to try to help you meet the deadline, but I think the record should show that you are confronted in this embarrassing situation solely because the administration up until the end of this last year would not recognize the true state of your own budgetary conditions.

Secretary FOWLER. Senator Williams, let me make two comments on that. I think Mr. Schultze in his statement has presented the reasons why it was felt proper and desirable to present the figures on the supplemental in a hard and more accurate manner in connection with the new January budget just issued than to come up last fall.

We felt that, in light of the requirements of this committee and the Ways and Means Committee, in the other body, we should come in with a very hard, concrete substantial case for fixing of a particular limit. It is quite true, as the table I presented at the end of my statement shows, that substantial differences began to develop in September between the actual results and the projections that had been made on June 13, 1966. Through July and August there remained little reason to change our estimates of the debt.

By the end of August a more persistent trend had begun to develop. The debt was $2.7 billion above the forecast and outlays continued to run ahead of the projected rate. Even so it was far from conclusive at that time that the current debt limit would be inadequate or that defense or other spending would exceed budget estimates by as much as is indicated now. The available information was still consistent with the view that there had been a temporary spurt in orders and that some leveling would follow.

There was also taken into account that it had not been feasible up to then to arrange any sales of financial assets in the new fiscal year either under the participation sales or through direct sales.

Now, that showed up further in September when the debt, as you point out, at the end of September, was $3.7 billion above the projection. There was a difference in our forecasts of June and the end of September in that amount.

We had canceled and announced a cancellation for the time being of the asset sales program, and it was considered then quite possible and quite probable that a revision would be needed in the debt limit before the end of the fiscal year. But our best appraisal was that we did not have sufficient time or sufficiently hard estimates to come in at that time to give you the figures that would enable you to fix the limit accurately for us to get through the remainder of the fiscal year.

October showed little change in the picture. The debt was $3.9 billion above the forecast at the end of October. November showed the big further divergence between the projection and the actual which was $5.7 billion by the month's end.

It was then clear that the spending levels had pushed up to significantly higher levels than projected and stayed there. But still we are not in a position, as has been indicated, to come in with the kind of hard, concrete figures, that this committee and the other committee insist upon in making determinations of the debt. We thought it was perfectly feasible and perfectly appropriate at the opening of this session just as soon as the budget was in the hands of the two committees and there was an opportunity to examine the the figures, to ask that the debt limit be extended for the remainder of this fiscal year in a simple and straightforward form without involving the broader questions I have alluded to. There will be some more suitable opportunity to consider these questions between now and May when we will be up again for a debt limit extension for the fiscal year 1968.

Senator WILLIAMS. I appreciate your answer to that question. But I think the record should show that with this consistent rise, $2.7 billion at the end of July, $4 billion by the end of August, and running around $6 billion in September, that it would seem to me that anyone who was keeping abreast of those facts would realize that your deficit was going to run larger than the other and something needed to be done.

Secretary FOWLER. We realized that, but still did not have the basis for a case to come up and ask you for specific and concrete action to deal with it.

Senator WILLIAMS. Now, Mr. Schultze, you stated on page 5 that this underestimation of the deficit was partly attributed to a statement by Secretary McNamara where he pointed out, and I quote:

If it later appears that they—that is combat operation in Vietnam—will extend beyond this date it will be necessary to supplement the fiscal year 1967 budget.

Now, I gather that statement is based upon the premise that the budget for 1967 was based on the assumption that the war would not extend beyond June 30, 1967.

Mr. SCHULTZE. For budgetary planning purposes, that is correct.

Senator WILLIAMS. When did Secretary McNamara or the administration decide that the war was going to go on beyond June 30?

Mr. SCHULTZE. It was not so much a question of deciding that the war was going to go on, it was a matter of deciding on buying the items needed if the war was going to continue.

Senator WILLIAMS. When did you recognize it officially that it was going on?

Mr. SCHULTZE. On August 1 Secretary McNamara advised the Senate Defense Appropriations Subcommittee that a supplemental request was very likely.

Senator WILLIAMS. Now, I understand that that early estimate for the end of the war on June 30, 1967, for budgetary purposes was done to conserve money, and on the basis that it would eliminate a lot of waste in military procurement by putting that short time limit on it; is that correct?

Mr. SCHULTZE. I would say that is three-quarters correct, but I would like to modify one portion. It is not putting a short time limit on it that saves money. It is the fact that at the time the budget was made up our own troop strength and that of the Vietcong and North Vietnamese was building up explosively, and we did not have any idea what the requirements were going to be out in 1968 and 1969, which is the time period for which you buy the long-lead-time items.

Rather than make a complete guess and simply request large sums of money based on such a guess, the Secretary and the President decided, and I fully agreed with them, that it was much better to budget to cover only those items for which they knew the specific requirements. That necessitated the assumption I indicated.

Senator WILLIAMS. Yes.

Now, moving over to page 9 of your report, and I quote:

1968 defense budget, unlike the 1967 budget, provides for financing Vietnam requirements on a continuing basis and will assure the availability of long lead time items until fiscal 1969 funds are provided.

Mr. SCHULTZE. Correct.

Senator WILLIAMS. Now, if it was unwise to tell the American people the true cost of the war prior to the election, why is it wise now to do the same thing and to project this leadtime?

Mr. SCHULTZE. Well, barring the particular way you put it——

Senator WILLIAMS. The reversal of the two procedures.

Mr. SCHULTZE. Barring the particular way you put the question, Senator, there is a massive difference between the situation now and the situation then.

For the last 6 months, approximately, the Vietcong and North Vietnamese strength has roughly leveled off. Our own strength is substantially greater now, and the projected buildup is much more gradual, not explosive.

We also have 18 months of combat experience on which to estimate attrition rates, munitions consumption, bomb load, et cetera. For these reasons, we are now able, within the obvious limits of human fallibility, to make much better estimates of requirements on a continuing basis. In other words, if you think of a curve which moves up very rapidly and then begins to taper off, obviously at the beginning part of that curve you do not know where you are going. When you are in the part where it is beginning to taper off, barring major changes in the war situation, you do. So the situation is radically different now than it was then.

Senator WILLIAMS. You are projecting 1968 and 1969 plans on the basis of a continuing war rather than a termination as of a specific date?

Mr. SCHULTZE. Again, for purposes of budgetary planning.

Senator WILLIAMS. Budgetary purposes, I understand.

Mr. SCHULTZE. For example, Senator, we will be, under the requests in the 1967 supplemental and the 1968 budget, purchasing aircraft for combat attrition all the way to January 1, 1970, because we have a much better feel for the requirements now than we did 16 to 18 months ago.

Senator WILLIAMS. Mr. Secretary, you were quoted as having said that if the debt ceiling is not raised there may be a lapse in social security payments. Now, that must have been a misquote, was it not?

Secretary FOWLER. I would like to quote what I said precisely at the time of the hearing.

Senator WILLIAMS. The point I am trying to establish is that there is no connection whatsoever between raising the debt ceiling and writing checks to the social security beneficiaries. Is that not true?

Secretary FOWLER. It cannot be answered categorically "Yes" or "No," Senator, and I would like to explain my answer.

Senator WILLIAMS. Well, you explain it. What is your answer? Which answer are you explaining?

Secretary FOWLER. I am answering——

Senator WILLIAMS. The "Yes" or the "No"?

Secretary FOWLER. I am answering the question that it cannot be answered "Yes" or "No." There is some connection. I will try to delineate the connection the best I can.

Senator WILLIAMS. Go ahead and answer it.

Secretary FOWLER. In my statement on the debt limit to the House Ways and Means Committee I underlined the urgency of the immediate need to raise the limit by citing the broad range of outpayments that the Government is obliged to make in the first half of March, and noted that we will not have sufficient cash available to make all those payments even after borrowing up to the full extent of the present debt ceiling.

Among the payment categories I mentioned that would be coming up for payment at that time was social security, some other pensiontype payments, tax refunds, Government employees' salaries, and payments for goods acquired by the Government.

My purpose was expositional, to call attention to a serious problem. I did not say that any particular payments would not be made. I did want to make the point that without action on the debt limit they could not all be made, and here was a list of the scheduled payments.

As to social security payments in particular, it is true that the resources of the social security trust fund are there to back those payments. The usual procedure, however, has been to pay the social security checks out of the general operating balance. And in that sense I regarded these payments as among the totality, not all of which could be made if our cash was inadequate.

I have been assured by my technical staff that, in fact, a technique can be worked out to insure that there is no interruption in the flow of the social security checks even if Congress failed to raise the debt limit. It would be an involved procedure requiring simultaneous liquidation of special issues held by the trust funds and equivalent new borrowing in another form which would be feasible because cashing the special issues would open just that much room under the debt limit.

This would require perfect synchronization of the payments, very possibly involving some borrowing in the form of overdrafts at the Federal Reserve. Such borrowing is under the debt ceiling, but it can be worked out on short notice provided we have room under the $5 billion authority to borrow at the Fed and provided the Fed honors our note, as I believe they would.

Now, this is not the way, in my judgment, that the Government should have to conduct its financial affairs. For an operation the size and scope of ours there should be an adequate working balance.

But, to repeat, technicians do inform me that the operation is technically feasible. The fact that we can take care of that particular area of payment does not lessen at all the nature of our cash problem at the end of February. It is still the case that, without net additional borrowing, we won't have the cash to pay our bills, and the instantaneous synchronization of the cash and borrowing operations needed to assure uninterrupted social security benefits would serve to concentrate the shortfall more heavily on other areas of outpayments.

Just how one would choose among which bills to pay is something I am not prepared to say. It is my firm expectation that the situation will not come to that.

Now, that is as complete an answer as I can give to your question.

Senator WILLIAMS. It is a complete answer, but there are a lot of beneficiaries of social security who are vitally concerned about that and I am getting a lot of mail asking whether or not it is true that this fund is bankrupt and would not be able to pay. I am answering my mail and telling them whether we approve or disapprove of this debt ceiling at this time has no relationship whatsoever as to whether or not the social security checks can and would be paid over the next several months.

Now let us get it straight. The answer to that is most emphatically they can be paid from that trust fund, is that not true?

Secretary FOWLER. I have given you my answer, Senator Williams.

Senator WILLIAMS. Well, was the answer that they can be paid?

Secretary FOWLER. I have given you the best statement I can make on it.

Senator WILLIAMS. I want to expedite these hearings, Mr. Secretary, but now——

Secretary FOWLER. I certainly do, too.

Senator WILLIAMS. But now——.

Secretary FOWLER. I have had this statement very carefully prepared in order that you could have the best information available on what the problem is in this area.

Senator WILLIAMS. I will ask the question this way. I am not suggesting that the Congress should not act on this debt ceiling, do not misunderstand me on that, but in the event that it does not, would it be possible for the social security trust fund, the railroad retirement trust fund, or any of those trust funds which have Government securities as their assets, to dispose of those in the free market and use the proceeds to pay the beneficiaries on a monthly basis?

Now I agree with you it would not be sound to do that but it could be done, is that not true?

Secretary FOWLER. My statement indicates it can be done.

Senator WILLIAMS. I am glad that your advisers did write that statement for you. I wish that you had known the answer yourself.

Secretary FOWLER. I had said as much, Senator, in the hearings before the House. I will be glad to go over that with you in detail.

Senator WILLIAMS. Well, suit yourself. But there are a lot of these elderly people and I think they should have their fears put at rest clearly and decisively that they are not involved in this question before us here today.

Secretary FOWLER. There are a lot of people, Senator, who are anticipating checks from the Federal Government in March, and I think all those people should have their fears put at rest.

Senator WILLIAMS. I agree with you on that. I am not discussing that point, but I am trying to distinguish between these trust funds and the impression, whether it was correct or not, that I got from the stories in the press, that if this was not approved the social security checks, railroad retirement payments, and some of these other benefits paid out of trust funds would be jeopardized. I have been advised, both officially by your department and by you here today, that that is not true—that they could continue making those payments by liquidating the assets of that trust fund.

Secretary FOWLER. I think you have——

Senator WILLIAMS. You would accept it.

The President in his state of the Union message recommended a tax increase in the form of a 6-percent surtax across the board. Now since that time I have seen some official statements that it may be administration policy to delay that. The Vice President was quoted, or correct me, that they were still weighing that decision. I am asking you what priority is the administration putting on its request for an across the board 6-percent increase? Is it top priority?

Secretary FOWLER. A very high priority, Senator Williams.

Senator WILLIAMS. May I ask, will the administration be asking that it move ahead of, or in back of, the increase in social security benefits?

Secretary FOWLER. It would come after social security.

Senator WILLIAMS. Do you think that you have time to get that considered by both Houses of Congress prior to July 1 by putting it after the social security.

Secretary FOWLER. I would hope so.

Senator WILLIAMS. Hope springs eternal, but sometimes we get——

Secretary FOWLER. It is a simple enough proposal. Congress would be in a better position, I think, to make a judgment on the desirability of that proposal and determine whether or not it takes the same view of the situation as the administration takes in April or May.

Senator WILLIAMS. Now, the deficit for 1968, I understand, is about $8.1 billion, your projected deficit.

Secretary FOWLER. On the administrative budget, yes, sir.

Senator WILLIAMS. Is that based on the assumption that you will or will not continue the repeal of the 7-percent investment credit or that that will be reinstated in January?

Secretary FOWLER. It is based on the assumption of the law as it stands on the books today.

Senator WILLIAMS. That that will be reinstated in January.

Secretary FOWLER. That is correct.

Senator WILLIAMS. Now what assumption did you use on the basis of the telephone tax and the tax on automobiles, both of which expire, I believe it is, early next year? Is the budget computed on the basis that there will be a request for an extension of those two or that they will expire at that time?

Secretary FOWLER. The answer, Senator, is that the assumptions were made on the basis of the law as it exists today, which is that those excise taxes would be reduced.

There is one modification on that having to do with one part of the auto excise tax I would like Director Schultze to comment on.

Mr. SCHULTZE. The budget includes a proposal, Senator, which would provide for a continuation of the auto excise tax at 2 percent and its transfer to a highway beautification and safety trust fund to finance beautification and safety.

Secretary FOWLER. So it is not taken into account.

Mr. SCHULTZE. In other words, these revenues would come out of the administrative budget and go into the trust fund.

Senator WILLIAMS. What is the present rate of the auto tax?

Mr. SCHULTZE. It is now 7 percent. It goes to 2 percent on April 1, 1968, and then to 1 percent on January 1, 1969, under present law.

Senator WILLIAMS. Seven percent.

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. The administration is proceeding on the assumption you will drop that back to 2 percent next April.

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. Is that the planned recommendation as of this moment?

Mr. SCHULTZE. That is correct.

Secretary FOWLER. That is correct.

Senator WILLIAMS. And you are also planning to recommend that the telephone tax lapse next year?

Secretary FOWLER. If that is the way the law reads Senator, we would follow the way the law reads.

Senator WILLIAMS. And the plan is that the 7-percent investment credit be reinstated January 1?

Secretary FOWLER. In that regard, Senator, we certainly will take—and this has been said on other occasions—a hard look at the general economic situation and particularly at the plant and equipment projections sometime this spring or summer and make a determination at that time whether or not a request would be made to lift the suspension earlier than January 1 or to extend the period beyond January 1. We are not going to ignore, obviously, the range of problem that is presented by the present stipulated statutory date of December 31.

Senator WILLIAMS. How much is involved on the 7-percent investment credit over an annual basis?

Secretary FOWLER. We estimated it was a little over $2 billion in 1966.

Senator WILLIAMS. It is my understanding it is around a billion, between a billion and a quarter or a half.

Then the tax plans of the administration are to increase across the board by 6 percent, both individual and corporate taxes and then to reduce taxes through the form of the investment credit, the repeal of the telephone tax, and the repeal of the 5- to 7-percent auto tax; is that correct?

Secretary FOWLER. Repeal of what? Whatever the law says on that, Senator.

Senator WILLIAMS. Yes. Then it is not exactly a true 6-percent across-the-board tax increase. It is just a transfer of the tax obligation between people.

Secretary FOWLER. Well, it is an increase over what the law presently contemplates for fiscal 1967 of about $5.5 billion of revenue.

Senator WILLIAMS. Mr. Chairman, I have some other questions, but if some of the other members want to proceed——

Senator CURTIS. I will wait. I have a few questions.

Senator WILLIAMS. I will ask one more question and then I will pass.

I noticed that in September the President issued an Executive order freezing civilian employment. I believe that was September 20 last year—and, Mr. Chairman, I ask that that Executive order be printed in the record at this point.

The CHAIRMAN. Without objection, so ordered.

(The material referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 20, 1966.

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

Subject: Fiscal year 1967 employment ceilings

1. The President has directed that the head of each agency take necessary steps to:

a. Hold employment in full-time permanent positions for the remainder of fiscal 1967 to a level at or below that prevailing as of July 31, 1966. (Those agencies whose employment is already above the July 31, 1966, figure should reduce their employment to the July 31 level as expeditiously as possible by not filling vacancies.)

b. Hold employment in temporary, part-time, or intermittent positions for the remainder of fiscal 1967 to a level at or below that prevailing as of June 30, 1966, except for meeting normal seasonal changes in agency workloads. In no event should such employment on June 30, 1967, exceed that on June 30, 1966.

2. These actions are an essential part of President Johnson's efforts to reduce Federal expenditures.

3. Each agency head should make every effort to achieve the lowest possible level of employment. We must increase our productivity, redeploy our personnel, simplify our procedures and strip work to essentials in order to meet the employment ceilings established by this memorandum.

4. In view of the personnel requirements involved in the Viet Nam conflict, the Department of Defense and the Selective Service System are specifically exempt from paragraph 1 of this memorandum. For these two agencies, employment ceilings heretofore in effect will remain in effect subject to adjustment during review of the 1968 budget.

5. In the case of the Post Office, the June 30, 1967, employment ceiling established in the January budget review will remain in effect.

6. Requests for exception to the levels established by this memorandum will be presented to the Director of the Bureau of the Budget by the agency head under the following circumstances *only:*

a. When the need for employment increases can be related directly to requirements for Southeast Asia, or

b. When employment increases are needed for new programs which were not in existence on July 31, 1966, and for which appropriations or other funds have been provided and have been apportioned by the Bureau of the Budget, or

c. When employment increases are needed for emergency situations involving the protection of life, property, or the national security, or

d. When transfers of functions from one agency to another or from headquarters to the field result in a need to adjust employment levels.

In any of the above cases, exceptions will not be requested until the agency head has determined that it is clearly not possible to meet the required employment needs by redeploying personnel from other areas so as to remain under the employment level established by this memorandum. Exceptions will not be granted unless agencies clearly demonstrate that such shifts have been evaluated and that they are not feasible.

CHARLES L. SCHULTZE,
Director.

Senator WILLIAMS. I notice since that has been in effect in October they added 24,488 employees, and in November they added 36,728 employees, and in December they added 7,551 employees. I am wondering if that Executive order was not misunderstood; instead of a freeze it was an expansion. I wonder if there was a grammatical error in phrasing that order or what happened.

Mr. SCHULTZE. Senator, what you are referring to is a memorandum to the agency heads from me rather than an Executive order. I presume you read it. Am I correct, sir?

Senator WILLIAMS. Yes, sir.

Mr. SCHULTZE. I wonder if you might want to read paragraphs 4 and 5 of that memorandum. If you will not, I will read them for you.

Senator WILLIAMS. I will read them. They say "maybe."

Mr. SCHULTZE. No, sir, they do not say "maybe" at all. They say, "In view of the personnel requirements involved in the Vietnam conflict, the Department of Defense and the Selective Service System are specifically exempt from paragraph 1 of this memorandum."

Similarly, this is also true, as noted in the next paragraph, with respect to the Post Office, because of increase in mail volume.

Now, if you look at the level of employment outside of these agencies which were specifically exempt, it is down some 34,000 employees from the freeze date to December. So the freeze order itself, right on the face of it, said that because of Vietnam and an increase in mail, the DOD and Post Office are excluded.

In the agencies to which it does apply, employment since that freeze date, which you will recall is June 1 for temporary employees and July 1 for permanents, is down some 34,000.

It may go up again, Senator, I want to be clear on this. It may go up some, but since that freeze order employment has been down in the agencies to which the freeze applied.

Senator WILLIAMS. Well, based on past experience, you and I can agree on one point, that is it may go up again.

Now, that order, which was released just about 2 to 3 weeks before the election day, was hailed throughout the country as an economy move by the administration. It is somewhat comparable to the order, Executive order, in December 1965 where we were going to cut back 25,000 employees in the remainder of the fiscal year 1966, But instead of cutting back 25,000 after that statement was made—and again it was hailed as a great economy move—we added 187,506, or an average of 26,000 a week. I am just going to plead with you, do not cut these expenditures any more in that direction.

Mr. SCHULTZE. Senator, again, I presume since you have talked about that order a good number of times that you have read the particular memorandum concerned.

Senator WILLIAMS. Yes, I have read it. It was released and hailed and recognized—as I did, too, and complimented the administration—as a movement toward economy, but reading the fine print it again said maybe, and that little maybe is what is bothering me.

Mr. SCHULTZE. It did not say "maybe" at all, sir. What it called for was a one and a quarter percent reduction in the employment ceilings that we had provided for the end of fiscal year 1966. Those ceilings provided for an increase over 1965. We reduced the 1966 ceilings by one and a quarter percent, but that still left an increase over the previous year, Senator. Nobody was fooled; nobody was misled. The order was a flat statement about the ceilings, Senator. I presume you read it.

Senator WILLIAMS. Maybe I was the only one. Then I understand what this order was that in the back of your mind you were planning to add about 225,000 employees, you were only going to add 200,000 so you cut back 25,000 and that was the saving; is that correct?

Mr. SCHULTZE. Yes, sir; it was.

Senator WILLIAMS. I understand that now.

Mr. SCHULTZE. Excuse me, Senator. This was not something in the back of our minds. The employment estimates were printed in the budget and appropriations were made by the Congress in support of certain employment levels. We reduced the employment ceilings by some 25,000 from the levels that we had put in the budget, and below the level which the Congress had appropriated. But those levels allowed for an increase over the previous year.

Senator WILLIAMS. That is interesting.

Could I ask you this question? Why do you not include an extra half million so we can cut back more, and then we can really get somewhere? I mean, why just project 225,000 added and then cut back 25,000? Why did you not project a half million and cut back 300,000? We would go broke just saving money that way.

Mr. SCHULTZE. It may make great fun with a witness, Senator, but let me ask your suggestions on what we do with the Post Office and Defense Department. This is where 90 percent of the increases are occurring between 1966 and 1967. Would you suggest that we not provide the men for support of our troops in Vietnam? Would you suggest we not deliver the mail?

Senator WILLIAMS. Oh, no.

Mr. SCHULTZE. Senator, I realize you can make fun out of employment increases, but we are trying to hold them back.

Senator WILLIAMS. What I have really suggested is that we really recognize the fact of the situation; namely, there is a war in Vietnam. We do not foresee the end of it, and I am glad at last the administration recognizes it.

As for reducing the expenditures in some of these others, I welcome your invitation to make suggestions, and I will be sure you get them.

Mr. SCHULTZE. Glad for suggestions, Senator.

Senator WILLIAMS. However, I hope they will be listened to and followed more than the other ones have been.

I will make one suggestion now which I offered before. Why not put a real freeze on employment and not just an imaginary one. Why not just freeze the level of employment and be done with it? Why go through the argument we are going to freeze it and then exempt about half the agencies?

Mr. SCHULTZE. Senator, as I say, if you could tell me what to do about delivering the mail, we could consider that. If you could tell me what to do with 3,000 young Indian children coming in to school in the West where we have to provide teachers, I would be glad to listen. You may have some good ideas. But it cannot just be done by simply saying: "close your eyes and freeze employment." It has to be done by looking at program after program to see what we can do. That is what we have done in this case.

Senator WILLIAMS. We have had Government services. Let us face it, we have had the mail service longer than you and I have been in the Government.

Mr. SCHULTZE. And there have been increases in the Government along with it.

Senator WILLIAMS. The more we increase employment the slower the mails get. We are almost back to the Pony Express days in some areas. So maybe we have got too many employees in there and it may be this is what is needed, because I think you will recognize the mails are not moving today as efficiently as they did when we had far less employees than we have got now, and it may be the rules of operation.

Mr. SCHULTZE. Well, Senator, I would be the first to agree that in the Post Office and many other areas of Government we have a lot to do in terms of improving efficiency. We are working on it. I think you will recognize, however, that in the case of the Post Office in the last 2 years, because of a rapidly rising economy, mail volume has been rising much more rapidly than it ever did in the past and turnover has been a lot higher because of a tighter labor market. This has led to some delays, but it has also required some additional Post Office employees.

Senator WILLIAMS. Well, Mr. Chairman, I will withhold further questioning.

Senator HARTKE. (presiding). Senator McCarthy.

Senator MCCARTHY. I do not have any questions. I came over hoping the script might be changed, but I came in finding it just as it was last year.

I will not ask you any questions. I will give my moral support to the Treasury today, and the same with the Bureau of the Budget.

Senator HARTKE. Senator Curtis.

Senator CURTIS. I have a few questions. I will try to be concise, but I would like to establish them for the record. I would like to ask both Mr. Schultze and Secretary Fowler this question: Do you regard a rising Federal debt as a good thing? I preface that question with the fact that there have been a great many writers and others and some of them I believe have been in government, who have, if they have not defended a rise in the Federal public debt, they have pooh-poohed the idea that it was a cause for any alarm, and they have argued about growth in the GNP and population and so on.

I will ask the Director of the Budget: Do you regard a rising Federal debt as in the public interest?

Mr. SCHULTZE. I would say, Senator, that a rise in the public debt itself is obviously not the objective of Government planning, should not be, and is not to be considered per se, a thing that is desirable. I think what you have to look at are the implications of what has to be done in any given situation in order to change that debt—in other words, what it would mean with respect to taxation and expenditures. That is the way to look at it.

Senator CURTIS. I understand that. But in other words you do not accept the philosophy that this debt is really a good thing and it is the only way we can accommodate a growing population and an expanding economy?

Mr. SCHULTZE. No, sir, what I would say is that the only way to view that is not to say that rising debt is a good thing, or rising debt is a bad thing, but rather to look at the expenditures and the receipts that are appropriate to the economic conditions and the other objectives of Government at any given period of time and make decisions on that basis, rather than looking at the debt and saying that rising debt is a good or bad thing.

Senator CURTIS. Secretary Fowler, what is your answer?

Secretary FOWLER. I share what the Director has said. A rise in the Federal debt is something that any Secretary of the Treasury would prefer not to have, and I would hope that it would be possible in many years, and on many occasions in the future, to achieve some debt reduction which can be thoroughly compatible with our national goals of high employment, substantial rate of growth, and reasonable price stability and equilibrium in our balance of payments.

We had some discussion about the general problem of debt, I think, last year before the committee.

What I would like to add about the debt, the problem of the Federal debt, and debt generally, is that I do not think that the character of the increases in the Federal debt which have marked the past four administrations since 1946 present a great menace to the soundness of the American economy or the American Government.

It is important that we try to achieve debt reduction, and the lowering of the cost of carrying the debt, when those opportunities present themselves. We ought to realize at the same time that in the last 20 years the Federal debt has grown at a much slower rate than the economy.

We ought to take into account the fact that the ratio of public debt has declined since 1946 from roughly 116 percent of GNP to about a projected 41 percent in 1968, and the 41 percent would compare with 51 percent in 1940, before the large wartime debt rises began.

We all ought to also take into account the fact that in the 20 years since 1946 the public debt has increased 27 percent, but the other elements of debt in the economy have increased from five to eight times their 1946 levels. In consequence the Federal share of the total indebtedness of the country has declined from about 58 percent at the end of 1946 to 29 percent December 31, 1960, and only 22 percent at the end of last year.

The burden of the Federal debt on each individual has also been sharply reduced since 1946. This is due to growth in population and also growth in per capita wealth. The debt per person has dropped from $1,909 in 1946 to $1,628 in 1966. But if we adjust that per capita debt for the changes in the price level, using 1957–59 dollars, the burden per capita has declined from $2,800 to roughly $1,400 in real per capita terms or roughly 50 percent.

Now, if we contrast this decline of debt per capita to disposable income, we would also get an encouraging picture, that the per capita disposable personal income that is left after Federal, State, and local taxes rose from $1,132 in 1946 to $2,567 in 1966. Therefore, in relative terms the debt has declined from 169 percent of disposable income in 1946 to 63 percent in 1966.

Now I have given the previous figures on the character of the interest burden as a percentage of GNP and also as a percentage of receipts. It was around 12 percent of receipts in 1946. It rose to 16 percent in 1950, and now in 1968 it is estimated at 11 percent.

Now each of these measures shows that the burden of the public Federal debt has been reduced during the last two decades. This is an encouraging trend, and we ought to weight it against the fact, the undeniable fact, that the Federal debt has increased 27 percent during that period of time.

Of course we also must take into account that a substantial block of that debt is held by the trust funds and the Federal Reserve Board. The balance, privately held, is about $218 billion.

But, Senator, we have no difference of opinion, I think, between us as to the desirability of effecting debt reduction and holding the expansion of the Federal debt down. As a finance officer of the Government, I certainly would want to do all that I could that was reasonable and compatible with general economic and financial policy to achieve that objective.

Senator McCARTHY. Will the Senator yield to me at that point?

Senator CURTIS. Yes.

Senator McCARTHY. I think we ought to observe that this country was really founded on borrowed money. The Puritans borrowed money to get here, Christopher Columbus had a government loan which is about the worst thing which he could do, right? Anyway, that is a pretty bad start, and we have been operating on credit ever since. Would you agree with that?

Secretary FOWLER. The chairman of this committee has pointed out several times, I think last year during the course of the hearings, that debt has grown alongside the growth in gross national product. Another pertinent fact—it is thought by many economists and students of these things that the ratio of increase in gross national product to debt is about $1 of GNP increase to $2 of debt increase. That is not Federal debt. That is taking Federal, State, local, corporate, and private debt.

Senator WILLIAMS. Will the Senator yield for just a point?

Senator CURTIS. Yes.

Senator WILLIAMS. I am interested in relating the national debt both to the change in population and relating it as to a percentage of the gross national product, both of which have some merit. But I am reminded of the story of a young couple over home. They borrowed $10,000 from the bank and they financed their home, and the banker impressed upon them that they now owed $5,000 per capita. A couple of years later they came into the bank and they had had twins and they wanted to buy a car and they impressed upon the banker that even with the expanded debt and the fact that they were going into debt each year, their per capita debt had dropped substantially by dividing it by four, and the percentage of their debt as related to the overall national income was lower, but unfortunately that banker did not agree with it.

Senator METCALF. Did he get his salary raised in the interim?

Secretary FOWLER. I think that would depend on the age of the children, Senator Williams. I think some of those who have reached teenage might have pretty good prospects of outearning the old man.

Senator WILLIAMS. But you will admit there are other factors than those that relate to the danger of a national debt.

Secretary FOWLER. Oh, yes, sure.

Senator CURTIS. At this late hour I will not pursue the matter and engage in any debate. I am very alarmed about the lack of distress over the ever-increasing national debt; boasts are made of our great prosperity and highest payrolls, yet the debt goes on.

None of us can understand a billion dollars, but we do know if there is a community that has a thousand taxpayers in it, and each one of them, in addition to spending all they make, borrow substantial sums each and every year, that the level of employment and prosperity and affluence will increase greatly and steadily in that particular community.

Suppose we had the next five administrations and assume each administration lasted for 8 years and they were to go on with additional increases in the national debt year after year. Do you regard that as a normal thing, not to be disturbed about, or would it be a distressing thing? That would be projecting it for 40 years.

Secretary FOWLER. It would be undesirable. I would hope that during the next five administrations there would be frequent opportunities to either hold the level of debt where it is or to reduce it by debt retirement out of surpluses.

I think, just as Mr. Schultze has indicated, this will present choices as the economy grows. The throwoff of that growth into increased revenues in very substantial amounts presents an opportunity always for the President and the Congress together to make choices as to whether or not the additional revenues will be used to reduce taxes, to increase Government expenditures, or to retire debt, and all of those choices can at various times, depending upon the circumstances, be compatible rather than in conflict with the achievement of these economic objectives that I have indicated.

And I certainly would hope and feel that there will be times in which debt reduction would at least get a partial share of the increase in revenues that results from the persistent growth of the economy.

Mr. SCHULTZE. I might point out also, Senator, that if, during the period of the next five administrations, the real growth of the economy continues at the same rate we have had in the last 4 or 5 years, even if the debt keeps growing at the same rate as in the last 4 or 5 years, it would end up at the lowest proportion of our national wealth and national income than in this generation or even in the preceding generation.

Secretary FOWLER. Senator Curtis, I think an analysis of the situation in the last 3 years will point up this choice that we might have had were it not for the interventions of Vietnam. There can be qualifications. If there had not been that, the situation might have been different. But in fiscal 1966 with the Vietnam costs removed the outlays would have been $100.9 billion compared with receipts of $104.7 billion giving a surplus that year of $3.8 billion.

Even if we subtract out of that the $1.2 billion of extra revenues from the Tax Adjustment Act you passed last March, which was enacted because of Vietnam, there would still be a surplus of $2.6 billion.

Similarly in the current fiscal year of 1967 we expect a jump in Vietnam costs up to $19.9 billion which if eliminated would give a surplus of $10.2 billion. Again eliminating the revenues produced by last year's Tax Adjustment Act which this year would be $6 billion, we would still wind up the year with an even larger surplus than in 1966, $5.6 billion.

The projected 1968 budget includes $22.4 billion in special Vietnam costs. Were this to be eliminated, we would have a surplus of $14.3 billion. Since the new tax recommendations are being made to finance these costs, we would eliminate $5.5 billion of revenues from this source. Even after that there would be a surplus of about $8.8 billion which would be the highest surplus in history.

Now, of course, one cannot sit here and predict what would be the level of Government expenditures for nondefense purposes or for other defense purposes than Vietnam had Vietnam not intervened. One cannot predict with complete accuracy what the nature of the economy would be. However, I am one of those who believes that the experience we had in 1964 and in 1965, up until June when there was a very, very rapid rate of growth, was one in which the private sector produced additional jobs and made a contribution that was hoped for and anticipated and that we would have had roughly the same general level of revenues without Vietnam.

I do not for one instant concede the fact that war is essential to a reasonably fully employed, fully utilized U.S. economy.

So I think these indicate the kind of choices that will confront the President and the Congress at the conclusion of the Vietnamese hostilities, certainly after a period of 6 to 9 months of adjustments.

Senator WILLIAMS. Will the Senator yield just on one point there? Are those figures you just put in the record based on the assumption that if the Vietnam war was over and we eliminated all those expenditures, the economy would keep right on rising, providing the Government with additional revenue? Did you not fail to take into calculation the impact a reduction in the expenditures on the Vietnam war is having?

Secretary FOWLER. I took in, Senator—Senator, they were based on the projection that had there not been the escalation in Vietnam and the economy had been moving, continued to move, on the track that it was moving in 1964 and 1965, we would have had a highly prosperous economy and that the revenues yielded, for example, in fiscal 1966 of $104 billion, that we would have roughly come out at around that had there not been intervention of Vietnam. That is my assumption.

Senator WILLIAMS. Yes, that is right. I appreciate that, and you have to make the assumption. But I might say that the staff disagrees with those assumptions and did not feel that you had taken into consideration the impact of a reduction in the expenditures which would inevitably have a feedback effect on the economy.

Senator CURTIS. I will go on to my next question, but I cannot help but observe that I am greatly disturbed over the growing attitude of those who are policymakers in Government, who seem to accept the idea of an increasing Federal debt and take solace in the fact that it is less per capita and that it is less percentage of the gross national product. I think that there is an element of character involved. I think it would be worthwhile to say to the citizens of the United States, "Your bonds will be repaid out of surplus of the Treasury, that they will not be repaid by merely issuing more bonds."

I think that the lessening of the burdens of Government would be a spurt to our economy.

Now I realize that dollarwise the increase in the gross national product of the twenties does not equal present growth but it did happen and there was an annual reduction of the Federal debt. The present administration seems to accept the premise that to keep the ball in the air the Federal Government will have to borrow more dollars every year.

I do not want to cut anybody off. You do not have to answer unless you want to.

Secretary FOWLER. Senator Curtis, I want to say very clearly, I do not take the view that it is necessary for the Government to incur large deficits in order to maintain a healthy economy. I think the experience that we had in the policy that was expressed in the first section of the Revenue Act of 1964 and the results that flow from that act showed that with a reducing, sharply reducing, trajectory of deficit in the budget, whether it is administrative or some of the other methods of calculating it, the American private sector is fully capable, given the healthy environment that existed during that period, of supplying the jobs and the opportunities to move toward a fully employed, fully utilized economy.

I have faith that that would have continued to be the case had we had the surpluses that would have been posed had the Vietnamese war not intervened.

I also think a considerable body of accepted economic opinion is to the effect that surpluses and debt retirement can be handled in such a way as to be completely compatible with continued healthy growth and an expanding economy. So I do not think there is very much difference between us on our positions here.

I point to these other elements simply to give a rounded picture of the situation. If one wants to worry about increasing trajectories of burden, there is the growth pattern, for example, in State and local debt in recent years, which has moved since 1946 from about $23 billion to $101 billion in 1966. This represents a four or five times rate of increase.

I do not want to counter one worry with another, but that does round out the picture.

Senator CURTIS. I do not want to take your time and the time of the committee to go into the State and local debt thing. I think local and State governments are faced with two very realistic things: One is a great portion of their budget goes to match Federal programs, and, secondly, inflation is hitting these units of government in no small measure.

I have county commissioners tell me that if they never increased the services rendered, if there is a minor repair needed in the county courthouse where they used to get a bill for $7 or $8, they are lucky if they get off with $25 now.

Secretary FOWLER. Senator Curtis, I would just like to add one general comment here. I think we want economic growth. We both want that. We must recognize that credit growth goes with economic growth. I think we both have a distinct preference for wanting the credit growth that goes with economic growth to be predominantly and preponderantly private credit. I think that has been the case over the last 15 to 20 years.

Senator CURTIS. But I think we have got to face the grim reality that we have an increasing debt over the long pull. I do not just indict the President, I include myself, all of my colleagues, and everyone that in anyway can influence the financial policies of our Government.

We have an increasing debt because the politicians at a given time want to give to the people more Government bounty than they are willing to face up to and have the people pay for. I think it is that simple.

We are faced with that hard decision that to my mind involves character.

I want to ask this question: If this bill is not passed, is there any system of priorities set up as to what bills shall be paid from the funds that are available to pay bills, and if so what in general are those priorities?

Secretary FOWLER. No, sir, no set of priorities has been established.

Senator CURTIS. Now, one thing about the increase in what is said in your paper of the anticipated war expenses, Vietnam war expenditures. I am aware that no one can predict what the Congress will do, no one can predict catastrophe, a lot of things that happen, but in the realm of the Defense Department, the Secretary of Defense does have access to secret and confidential war planning, he has access to the military intelligence reports. Certainly the directions for conducting a war are not on a day-to-day or month-to-month basis. So I want to ask you this: Did the Secretary of Defense err in advising the budget-makers concerning the anticipated war expenses or did the budget-makers go ahead without his estimates.

I will ask you, Mr. Schultze.

Mr. SCHULTZE. I think the major point involved is that the Secretary of Defense did advise the budget-makers, as he advised the Congress—I am not sure of the precise timing—that barring a cessation of hostilities, the costs of the Vietnam conflict in fiscal 1967 would be significantly higher than the amounts provided in the 1967 budget. We must remember that it is about 15 months ago that the original budget estimate was made.

He also advised the budget makers, as he was proceeding to go through the services' requests and doing his war planning, that until it was fairly late in the game that he would be unable to pin down precisely what the requirements were going to amount to.

For example, in August, within 72 hours before his appearance before the Senate Appropriations Committee, he was faced with three different and revised estimates of Army requests for troop strength, and these changes continued to come in.

Senator CURTIS. He did not know about this?

Mr. SCHULTZE. It is not so much that he did not know about them, but that he was unable, except as he went through and pinned down the specific requirements, to put dollar numbers on what he was finally going to recommend to the President. So the answer is that in terms of the fact that Vietnam expenditures were going to be higher, yes, of course we were advised. In terms of the specific amounts, this was something that developed only as the specific requirements could be reviewed and the Secretary could make his determination on what he was going to recommend to the President.

Senator CURTIS. Would you for the record, Mr. Schultze, put in the amount of the Federal debt at the close of each fiscal year for the last 20 years including the estimate for the current fiscal year?

Mr. SCHULTZE. Yes, sir.

(The information referred to follows.)

Public debt, 1947–67

Fiscal year:	Public debt at end of year[1] (millions)	Fiscal year—Continued	Public debt at end of year[1] (millions)
1947	$258, 376	1958	276, 444
1948	252, 366	1959	284, 817
1949	252, 798	1960	286, 471
1950	257, 377	1961	289, 211
1951	255, 251	1962	298, 645
1952	259, 151	1963	306, 466
1953	266, 123	1964	312, 526
1954	271, 341	1965	317, 864
1955	274, 418	1966	320, 369
1956	272, 825	1967 estimate	327, 300
1957	270, 634		

[1] Includes Government enterprise debt guaranteed by the U.S. Treasury.

Senator CURTIS. Now, what are the expected revenues for fiscal 1968?

Mr. SCHULTZE. $126.9 billion.

Senator CURTIS. What was the expenditure of the Department of Defense for fiscal 1961?

Mr. SCHULTZE. For fiscal 1961, expenditures for the Department of Defense, military functions, plus the military assistance program—we normally think of them together—were $44.7 billion.

Senator CURTIS. Now, what will be the estimated expense of the Department of Defense, including the Vietnam war, for fiscal 1968, using the same definition?

Mr. SCHULTZE. $73.1 billion.

Senator CURTIS. $73.1.

Mr. SCHULTZE. Correct, sir.

Senator CURTIS. What were the total revenues in fiscal 1961?

Mr. SCHULTZE. Total revenues in fiscal 1961 were $77.7 billion.

Senator CURTIS. $77.7 billion.

Mr. SCHULTZE. Revenues for fiscal 1961, that is correct, sir.

Senator CURTIS. In other words, the revenue from fiscal 1961 has gone up from your estimate for 1968 $49.2 billion.

Mr. SCHULTZE. Correct, sir.

Senator CURTIS. The cost of the Vietnam war, including increased costs of running the Defense Department generally, has gone up $24——

Mr. SCHULTZE. $28.4 billion.

Senator CURTIS. $28.4 billion.

Mr. SCHULTZE. That is correct, sir.

Senator CURTIS. So from the estimated increased revenues for fiscal 1968, after you allowed for the increased cost of defense, which includes the cost of the Vietnam war, would still leave a leeway for the expansion of nonmilitary activities of the Government and operating surplus of $20.8 billion, is that right?

Mr. SCHULTZE. That is correct, sir, compared with 1961.

Senator CURTIS. One other question, I believe it was in the Secretary's paper that referred to savings and loan insurance payments.

Mr. SCHULTZE. That was mine, sir.

Senator CURTIS. As affecting the budget.

Mr. SCHULTZE. That is correct, sir.

Senator CURTIS. Do they go into the general fund?

Mr. SCHULTZE. Yes, this is a self-financing operation.

Senator CURTIS. How do they affect the budget?

Mr. SCHULTZE. There are advance payments on premiums which are netted against expenditures to support the operations of the Federal Savings and Loan Insurance Corporation. Those advance payments are in turn based upon the inflow of savings into savings and loan institutions. In the current fiscal year, the inflow of savings was down, the advance payments are in turn smaller, and therefore the net expenditures are higher than we originally estimated.

In other words, the net cost of those operations as shown in the budget is higher because the premiums were down.

Senator CURTIS. I have taken more time than I anticipated, and the next question, the answer can be submitted for the record because I must answer a telephone call.

On page 16 of your statement, Mr. Schultze——

Mr. SCHULTZE. Yes, sir?

Senator CURTIS. At the top of the page, the actual program reductions which have been undertaken exceed the target set out last fall.

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. Reductions and deferrals in program obligations, commitments, and contracts totaled $5.2 billion.

Mr. SCHULTZE. Yes, sir.

Senator CURTIS. The following sentences give some information as to that $5.2 billion, but will you itemize it for us?

Mr. SCHULTZE. Yes. I have already indicated I am supplying for the record a list of about 150 odd items which go into that. (See p. 14)

Senator CURTIS. Thank you.

Senator HARTKE. Mr. Secretary, we have a problem here in which I am involved on the floor of the Senate, and I do have some questions. However there is a rather desperate call from the floor that unless I appear something is apt to happen, I am not sure what. But I am going to make a speech there which they insist has to be done.

Do you have some questions you want to ask?

Senator METCALF. Mr. Chairman, I am a member of this Joint Committee on Reorganization and I am awaiting an opportunity to offer an amendment of my own, and I need to get to the floor, too.

Senator HARTKE. Can the two of you be back here tomorrow at 10?

Secretary FOWLER. We can be back this afternoon. I am free up until 3 o'clock.

Senator HARTKE. Will you not be here tomorrow morning?

Secretary FOWLER. Oh, yes, I will be here.

Senator HARTKE. Could you be here tomorrow morning at 10 o'clock?

Secretary FOWLER. Yes.

Mr. SCHULTZE. Senator, I may come in a little late tomorrow morning. I think it has already been communicated to the committee; I have a prior appointment, but I will come between 10:30 and 11.

Senator HARTKE. I was just going to ask, I just wonder, I did not want to go back to 1968 or something like that.

Senator WILLIAMS. We will save some questions for you.

Secretary FOWLER. I hope you will reserve all the questions on the budget for the Director when he comes tomorrow morning because this is a kind of a dual act and we provided——.

Senator HARTKE. All right, the committee will then stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, February 16, 1967.)

$336 BILLION DEBT LIMIT

THURSDAY, FEBRUARY 16, 1967

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

The committee met, pursuant to recess, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Vance Hartke presiding.

Present: Senators Long (chairman), Hartke, Williams, Carlson, and Curtis.

Senator HARTKE. The committee will come to order.

Good morning, Mr. Secretary.

Secretary FOWLER. Good morning, Senator.

Senator HARTKE. Good morning. I hope you had a nice night.

Senator Williams, I think, has a question or two he would like to ask.

Senator WILLIAMS. Mr. Secretary, to get the record straight so that we can approach this more intelligently, the deficit projected for 1968 is $8.1 billion, is that correct?

STATEMENT OF HON. HENRY F. FOWLER, SECRETARY OF THE TREASURY, ACCOMPANIED BY FREDERICK L. DEMING, UNDER SECRETARY FOR MONETARY AFFAIRS; AND HON. CHARLES L. SCHULTZE, DIRECTOR, THE BUREAU OF THE BUDGET, ACCOMPANIED BY SAMUEL M. COHN, ASSISTANT DIRECTOR FOR BUDGET REVIEW, BUREAU OF THE BUDGET—Resumed

Secretary FOWLER. That is correct, Senator.

Senator WILLIAMS. In arriving at that figure, I understand that your plans are to sell $5 billion in participation certificates.

Secretary FOWLER. That is correct.

Senator WILLIAMS. And your plans also embrace an acceleration of the corporate tax by changing the ratio from 70 to 80 percent on the estimate, and that would bring in an extra $800 million.

Secretary FOWLER. There are two aspects to that, Senator. The movement from 70 to 80 would bring in $400 million, and the other aspect, which would be to apply over a 5-year period the same acceleration to taxes which are less than $100,000 would bring in the remaining amount.

Senator WILLIAMS. But the total would be $800 million, approximately?

Secretary FOWLER. That is correct.

Senator WILLIAMS. Then I understand that the seigniorage on coins, that is the profit that accrues out of reducing the silver content is estimated at $159 million.

Secretary FOWLER. That is correct.

Senator WILLIAMS. Now those total $6,319 million.

My question is, assuming that we do not sell these participation certificates and these others, your deficit would be $14.4 billion, is that correct?

Secretary FOWLER. Well, if you add in the participation certificates only it would bring it from $8.1 billion to $13.1 billion.

Senator WILLIAMS. That is correct. Then, if we do not accelerate the corporate tax as proposed, that would be another $800 million.

Secretary FOWLER. Another $800 million.

Senator WILLIAMS. Of course, the seigniorage will develop because we have already made that decision.

Secretary FOWLER. Yes.

Senator WILLIAMS. That brings it to $6.3 billion or a total of $14.4 billion, and that $14.4 billion is arrived at by assuming that the 6 percent across-the-board tax will be passed and effective July 1, is that not correct?

Secretary FOWLER. That is correct.

Senator WILLIAMS. So, in effect, without some affirmative action by Congress in this direction of the Department, your real deficit for 1968 would be $18.9 billion rather than the $8.1 billion.

Secretary FOWLER. That is correct.

Senator WILLIAMS. Now, the same ratio would be true in the 1967 deficit. I understand there are about $3.2 billion we will pick up in accelerated corporate tax rates as a result of the remaining of that acceleration of corporate——

Secretary FOWLER. Yes, of the law already enacted as of last year.

Senator WILLIAMS. Yes. And the seigniorage on the coins is estimated, I think, to be about $1 billion in 1967.

Secretary FOWLER. That is correct.

Senator WILLIAMS. And the participation sales you were projecting around $4.1 billion, if you are able to move the rest of them. I think that was the plan.

Secretary FOWLER. The exact figure is $3.580 billion.

Senator WILLIAMS. I think that was my understanding. But the projected goal was $4.1 billion.

Secretary FOWLER. Yes. But that has been reduced somewhat as the year has gone on.

Senator WILLIAMS. And, as a result of a speedup by Executive order of the payment of the withheld payroll taxes, a speedup of the payment of the excise taxes, plus the change in the graduated withholding tax brought in $770 million in 1967.

Secretary FOWLER. I do not have the exact figure in mind, but that sounds like a reasonable figure.

Senator WILLIAMS. So those four items would total $9 billion, and without these nonrecurring income items our deficit for 1967 would have been, $18.7 billion.

Secretary FOWLER. That is correct.

Senator WILLIAMS. I point this out because I think that not only we in Congress but the American people should recognize the true deficit based on prior accounting methods. Also, we would be in a better position to evaluate why this debt ceiling must be changed at this time.

Secretary FOWLER. Senator, I cannot accept the statement "the true deficit" nor can I accept the statement on "prior accounting methods." We are following exactly the accounting methods, as far as this is concerned, that have been followed over many administrations.

Insofar as what is the true deficit, the Budget and Accounting Act of 1921 requires by law that the President outline the expenditure and revenue program, and it has been always characteristic of every budget that I can recall that when the President has recommendations for tax action or other action which he expects to yield revenue, these are computed as a part of his budget. Now whether Congress, by a series of different actions converts that President's projected deficit from $8.1 billion to a higher figure is, of course, a matter for the Congress to determine.

Mr. COHN. I would point out in that connection, Senator, that the Congress also has to act on the appropriation requests of the President, and if the Congress does not approve those or changes them it also affects the deficit in that way.

Senator WILLIAMS. I am not questioning that point and I am not questioning the legality of what has been done or anything. I am just trying to get the picture for these nonrecurring items of income.

Secretary FOWLER. Some of those you have cited.

Senator WILLIAMS. The accelerated tax rate, accelerated corporate rate. I accept that position of accelerating it.

Secretary FOWLER. I do not think we have any differences.

Senator WILLIAMS. That is correct.

Secretary FOWLER. You characterize it one way and I cannot accept that characterization. I would characterize it in another way.

Senator WILLIAMS. I realize it may be somewhat embarrassing to accept a $18 billion deficit.

Secretary FOWLER. I would not for a moment accept an $18.1 billion deficit, and I think, Senator Williams, it is not fair and proper to present that to the country as an $18.1 billion deficit.

Senator WILLIAMS. If not, let's do it over again.

Senator HARTKE. Just a minute. Will you yield? Can we put in a couple of more items before we go ahead with this philosophical discussion?

All right?

Secretary FOWLER. All right.

Senator HARTKE. What I think we want is an honest accounting here, and this is what is involved. In addition to the items Senator Williams mentioned, is it not also true the budget has in it, and it presumes, an increase in postal rates of $700 million?

Secretary FOWLER. That is correct.

Senator HARTKE. That was not included in your items, so you have to add $700 million more.

Secretary FOWLER. I was going to add that one, too.

Senator HARTKE. All right. I am glad we have such an agreeable group here this morning. It is good no one else is here. We might have disagreement if the rest of the committee were here.

In addition to this you have the sale of stockpiled material for an additional $800 million; isn't that right?

Secretary FOWLER. I do not recall the figure, but I know there is a substantial figure in the budget.

Senator HARTKE. All right.

Now that raises us another $1.5 billion in addition to that which has to go into it.

In addition to that it also has the implication that there will be a tapering off in the rise of defense expenditures; isn't that right? All right. They are projected to rise $2 billion and a quarter the first half of 1967, and approximately $1.2 billion the second quarter of 1967, and one-half billion during the first half of calendar 1968.

Secretary FOWLER. I am going to have to defer, Senator Hartke, to the Director of the Budget who will be here shortly as to what the quarterly outlook is on the expenditure patterns. I am not familiar with them.

Senator HARTKE. Let us assume I am right, and I will assure you I am, just as I was right last summer when you said I was not about the $10 billion deficit which is in the record.

I was surprised at those people who chided us for trying to get an honest accounting last summer. I might point out—maybe I had better wait for Mr. Schultze on that because it was an exchange with him when he denied I was right when I said there was $10 billion short. I am going to go on to one thing.

Also in 1968 there is going to be another factor which is going to be the reestablishment of the investment tax credit which yesterday you said we would reestablish, that credit balance, whatever that amounts to. What is the amount?

Secretary FOWLER. That has been computed in the figures, Senator Hartke.

Senator HARTKE. And the deficit is also in there—is the fact there is going to be a sharp drop in the automobile and telephone excise taxes also computed in those figures.

Secretary FOWLER. That is also computed.

Senator HARTKE. What we are trying to get is an honest accounting here.

Senator WILLIAMS. I think we agree on the figures. The Secretary just confirmed them down the line, and what I was trying to point out is that the $8.1 billion deficit last year, which is recognized, is arrived at by taking into consideration $6.3 billion on nonrecurring income. We won't get into whether they should be included as a part of the debt or not, but proceeds from the sale of participation certificates are used to reduce expenditure items, and has a tendency to reduce the deficit.

And, of course, the seigniorage on the coins, we all recognize that is a nonrecurring profit.

Secretary FOWLER. Every year that we make coins we get a profit. We have every year that I recall.

Senator WILLIAMS. That is correct. Every year you make coins you get a profit. But the letter I received from your Department, I believe signed by you, pointed out that in the changeover of these coins we will pick up about $2½ billion quick profits, 1 billion of it which went in last year, $519 million in fiscal 1968, and some of it the year before, but once that changeover is made that profit drops back to an average annual income of around $100 to $200 million per year.

Now, that was your own letter, Mr. Secretary.

Secretary FOWLER. Yes, Senator Williams. We tried to solve the coin shortage and we had a very large production under the direction of the Coinage Act of 1965. We have tried to avoid any shortage in coins, and that has meant a great bulge in production in the fiscal year of 1966 and 1967 which, I think, all past experience would indicate would be far in excess of the normal production runs that would be required.

Senator WILLIAMS. That is correct. I am not quarreling with what you did. I supported what you did. I think you had to do it.

But I am just pointing out in doing that we did pick up this $2½ billion income in the 2 years' budgets and you cannot figure that as recurring income.

I am glad that the Senator from Indiana pointed out the two items I have missed. Perhaps that is what the Secretary referred to when he thought my figures were not quite correct, because I said that without these one-shot operations there would be an $18.9 billion deficit. With these additional items it will be a little over $20 billion, so I accept the correction of both of them.

Secretary FOWLER. Except it would not be a true deficit, Senator Williams. The true deficit is $8.1 billion.

Senator WILLIAMS. The true deficit is $8.1 billion arrived at by virtue of these nonrecurring items and tax increases. But without them the deficit would be, and the true deficit last year, which did not have a one-shot job, would have been $18¾ billion, based upon prior accounting methods.

I have one other question.

Senator HARTKE. Will the Senator yield? At this point, just for the sake of the fact that this is not an unheard of figure, I might point out that the chairman of this committee, after a conference at the White House, at a private briefing at the White House, came out and said that unless we raise taxes this year that there would be the possibility of a $20 billion deficit. I think that the chairman probably was very nearly correct. It is Chairman Long I am speaking about.

Senator WILLIAMS. I think that is the position we are in now.

Secretary FOWLER. One other comment, just to round out this little exchange we have every year. I think it is in the record and perfectly clear before, but we go through this dance, so we may as well complete the figure.

You have used the term "nonrecurring receipts and nonrecurring revenues." I think some of these items are nonrecurring. For example, the pickup on the accelerated corporate tax, as I have agreed with you, last year that is a one-shot or a wholly temporary thing.

Senator WILLIAMS. The seigniorage on coins would be the same basis?

Secretary FOWLER. We won't have the seigniorage to the degree we have.

Senator WILLIAMS. That is correct.

Secretary FOWLER. In a sense part of that is nonrecurring. But you take an item like participation sales or sales of assets, I would not agree that is a nonrecurring receipt. This is an item that has been figured into the budget for the last 12 to 15 years. Unless there is some startling change in policy, I assume that the Government is going to go along making loans each year, many of which have very excellent security behind them, and selling participations in these assets, which are the security behind the loan, this is not what I would characterize as a nonrecurring receipt.

Senator WILLIAMS. It may be recurring as long as the present administration has its way, but I am not sure you will always have it. There are many people today who are concerned with the fact that in this method of financing, the Government is paying an additional and unnecessary one-half of a percent to finance its debt. This was done to some extent under the Eisenhower administration; you are correct.

Secretary FOWLER. To a very considerable extent.

Senator WILLIAMS. But nowhere near to the extent that there is here, and I will be glad to put in the record at this point, if you wish, your report on the various participations, sale of participation certificates, which was furnished.

Secretary FOWLER. Yes.

Senator WILLIAMS. I ask that be inserted at this point in the record.

Senator HARTKE. Without objection, so ordered.

(The material referred to follows:)

Sales of U.S. Government financial assets, 1954–68 [1]

[In millions of dollars]

Fiscal year	Direct sales	Participation sales	Total
1954	796	47	843
1955	228		228
1956	9		9
1957	6		6
1958	122		122
1959	37		37
1960	335		335
1961	64		64
1962	204	300	504
1963	892	250	1,142
1964	704	373	1,077
1965	814	750	1,564
1966	360	2,601	2,961
1967 (estimated)	342	3,580	3,922
1968 (estimated)	275	5,000	5,275

[1] Excluding (*a*) direct sales incident to insurance or guarantee of loans, (*b*) direct sales from one Government agency to another, (*c*) sales of CCC certificates of interest, and (*d*) direct sales of RFC loans.

Secretary FOWLER. Senator Williams, while we are on this subject, we acknowledge the fact that the President has announced he is setting up this bipartisan commission for the study of recommendations on budget presentation, which will investigate the treatment of individual accounts that have been questioned on one ground or another. The lending operations of the Government as distinct from the spending operations will receive increased attention because in each of the last 3 years, for example, in which there has been all this commotion about increased——

Senator WILLIAMS. New style bookkeeping.

Secretary FOWLER (continuing). Deficits, one-shot operations, and so forth. It so happens that in those 3 years the Government was making loans to the extent of about $10 billion a year—these are rough figures—and it is getting back in the repayments of those loans and in the sale of assets under the participation certificate technique about $10 billion.

Now, one year, I think, there was more lent than was repaid by about $500 million. The other year it was about even Steven. This next year, fiscal 1968, we are collecting back about $800 million more. I don't have the exact figures, but that is the rough pattern.

So if you take out the lending operations of the Government in this particular, and present that as a lending budget in contrast to the spending budget which exhausts itself like a salary or payment for material or a piece of equipment or something of that sort, I think the public would have a much different picture of the total extent of so-called Government spending.

They would realize that these overall totals we hear represent both one part Government spending and another part Government lending.

Senator WILLIAMS. I agree with you that I think that revision of the present accounting system and reporting would be in order. We should have some separation in just loans and expenditures.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. And I hope we can work that out.

Senator HARTKE. Let us come back to the participation certificates, because although they do represent a continuation of a policy which began before—never in the proportions or in the amounts that we are talking about today. Is it not true that we now have a legal opinion that the participation certificates are backed up by the full faith and credit of the United States and, therefore, in reality are an obligation of the United States as a contractual debt and, therefore, should be included as a part of the budget, the deficit?

Secretary FOWLER. Part of the——

Senator HARTKE. The Department—as I understand, the Attorney General—issued a ruling about 6 months ago in which they made a decision, a ruling, that participation certificates are backed up by the full faith and credit of the United States. Therefore, they become a part of the obligation of the United States as is the regular debt, and should be included in the debt rather than as a separate item.

Secretary FOWLER. No, Senator Hartke; your information is not correct on that.

On September 30, the Attorney General did issue an opinion relating to the P.C.'s which was very similar to a number of opinions that had previously been issued relating to other paper issued by Federal agencies. I would like to submit the full text of that opinion of September 30 for the record——

Senator HARTKE. All right.

Secretary FOWLER. Now, in the hearings——

Senator HARTKE. Just a minute. Before we go can we also have the letter dated February 3 of this year——

Secretary FOWLER. Yes. I have that right in front of me.

Senator HARTKE. And can we make that part of the record so we will have the record complete at this place?

(The material referred to follows:)

OFFICE OF THE ATTORNEY GENERAL,
Washington, D.C., September 30, 1966.

The HONORABLE the SECRETARY OF THE TREASURY.

DEAR MR. SECRETARY: This is in response to your letter of September 2, 1966, forwarding a memorandum of law of your General Counsel and requesting my views on the question discussed in the memorandum, *i.e.*, whether the guaranties by the Federal National Mortgage Association (FNMA) of the participation certificates it markets from time to time give rise to general obligations of the United States.

These guaranties are authorized by section 302(c) of the FNMA Charter Act (12 U.S.C. 1717(c)), which empowers FNMA to act as a trustee for the purpose of issuing participations in certain securities in which the United States has "a financial interest" and "to guarantee any participations . . . [so issued], whether evidence of property rights or debt."

I am in agreement with the conclusion of your General Counsel that 42 Op. A.G. No. 1 (1961), the culmination of a series of opinions beginning in 1953, is in point here. As stated in that opinion, a guaranty authorized by Congress is "an obligation fully bonding on the United States despite the absence of statutory language expressly pledging its 'faith' or 'credit' to the redemption of the guaranty and despite the possibility that a future appropriation might be necessary to carry out such redemption." Thus, the holders of participations guaranteed by FNMA hold valid general obligations of the United States and are in a position to reach beyond the assets of FNMA to the United States for payment, if necessary.

I am aware that the legislative history of the Participation Sales Act of 1966, which amended section 302(c) of the Charter Act, discloses contrary statements asserting that FNMA's guaranties of participations are not backed by the full faith and credit of the United States.* However, these statements were based largely on the inclusion in previously issued participation certificates of language required to be inserted in FNMA debt obligations authorized by section 306(b). This language, which is to the effect that such obligations "are not guaranteed by the United States and do not constitute a debt or obligtaion of the United States," is not required in the certificates issued to represent participations sold under section 302(c). Moreover, the language is not appropriate in these certificates because, as already noted, the provision of section 302(c) granting FNMA authority to "guarantee any participations" that it sells has the effect, under the holding of 42 Op. A.G. No. 1 and its precursors, of creating a debt or obligation of the United States. Since these opinions were not brought to the attention of the witnesses and committee members during the cited hearings, it appears that the persons making the statements I have referred to did not take them into account. Indeed, it seems clear that the statements constituted merely a description of the familiar law and practice which pertain only to the debt obligations of FNMA.

It should be noted also that the Participation Sales Act of 1966 added a requirement to section 302(c) that the agencies transferring portfolios in trust to FNMA "shall guarantee to the trustee timely payment thereof." Aside from the effect of the provision authorizing FNMA "to guarantee any participations," this new provision is enough to create a general obligation of the United States in favor of FNMA, as trustee, and thus of the holders of its participation certificates, as beneficiaries. The failure to refer to the series of opinions of the Attorney General mentioned above no doubt prevented an appreciation of this result during the hearings.

In sum, I concur in the view of your General Counsel that FNMA's guaranty of a participation certificate brings into being a general obligation of the United States backed by its full faith and credit.

Sincerely,

NICHOLAS DEB. KATZENBACH,
Attorney General.

OFFICE OF THE ATTORNEY GENERAL,
Washington, D.C., February 3, 1967.

THE HONORABLE THE SECRETARY OF THE TREASURY.

DEAR MR. SECRETARY: This is in response to your request of January 30, 1967, for my views on a question relating to the outstanding participation certificates that have been issued by the Federal National Mortgage Association (FNMA) under section 302 of its Charter Act (12 U.S.C. 1717). More particularly, that question is whether those certificates are to be included among the Government "obligations" whose aggregate amount may not exceed the $330,000,000,000 ceiling set by section 21 of the Second Liberty Bond Act, as modified by Public Law 89–472 of June 24, 1966 (31 U.S.C. 757b). Section 21 now reads as follows in pertinent part:

"The face amount of obligations issued under the authority of this Act [all of which are direct Treasury obligations] and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall

*See Hearings of Senate Banking and Currency Committee on H.R. 14544 and S. 3283, 89th Cong., 2d sess., p. 33; S. Rept. No. 1140, 89th Cong., 2d sess., p. 3; Hearings of House Banking and Currency Committee on H.R. 14544, 89th Cong., 2d sess., p. 49; Hearings of House Rules Committee on H.R. 14544 and S. 2499, 89th Cong., 2d sess., pp. 20–23, 40–41, 56–58, 68–69.

not exceed in the aggregate $285,000,000,000 [temporarily increased to $330,-000,000,000 by P.L. 89-472] outstanding at any one time . . . ."

For the reasons set forth below, I am of the opinion that FNMA participation certificates are not within the scope of this statute.

As originally enacted in 1917, the Second Liberty Bond Act authorized the Secretary of the Treasury to issue bonds, certificates of indebtedness and war savings certificates subject to a separate limitation as to the amount of each category. Subsequently, as the result of a number of amendments culminating in the Act of July 20, 1939 (53 Stat. 1071), there emerged a single limitation applicable to the total face value of all Treasury debt obligations.

Six years later, by the Act of April 3, 1945 (59 Stat. 47), Congress brought the borrowings of certain agencies other than the Treasury within the overall debt limitation. It did so by amending section 21, *supra*, to include "the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury)." The Committee reports on this legislation (H. Rept. No. 246 and S. Rept. No. 106, 79th Cong., 1st Sess.) reveal that this amendment was adopted to embrace the borrowings of each of eight agencies, named in the reports, whose governing statutes provided that their obligations were fully and unconditionally guaranteed as to principal and interest by the United States. No amendment that is relevant here has been enacted since 1945.

From this brief history, it is clear that section 21 is concerned with debt that arises from borrowing and with nothing else.

FNMA was first given the fiduciary authority to sell participations in a pool of Government-owned mortgages by the Housing Act of 1964 (78 Stat. 769, 800). The description of this program in the Report of the Senate Banking and Currency Committee (S. Rept. No. 1265, 88th Cong., 2d Sess., p. 46) began with the statement that it "would provide a means for FNMA to sell property interests in respect to mortgages or interests therein."

The Participation Sales Act of 1966 (Public Law 89-429, 80 Stat. 164), which broadened the program authorized in 1964, was described by the House Committee on Banking and Currency (H. Rept. No. 1448, 89th Cong., 2d Sess., p. 1) as "designed to provide an efficient and orderly method of liquidating financial assets held by Federal credit agencies. . . ."

In accordance with the arrangement provided for in the 1964 and 1966 legislation, FNMA and certain federal lending agencies are authorized to enter into trust agreements by which any such agency conveys to FNMA, as trustee, its interest in a portfolio of mortgage or other loans which it desires FNMA to liquidate. The loans of course represent principal and interest which the agency expects to collect from the loan obligors over a period of years. FNMA is authorized to pool in a trust the loans so transferred by one or more of these agencies. FNMA, still as trustee, sells participations—i.e., beneficial interests—in this pool of loan assets to the investing public. The participations, which are essentially shares in the toal of principal and interest payable by the loan obligors, are evidenced by transferable certificates entitling the holders to payment of the face amounts thereof, and stated interest, at stipulated future dates. Such payment is guaranteed by FNMA.

It is thus apparent from the expressed purpose of Congress, as well as the mechanics of carrying out such purpose, that in marketing participation certificates FNMA is selling ownership interests in mortgage notes and similar assets, rather than borrowing money. Consequently the participation certificates do not represent debts which should be taken into account in applying the limitation of section 21. Moreover, at the time of the most recent increase in the debt limit in June 1966, it was understood by the Congress that the participation certificates sold and guaranteed by FNMA are not within the coverage of section 21. See H. Rept. No. 1607, 89th Cong., 2d Sess., p. 15 (minority views).

I understand that the Opinion of the Attorney General transmitted to you on September 30, 1966, with respect to the FNMA guaranty of participation certificates has been cited in support of a contrary conclusion. This position seems to be grounded principally on the Attorney General's statements that the guaranty brings into being a general obligation of the United States and is backed by its full faith and credit.

The opinion of September 30, 1966 was based upon a series of Opinions of the Attorney General beginning in 1953. In each, it was held that a federal agency's guaranty or equivalent support of certain debt obligations of a local government agency or private person to the holders thereof would be backed by the full faith and credit of the United States. Most of these opinions characterized the guaranty or other support as a "general" or "valid and binding" obligation of the United States. The use of these terms, and the purpose of each of these opinions, was simply to state for the benefit of prospective investors that in the event of default by the debtor the guaranty would be supported by the entire credit of the United States. The coverage of section 21 is an entirely different legal question from the one considered in those opinions. There is a great variety of guarantees and other types of undertakings which are valid and binding obligations of the United States, entitled to its full faith and credit, but which are not "obligations" within the more limited meaning of section 21.

Like the earlier opinions, the Attorney General's opinion of September 30, 1966, was sought and transmitted solely with a view to informing prospective investors in FNMA participations of the legal effect of FNMA's guaranty. It was not concerned with the construction of section 21 and affords no basis for suggesting that these participations come within that statute.

To repeat, I am of the view that the amount of FNMA participation certificates outstanding at any time is not a factor in determining whether the "public debt limit" set by section 21 of the Second Liberty Bond Act has been reached.

Sincerely,

RAMSEY CLARK,
Acting Attorney General.

Senator HARTKE. In the February 3d letter, there is a statement that the item is not to be included in the Federal debt, is that correct?

Secretary FOWLER. That is true. At the suggestion of members of the Ways and Means Committee the Attorney General on February 3 did submit an opinion in response to the question of whether or not, given his opinion of last September, it followed that we should count in the P.C.'s as part of the debt limit as a matter of law. In his opinion he held that it did not follow, and I would like to submit that also for the record.

Senator WILLIAMS. It is my understanding that that letter was to the effect that we will have to have legislation——

Secretary FOWLER. That is a matter of legislative policy, Senator Williams.

Senator WILLIAMS. Which we both endorse.

Secretary FOWLER. It is a matter of existing law.

Senator WILLIAMS. We would both endorse that legislation, would we not?

Secretary FOWLER. No, I do not want to take the position of endorsing that at this time. I do have it under study. I know it presents a question for both this committee and the Ways and Means Committee.

I am conscious of the Saltonstall amendment last year, and the Department, at the request of the Ways and Means Committee, is planning to make some study over the next couple of months of a way of appraising the scope and extent of these contingent liabilities in a regular and orderly fashion.

Senator HARTKE. Mr. Secretary, just so we can come back—and that I am always wrong, and I have been wrong so many times——

Secretary FOWLER. Not for me, Senator Hartke.

Senator HARTKE. Just a minute.

You said my impression was wrong. Just so my impressions are not wrong, many times, I sometimes become a little disturbed about how wrong I am and how right I am subsequently, and this bothers me a little bit. I become wrong so often.

In this letter of September 30, do you mean to say that this letter says that it should not be included in the public debt?

Secretary FOWLER. It says, as a matter of the way the law is set up today, that it is not the opinion of the Attorney General, and I think the opinion will speak for itself——

Senator HARTKE. Yes; I understand that.

Secretary FOWLER. That it should be counted in under the law as it exists today.

Senator HARTKE. Where does it say that?

Secretary FOWLER. Well, let us read the whole——

Senator HARTKE. I do not want to read the whole item. I just want to read where it says that.

Secretary FOWLER. On page 5, "It is thus apparent from the expressed purpose of Congress"——

Senator HARTKE. You are looking at the September 30 letter?

Senator FOWLER. No; I am looking at the February 3.

Senator HARTKE. No. I was going to come to the February 3 letter, but you jumped in ahead of me. You were going to insert the September 30 letter, then I wanted the February 3 letter included. I had not gotten to that. I am back to September 30.

Let me come back so that there is no misunderstanding. I said that as far as the September 30 letter of the Attorney General was concerned that these were general obligations of the United States. They were backed up by the full faith and credit of the United States and, therefore, whether it says it in substance, they should have been included in the debt. In the language of the Second Liberty Bond Act which we are now discussing, which is the debt limit act, on page 11, section 21, it describes the face amounts of obligations issued under authority of this act, and the face amount of obligations guaranteed as to principal and interest by the United States.

Now, that is the language of the act, and the September 30 letter says specifically:

I am in agreement with the conclusion of your General Counsel that 42 OP A G No. 1 (1961), the culmination of a series of opinions beginning in 1953, is in point here. As stated in that opinion, a guarantee authorized by Congress is "an obligation fully binding on the United States despite the absence of statutory language expressly pledging its 'faith' or 'credit' to the redemption of the guarantee and despite the possibility that a future appropriation might be necessary to carry our such redemption." Thus, the holders of participations guaranteed by FNMA hold valid general obligations of the United States and are in a position to reach beyond the assets of FNMA to the United States for payment, if necessary.

Now, within the terms of this language, if that is not a statement that it is a general obligation, therefore within the debt limit, if it is not exactly a declaration, it sure sounds an awful lot like it, does it not?

Secretary FOWLER. Senator Hartke, I think this language could give rise to a concern on that subject in many minds. I had my own general counsel examine the question——

Senator HARTKE. Welcome, Mr. Schultze.

Secretary FOWLER (continuing). And he gave me an opinion that it did not follow from the language that that was the case, and I was reassured by the opinion of the General Counsel of the Treasury.

Then, however, the question did arise further in the minds of members of the House Ways and Means Committee, just as it arose in your mind. We did ask the Attorney General for an opinion to see whether or not his judgment was the same as that of the General Counsel of the Treasury, and it was his opinion of February 3, which you have already referred to, that he supported the General Counsel's opinion. The real test was that those items are included under the debt limit which Congress in the statute creating the obligation specifically guaranteed. It is that category of instruments that the lawyers conclude are the ones that should be included in the debt limit under the law as it stands today.

Now, it is perfectly appropriate for the Congress to change its policy as reflected in the Second Liberty Loan Act and specify that other items than those in which it has included a specific provision in the law be included.

But that is a matter, I think, of legislative policy.

Senator WILLIAMS. If Congress decided to do that it would be necessary to increase the debt further at this particular time by the projected $3.1 billion, I understand, for 1967, and more for subsequent sales.

Secretary FOWLER. That is correct.

Senator WILLIAMS. But, if we were going to leave the law as it is, and let participation sales continue, we should include them as a part of the national debt and clear up this misunderstanding.

I have another question: Why pursue this sale through the secondary mortgage participation certificates where the full faith and credit of the United States is back of it—you know it and I know it and the bankers who buy it know it. But the average citizen does not know about it and, therefore, we pay an extra average of one-half of 1 percent interest. Why pay that interest charge for nothing? Why not finance the debt in the normal manner as we have done heretofore or should have been doing all the time? Would you not agree that it would be better to do it, to finance them and sell straight Government certificates and save this one-half of a percent that we are paying needlessly in this area?

Secretary FOWLER. Senator Williams, I support the participation sales program. It is quite a desirable thing.

The practice that was inaugurated in 1954 in the Eisenhower administration, and has been consistently followed since, of developing ways and means of turning back into the private credit market on something approaching a revolving fund operation, is a desirable and appropriate adjunct and corrolary of the Federal lending programs.

The Participation Sales Act is simply a method of trying to reduce the spread between Treasury obligations and what would be realized if you sold these assets on an individualized basis so that instead of a point and a half you reduce it to the half point that you mentioned.

Now, that leaves a question as a matter of judgment for the Congress and for the administration as to whether or not the revolving fund aspect of Federal credit programs is a desirable thing involving as it does the extra cost which starts off at being at one level.

It is our hope that over the time as the market becomes familiar with these instruments that that margin may be narrowed. But whatever the margin is, there is the question whether it is worth the price to have the revolving-fund type of operation to which we have been moving rather constantly in the last three administrations——

Senator HARTKE. Mr. Secretary, let me come back. I think it is necessary—I know that this may appear to be an exercise in semantics.

I want to come back to exactly what this is doing and what it has done already. But until we have a clear understanding of what you and I agree upon is at least an interpretation.

Now, the letter of February 3, which is the one which explains the letter of September 30, because the letter of September 30 gave a taste of honey to this proposition that they were to be included in the general obligations, and, therefore, within the debt limit, is a complete turnabout, and therefore puts a stamp of approval that they do not have to be included in the debt limit; is that correct?

Secretary FOWLER. That is correct.

Senator HARTKE. I understand, and this gives rise to a subsidiary issue which I do not want to pursue at this moment, but it seems rather peculiar to me that we have an administration Attorney General passing judgment upon the legislative history for a sister administrative agency. Possibly it would be much better if we, in the Reorganization Act, would have an Attorney General from the legislative side who would truly understand what the legislative history was and would not be inclined to make it accommodate the position of some other administrative agency. But I do not want to pursue that with you at the moment. That is a problem for the Congress and for the administration.

Secretary FOWLER. Yes, it is, Senator Hartke. It has been a practice that has been followed since the beginning of our Government.

Senator HARTKE. I grant you it has been the practice.

What has happened here in the February 3 letter was that this is almost a complete reliance upon the hearings rather than upon the statute; isn't that true?

Secretary FOWLER. Well, I do not want to characterize the Attorney General's opinion. It speaks for itself.

Senator HARTKE. Well, it says that.

It says very simply that they came on back, and the way they moved around this hiatus is a very simple thing. They said this when they made the amendment of 1945——

Secretary FOWLER. 1945, yes.

Senator HARTKE. The 1945 amendment specifically included certain agencies which were operating at that time. They said by inference the fact that no others had been included since that time, and therefore, they were not within the purview of the debt limit.

Secretary FOWLER. Also, Senator, I am not trying to be a lawyer here——

Senator HARTKE. You are a very capable lawyer, we all know that, and I want to compliment you on that.

Secretary FOWLER (continuing). But the stress that we found on our examination was that each of the instances, where the Congress in 1945 did include the item added to the debt, were cases in which Congress itself had specified in the act that this shall be done—that they should be guaranteed.

Senator HARTKE. Yes.

Secretary FOWLER. I have a legal presentation which was made in the executive session in the House Ways and Means Committee, Senator, in which we ran this down statute by statute to develop this point.

Senator HARTKE. I think we ought to include it at least by reference.

Secretary FOWLER. I would be glad to submit it for the record.

Senator HARTKE. Let us put it in.

Without objection, it will be made a part of the record.

(The material referred to follows:)

Legal Bases for Excluding Participation Certificates From Debt Limit; and for Investing Trust Funds in Participations

It has been suggested during the course of these hearings that we are trying to have our cake and eat it, too, that is, that we are trying to say that participation certificates are guaranteed by the United States, so as to make them eligible investments for the trust funds, but at the same time say they are not guaranteed by the United States, so that they are exempt from the debt limit. The simple answer is that these are two separate pieces of cake. The question of whether participation certificates and other securities are eligible investments for the trust funds is one legal question involving one legal concept and one set of statutes, and the question of whether participation certificates and other securities are subject to the debt limit is a different legal question, involving totally different legal concepts and totally different and dissimilar statutes.

The legal questions are (1) may participations be purchased by the trust funds; and (2) are participations included in the debt subject to the debt limit? The answer to the first of these is yes, participations may be purchased by the trust funds; and the answer to the second is no, participations are not part of the debt subject to limit. These conclusions are based on two separate sources of legal authority, and I should like to explain these to the Committee.

Now let us look at the law, first with respect to various types of securities in which trust funds have been invested?

(1) Farm loan bonds issued by Federal land banks. Their eligibility for investment by trust funds is established by section 27 of the Federal Farm Loan Act of 1916, Title 12 U.S. Code, Section 941.

(2) Obligations of tne Federal Home Loan Banks. Section 15 of the Federal Home Loan Bank Act of 1932, 12 U.S.C. 1435.

(3) Debentures of the Federal intermediate credit banks. Section 6(b) of the Farm Credit Act of 1935, 12 U.S.C. 1045.

(4) Debentures of the banks for cooperatives. Section 1 of the Act of August 23, 1954, 12 U.S.C. 1134m.

(5) Participations issued by the Federal National Mortgage Association. Section 311 of the FNMA Charter Act, 12 U.S.C. 1723c.

What about participations issued by Export-Import Bank? There is no statute such as those I have been reading applicable to Export-Import Bank. We have concluded, therefore, that trust funds may *not* be invested in Export-Import participations, and we have not done so.

Now let us turn to the totally different legal question of whether participation certificates must be included in the debt subject to the debt limit. Since these are not issued by the Treasury under the Second Liberty Bond Act, the question is purely and simply whether they are "guaranteed as to principal and interest by the United States." Our conclusion that participation certificates are not guaranteed as to principal and interest so as to come within the debt limit is based upon (1) the fact that nowhere are they stated to be guaranteed as to principal and interest by the United States, and (2) interpretations of the meaning of those words in that statute arrived at years ago in light of evidence as to the intention of Congress in enacting them. Those words have been consistently applied by the Treasury since 1945 to include only (1) securities, (2) which are debt obligations, and (3) which are stated in their authorizing statutes to be guaranteed by the United States. Let us look at some of these statutes. At the present time there are outstanding in significant volume only two types of securities not issued by the Treasury but included under the debt limit These are:

(1) District of Columbia Armory Board. Sections 2-1722 and 2-1727 D.C. Code.

(2) Federal Housing Administration Debentures, 12 U.S.C. 1710, 1713, 1739, 1943.

In addition to these there is still outstanding about $600,000 of matured debt consisting of obligations of:

Commodity Credit Corporation
District of Columbia Armory Board
Federal Farm Mortgage Corporation
Federal Housing Administration
Home Owners Loan Corporation
Reconstruction Finance Corporation.

The statutes under which their obligations were issued are quoted at pages 5–7 Appendix I to Mr. Smith's Opinion of January 12, 1967, attached. Each states that the obligations shall be fully and unconditionally guaranteed as to principal and interest by the United States.

To summarize, we have concluded that trust funds may be invested in FNMA participation certificates because participations issued by FNMA are by statute stated to be lawful investments for trust funds; we have concluded that participation certificates are not included in the debt subject to limit because they are not by statute guaranteed by the United States. There can be no serious question as to the validity of these conclusions in light of the statutes I have been reading.

I hope that it will have been noticed that in explaining our legal conclusions and reading the statutes upon which those conclusions are based, I have not alluded to the September 30 Opinions of the Attorney General which have seemingly caused some confusion. These Attorney General Opinions were not obtained for the purpose of justifying the investment of trust funds in participation certificates and other securities nor have they been relied on in any way in support of our legal conclusions on these questions. They are in fact irrelevant to these questions. The matters dealt with in those Opinions arose in connection with the marketing of participation certificates and other securities and the Opinions were obtained *solely* to give assurance to the market and the underwriters of the securities that under no circumstances could there be any question ultimately as to their payment. Our conclusions are based on the statutes I have read and would have been the same in the absence of those Opinions of the Attorney General. For example, even though these two Opinions reach identical conclusions with respect to FNMA and Export-Import Bank, trust funds may be invested in FNMA participations but not in Eximbank participations.

What we have done is strictly in accord with present law as evidenced by these statutes. We agree, of course, that the Congress can change the law at any time it chooses to do so. I remind you, however, that in my opening statement I urged that because of the urgencies of the present situation you do not use this particular occasion for the handling and disposal of broad and controversial questions. There will be ample time for this later in the Spring.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., January 12, 1967.

To: The Secretary.
From: Fred B. Smith, General Counsel.
Subject: Scope of the statutory public debt limit.*

You have asked that I confirm my earlier advice to you to the effect that guaranteed participation certificates issued by the Federal National Mortgage Association (FNMA) and the Export-Import Bank are not includable under the statutory public debt limit prescribed by section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b).

Section 21 provides:

"The face amount of obligations issued under the authority of this Act [1] and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $285,000,000,000 [2] outstanding at any one time. The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation."

The only obligations authorized by the Second Liberty Bond Act, as amended, are that type of security which are *debt* obligations. In this respect, please notice that in the first sentence of Section 21 the reference to "obligations guaranteed as to principal and interest by the United States" is coupled to the reference to obligations issued under the Act. It would be almost impossible to find a more fitting place than this for the application of the "familiar rule in the interpretation of written instruments * * * that 'a passage will be best interpreted by reference to that which precedes and follows it.' * * * In Broom's Legal Maxims, page

* Unless otherwise specifically indicated, all underscoring in this opinion has been added.

[1] See secs. 1, 5, 18 and 22 of the Act (codified, respectively, at 31 U.S.C. 752, 753, 754 and 757c), the only sections which authorize the issuance of any obligations.

[2] The citation above is to the permanent debt limit which was temporarily increased to $330,000,000,000 by the Act approved June 24, 1966, Public Law 89-472.

450, it is said: 'It is a rule laid down by Lord Bacon, that * * * the coupling of words together shows that they are to be understood in the same sense.'" *Neal v. Clark*, 95 U.S. 704, 709 (1877). Consequently, the obligations "guaranteed as to principal and interest by the United States" referred to in the statute are also debt obligations.

The legislative history of the Act of April 3, 1945, which first brought guaranteed obligations within the statutory debt limit confirms that *Congress had in mind only certain debt obligations* of Government agencies. The Committee Report named each Government agency then being affected and there were cited the respective statutes authorizing the issuance of the "obligations"[3]. These statutes have several noteworthy common denominators: (1) each provides in so many words by Congressional fiat for an unconditional guaranty as to "principal and interest *by the United States*"; (2) each deals with "securities" in the usual sense of that word which does not include guaranties or insurance, and (3) each deals with that species of security which, by its nature, is a *debt*.[4]

Briefly then, the guaranteed obligations includable under the debt limit are obligations which Congress by *fiat* (not in any derivative sense, that is, not through authorization to an agency or officer) has expressly provided in the statutes authorizing their issuance "shall be fully and unconditionally guaranteed both as to interest and principal by the United States"; and they are without a doubt a direct *debt* of the agency at the time they are issued and must inevitably be paid, without regard to any contingency, either by the agency or by the United States in case of default by the former.

By contrast, neither from a legal nor from an accounting point of view can agency guaranties of private obligations be characterized as debts.[5]

"Every debt must be either *solvendum in praesenti* or *solvendum in futuro*—must be *certainly*, and *in all events*, payable; whenever it is uncertain whether anything will ever be demandable by virtue of the contract, it cannot be called a 'debt.'" 26 *C.J.S.* 5.

Accord: Guaranty Trust Co. of New York v. Galveston City Railroad Co., 107 F. 311 (1901) and *United States v. Virgin*, 230 F. 2d 880, 882. "When payable upon contingency it becomes a debt *only* when the contingency has happened. *Guaranty Trust Co. of New York v. Galveston City Railroad Co., supra.*

Accord: 26 *C.J.S.* 6, *National Bank of Commerce v. Rockefeller*, 174 F. 22 (1909); *Sharpe v. First National Bank of Antigo*, 264 N.W. 245, 247. (1936).

For accounting purposes: "A *contingent liability exists when there is no present debt* but when conditions are such that a liability may develop, usually as the result of an action or default by an outsider." Finney and Miller, *Principles of Accounting, Intermediate*, Prentice-Hall, Inc., 5th ed. p. 437 (1963).

It is undeniable then, that guaranteed participation certificates heretofore or hereafter issued by FNMA or any other agency and other contingent liabilities are not includible under the statutory debt limit.[6]

The only possible basis for any doublt on this score arises because of the recent application to FNMA and Export-Import Bank of the principle established in a series of recent opinions of the Attorney General "that a guaranty by a Govern-

[3] House Report 246, 79th Cong. 2-3. See Appendix I hereto for more complete information on important aspects of the legislative history.

[4] The provisions of section 302(c) of the Federal National Mortgage Association Charter Act, as amended (12 U.S.C. 1717(c)) under which guaranteed participation certificates are issued bears none of those Congressional imprints. Export-Import Bank participations are not expressly dealt with by statute.

[5] The participations themselves are not debt instruments as Robert C. Weaver, Housing and Home Finance Administrator, pointed out in connection with the Housing Act of 1964: "As suggested, the significant feature of the participation instruments to be issued is that they would evidence property rights of the holders in respect to the pooled mortgages, rather than being evidence of debt." *Hearings before the Senate Subcommittee on Banking and Currency, 88th Cong., 2d sess., on S 2468, and other pending bills*, p. 400 (February 19-20, 24-28, and March 3, 1964).

In short, a participation certificate is more like an ownership share, *i.e.*, a stock certificate and more particularly like the type of preferred stock which not only has a prior right to income but also a preferred right to payment out of capital assets upon distribution. The principal difference here is that the "guaranty" removes all speculative risk.

[6] The amount of statutory debt obligations outstanding as of December 30, 1966, which are includable under the statutory debt limitation of $330,000,000,000, amounted to $329,547,688,253.40. If the amount of guaranteed and insured loans for major Federal credit programs were added, it would be well over $400,000,000,000. The actual amount of such loans during 1965 was $91,414,000,000. The estimate for 1966 is $98,547,000,000, "*Special Analyses, Budget of the United States*," *Fiscal Year* 1967, p. 57.

ment agency contracted pursuant to a congressional grant of authority for constitutional purposes is an obligation fully binding on the United States *despite the absence of statutory language expressly pledging its 'faith' or 'credit'* to the redemption of the guaranty *and despite the possibility that a future appropriation might be necessary to carry out such redemption.*"[7] 42 O.A.G. 1, 3–4 (1961)[8]

The most recent opinions of the Attorney General in this series were issued on September 30, 1966, and related specifically to FNMA and Export-Import Bank. Nowhere in any of them did the Attorney General refer in terms to the statutory debt limit. That would have been an exceedingly strange omission had he considered himself to have been deciding that the "obligations" he was there dealing with were as a result of his Opinion to be includable under the limit. In this connection, I am convinced that he was treating the term "obligations" in the sense of contingent liabilities,[9] which as indicated at p. 3 are not debts, that he was aware that he was so doing and that, therefore, he would have considered it to have no relation to the statutory debt limit.

The thrust of all of the opinions in the series is this, and only this—that any obligation entered into pursuant to Federal law, whatever its form may be, a simple contract, a guaranty or insurance of a mortgage or other form of guaranty is in the absence of express limitation a "general" obligation of the United States and, therefore, (1) it is inherently backed by the full faith and credit of the United States, and (2) it has a legal claim upon the general funds of the United States, whether or not appropriation has been made therefor. More simply put the opinions mean that the holder of any general obligation is assured that he is in a position to reach beyond the assets of any agency or instrumentality to the United States for payment, if necessary.[10]

That is a far cry from holding that all obligations of the United States are public debt obligations.[11] It certainly is not a holding that all contingent obligations of the United States are public debt obligations. As has been indicated at page 3, there is a sharp distinction between contingent obligations and debts. There is no mistaking the fact that the Attorney General knew that the obligations involved in his opinions were contingent obligations.[12] Accordingly, I find nothing in those opinions which leads me to conclude that guaranteed FNMA or Export-Import Bank certificates are public debt obligations.

---

[7] The quotation is from an opinion involving guaranties of the Development Loan Fund under the Mutual Security Act of 1954, as amended. The other opinions to which it referred dealt with simple contracts of the Public Housing Administration to make "Annual Contributions" to a large number of local public housing agencies to achieve and maintain the low-rent character of certain housing projects, 41 O.A.G. 138 (1953); Ship Mortgage and Loan Insurance Contracts entered into by the Secretary of Commerce under the Merchant Marine Act of 1936, as amended, 41 O.A.G. 353 (1958); Railroad Loan Guaranties entered into by the Interstate Commerce Commission under the Transportation Act of 1958, 41 O.A.G. 403, (1958); Mortgage Loan Guaranties contracted by the Secretary of Defense or his designee, under Title IV of the Housing Amendments of 1955, 41 O.A.G. 424 (1959).

[8] The principle involved applies to the other agencies as well as to FNMA. In his letter dated September 30, 1966, advising you that participation certificates guaranteed by FNMA under section 302(c) of the Federal National Mortgage Association Charter Act, as amended (12 U.S.C. 1717(c)) were valid general obligations of the United States, the Attorney General said:

"It should be noted also that the Participation Sales Act of 1966 added a requirement to section 302(c) that the agencies transferring portfolios in trust to FNMA 'shall guarantee to the trustee timely payment thereof.' Aside from the effect of the provision authorizing FNMA 'to guarantee any participations,' this new provision is enough to create a general obligation of the United States in favor of FNMA, as trustee, and thus of the holders of its participation certificates, as beneficiaries."

[9] The term obligation is a "generic word, derived from the Latin Substantive 'obligatio,' having many wide, and varied meanings, according to the context in which it is used." Black's *Law Dictionary*, 4th ed. (1951). See quotation at fn. 12, p. 6 which shows that the Attorney General was using the term "obligations" in the sense of "contingent liabilities."

[10] See the letter opinion of September 30, 1960, addressed to you wherein it is said "* * * the holders of participations guaranteed by FNMA hold valid general obligations of the United States and are in a position to reach beyond the assets of FNMA to the United States for payment, if necessary." A copy of that letter and of the letter of the same date concerning Export-Import Bank certificates are attached as Appendix II.

[11] There is nothing strange about the Attorney General finding that contingent liability obligations as well as debt obligations are general in the absence of express limitation by Congress.

[12] In 41 O.A.G. 424, 432, where he held that the loan guaranty commitments of the Secretary of Defense under the Capehart Act were "general obligations" backed by the full faith and credit of the United States despite the absence of any appropriation to back them, he said:

"The reasonable explanation for the failure of Congress to appropriate funds in support of the Secretary's loan guaranty lies in the difficulty, if not futility, of trying to estimate *a contingent liability* in advance for budgetary purposes."

APPENDIX I

Opinion of January 12, 1967, From Fred B. Smith, General Counsel, to Henry H. Fowler, Secretary of the Treasury

"Obligations guaranteed as to principal and interest by the United States," Sec. 2, Act of April 3, 1945, 59 Stat. 47, 31 U.S.C. 757b.

H.R. 2404, superseding H.R. 2138, 79th Cong., 1st Sess., the Public Debt Act of 1945, Section 2 of which was to further amend Sec. 21 of the Second Liberty Bond Act, as amended, to provide that the "face amount of obligations issued under authority of this Act shall not exceed in the aggregate $300,000,000,000 outstanding at any one time." During the hearings of the House Committee on Ways and Means, February 21–23, 1945, some of the committee members expressed dissatisfaction with the manner in which the debt limitation was referred to as they believed the limitation in Sec. 21, which applied only to securities issued by the Treasury Department under authority of the Second Liberty Bond Act, as amended, did not accurately reflect the condition of the "national" debt.

After the hearings were concluded, the Committee recommended that Sec. 21 be amended to provide that the "face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $300,000,000,000 outstanding at any one time." Noted below is an excerpt from Report No. 246, House Committee on Ways and Means, 79th Cong., 1st Sess., concerning the recommended change:

"The bill differs from the bills which have been enacted in recent years placing a limitation on the amount of obligations which may be issued and outstanding at any one time under the Second Liberty Bond Act, as amended, by incorporating a provision, suggested by your committee, fixing an over-all limitation applying not only to the public-debt securities issued under the Second Liberty Bond Act, as amended, but also including securities issued by governmental corporations and agencies which are guaranteed as to principal and interest by the United States and are outstanding in the hands of the public. These securities are customarily referred to as guaranteed obligations of the United States and their issuance under certain statutory limitations and conditions has been authorized to finance activities of the following corporations and agencies:

Commodity Credit Corporation.
Federal Farm Mortgage Corporation.
Federal Housing Administration.
Federal Public Housing Authority.
Home Owners' Loan Corporation.
Reconstruction Finance Corporation.
Tennessee Valley Authority.
United States Maritime Commission.

"There is an over-all limitation in each case as to the amount of guaranteed obligations which each corporation or agency may issue or have outstanding, but your committee is of the opinion that such obligations should not be used as a supplement and in place of regular public-debt obligations. * * * The Under Secretary of the Treasury informed your committee that there would be no objection to including in the limitation both public-debt obligations and the guaranteed obligations of Federal agencies which are outstanding in the hands of the public. The obligations referred to by your committee are those that may be issued under section 4 of the act of March 8, 1938, as amended (U.S.C., title 15, sec. 713a-4); section 4(a) of the act of January 31, 1934, as amended (U.S.C., title 12, sec. 1020c); sections 204, 207, 604 and 608 of the act of June 27, 1934, 48 Stat. 1248, as amended (U.S.C., title 12, secs, 1710, 1713, 1739 and 1743); section 20 of the act of September 1, 1937, as amended (U.S.C., title 42, section 1420); section 4 of the act of June 13, 1933, as amended (U.S.C., title 12, sec. 1463); section 9 of the act of January 22, 1932, as amended (U.S.C., title 15, sec. 609); sections 15(a) and 15(c) of the act of May 18, 1933, as amended (U.S.C., title 16, secs. 831n–1 and 831n–3), and section 1105 of the act of June 29, 1936, amended (U.S.C., title 46, sec. 1275)." [1]

As shown by the following comments on the floor of the House, Congressional Record, Vol. 91, pt. 2, March 8, 1945, a number of questions were raised as to what should be included in the statutory debt limitation:

P. 1931. "Mr. CRAWFORD. * * * We know that at the present time the fund we shall have to put up through the Treasury in connection with the Bretton Woods agreement and the stabilization of currencies and the creation of the International Credit Bank capital structure is not rumor. The bill is now before the Banking and Currency Committee of this House and certainly within due course, 60, 90 or 120 days, it will have passed through the legislative machinery. To be very plain, there is nothing in this estimate of $304,000,000,000 which has anything to do with the commitments we may make under the Dumbarton Oaks proposals, under the Export-Import Bank proposition and under the stabilization plan for currencies or the International Credit Bank. That is true, is it not?

* * * * * * *

P. 1932. "Mr. KEEFE. Of course, it ought to be perfectly clear that in the figures just quoted there is not included the proposal for the expenditures of money that may ultimately be translated into public debt transactions under lend-lease. * * * But what I wanted to say, if the gentleman will yield further to me is this: This bill involves a question of public debt. * * * So I think the question that is involved here involves a question as to what are the prospective actual expenditures that will be translated into actual public-debt transactions.

* * * * * * *

P. 1932. "Mr. JENKINS. * * * (p. 1933) Likewise we must not forget the fact that we have dozens and dozens of Government agencies set up and in operation all over. (p. 1934) I shall not bother you to read all this list, but I have a list of 41 different Government agencies, many of which have authority to borrow money and to assume obligations for which our country will be bound. If all these agencies were compelled to make public statements as to their financial obligations, I am sure millions of dollars could be saved by the Government every month. * * *." [2]

P. 1952. "Mr. KEEFE. * * * whatever the expenditures of government are they can be only as great as the Congress of the United States itself permits them to be. Nothing becomes a public debt until the money is spent and is translated into a public debt transaction.

"May I call your attention to this? We must be very careful in the consideration of the great bills that are shortly to come before this Congress to see to it that the expenditures of billions of dollars that are to be used in this international monetary fund and bank and other proposals are kept within the public debt of the United States, and are not permitted to be considered as transactions outside of the public debt transactions. * * *

"The Committee on Ways and Means has now bought [sic] by the provisions of this bill all of the notes and obligations growing out of the issuance of securities by Government corporations. They are issued as public debt transactions, and they are now added to the total limitation under this bill. * * *"

Although, as the above-quoted excerpts from the debates show, the House considered prospective legislation as it might affect the public debt and was furnished with a list of the corporations subsequently subjected to the Government Corporations Control Act, no recommendation was made that agencies having power to borrow from public debt receipts but not authorized to issue their direct obligations, or that any other agencies be added to those listed in the committee report, or that they be considered as coming within the framework of the proposed amendment to Section 21. Neither was there any recommendation that Section 21 as under consideration be further revised.

Because of the comments on the House floor, the Statutes at Large for the 79th Congress, 1st Session, were also examined for any subsequent legislation enacted

[1] All of the sections cited authorize issuance not of contingent liabilities of the agencies but of their direct obligations.

[2] The 41 agencies listed were those subsequently included in the Government Corporation Control Act, 59 Stat. 597, 31 U.S.C. 846, et seq.

by that Session of Congress as it related to charges against the public debt. The "Bretton Woods Agreement," 59 Stat. 512, and the "Export-Import Bank Act of 1945," 59 Stat. 526, referred to extensively during the debates, were the only such statutes found. Neither is shown as coming within the debt limitation considered and discussed in depth just a few weeks earlier, nor do they contain the common denominators referred to below.

An analysis of the legislative history and the statutes referred to in the Committee report, as in effect in February 1945,[3] makes it clear that when Congress provided for the inclusion of "guaranteed obligations of the United States" in the overall statutory public debt limitation, it referred to obligations having these common denominators:

(1) That such obligations be "securities" in the usual sense of that word.
(2) That the securities be issued by the agency as its direct debt obligations.
(3) That statutes authorizing their issuance provide an express guaranty as to payment of principal and interest.

The obligations of the District of Columbia Armory Board, issued pursuant to the District of Columbia Stadium Act of 1957, P.L. 85–300, 71 Stat. 619, as amended by the Act of July 28, 1958, P.L. 85–561, 72 Stat. 421, come within the debt limitation as these statutes contain the common denominators.

The distinction between the agency obligations and the Stadium bonds is this: The statutes relating to the agency obligations provide that in the event of default of payment of principal and interest, when due, the amount to be paid to the holders of the securities "is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated." In the case of the Stadium bonds, in any year in which the Armory Board certifies to the Commissioners of the District of Columbia that the amount in the sinking fund is insufficient to pay interest on, or retirement of, the bonds, the Commissioners are required to include in the District budget estimate for that year the necessary amounts out of District revenue to insure such payment, and if the District appropriation has not been made in time, the Commissioners are authorized to borrow from the Secretary of the Treasury in accordance with the statutory formula.

Excerpts from statutes referred to in Report No. 246, House Committee on Ways and Means, 79th Congress, First Session, dated March 2, 1945, as then in effect.

Commodity Credit Corporation

15 U.S.C. 713a–4. The Commodity Credit Corporation is authorized to issue * * * bonds, notes, debentures, and other similar obligations * * *. Such obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, * * *.

Federal Farm Mortgage Corporation

12 U.S.C. 1020c. The corporation is authorized to issue * * * bonds * * *. Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof, * * *.

Federal Housing Administration

12 U.S.C. 1710, 1713, 1739, 1743.

1710(a) * * * the Administrator shall, * * *, issue to the mortgagee debentures * * *. (d) The debentures * * * shall be a liability of the Fund (Mutual Mortgage Insurance Fund), but such debentures shall be fully and unconditionally guaranteed as to principal and interest by the United States; * * *. Such debentures as are issued in exchange for property covered by mortgages insured after February 3, 1938, * * * shall be paid out of the Fund, or the Housing Fund, as the case may be, which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures.

1713(i) Debentures issued under this section * * * shall be paid out of the Housing Fund which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures.

1739(a) * * * the Administrator shall, * * * issue * * * debentures * * *. (d) The debentures * * * shall be executed in the name of the War Housing

[3] Similarities or differences not appearing pertinent here and minor variations in phraseology are not discussed.

Insurance Fund as obligor * * *. Such debentures * * * shall be paid out of the War Housing Insurance Fund, which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures.

1743(c) * * * the Administrator shall, * * * issue * * * debentures * * *. (e) Debentures issued under this section shall be issued in accordance with the provisions of section 1739(d) of this title * * *.

Federal Public Housing Authority

42 U.S.C. 1420(a). The Authority is authorized to issue obligations in the form of notes, bonds, or otherwise, which it may sell * * *. (c) Such obligations shall be fully and unconditionally guaranteed upon their face by the United States as to payment of both interest and principal, * * *.

Home Owners' Loan Corporation

12 U.S.C. 1463(c). * * * the Corporation is authorized to issue bonds * * * which may be sold * * *. Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, * * *.

Reconstruction Finance Corporation

15 U.S.C. 609. The corporation is authorized * * * to issue, * * * its notes, debentures, bonds, or other such obligations; * * *. The said obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof.

Tennessee Valley Authority

16 U.S.C. 831n–1. The corporation (Tennessee Valley Authority) is authorized to issue bonds * * * which may be sold * * *. Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, * * *.

831n–3. The corporation is authorized, * * * to issue bonds * * *. Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, * * *.

United States Maritime Commission.

46 U.S.C. 1275(a). * * * the Commission shall, * * * issue * * * debentures * * *. (c) They (the debentures) shall be paid out of the fund, which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures.

District of Columbia Stadium bonds

P.L. 85–300, 71 Stat. 619, as amended by P.L. 85–561, 72 Stat, 421, Secs. 2–1722 and 2–1727, D.C. Code, 1961 Ed. The Board (Armory Board) is hereby authorized to provide for the payment * * * by an issue or issues of negotiable bonds of the Board, * * *. * * * the Board may * * * issue temporary bonds, or interim certificates without coupons, exchangeable for definitive bonds when such bonds that have been executed are available * * *. All bonds and other securities issued by the Board * * * are hereby guaranteed as to both principal and interest by the United States.

NOTE.—Even if the guaranteed FNMA participations dealt with in the General Counsel's Opinion of January 12, 1967, to the Secretary of the Treasury, were *debt* obligations instead of *contingent liability* obligations, it would still be impossible to ignore for statutory debt limit purposes the Congressional concept of "guaranteed" obligation (see third paragraph, page 4 hereof); and as recently as 1958 Congress has indicated its awareness of that concept when it authorized the same type of guaranty for the District of Columbia Stadium Bonds. Moreover, since 1945 the Congress has amended the debt limit statute sixteen times and each time has been aware of the consistent and uniform interpretation of the types of securities that came under it. Therefore, that interpretation is well established.

(The first letter from appendix II already appears in this hearing at p. 61. The second letter follows:)

APPENDIX II

OFFICE OF THE ATTORNEY GENERAL,
Washington, D.C., September 30, 1966.

The Honorable, the SECRETARY OF THE TREASURY.

DEAR MR. SECRETARY: This is in response to your letter of September 2, 1966, forwarding a memorandum of law prepared by the General Counsel of the Export-Import Bank of Washington (Eximbank) and requesting my views on the question discussed in the memorandum, *i.e.*, whether Eximbank's guaranties of the participation certificates it markets from time to time give rise to general obligations of the United States.

As noted in the memorandum, my predecessor in the Office of Attorney General pointed out in 42 Op. A.G. No. 1 (1961) that:

A series of opinions of the Attorney General issued between 1953 and 1959 has established that a guaranty by a Government agency contracted pursuant to a congressional grant of authority for constitutional purposes is an obligation fully binding on the United States despite the absence of statutory language expressly pledging its "faith" or "credit" to the redemption of the guaranty and despite the possibility that a future appropriation might be necessary to carry out such redemption.

That opinion was concerned with the nature of a guaranty of the former Development Loan Fund which, like Eximbank, was a Government corporation specifically authorized to issue guaranties in pursuance of its statutory functions. The opinion ruled that the Fund's guaranties constituted general obligations of the United States backed by its full faith and credit.

I am of the view that the opinion is in point here and, I might add, applies not only to Eximbank's guaranties of participation certificates but also to the other contractual liabilities it is authorized to incur under its governing statute, the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), including its guaranty, insurance, co-insurance or reinsurance of exporters. In sum, I concur in the conclusion of the General Counsel of Eximbank to the effect that the persons who hold the guaranties incident to Eximbank's participation certificates, along with the persons in whose favor it has incurred other types of contractual liabilities in accordance with law, have acquired valid general obligations of the United States, and are therefore in a position to reach beyond Eximbank and its assets to the United States for a source of payment, if necessary.

Sincerely,

NICHOLAS DEB. KATZENBACH,
Attorney General.

Senator HARTKE. The staff brings this down to English, which is very helpful.

In 1965 sales, the Participation Certificate Act, was the law, right?

Secretary FOWLER. Yes, sir.

Mr. SCHULTZE. 1966.

Senator HARTKE. 1966, pardon me. The 1966 Participation Certificate Act is a statute which, in effect, creates an obligation of the U.S. Government which has not alone its security for those obligations of these various agencies but, in addition to that, in the event of default the full faith and credit of the U.S. Government; isn't that true?

Mr. SCHULTZE. That is not what the act says. It simply provides a FNMA guarantee for the obligations.

Senator HARTKE. Let me come out of the philosophical and get it right down on the table, why one part of this is important, and this is not the heart of it yet, because this is just a subsidiary issue. We have a depression in the housing industry or a severe slump. Do you agree with that?

Mr. SCHULTZE. This is your assumption; yes, sir.

Senator HARTKE. We have to get the ground rules here. Is there a slump in the housing industry or is there not?

Mr. SCHULTZE. Yes, it is down from previous levels.

Senator HARTKE. All right.

One of the groups of securities which are to be disposed of under the law legally are the FNMA obligations, right?

Mr. SCHULTZE. Participation certificates.

Senator HARTKE. That is right. The participation certificates or disposing of these guarantees, these were loans made under FNMA; isn't that right?

Mr. SCHULTZE. That is correct.

Senator HARTKE. These FNMA obligations in effect are guarantees by the Federal Government of loans which are made by certain savings and loan institutions primarily to individual homeowners; isn't that right?

Mr. SCHULTZE. No; most of them are not. They are loans of one kind or another made by the Federal Government.

Senator HARTKE. For homes.

Mr. SCHULTZE. Some are, some are college housing loans, some are small business loans. They cover a number of programs.

Senator HARTKE. The FNMA obligations which I am speaking about. I am not talking about small business loans for the moment.

Mr. SCHULTZE. The participation certificates are sold by FNMA but are based on a pool of loans from all over the Federal Government, including home loans.

Senator HARTKE. I am not confused on that. I understand how the technical end of it is.

Mr. SCHULTZE. Right.

Senator HARTKE. Let me state what the proposition is. You have what I consider to be a depression or a recession in the homebuilding industry, and you have difficulty in some of these people making payments, and this is the danger right now. There is going to be a number of these foreclosures. I think this is a real danger, whether you want to assume it is or not. Assuming that this occurs, then as far as these people are concerned in the marketplace, they will come back and call on these certificates; isn't that right?

Mr. SCHULTZE. No, sir; that is not the way it will work, as a matter of fact.

Senator HARTKE. Well, they will come back and foreclose and then be guaranteed.

Mr. SCHULTZE. That is correct.

Senator HARTKE. But there is no way in which the people who buy the participation certificates are going to have to go back through the process, through FNMA, through the savings and loans back to the individual person and assess a deficiency judgment.

Mr. SCHULTZE. That is correct.

All I wanted to get at is that there are a number of options which would be used before the FNMA guarantee on the certificate itself comes into play, namely, that the agency which puts the loan into the pool can substitute a good loan for one which is foreclosed. This is how the actual backup is going to work in practice.

Senator HARTKE. Yes.

If you have a mass foreclosing going on you are going to be hard pressed to find enough good loans to take care of the bad.

Mr. SCHULTZE. If you have a mass foreclosing and a massive depression; that is correct.

Senator HARTKE. I understand what you think is going to happen. But I am coming back right to the legal proposition. I am trying to come from the other side now to this legal proposition.

The point still remains that the man who buys the participation certificate, the bank who buys it or anyone else who buys it, has at his disposal the complete faith and credit of the U.S. Government in order to make sure he does not lose.

Mr. SCHULTZE. Ultimately that is correct, sir.

Senator HARTKE. Not ultimately, it is correct today.

Mr. SCHULTZE. What I meant is there are a number of ways in which the investor is protected even before the FNMA guarantee comes into play.

Senator HARTKE. I understand it.

Mr. SCHULTZE. May I make a point, Senator, which is, I hink, quite relevant to the point you are making? This precise situation is true with respect to some $53 billion worth of FHA insured mortgages and about $30 billion worth of VA-guaranteed mortgages. You are quite right, if a situation arises in which they will have to be made good, they will be made good. And, as the Attorney General has indicated, the full faith and credit of the United States is behind them. You are quite correct, sir.

Senator HARTKE. All right.

Now, just so we will have it clear again, now I am on the prospectus here, which is under date of January 5, 1967, of $1,100 million participation certificates in the Federal Assets Liquidation Trust, the Federal National Mortgage Association, Trustees. I am going to ask permission to put the front page of this prospectus into the record without objection at this place.

I quote in a boxed-in section to call attention to it in the center of this prospectus:

> The Attorney General of the United States stated in an opinion dated September 30, 1966, that "FNMA's guarantee of a participation certificate brings into being a general obligation of the United States backed by its full faith and credit" and that "the holders of participations guaranteed by FNMA hold valid general obligations of the United States and are in a position to reach beyond the assets of FNMA to the United States for payment, if necessary."

Pretty much the same thing appears on the front page of another prospectus, dated Feb. 7, 1967, covering the sale of participations in Export-Import loans.

(The material referred to follows:)

PROSPECTUS—SALOMON BROTHERS & HUTZLER, THE FIRST BOSTON CORPORATION, MORGAN GUARANTY TRUST COMPANY OF NEW YORK, MERRILL LYNCH, PIERCE, FENNER & SMITH

$1,100,000,000 PARTICIPATION CERTIFICATES IN THE FEDERAL ASSETS LIQUIDATION TRUST, FEDERAL NATIONAL MORTGAGE ASSOCIATION, TRUSTEE

(Dated January 19, 1967, Due January 19, as shown below)

Of the $1,100,000,000 aggregate principal amount of Participation Certificates in the Federal Assets Liquidation Trust, $500,000,000 will be sold directly by the Federal National Mortgage Association, as Trustee, to Federal Government Investment Accounts, at the same prices (plus accrued interest from January 19, 1967) and with the same interest rates shown below, with maturities of $125,000,000 on January 19, 1972, $125,000,000 on January 19, 1977, and $250,000,000 on

January 19, 1982. The remaining $600,000,000 principal amount of Participation Certificates are offered by this Prospectus and will have maturities in the following amounts on January 19 of each of the following years and will have the interest rates and offering prices (plus accrued interest from January 19, 1967) set forth below:

Year	Principal amount	Interest rate (percent)	Price
1972	$150,000,000	5.20	100
1977	$150,000,000	5.20	100
1982	$300,000,000	5.20	100

Timely payment of principal of and interest on the Participation Certificates is guaranteed by the Federal National Mortgage Association ("FNMA"), a corporate instrumentality of the United States. (See letter of the Secretary of the Treasury appearing later in this Prospectus regarding the availability of funds for such guaranty.) The Independent Offices Appropriation Act, 1967 (Public Law 89-555, approved September 6, 1966), appropriated funds to allow the Trustors of the Federal Assets Liquidation Trust to pay the Trustee any amounts the Trustee may require (in addition to funds in the Trust) to pay the principal of and interest on outstanding Participation Certificates. The Federal National Mortgage Association Charter Act (referred to later in this Prospectus) provides that "Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

Interest on the Participation Certificates is not exempt from Federal income taxes.

The Attorney General of the United States stated in an opinion dated September 30, 1966, that "FNMA's guaranty of a participation certificate brings into being a general obligation of the United States backed by its full faith and credit" and that "the holders of participations guaranteed by FNMA hold valid general obligations of the United States and are in a position to reach beyond the assets of FNMA to the United States for payment, if necessary".

The Participation Certificates are issued in registered or coupon form, in denominations of $5,000, $10,000, $25,000, $100,000, $500,000 and $1,000,000. The principal, together with the last installment of interest, of registered Certificates is payable at the Federal Reserve Bank of New York and, under certain circumstances, at the Federal Reserve Banks of Chicago and San Francisco, upon the presentation at such Banks and surrender of the Certificates. The interest on registered Certificates is payable by check semi-annually, on January 19 and July 19 in each year. The principal of and interest on bearer Certificates with coupons are payable at the Federal Reserve Banks of New York, Chicago and San Francisco. The Participation Certificates are not redeemable prior to maturity.

More complete information regarding the Federal Assets Liquidation Trust and the Participation Certificates issued thereunder appear later in this Prospectus under "Federal Assets Liquidation Trust."

It is expected that the Participation Certificates in definitive form will be available for delivery on or about January 19, 1967.

Senator HARTKE. Do you agree that is true or is not true?

Mr. SCHULTZE. Yes, sir; it is correct.

Senator HARTKE. And there is no difference between that and a U.S. savings bond?

Mr. SCHULTZE. Yes, sir.

May I say something further, Senator?

Senator HARTKE. Yes.

Mr. SCHULTZE. The Attorney General's opinion, on the basis of which that statement was put in the prospectus, is precisely the same opinion which has been given with respect to any guarantee authorized by the Congress.

For example, such opinions have been given with respect to ship mortgage insurance, insurance by the ICC of certain railroad loans, and a whole host of others. There is nothing peculiar about the participation certificates.

The Attorney General has said that any contingent liability resulting from congressional authorization of a guarantee of an agency obligation brings into being the full faith and credit of the United States.

The only point I want to make, Senator, is that that opinion has been explicitly rendered with respect to a whole host of obligations which are not in the debt limit, which are contingent liabilities, and which were never meant to be in the debt limit, including ship mortgage insurance and ICC insurance of certain railroad loans. It is clear if we had asked for an opinion on the FHA mortgage insurance, the same thing would be true.

These are guarantees of contingent liabilities authorized by the Congress, and the Attorney General has said that any such guarantee ultimately brings into being the full faith and credit of the United States. So there is no difference between these PC's and many hundreds of millions of dollars of contingent liabilities. That is my only point.

Senator WILLIAMS. In other words, from the standpoint of the man who buys them they are just as sound as a Treasury certificate itself.

Mr. SCHULTZE. All I am saying, Senator——

Senator WILLIAMS. Is that correct?

Mr. SCHULTZE. Senator, this is a matter for bond counsel to evaluate. All I am saying is that the Attorney General has said that the guarantee by FNMA brings into being the full faith and credit of the United States. What a bond counsel thinks about it, I cannot tell you. I am not a lawyer.

Senator WILLIAMS. Neither am I a lawyer, and I am glad to talk to a nonlawyer.

Senator HARTKE. I might say if you want to talk to a lawyer, talk to Secretary Fowler and talk to myself. We will be the legal team. [Laughter.]

Mr. SCHULTZE. From the standpoint of security, I would say the two are comparable. But in other terms, no.

Senator WILLIAMS. That gets back to the wisdom of paying an extra one-half of 1 percent to finance this. We raised the question earlier. But, Mr. Secretary, because we keep speaking of the fact that these participation sales are nothing new, will you furnish for the record, broken down by years for each of the past 15 years, the totals of all sales of participation certificates by FNMA?

Secretary FOWLER. Mr. Schultze has that, and if you will permit him to supply it——

Mr. SCHULTZE. May I ask you to amend your request?

Would you say participation certificates or similar instruments by any agency?

Senator WILLIAMS. No. You furnish what you please.

Mr. SCHULTZE. I will give you the FNMA figures.

Senator WILLIAMS. I want them by FNMA. Do you have them with you?

Mr. SCHULTZE. I can furnish it for the record.

Senator WILLIAMS. I want them broken down by years beginning with 1952.

Mr. SCHULTZE. There were no participations by FNMA until 1965. I think it was 1965.

Secretary FOWLER. The act of Congress, 1964, authorized it.

Mr. SCHULTZE. Senator, may I——

Senator WILLIAMS. Much has been said—but put in the years, enumerate the years 1952, zero; or whatever it may be——

Mr. SCHULTZE. Correct.

Senator WILLIAMS (continuing). Right through on FNMA participation certificates.

Mr. SCHULTZE. But, Senator, I do not want to close the record——

Secretary FOWLER. You won't object to Mr. Schultze adding to that a list of the disposition of similar instruments by whatever name?

Senator WILLIAMS. You can furnish a supplemental report of whatever you wish. But that report, I want alone, separate, just on FNMA participation certificates. I am tired of this continuous repeating that you are only carrying out policies of previous administrations, because the record shows, your own letters show, that is not true, and I want that one statement alone.

After that you can fill the record through for 50 pages.

Secretary FOWLER. You cannot do it that way. You have to take into account these other things.

Mr. SCHULTZE. Senator, I do not want to close this oral record without stating what the Secretary and I had in mind when he said this has been done since 1954.

The Reconstruction Finance Corporation in 1954, not FNMA, but the Reconstruction Finance Corporation pooled loans and issued certificates of interest.

Senator WILLIAMS. And we abolished that about the same time.

Mr. SCHULTZE. And the Commodity Credit Corporation issued certificates of interest.

Senator WILLIAMS. You go back to World War II, but I am talking about FNMA participation certificates. That is what we are talking about this morning, whether they should be a part of the debt.

Mr. SCHULTZ. Senator, I must say, I do not see the logic in talking about these belonging in the debt limit just because they are issued by FNMA.

I am saying there are exactly analogous instruments issued by the Commodity Credit Corporation which have been issued for the last 14 years. They are not issued by FNMA, but they are exactly analogous instruments, and it seems to me they are quite relevant to the situation.

But in response to your request, I will insert a table for the record:

(The following was later supplied for the record:)

Sales of certificates of participation and certificates of interest, fiscal years 1954–68

[In millions of dollars]

Fiscal year	Federal National Mortgage Association [1]	Export-Import Bank	Commodity Credit Corporation [2]	Reconstruction Finance Corporation
1954			1,504	47
1955			751	
1956			232	
1957			86	
1958			244	
1959			229	
1960			155	
1961			606	
1962		300	902	
1963		250	834	
1964		373	377	
1965	300	450	419	
1966	1,840	761	855	
1967 estimate	2,880	700	675	
1968 estimate	4,000	1,000	1,225	
Total	9,020	3,834	9,094	47

[1] Reflects sale of participations in loans owned by FNMA as well as in loans owned by other agencies and sold through FNMA as trustee.
[2] Outstanding at end of year. Since these are short-term certificates, the amount outstanding at the end of any year undoubtedly understates the gross amount issued and redeemed during that year.

Senator HARTKE. Let me say I am interested in this legal and political discussion, and I want to come back to what a trouble it is causing us, and that is the problem, and it seems like we have a difficult time in establishing the ground rules here and agreeing upon even what I thought were elementary and basic facts.

But now, since you have returned, Mr. Schultze—the return of Mr. Schultze—"I shall return," he said—isn't it true that in this, in the budget, which has been submitted to us at the present time, which has a deficit estimated at, for this year, what is it, $8.1 billion?

Mr. SCHULTZE. $9.7 billion this year.

Senator HARTKE. $9.7 billion this year—isn't it true that this also includes within it a basic assumption of a continued growth in the economy——

Mr. SCHULTZE. Oh, yes, sir.

Senator HARTKE (continuing). Of a substantial nature?

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. All right.

Now, Mr. Fowler, you have a council of advisers, or economic advisers to the Treasury.

Secretary FOWLER. Well, the President has a Council of Economic Advisers.

Senator HARTKE. I understand the President has.

Don't you have—Senator Williams says you have as your advisers the Senate Finance Committee. [Laughter.]

Secretary FOWLER. I rely most heavily on them, that is for sure. [Laughter.]

Senator HARTKE. Is there a business advisory council?

Secretary FOWLER. No, Senator Hartke. There is a business council.

Senator HARTKE. This is a council which, of economic advisers which, advises the Treasury, sort of have a semiofficial status?

Secretary FOWLER. We have a variety of varieties of consultants, Senator Hartke.

Senator HARTKE. No, I am not talking about consultants at the moment. I am talking about a commerce group, the one that caused a furor a few years ago?

Secretary FOWLER. There was a business advisory council which was an adjunct of the Department of Commerce. About 4 years ago—it dissolved as an official adjunct of the Department of Commerce, and was organized and established as a private business organization, abandoning its official status as adviser to the Secretary of Commerce.

Senator HARTKE. As I understand, you have been polling a group of advisers, council, maybe these are your private consultants, as to the future and what they estimate will be the corporate earnings in the rest of 1967. Is that true or is that not true?

Secretary FOWLER. Senator Hartke, there are exchanges between the President's Council of Economic Advisers and certain economists who are economists for companies which are represented in this business council.

I myself have, as do other departments of the Government, liaison arrangements with the business council whereby we exchange views maybe once every 2 or 3 months about the general outlook for economic conditions. I find it very useful and profit by hearing the views of the chief executive officers of various companies and getting their impressions of the general economic outlook.

Senator HARTKE. They have been polled recently, have they not?

Secretary FOWLER. I do not know of any poll.

Senator HARTKE. You have not had a poll being made as to the prognosis of corporate earnings during this next 6 months?

Secretary FOWLER. No, Senator Hartke. I made no poll of that sort.

Senator HARTKE. Has the Budget Bureau made such a poll?

Mr. SCHULTZE. No, sir.

Senator HARTKE. How do you come up with this decision as to the amount you anticipate next year of $83 billion?

Secretary FOWLER. That is a judgment that was arrived at by the Treasury Department after a full consultation with the Council of Economic Advisers, the Director of the Bureau of the Budget, and various sources in the Government that have views on the general outlook.

Senator HARTKE. All right.

Now when was that last analysis made as to what the corporate earnings were going to be for this next 6-month period?

Secretary FOWLER. I would say in late December and early January.

Senator HARTKE. Nothing has been done since that?

Secretary FOWLER. Well, we keep this under fairly constant study, Senator Hartke.

Senator HARTKE. Yes. All right.

What are these experts telling you now is the prognosis for corporate earnings for this next 6-month period?

Secretary FOWLER. I find a wide divergence of opinion.

Senator HARTKE. What is the consensus?

Secretary FOWLER. I do not know of a consensus.

Senator HARTKE. You have no consensus as to whether the corporate earnings are going to go up or the corporate earnings are going to go down or whether they are going to stay level?

Secretary FOWLER. I have no consensus to report on that.

Senator HARTKE. Mr. Schultze, you have none?

Mr. SCHULTZE. Consensus, no, sir. What we have, as you will notice from the budget, is a 6½ percent growth in GNP from calendar year 1966 to calendar 1967, and about a 1.5 percent growth in corporate profits.

Senator WILLIAMS. Mr. Secretary, didn't you conduct a survey in recent weeks from various business organizations, and the response was predominantly on the position that——

Secretary FOWLER. I have conducted no such survey.

Senator WILLIAMS. That the corporate earnings would be low?

Secretary FOWLER. I have conducted no such survey.

I do not know what the source of your information is, but I have not conducted a survey. I always ask peoples' opinions when I meet them informally or formally, but I have not conducted any survey.

Senator HARTKE. This is a very important part of this budget, is it not?

Secretary FOWLER. It certainly is.

Senator HARTKE. It represents, you have estimated, an increase of $2 billion in corporate taxes, right, from $81 to $83 billion?

Mr. SCHULTZE. Not quite $2 billion. Closer to $1 billion.

Secretary FOWLER. $81.8 billion to $83 billion, corporate profits are now estimated for 1966 at $81.8 billion. Now, that is a preliminary estimate.

Senator HARTKE. All right.

Secretary FOWLER. It is a preliminary estimate because the fourth quarter of profits will not be known with final precision until some time in March and April.

Senator HARTKE. They have been very disappointing, have they not?

Secretary FOWLER. Well, we have scaled the profit estimates down in late December and early January from what they had been.

Senator HARTKE. And the profits are going down, instead of up?

Secretary FOWLER. Oh, I find a very mixed pattern, Senator Hartke. I do not have a detailed analysis of recent corporate profit reports, but I am told in conversation with people who have looked at and analyzed these things that some of the profits figure are up, some of the profit figures are down. Sometimes in the very same industry you will have one company where the profit figures are going up, and another company where the profit figures are going down.

Senator HARTKE. I would like to refer to the February 10 issue of Townsend-Greenspan Co. in which they say the estimate of 1967 gross national product would be more realistic. It would be in the neighborhood of $779 billion with pre-corporate-tax profits of $78 billion. If that is true this would represent another $5 billion we would have to raise some place, isn't that true?

Secretary FOWLER. There would certainly be a substantial lessening of the revenues which we are estimating if the projections which you have quoted turn out to be correct. We have seen many, many projections.

Senator HARTKE. Let us have one thing clear. You have made no poll in recent weeks of economists and business and business enterprises to make a determination as to the corporate profits which are anticipated for this coming 6 months which is in fiscal 1967.

Secretary FOWLER. Senator Hartke, I have not made any poll. I will check in the Department to see if anybody in authority in the Department has made any contacts that would be properly characterized as a poll. I am not aware of it if there have been.

I had conversations yesterday, with the so-called Treasury Liaison Committee.

(The following information was subsequently supplied:)

The Treasury Department has not carried out a survey of businesses and economists in recent weeks on anticipated corporate profits for the coming 6 months.

Senator HARTKE. With who?

Secretary FOWLER. The Treasury Liaison Committee that I meet with from the Business Council, which I referred to. We discussed generally a large number of subjects of which corporate profits were one. There are differences of opinion very clearly——

Senator HARTKE. What is the majority opinion?

Secretary FOWLER. I do not have a majority opinion. We do not have a show of hands. We ask, What is your feeling about this situation or that situation or the other situation?

Senator HARTKE. Did you form a judgment from it?

Secretary FOWLER. I formed a judgment in late December and early January, in association and after the most detailed consultations with the members of the Council of Economic Advisors and the Director of the Budget. We came to the conclusion that $83 billion was a proper and appropriate estimate at this time for corporate profits in 1967.

Senator HARTKE. I understand you have suggested it for the budget. What I am trying to find out, is whether the economy is accelerating, decelerating, or holding even.

Secretary FOWLER. I think, if I can give you this picture, that the estimate for 1966, with the fourth quarter figures being preliminary, is that corporate profits for 1966 will be $81.8 billion. The projection carried in the budget the basis for our revenue estimates, is that corporate profits in 1967 will be $83 billion.

Now, contrasted with previous years when corporate profits have been moving up $4 and $5 and $6 and $7 billion a year, this represents a tendency toward a leveling insofar as corporate profits are concerned.

Now, one of the factors that I think should be taken into account, is that I would expect a good deal of harder bargaining in collective bargaining negotiations this year, and thus some pressure on corporate profits in connection with wage and salary negotiations.

Senator HARTKE. In other words, you expect a substantial increase in wages this year.

Secretary FOWLER. I would expect a very real effort on the part of trade union spokesmen to negotiate substantial increases in wages.

Senator HARTKE. This is a fair inference.

Secretary FOWLER. This would create some pressure on corporate profits.

Senator HARTKE. And to some extent this would be by hard bargaining——

Secretary FOWLER. That is right.

Senator HARTKE (continuing). Which would not be effective unless it included an actual conclusion of substantial wage increases.

Secretary FOWLER. That is right.

Senator HARTKE. In other words, you see a big boost in wages for this year.

Secretary FOWLER. I do not know how this tussle will come out. I would see some very strong resistance on the part of management to increased wages, too.

Senator HARTKE. But if you are on your guesstimations today you would guesstimate that the wages are going to go up?

Secretary FOWLER. I am not an expert in collective bargaining matters, Senator Hartke. I only say that the estimate of $83 billion as against $81.8 billion for last year took into account the expectation that the rapid increase in corporate profits which has characterized previous years is not likely to be the case in 1967. One of the factors to be taken into account in making that estimate, was the fact that there would be wage increases which probably would not be passed on in prices.

Senator HARTKE. All right.

Now, I follow you on that.

Do you have no opinion then as to what is going to generally happen as far as corporate profits are concerned? In other words, I am not now speaking of the ways factor, I am speaking now of the general economic climate. Are we going into a period of a slowdown or—not stagnation, I hope——

Secretary FOWLER. I think the opinions that were expressed——

Senator WILLIAMS. Readjustment is the word that I think the Secretary is trying to find.

Secretary FOWLER. Senator Hartke, I share the opinion as far as the outlook is concerned, which was stated in the report of the Council of Economic Advisers. I think the first quarter or two is going to, perhaps, see some inventory readjustment, and that the last half of the year is probably going to see the economy moving along at a better clip than the first part.

Senator HARTKE. Let me get either one of you people back to this point.

Now, basically what we operate under, the national income account, at least, or what we are thinking about here when you are making these determinations as to the future. In 1964 the implied surplus on the national income account on full employment levels is about $9 billion, is that correct?

Mr. SCHULTZE. I would have to check that, Senator. You want the full employment surplus in 1964?

(The following was later supplied for the record: In fiscal year 1964, the estimated full employment surplus was approximately 9½ billion; it was approximately $6 billion in calendar year 1964.)

Senator HARTKE. Yes. In other words, the whole basis of the national income account surplus proposition is based on the fact that you are going to be in a position of full employment?

Mr. SCHULTZE. No. There are two parts to that, Senator. The national income account measure of the budget itself has nothing to do with full employment.

Senator HARTKE. No; I am not trying to say that. I am just saying that on the basis of full employment——

Mr. SCHULTZE. Right.

Senator HARTKE (continuing). You come back to—you also can, generally speaking, come back with a concept that you will have a surplus in your national income account.

Mr. SCHULTZE. In some cases yes and in some cases no.

Senator HARTKE. Now, to come back to the question that I was directing to Secretary Fowler on the anticipation of the future in the field of economic conditions. The Federal Reserve Bank of St. Louis just recently estimated a full employment deficit for fiscal 1967 of $3.6. Is that true?

Mr. SCHULTZE. That would be about right. The deficit we are estimating is $3.8 billion on a national income accounts basis for fiscal 1967, and the full employment level would be about the same, so it is about right; yes, sir.

Senator HARTKE. Then this represents sort of a sag in the economic development of the country?

Mr. SCHULTZE. No, sir; I would not think so.

Senator HARTKE. Are we going to go like we did in 1966 then?

Mr. SCHULTZE. No, sir.

Senator HARTKE. We are going to go at 6½ percent as compared to 7 percent, you would say?

Mr. SCHULTZE. That is right. I don't call that a sag.

Senator HARTKE. And you have not taken any serious warnings from the recent returns of these major corporations, their fourth-quarter earnings statements? You do not consider those distressing or disturbing?

Mr. SCHULTZE. No, sir. I think basically we have no evidence as yet that our basic forecasts for the economy are not what we thought they were going to be.

Senator HARTKE. I have read these statements in front of the Economic Committee about a gentleman speaking here about how all this worked out fine under a set plan, said set plan of 1966. You did not want a tax increase and how you balanced it all off. But wasn't it true we were faced with a rather severe financial situation in the midpart of 1966? We came close to having a financial crisis, did we not?

Mr. SCHULTZE. I would certainly not say we came close to having a financial crisis. I think the Secretary can probably speak better on the financial matters than I can. But it is obviously clear that in the months of August and September the financial markets were severely congested.

I think it is going awfully far to say that we came very close to a financial crisis. Perhaps the Secretary would want to add something.

Senator HARTKE. Isn't this what Mr. Martin said?

Secretary FOWLER. I do not know, Senator Hartke. But, as you know, we came here in September to support the President's recommendation on the investment credit as a part of the three-point program expressed in his message of September 8.

I myself laid great stress on the condition in the financial markets, the excessive demands for credit, as being a factor that I thought ought to be taken very importantly into account.

Senator HARTKE. You used excessive demand for credit. I said near financial crises, and we will assume that I have my definition and you have yours. But at least we can agree to that.

What is the basic purpose of the proposed 6-percent surtax?

Secretary FOWLER. There are at least three purposes, Senator. One is to pay for the costs of the war.

I think we have reached a point now where—Senator Williams and I have had exchanges on this—we have used various special devices to fund the cost of the war. These were expressed in the Tax Adjustment Act of 1966, and in special administrative actions. I think we have pretty well run through those and now it is time to pay the bill by increasing income-tax rates.

Senator HARTKE. Just a minute. Let us have a picture——

Secretary FOWLER. Can I complete the three that you asked me were the reasons?

Senator HARTKE. All right, go ahead.

Secretary FOWLER. The second reason is that we want to not allow the deficit in either the administrative budget or the national income accounts budget to, in effect, get out of hand, creating a feeling that there is not a measure of control over the amounts of these deficits.

And then the third, perhaps the most important, factor now in encouraging the healthy balanced growth of business, including the sectors that have suffered so much, such as housing, is the assurance, insofar as it can be given, that there is going to be available money and credit on reasonable terms. I believe, the surtax proposal coming at a time 9 months after the Federal Reserve Board has shifted from a policy of rather severe restraint toward a policy of monetary ease, that it is important to take the necessary fiscal steps to make that policy a movement toward continued monetary ease, of readily available credit on reasonable terms, a condition under which business can operate for the duration of war.

Senator HARTKE. All right.

Secretary FOWLER. I would prefer to rely on the tax increase as a way of not only paying for the war and minimizing the deficit that is a consequence of the war, but also providing some condition under which we can expect a continuance of a movement away from tight money and high interest rates.

Senator HARTKE. I think that ought to make the chairman happy if we avoid that tight money.

What about inflation?

Secretary FOWLER. That is all a part of the pattern of balanced growth, that this policy mix of monetary ease and the fiscal action indicated is designed to facilitate a return to the type of balanced economy without inflation that characterized the period prior to Vietnam.

Senator HARTKE. All right.

Now, I quite agree that we need to have a plan to pay for the war no matter. You understand my position basically is not in sympathy with the war.

Secretary FOWLER. Yes.

Senator HARTKE. But most certainly I want the boys there to have everything they need. I want to start paying for it. I want to provide for it, and I want to have a plan to provide for it. It has nothing to do with whether you agree with it, the basic concept, or, as the chairman does, or whether you disagree with it. Both of us would like to see a plan come up as to how you are going to pay for it on a legitimate basis without causing a crisis.

But in this group, to pay the cost of the war has nothing whatsoever to do with your budget itself. In other words, that is an element which is really outside the budgetary consideration, isn't that right? You could pay for it through taxes or you could borrow.

Mr. SCHULTZE. In a technical sense, of course. The question is what the implications are for the fate and health of the economy.

Senator HARTKE. Yes. What we did this year and what we did last year.

Secretary FOWLER. Senator Hartke, you would also want to know, too, that to the extent that the Federal Government borrows it adds to that extent to the volume of borrowing in the financial market and to that extent places additional pressure on interest rates and——

Senator HARTKE. This is the point to which I want to come.

What I wanted is to pin down just exactly what we are going to do about taxes first—whether we are going to have the administration come and ask for them or whether they are going to back away.

I understood you to say yesterday that we would be better able to assess the situation in April or in May. Is that true?

Secretary FOWLER. In the contacts and conservations I have had about it, Members of Congress feel that they would then be better able to assess the near-term economic outlook.

Senator HARTKE. What does the administration think?

Secretary FOWLER. I think the more time passes the more knowledge one has—the closer to the events, the better the vision.

Senator WILLIAMS. Would the Senator yield?

Senator HARTKE. Yes.

Senator WILLIAMS. I think yesterday the Secretary's position was—it may have changed today—that the administration wanted Congress to give top priority to increasing social security, and after that if they had time and were still in the mood they would get around to the tax increase.

Secretary FOWLER. That does not characterize my position, Senator Williams.

Senator WILLIAMS. Well, do you recommend that the tax increase be given priority over the social security increase?

Secretary FOWLER. No, no; that is not recommended.

Senator WILLIAMS. That is what you said.

Secretary FOWLER. No. You characterized it in a very——

Senator WILLIAMS. I beg your pardon, now——

Secretary FOWLER. Quite a different way.

Senator WILLIAMS. How would you do it, then?

Secretary FOWLER. I would say that in order to meet with the budgetary proposals that the President has made, we have a surcharge increase, effective as of July 1; but I would expect to go to hearings before the Ways and Means Committee after they have completed their proposal of the social security proposals.

I understand Chairman Mills scheduled the opening hearings on social security in early March. I have not consulted with him as to exactly how much time he expects that to take, but the administration will be ready to come forward and make its case for the surtax proposals at whatever time the Ways and Means Committee has concluded and whenever the committee indicates its desire for the appropriate time, we will make our presentation.

Senator WILLIAMS. Well, I think that is just nice.

Secretary FOWLER. That would be some time presumably between the middle of March and the first of May.

Senator WILLIAMS. Well, now, I think we both realize that by the time Congress gets through with the social security that you will not have time for consideration and hearings on the proposal of the tax increase, because in social security we have revision of title 19 to take up. I have been at least two and a half months waiting for an answer from the bureau to tell me what they plan to do on title 19.

Perhaps you can tell us this morning.

You will remember that in social security, title 19 was put in, an estimated cost of $238. In May last year——

Secretary FOWLER. What bureau is that, Senator Williams?

Senator WILLIAMS. It was HEW.

Secretary FOWLER. Well, I wanted to get that straight.

Senator WILLIAMS. That comes in under social security. In May, we found that the cost was going to be around a billion and a quarter dollars rather than $238 million. Something had to be done.

We never heard any more from them until about 10 days before Congress adjourned, and then they came down with a proposal which they wanted to rush through in the closing days. I joined in blocking it because I wanted to look at it.

The estimate of cost by HEW on that revised proposal to close the $1 billion loophole was $2¼ billion that it would cost.

I said that is the first time I ever heard of closing a $1 billion loophole by opening it and making it $2½ or doubling it. But as yet we still have no proposal at all on changing title 19 before us.

The last estimate that I had of the cost of that would be that it would exceed $3¼ billion rather than a quarter billion. We are not going to resolve that within 10 days because nearly every Governor is going to be down before the Ways and Means Committee and the Finance Committee, and I think the administration might just as well recognize that if you want consideration of a tax increase you had better put it on top priority.

Senator HARTKE. Mr. Secretary, let me come back to what I want to know.

On the tax increase, I want to know whether you are going to ask for it because you want the money. You asked for $4½ billion; right, is that right?

Secretary FOWLER. Yes.

Senator HARTKE. What makes you think you are going to get $4½ billion? We came here in 1964 and we came in with a philosophy and a theory that if you reduced tax rates you could increase tax revenues. We reduced tax rates and we increased tax revenues. We came with that philosophy to reduce tax rates and increase tax revenues.

What makes you think that if we increase them now we can have it both ways?

Is it going to work both ways?

What makes you think we are going to get even $4½ billion?

What makes you think we are going to increase the tax revenue?

Secretary FOWLER. At the time we made the recommendation for tax reductions, Senator Hartke, there was a great deal of slack throughout the entire economy.

Senator HARTKE. In 1964.

Secretary FOWLER. In 1963 when we came up with the proposal——

Senator HARTKE. We passed the law in 1964.

Secretary FOWLER. It was finally passed in February of 1964.

There was a great deal of slack in the economy which had been of great concern for a matter of 6 or 7 years, as you will recall, and we felt that the tax reduction would stimulate the private economy and result in the creation of jobs both through incentives and through increased purchasing power; that this would result in increasing jobs, increasing production, and that the expanding volume of business that would follow would produce additional revenues.

Now, for the duration of the Vietnam War it seems to us that, while there are imbalances and have been severe imbalances in the economy, in overall terms the total demand is such, given the necessary war expenditures, that the increase in surcharges—the effect on the economy of which we have taken into account in our computations and our estimates—which we will be prepared to come forward with and support at the appropriate time will yield the revenues that are indicated.

Senator HARTKE. Yes.

In the face of this economic turndown to which I have referred, I do not think anyone can deny it. The headlines the day before yesterday in the New York Times: 20 percent downturn in automobile sales for the first 10 days of February; auto sales for the first 10 days of January, 20 percent down; industrial production in December the same level as October and November and only 1 percent higher than midyear.

Housing starts curtailed by one-third over a year ago; fourth quarter 1966 retail sales 3 percent above 1965 or just equal to the increase in the prices; Federal Reserve index of industrial production for November only 2 percent higher than August; between August and November output of defense equipment up at the annual rate of 10 percent compared with a 30-percent increase over the first 8 months; further acceleration of inventory accumulation and consumer goods and industrial materials.

Now, this is an indication of a contracting market. Whether you want to say that it is contracting relatively fast or slow, it is sure not one of an expanding market. Isn't that true?

Secretary FOWLER. Senator Hartke, we are familiar with those indications that you have summarized. We have taken into account these trends.

We do believe that the economy has moderated very substantially. As a matter of fact, going back to last May, I publicly stated then that I thought, having used up a great part of the slack, having reduced the number of the unemployed, having used up the spare capacity and the unutilized plant capacity; that it would be desirable for the economy in real growth terms, leaving out price changes, to scale back to a rate of real growth of between 4 and 4½ percent, instead of growing at a 5½- to a 6-percent scale which characterized 1965 and a good part of 1966.

This would be the most sustainable growth pattern that promised to be enduring and stable that we could expect.

Therefore, the overall moderation in the rate of growth reflected in the gross national product quarterly figures for the third and fourth quarters is not a disturbing thing.

The disturbing thing was the elements that we discussed last fall here, the imbalance in the economy, the fact that some sectors were going up, and in boom conditions, and other sectors, such as housing, were in a recessive condition.

We think that the changes that have occurred as a result of many factors, which we talked about last fall, led the Federal Reserve

Board to shift from a policy of very severe monetary restraint toward a policy of ease in October, November, and December. In that period, when the turn came, the Federal NIA budget as Mr. Schultze indicated, went from a posture of restraint in the first half of calendar 1966 to roughly a netural position in the third quarter, and to a deficit position in the fourth quarter. Both of these factors of Federal policy here are giving the economy a chance to come through this stabilizing period. Our expectation is that the economy is going to grow and continue to grow in 1967; that the rate of growth in the last part of the year is going to be somewhat more than the rate of growth in the first part of the year.

Senator HARTKE. All right.

Now, we have established then two basic things I think on the economy. One of them is you anticipate there will be a substantial increase in wages which will cut back on the profits.

Secretary FOWLER. I did not say that, Senator. I said there would be substantial bargaining, and I thought that the probable result was that there would be increases in wages which could not be absorbed by equivalent increases in prices and, therefore, there would be some pressure on profits.

Senator HARTKE. That is right.

Secretary FOWLER. They all could not-be passed on.

Senator HARTKE. Let us characterize it as you please, you and Senator Williams in your characterizations. I just want to try to come back and try to be an auditor here, and try to audit back through these figures.

What it means is that there will be a reduction in profits in your opinion.

Secretary FOWLER. But that reduction in profit margins may not necessarily result in a reduction in the volume of business.

Senator HARTKE. I grant you that.

Secretary FOWLER. It may reflect an increase in the unit costs.

Mr. SCHULTZE. I think, Senator, if you will look at the fact that our GNP projection is for 6½ percent growth in GNP, and there is a 1½-percent difference in the margin of growth, what the Secretary is saying is that while profits may be down, the volume will expand and profits will grow modestly.

Senator HARTKE. This means you will have an increase in wages which is not comparable to productivity.

Mr. SCHULTZE. Yes.

Senator HARTKE. Isn't that a fair assumption?

Mr. SCHULTZE. Correct.

Senator HARTKE. All right.

Mr. SCHULTZE. Correct.

Senator HARTKE. That is what I want to get back to. What you are going to do to this whole question of money in the marketplace at the moment. In the second place, I think you used "moderated substantially," it means it will not increase at the same rate as last year.

Secretary FOWLER. That is correct.

Senator HARTKE. And certainly if you do not have an expanding market you have a contracting market as compared to last year.

Secretary FOWLER. As compared to last year, but still an expanding market.

Senator, a real growth of 4 and 4½ percent is a very, very great target. You will remember our rate of growth all during the last half of the fifties averaged about 2.2 percent.

Senator HARTKE. I do not want to go back to that.

Secretary FOWLER. No. We certainly do not want to go back to that. We want to go back to about double that. But around 4- and 4½-percent rate in real growth, the studies of the Joint——

Senator HARTKE. What is wrong with 5 percent real growth? I heard the Russians are bragging about the fact that they have 7 percent real growth compared to our percent real growth.

Secretary FOWLER. Well, I will defer——

Senator HARTKE. Just in all fairness to you, you know 7 percent of one is not nearly as hard to come by as 2 percent of 50. I understand that. I am not trying to be facetious on that, but what I am saying is you have set an arbitrary limit on how much this country is going to grow.

Secretary FOWLER. No, Senator; that is not so. I have not set any arbitrary limit.

I think you will find many, many studies by the Joint Economic Committee, for example, one that was released last week, on this subject.

Senator HARTKE. Let us assume you do not say that. What I am saying is that how do you anticipate you are going to absolutely increase the amount of revenue? What is there, on what basis, and since we have switched within a period of 2 years from a philosophy that an increase in taxes now will increase revenue, whereas 2 years ago a decrease in taxes would increase revenue——

Mr. SCHULTZE. Senator, because 2 or 3 years ago we had significant unemployment and substantial unused plant capacity.

Senator HARTKE. All right. Let me ask you a question.

Mr. SCHULTZE. May I finish?

Senator HARTKE. Is there significant unemployment in housing today?

Mr. SCHULTZE. There apparently is some; yes, sir.

Senator HARTKE. Is there a cutback in employment?

Mr. SCHULTZE. Our projection and our policies go toward increasing——

Senator HARTKE. Is there a cutback in automobile workers?

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. Have you been out to Columbus, Ind., and seen the 500 laid off at Cummins-Diesel? They are not going to pay taxes on wages. They are not going to pay taxes on unemployment checks. These people are out of work.

They are not going to pay taxes on a soft market.

Mr. SCHULTZE. Senator, let me make a number of points.

Senator HARTKE. Automobile sales are down. They are not going to pay taxes on those automobiles that they do not sell. Those corporate profits are down.

Mr. SCHULTZE. Automobile sales are indeed down. Housing has been down and is beginning to recover, Senator. There are many, many other areas in the economy——

Senator HARTKE. Percentagewise where is it compared to a year ago?

Mr. SCHULTZE. Housing?

Senator HARTKE. Yes, housing, compared to a year ago.

Mr. SCHULTZE. It is about a million compared to 550.

Senator HARTKE. Yes.

Mr. SCHULTZE. Again, as Secretary Fowler indicated earlier, one of the major thrusts of our policy is to get a better balance and improve the situation in housing.

Senator HARTKE. Let me tell you you are talking about soft spots. Aren't there soft spots in the economy?

Mr. SCHULTZE. Yes, there are soft spots.

Senator HARTKE. Is it not so that the appliance sales are down?

Mr. SCHULTZE. I am not sure of that.

Senator HARTKE. You have an expert on your left.

Mr. SCHULTZE. You can pick out soft spots.

Senator HARTKE. Of course you can. I picked out housing and automobiles and appliances. How about the defense industry? I am agreeing with you that you are doing right well if you have a defense contract.

Mr. SCHULTZE. Defense industries, soft goods industries, and State and local spending are all at high levels and increasing.

Senator HARTKE. State, governmental spending on a National, State, and local level, somebody has to pay the bills.

Mr. SCHULTZE. Consumer nondurables, consumer services are also doing very well. The economy, on balance, is continuing to go up, Senator.

Senator HARTKE. Yes, but services do not produce.

Mr. SCHULTZE. Of course, they do produce.

Senator HARTKE. No, services are not a production item.

Mr. SCHULTZE. Senator, this is something new to me. Services contribute to the economy as much as production, they are as much a part of GNP as an automobile. I believe a doctor produces as much as anybody else.

Senator, I do not want to get into a philosophical argument of what is productive.

Senator HARTKE. I am talking about production of goods.

Mr. SCHULTZE. Production of services generates income, taxable income.

Senator HARTKE. All right.

Mr. SCHULTZE. All I am saying, Senator, on balance——

Senator HARTKE. You are trying to tell me the economy is as healthy today as it was a year ago.

Mr. SCHULTZE. Yes. All right, let us put it that way. In some sense, yes.

Senator HARTKE. In some sense.

Mr. SCHULTZE. Let me give a balanced picture, Senator.

Senator HARTKE. Let me ask you a question.

Without the war is the economy as good as it was a year ago, without the war expenditures, whatever we are spending, $24 billion, $30 billion; without the war is it as healthy as it was a year ago?

Mr. SCHULTZE. I am not sure I know exactly what you mean by "without the war." The war is a part of the current situation.

Senator HARTKE. Without the war we would have a real serious problem in the United States today in keeping this country going financially.

Mr. SCHULTZE. I do not think so.

Senator HARTKE. I think so.

Mr. SCHULTZE. I do not believe so. I believe the history of this country during many periods shows—and I will give you the history of this country in 1962, 1963, 1964, 1965—that without the war in Vietnam the economy was expanded.

Senator HARTKE. That is why some of these people are worrying that we would have a recession if the war would end.

Mr. SCHULTZE. Senator, I do not believe the American economy requires a war to keep it healthy, and I think we have good historical experience on that.

Senator HARTKE. If you do not get the tax increase you are going to increase the deficit by $4½ billion.

Mr. SCHULTZE. Approximately by that.

Senator HARTKE. And you are not even sure you are going to ask for it. You are not pushing for it very hard today, are you?

Secretary FOWLER. Senator, when the time comes I will be up here pushing very hard on it. You can rely on that.

Senator HARTKE. Let me ask you a question.

In your statement on this bill—although a subsidiary issue—it says at the bottom of the page, page 1:

> Unless the debt limit is increased by the end of February, at which time our outstanding obligations will exceed that which we could legally borrow, the possibility of an economic and monetary derangement would be a grim reality.

Is that right?

Secretary FOWLER. Due to a loss of confidence that would occur.

Senator HARTKE. Can we say the corollary is true?

Secretary FOWLER. That what?

Senator HARTKE. Well, that——

Secretary FOWLER. What corollary?

Senator HARTKE. That is very simple.

The corollary is if we do pass it that the economic and monetary situation of the United States will be good.

Secretary FOWLER. Oh, no. That is not—that is a pretty——

Senator HARTKE. All right.

It says in this statement that there can be no question as to the urgency of the President's request; is that right?

Secretary FOWLER. Senator, let me say just because you move out of the road when a truck is about to run over you, it does not necessarily mean you are going to move over on the sidewalk and everything is going to be rosy just because you ducked that truck.

Senator HARTKE. All right. Just a minute.

Senator WILLIAMS. While you are looking through your papers, I would like to ask a question on another point.

How much of an increase in the debt ceiling are you expecting to ask for in June?

Secertary FOWLER. I haven't figured that out yet, Senator.

Senator WILLIAMS. You have no estimate at all?

Secretary FOWLER. No estimate to submit at this time.

Senator WILLIAMS. In light of the proposed $8 billion deficit, would it be reasonable to assume that you will be asking for approximately that?

Secretary FOWLER. I would not make any assumptions.

Senator HARTKE. Senator Williams, will you yield there, on that point? If you do not have a tax increase you will have to at least ask for, under the circumstances, for enough to cover the $4½ billion you are not going to get, would you not?

Secretary FOWLER. If I thought I was not going to have a tax increase I certainly would have to ask for more.

Senator HARTKE. Let me ask you if the question is only as to when the price increase comes; am I mistaken? I thought the question was whether we were going to ask for a tax increase now.

Secretary FOWLER. The President has asked for a tax increase.

Senator HARTKE. I understand it. I gathered that from the impression here we would or would not make a definite push for it in April or May. Am I wrong in that?

Secretary FOWLER. No, I did not mean to leave the impression. I am glad to have the opportunity to correct it.

Senator HARTKE. You are going to insist on a tax increase?

Secretary FOWLER. Our current plans are reflected in the President's message, Senator Hartke. We think the situation will be such that our appraisal made in January will be confirmed, and that it will be in the public interest and in the national interest for the reasons I have given, to ask Congress to enact a surtax.

Senator HARTKE. So this is an "iffy" proposition?

Secretary FOWLER. No, it is not that "iffy." I think we are not going to be blind. If conditions turn out to be totally and completely different from what we had anticipated at the time the President's budget message and Economic Report went up, of course, we will be open minded about the changed conditions.

But we do not think the conditions are going to be changed, and we think we are going to be here asking for that tax increase.

This is a responsibility that we have, Senator Hartke, not that we enjoy forecasting, but the Budget Accounting Act of 1921 requires us to give a revenue program once a year.

Senator HARTKE. Is this true, in your opinion: That the important thing to do now is to enact this legislation as quickly and as definitely as possible and deal, as my statement to the committee indicated, with the future development as those future developments occur?

Secretary FOWLER. I think that is an appropriate statement. I would say, adding to it, that I think those future developments will call for a surtax in line with the President's proposal.

Senator HARTKE. In other words, you feel that this legislation should be dealt with then on sort of a terror and crisis basis?

Secretary FOWLER. No. This legislation, Senator Hartke, is only designed to take us to June 30, 1967.

Senator HARTKE. I understand that, but we are operating under the gun; are we not?

Secretary FOWLER. Well, I am operating under the gun, and I think the Government is operating under the gun, and my statement indicates the time element involved.

Senator HARTKE. I just want you to know that when we took the excise taxes off the statement I read to you was the same type of statement. Every time we operate under these terror tactics, you have to take this now and then we will take care of the details later.

Let us come back to this, the taxes for a minute. If you do not raise the revenue with the tax increase, you are going to have to go to the marketplace; isn't that correct?

Secretary FOWLER. That is correct; yes.

Senator HARTKE. All right. No matter what happens, even with the sale of these participation certificates of $4¼ billion, you are going to put a terrific pressure on the money supply by the sale of these participation certificates; are you not?

Secretary FOWLER. No, Senator.

Senator HARTKE. You are going to—let me say it this way—you are going to increase the demand on the money supply to the extent of $4¼ billion; isn't that right?

Secretary FOWLER. If we do not raise it in the participation certificates we would have to go into the market and raise it through Treasury borrowing.

Senator HARTKE. Or raise taxes.

Secretary FOWLER. Raise taxes.

Senator HARTKE. Or increase taxes, which is a different side of the equation; is it not?

Secretary FOWLER. I do not know what those words mean.

Senator HARTKE. In regard to the money situation——

Secretary FOWLER. From the standpoint of the monetary policy we are trying to promote, that is easier money and lower interest rates, a tax increase is very desirable because it avoids the necessity for the Government to that extent of going into the market and raising money.

Senator HARTKE. Yes.

The point of it is that the money supply which is available in the marketplace is definitely limited. If the Government goes after a certain portion of it, it is not available to the private sector.

Secretary FOWLER. I would like to get this into some perspective, Senator, because I think there is misunderstanding. Let us deal with 1966. There has been a good deal of talk about the demands of the Government on the money market in 1966.

Now, the heavy credit demands in 1966 came mainly from the private sector, business borrowing especially made huge claims on the capital markets.

Net debt and equity issues of corporations came to an estimated $12.5 billion, while business borrowing from the banks rose $10 billion. State and local government debt rose $7 billion, and mortgage debt by $25 billion.

Federal credit demands on the private sector netting out the purchases by Government, and investment accounts, and the Federal Reserve came to just $3 billion, as a $2 billion decline in Treasury issues in the hands of the public partly offset the $5-billion increase in Federal agency debt and participation certificates.

Senator HARTKE. But the truth of it is because of the financial situation, you called off the sale of the participation certificates in order to stop the drain on the money supply.

Secretary FOWLER. We not only did that, we held off Federal agencies going into the market because, small as it was in the total percentage intake of the market, we wanted to do whatever we could last September, in connection with the suspension of the investment credit, and in connection with the projected reduction of Federal expenditures, to lift that small additional burden from the market.

Senator WILLIAMS. Would the Senator yield?

Senator HARTKE. Yes, I yield.

Senator WILLIAMS. Part of that borrowing by industry in 1966 was necessitated to finance the acceleration of corporate payments, was it not, about $3¼ billion of it?

Secretary FOWLER. Undoubtedly.

Senator WILLIAMS. Well now, when we accelerated the corporate payments and picked up an extra $3¼ billion that would not have been paid normally, that was more than the end of year's tax, and either the industry——

Secretary FOWLER. My recollection is it was $1.4 billion in fiscal 1966, Senator Williams. That under the Tax Adjustment Act of 1966, and there may have been another $800 million for——

Senator WILLIAMS. And $3.2 billion in 1967, half of which——

Secretary FOWLER. Fiscal 1967 was $3.2 billion.

Senator WILLIAMS. That is right; half of which fell in calendar 1966. So altogether you had $3.2 billion in 1966, and that would result in the dropping of the reserves of the corporations or if they did not have the cash reserves they would have to borrow it.

Secretary FOWLER. Yes.

Senator WILLIAMS. I think that is recognized as a part of that——

Secretary FOWLER. Yes. If we had not gotten the money that way we would have had to go into the market for more.

Senator WILLIAMS. No question about it.

Secretary FOWLER. No question about it.

Senator HARTKE. No question about it.

But the point is when you went into the market to borrow you put the tight money policy of the Federal Reserve Board which was complicated and added to by the increase in this demand on the money and the credit supply. This resulted in this near financial crisis we had last summer.

Secretary FOWLER. All I am saying, Senator, is that it was $3 billion in 1966 that the Federal Government added by its direct entry into the capital markets. That is what it took out.

Senator HARTKE. So the real engine of inflation——

Secretary FOWLER. Out of $98 billion.

Senator HARTKE. So the real engine of inflation then was the Government itself.

Secretary FOWLER. No, no.

Mr. SCHULTZE. $3 billion out of $98 billion.

Secretary FOWLER. $3 billion out of $98 billion.

Senator HARTKE. I understand that, but with the pressure on from the monetary side.

Secretary FOWLER. There is no difference between that $3 billion and the $3 billion which might come from all the little bits and pieces that are added in the market, and I just do not think it is an accurate characterization of what occurred to say that the $3 billion the Government took out of the market created the pressure. That was the result of around $100 billion being taken out of the market or whatever the total was.

Senator HARTKE. But this drove the small-business people into a place where they could not find credit. Credit was not available last summer, you will agree to that.

Secretary FOWLER. Credit was very, very tight, and the principal thrust of what we are talking about in connection with this surtax proposal is that we want to avoid by fiscal policy a return to that kind of situation.

Senator HARTKE. All right.

Whereas the Federal Reserve Board was shrinking the money supply, you were putting additional demands on it from the Government side, isn't that true?

Secretary FOWLER. In a small proportion——

Senator HARTKE. But that is true?

Secretary FOWLER. To the total demand.

Senator HARTKE. But that is true, is it not?

Secretary FOWLER. The facts speak for themselves.

Senator HARTKE. Sure, the facts repeat.

Did you talk to the Chairman of the Federal Reserve Board or did you advise them or did they advise you as to what was going on here? Was there any discussion in this regard as to what was happening?

Secretary FOWLER. Constant discussion.

Senator HARTKE. What?

Secretary FOWLER. Constant discussion.

Senator HARTKE. What did the Federal Reserve Board tell you?

Secretary FOWLER. Well, I cannot repeat dozens and hundreds of conversations, Senator.

Senator HARTKE. What was the substance of it? I do not want words.

Secretary FOWLER. Their point of view was reflected in the minutes of the Open Market Committee which were made a part of the record before the Joint Economic Committee last week.

Senator HARTKE. Did they think you should increase taxes?

Secretary FOWLER. I have a set of the minutes up here that I will be glad to provide.

Senator HARTKE. Did they think you should increase taxes?

Secretary FOWLER. Chairman Martin had proposed as early as, I think, last May in a public statement that he thought that a tax increase then would be desirable.

Senator HARTKE. All right.

Now then, let me ask you, then, this question, in relation to the question of what happened last year, immediately becomes important.

Have you informed the Federal Reserve Board of the demand that your operation is now putting on the money supply?

Secretary FOWLER. Of course, they are always familiar with our financing.

Senator HARTKE. I do not say familiar.

Have you advised them as to the additional demand you are going to put on the money supply?

Secretary FOWLER. Secretary Deming, you deal with them every Wednesday on the subject. Of course they have been advised.

Senator HARTKE. Did you advise them? Did you advise them? I am just asking you a simple question.

Mr. DEMING. Senator, they are conversant——

Senator HARTKE. I do not mean conversant. I can read the newspaper and I can be conversant, and I can be conversant with what is going on. I want—the Budget Director is here. How conversant I was, or unconversant I was, last summer when I ran into this problem.

Mr. DEMING. I do not know what you mean by conversant. We tell them what is going on. We do not advise them in formal documents.

Senator HARTKE. Let us clear this up.

This is the debt limit hearing on H.R. 15202 on June 13, 1966, page 40, and I asked this:

> Yes. So now what you have is a figure of $10.3 billion based on current estimates, but that is also based on the basis of 200,000 men, isn't it?

That is, a $10.3 billion estimate.

You said:

"No, sir; let me make myself quite clear." And then you went ahead and went back to this total overall number. All right.

Then I said:

> Mr. Schultze, I am not trying to have you reveal anything out of secrecy. The only thing I am trying basically to show is that in spite of the fact that you have come up with $10.3 billion, a more nearly correct figure for this year would be probably in the neighborhood of about $20 billion.

I ask you now what was it, what was the cost of the war on that basis, was it the $10.3 billion that you estimated?

Mr. SCHULTZE. It is $19.4 billion.

Senator HARTKE. So I missed it by six-tenths of a billion dollars; right?

Mr. SCHULTZE. Secretary Fowler is going to buy Senator Carlson a dinner for the same reason. I suspect I owe you a dinner. [Laughter.]

Senator HARTKE. That is right.

So in the basis of that, some of us—all right, I will just put it back on page 41:

> But the point still remains if these figures do not include—and I do not think they do, but you say they do—the cost of the 400,000 military troops, then this means the estimate is going to be low by roughly about $10 billion.

Mr. SCHULTZE. Senator, I am not quarreling. You were very close to being right on your total. However, the increase is not for men primarily; it is for procurement of the long-lead-time items needed for carrying the war past the end of fiscal 1967.

Senator HARTKE. It is remarkable how I could with a limited staff come that close, and you, with all the experts you have, you can miss it by 100 percent.

Mr. SCHULTZE. All I am saying, Senator, at this time, is that if you will go back and look at my statement before the committee, I spent a whole paragraph laying out the uncertainty which was involved at the time.

Senator HARTKE. I understood the uncertainties, and I laid the certainties in front of you which you would not recognize. I went through these detail by detail. I went through personnel, aircraft, everything under the sun.

Mr. SCHULTZE. Senator, it turns out in terms of the total, you were very close.

Senator HARTKE. And it was not classified material.

Mr. SCHULTZE. The increase is not because of greater manpower, Senator; it is because of the long-lead-time procurement.

Senator HARTKE. I did not hold it to the manpower. If you want to go through it all again I can, but all I am telling you is that sometimes I become a little disturbed about how wrong I always am, and then 6 months later, hoping everybody will forget how wrong I was, and then come back and tell me how right I was later on. I just do not mind. I am simply trying to tell you—not trying to tell you that I was right, but I hate to be told I was wrong.

Now I am going to ask you, where are you going to get $4.5 billion with corporate earnings going down?

Mr. SCHULTZE. I do not think they are going down.

Senator HARTKE. I know you do not, but I think they are, and I think the records shows that; and you have a real problem. If you go on this thing with the sale of these certificates—Export-Import went 5.2.

Mr. SCHULTZE. The last issue by FNMA went at 5.2 percent. The Export-Import Bank issue went at a lower rate.

Senator HARTKE. Quite honestly, if you were—Senator Fulbright is a member of this committee—if you were interested in Arkansas Power & Light, and if they were going to have an issue out here at 5.2, and the people in the marketplace had an opportunity to buy that or to buy these participation certificates, which are they going to buy?

Mr. SCHULTZE. I cannot be sure, but presumably if they were priced at the same amount, the investors would prefer the guaranteed participation certificates.

Senator HARTKE. Sure; they will buy the government things. In other words, you are squeezing the private capital out of the marketplace.

Mr. SCHULTZE. No, sir. I absolutely disagree. The fact is that when we put out a Treasury security, it is sold at a lower rate. So as between an Arkansas Power & Light issue and a Treasury security sold at the same rate, investors would presumably buy Treasuries.

This does not mean, however, that we should never issue Treasury securities.

Senator HARTKE. All I can say I am trying right now evidently in vain to display the fact you have got some serious problems. You have got this credit problem on your hands again of squeezing the private capital off to the side. Although you had a colossal $10 billion blunder last year due to these mass affairs, evidently the inability from your viewpoint of Congress to take remedial measures, I submit we are going to witness again this year some of the gross economic and monetary derangements which you say the passage of this legislation is being used to avoid.

That is all.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. Mr. Chairman, I wanted to ask a question. I should have interjected myself when Senator Williams was discussing title 19 and I bring it up for this reason. The Kansas Legislature is in session at the present time. They are going to write some legislation to implement this legislation, and they have asked me on one or two occasions what are the prospects if it continued operation on the present basis.

Is there going to be any suggestions from the Bureau of the Budget that these funds be curtailed or are we going to continue to operate full and free as we are presently?

Mr. SCHULTZE. Senator, the Department of Health, Education, and Welfare is now working up some specific amendments to that title. The particular timing on submitting those, I do not know at the moment. But they are in process and they are well along, and of course they involve specific recommendations for some changes.

Senator CARLSON. Could we assume that we would get some information within the next 30 days?

Mr. SCHULTZE. I think you could assume it. First, Senator, I have no explicit knowledge of any deadline but I think you could assume that. I do not want to say it so flatly that, you know, I would mislead you, but to the best of my knowledge the timing is such that you could.

Senator WILLIAMS. If the Senator will yield, I concur in your suggestion there. It is my understanding and it was my understanding that they will be down here reasonably soon.

Mr. SCHULTZE. That is correct.

Senator WILLIAMS. I have been unable to get them, but I understand they would perhaps be a part of the social security bill, and that is why I raised the point that there may be more extended hearings than some are contemplating. As Senator Carlson points out, there is a tremendous interest in what is going to be done in that particular title.

Mr. SCHULTZE. I realize that, Senator.

Senator CARLSON. I would urge, Mr. Schultze, if you had any contacts down there it would be helpful to at least one State in this Union if we could get some guidance or some idea as to whether these funds are going to be open ended as they are at present or whether we are going to try to impose some limitations.

Mr. SCHULTZE. Yes, sir.

Senator CARLSON. Thank you.

Mr. SCHULTZE. The issue is not so much whether the funds will be open ended or not, but what restrictions are put on income and other criteria.

Senator CARLSON. In other words, it has grown rather rapidly.

Mr. SCHULTZE. Yes.

Senator CARLSON. That is all.

Senator HARTKE. Can I ask one other question? It was a question asked by Senator Williams yesterday but which evidently was not left clear because some people asked me. Is there any danger that the social security payments are not going to be made to social security beneficiary recipients?

Secretary FOWLER. I tried to cover that in a complete statement. In my judgment now, Senator Hartke, it is technically possible and we will certainly do the possible and assure that those payments will be made. I don't think that the unfortunate and, to my mind, unbelievable event would occur that the Congress would not take appropriate timely action on this debt limit. I think the Congress will act in timely fashion. If it does not, we shall take the steps that I outlined to Senator Williams yesterday which will make it possible to pay those social security payments on time, having in mind that this will concentrate the impact of the short fall on most of the remaining checks that the Government will have paid during the period.

Senator HARTKE. What I want clear though, if this legislation is not passed, are you saying then that some social security beneficiaries are in danger of not getting their payments?

Secretary FOWLER. I am saying that, by the technical arrangements which I outlined to Senator Williams in the statement yesterday, we are able to give you the assurance, so you can give them the assurance, that they will be paid. There will be great unfortunate consequences involved to the management of the Government's finances should that occur.

Senator HARTKE. Let me ask this; If I am asked this question can I say I have assurances from the Secretary of the Treasury that social security payments will be made irrespective of what happens under this legislation?

Secretary FOWLER. I have made my statement, Senator Hartke. It is there for you and I cannot improve on it.

Senator HARTKE. Well, you refuse then to give a categorical yes or no answer to that question.

Secretary FOWLER. I have given you my statement.

Senator HARTKE. I say you refuse to give me a categorical yes or no answer.

Secretary FOWLER. I gave those assurances yesterday to Senator Williams.

Senator HARTKE. If you gave them to him, why can you not give them to me?

Secretary FOWLER. I gave them to you.

Senator HARTKE. You assure me then so far as the social security beneficiaries are concerned they will receive their payments irrespective of what happens under this law.

Secretary FOWLER. Assuming the Federal Reserve Board cooperates in the program, assuming that the perfect synchronization that is involved in the statement yesterday works out, which we will try to make work, they will be paid on time.

Senator WILLIAMS. Will the Senator yield?

Senator HARTKE. I understand it. I have no problem understanding them. I just want to get an answer.

The passage of this legislation then, is necessary in order to make sure, absolutely, 100 percent sure, that no beneficiary under the social security program will possibly be denied his benefit payment to which he is already entitled by law.

Secretary FOWLER. It will certainly be a very helpful and constructive step toward paying him.

Senator HARTKE. I know it will be helpful. I understand what the problem is.

Secretary FOWLER. Well, I think I do, too, and I think we all do, Senator.

Senator HARTKE. I understand this, but I know a lot of people out here who do not, and I know a lot of people out there who are not technicians and lawyers.

Secretary FOWLER. I cannot clear up the workings of a complicated arrangement of this sort and give a more categorical answer than I have given in measured terms yesterday, Senator.

Senator HARTKE. All I can assume then is you refuse to give a yes or no answer to that question.

Senator WILLIAMS. If the Senator will yield, there are about $20 to $21 billion in Government securities in the social security fund, and the Secretary of the Treasury acts as the trustee of that fund. Whether or not this is passed to the extent that those securities have any marketability whatever, they can be sold, the entire proceeds can be used to pay social security benefits for the next 12 months, and that is true of the railroad retirement fund and all other funds. There is absolutely no question whatsoever.

The only reason they would not be paid would be that the trustee failed to discharge his responsibilities under the law.

If the Senator will yield, I have one other question, Mr. Secretary.

Senator HARTKE. That is all I have.

Senator WILLIAMS. There is a temporary—an increase in the temporary debt ceiling. I think we both recognize that this question of temporary and permanent is somewhat of a farce. We know that it is mathematically impossible to go back to the $285 billion of a permanent ceiling at June 30. We realize that. Being realistic, we both realize we are not going to live to see it go back to $285 billion.

Would it not be better business to make this $336 billion applicable to a permanent ceiling, be done with it and then when you come in here in June for whatever increase you may feel is necessary we will not be operating under a deadline where you must pass something by July 1 or invalidate the outstanding bonds? Would it not be better from your standpoint, from our standpoint, all concerned, if we put this $285 billion at $336 billion and be done with it and then face the future as it comes up at the time?

Secretary FOWLER. No, sir; I do not think so, Senator Williams. The decision that Congress will take about moving away from the permanent ceiling at $285 billion is one that would require a great deal more study and debate than the present time frame of reference would permit.

Senator WILLIAMS. That is the same answer you gave me the last three occasions you have been up, and I expect you will be here again.

Secretary FOWLER. Yes, sir.

Senator WILLIAMS. One other question——

Secretary FOWLER. We have, Senator Williams, a study that we made a year and a half ago at the request of the Ways and Means Committee, presenting a goodly number of alternatives that Congress might wish to consider whenever it arrived at a point where it wanted to change this permanent figure from $285 billion.

I think if you want to examine that and see the range of alternatives that are presented, you can see that it will take a considerable amount of debate and deliberation.

Senator WILLIAMS. One other question was raised over in the House. Do you favor or oppose modification of the existing ceiling on interest rates on Government bonds with maturities in excess of 5 years?

Secretary FOWLER. I would be opposed to including any provision of that sort in this legislation at this time. In a separate measure I would welcome some flexibility in that regard.

Senator WILLIAMS. If I recall correctly, that is almost the identical answer we have had on at least half a dozen occasions.

Secretary FOWLER. On this matter I seem to be fairly consistent.

Senator WILLIAMS. It is always tomorrow, but tomorrow never comes, and has not the effect of that ceiling been that you have in the past several years been unable to sell a Government bond in excess of 5-year terms? Now, when I said several years, for the past couple or 3 years. You are having to sell and do all of our financing with short-term notes, is that not true?

Secretary FOWLER. It has limited us in the range of our financing, Senator Williams, and I would welcome a limited measure of flexibility under that ceiling.

Senator WILLIAMS. Well, you have been welcoming it for the past 3 to 4 years, longer than that, but you have been opposing any change. How are you going to get a welcome change if we do not change?

Secretary FOWLER. No, I am not opposing the change; I oppose the timing of the change, including it as an amendment to this particular bill when time is of the essence. As I said in my statement very clearly, I do not think it wise to include a very controversial item which might result in failure of passage in time of this bill.

Senator WILLIAMS. Will it be a part of your proposal on the next request for a change in the debt ceiling?

Secretary FOWLER. Sir?

Senator WILLIAMS. Will it be a part of your proposal when you are back here again to change the debt ceiling or will it be a part of the proposal of the tax bill? It could be embraced in either.

Secretary FOWLER. I want to give some thought to that as to what is the right time and the right circumstances and the right context in which to raise it. This, I think, is a separate question which the Congress might better address itself to as a matter of debt management apart from the bills that have a kind of a time frame that becomes important, such as the debt ceiling bills usually are.

Senator WILLIAMS. I think you have got a point on that, but that is the reason I suggested that it could be made along with the tax bill.

Secretary FOWLER. Well, I will be very anxious to get that tax bill through in time, too. We might put it up in connection with the tax reform proposals that would come up.

Senator WILLIAMS. Well, if you are as anxious to get the tax bill as you indicate, I strongly make this recommendation, that you put it on priority ahead of this social security. If not, you get in here before this committee in the last week or 10 days of June, some members of this committee are not going to be very sympathetic to your time element, I can assure you.

Secretary FOWLER. I am used to that position, Senator Williams.

Senator WILLIAMS. Well, you must like that position, because you are always here just a day ahead of an emergency.

Senator HARTKE. Mr. Chairman, is there a man in the Treasury Department by the name of John R. Petty?

Secretary FOWLER. Yes.

Senator HARTKE. He is the Deputy Assistant Secretary for International Affairs.

Secretary FOWLER. Yes.

Senator HARTKE. Does the Treasury approve his policy of advocating a decline in the American balance-of-payments position, a decline in the American balance-of-trade position, and complimenting other nations for accomplishing that?

Secretary FOWLER. I guess you must have reference to a speaking engagement in Canada which Mr. Petty has filled. I have not read his speech, Senator Hartke, and I would have to examine——

Senator HARTKE. Was his speech Treasury policy?

Secretary FOWLER. I would have to examine it and see whether or not he was speaking for the Treasury or how he was speaking.

Senator HARTKE. He was speaking for the Canadians, I will guarantee.

> Although the United States continues to have a favorable net balance on automotive products—

then he says this—

> it dropped by $200 million, or 30 percent, last year—to the level of about $520 million achieved prior to the agreement in 1963. Moreover, Canadian plants

are now better positioned to promote export business to third countries. There seems little doubt that the results of automotive arrangements have been particularly beneficial to Canada.

And he brags about the fact that we have been able to substantially cut our balance of trade.

Secretary FOWLER. Mr. Petty was aware, I think, of the other fact that we do have an arrangement with the Canadian Government in the handling of their reserves and handling of their access to our capital market. Under these arrangements, although their trade position may be improved as they want it to be improved, the degree to which they can come into the capital market would be diminished accordingly and they are not going to build up their reserves at the expense of our balance of payments.

Senator HARTKE. I am not saying that. Here is a man who goes to Canada and tells them it is good for us to have our trade balance reduced and it is good for them to have their plants built up. He says it is good for them to see the automobile industry there have a 5-percent reduction in production while we have a 20-percent reduction in production while we see our plants being shipped up to Canada and our jobs being shipped up to Canada. At the same time we are going to increase by about 500 percent the amount of money that we are going to pay in unemployment compensation to people who are knocked out of jobs because of an agreement which we initiated.

Secretary FOWLER. Mr. Petty was probably supporting the general policy of the administration reflected in the positions taken in connection with the Canadian Autoparts Agreement.

Senator HARTKE. He bragged about the fine results it had for Canada. I grant you that, and it has had. There is no question about that. At the same time he points out it has had a detrimental effect to the United States.

I have no further questions.

The CHAIRMAN (presiding). Mr. Secretary, I once attended a dinner when you were Under Secretary of the Treasury, and a speech was made about the fact that you were a dedicated, sincere, public-spirited American who served his Government at great financial sacrifice to himself and great personal sacrifice to himself, and that you had rendered a very valuable service to your Government far beyond the call of duty. I want you to know that as far as the chairman of this committee is concerned, every word that was said on that occasion is entirely correct.

You are entitled to the complete gratitude and thanks of your Government that you have made yourself available to serve in this capacity as well as Under Secretary of the Treasury.

In my judgment you are one of the most honest, perhaps the most honest, public spirited official in Government.

Secretary FOWLER. Thank you, Mr. Chairman.

The CHAIRMAN. And I am very proud that you are the Secretary of Treasury at the time when it is my privilege to serve on the Senate Finance Committee.

In my judgment you are doing the very best you can for this Government as the good Lord gives you the light to see it, and that is about all anybody can do for his country.

I wanted to make that clear because my earlier remarks might have given a different impression. In my judgment you are doing in your capacity the best you can for your country, and I think the Nation is in very good hands.

Frankly, I also believe it would be rather ridiculous for this, the richest nation on earth, to declare ourselves bankrupt when we are in a better position to meet our international obligation than any other people.

In your opinion, are we still able to carry on if we have a little confidence in ourselves?

Secretary FOWLER. I am absolutely positive of it and never could be more positive.

The CHAIRMAN. So, as a matter of fact, all we are talking about with our debt limit is whether we pay for our domestic and international commitments by borrowing some additional money or by raising taxes. Of course we could cut spending.

Secretary FOWLER. That is correct. Those are the three.

The CHAIRMAN. But as of this moment, there is no way on earth we could cut spending enough to meet the payroll for the next few months if we did not raise the debt limit, is that not about the size of it?

Secretary FOWLER. That is correct.

The CHAIRMAN. There is no way you could fall into that much money immediately.

Secretary FOWLER. Those bills are already made. They are just coming due for payment.

The CHAIRMAN. Yes; and the big problem is we have a war on our hands which is costing I guess somewhere between $30 and $40 billion a year. So we have a war on our hands and it is costing us quite a bit of money, and we are running a deficit and we will continue to run a deficit until this war is over, is that not about the size of it?

Secretary FOWLER. That is about the size of it. I would hope we could keep the deficit down, keep it a measured deficit, and hold it as closely as possible to balance, and having come through what we have come through in the last year, maintain a fairly moderate neutral position as far as the Government is concerned.

The CHAIRMAN. I do not hold anybody to a rule of relevancy, least of all myself, Mr. Secretary, but let us just get this straight: Does this bill here involve anything other than an increase in the debt limit?

Secretary FOWLER. That is all.

The CHAIRMAN. About a $6 billion increase.

Secretary FOWLER. That is all.

The CHAIRMAN. Nothing else?

Secretary FOWLER. Nothing else.

The CHAIRMAN. We are not raising the interest rate ceiling, we are not passing a tax increase, we are not reducing expenditures, we are not doing anything but just raising the debt ceiling, that is all there is in this bill.

Secretary FOWLER. Just trying to stay right to that, Mr. Chairman.

The CHAIRMAN. I think someone who might have sat through these hearings would be comforted to know that is all there is in the bill. [Laughter.]

Senator WILLIAMS. Would you yield a minute?

Mr. Secretary, you will agree, would you not, as we raise this debt ceiling we must also take into consideration the question as to whether or not we are going to raise taxes, whether or not we are going to sell participation certificates, and whether or not we are going and to what extent we are going to increase or decrease Government expenditures? Those factors are all to be considered in as a part of this same question, are they not?

Secretary FOWLER. Senator Williams, I have said on various occasions, I think before this committee as well as the Ways and Means Committee, that the most useful thing about the debt limit is that it does provide an occasion when we come up and we have all this paper and we rake over the entire financial spectrum of the United States.

I think this annual exercise is a very desirable and healthy and helpful one. I think if we do it twice or three times a year it gets to be a little bit, perhaps, unnecessary. I do feel that while I am delighted to go over the entire range here that you will have me coming back in May and I hope Mr. Schultze will be with me, and we can range far and wide again. But I do have some feeling, as Senator Long has expressed it, this really is a very simple legislative question.

Senator WILLIAMS. Well, you and I are in agreement that to a large extent this is unnecessary repetition and that is the reason I tried to get an estimate as to what you thought you were going to need in June in order that we could deal with this as a one-package job. Now it is your request that you are coming back in June.

Secretary FOWLER. That is right.

Senator WILLIAMS. It will be your request when you come back again the next year.

Secretary FOWLER. I brought it on myself, Senator. I just did not want to get cluttered up in this bill because of the time problem.

Senator WILLIAMS. You must enjoy it and we enjoy it and it is a wonderful time.

Secretary FOWLER. I look forward to it. This is what we call the annual flagellation of the Treasury.

The CHAIRMAN. Would you mind repeating that?

Secretary FOWLER. Annual flagellation of the Treasury.

The CHAIRMAN. How do you spell it?

Secretary FOWLER. It means whipping.

The CHAIRMAN. Well, I did want to just cover one point or so.

Just as one member of this body, I find no problem supporting this $6 billion increase in the debt limit. I realize it is necessary, but as one member of the committee, I personally would prefer that you ask for an increase in the debt limit once rather than ask for it twice. I would imagine, however, that if we do ask for a greater increase, the House probably would decline to go along. They have indicated what they wanted to do about the matter.

Might I just inquire of you for the record why you do not ask for a $12 billion increase rather than a $6 billion increase to give yourself some elbow room?

Secretary FOWLER. Because I thought at this particular time it would be so hard to justify $12 billion. It would undoubtedly take us into a measure of what is going to happen in fiscal 1968, and I felt that the House committee would much prefer to go into that question in considerable depth, which is their characteristic performance on that side. Therefore, I wanted to make it just as easy as I could for the House and Senate to come along and act promptly here during the month of February, and, therefore, I just avoided anything that might be the least bit controversial.

I do not think I was entirely successful in that regard. There seem to be others who had a different view, but here we are.

The CHAIRMAN. Well, you know you are not the only one who receives an annual flagellation, Mr. Secretary. We give it to you, but after we report a bill on the floor, the manager of that bill receives his annual flagellation on the floor. One stands there and wrings his hands and talks about what a horrible thing this is, and how we are putting this Government deeper in debt. Of course I can defend myself against the members of the Appropriations Committee. I tell them, "There would be no problem if you fellows would quit spending so much money from your committee."

But from others on other committees it does become somewhat tiresome to hear them make their speeches on all of the evils of deficit financing.

Now sometimes I wonder why we do not present some overall figures to show the situation is just not quite as bad as someone would like to picture it. For example, I have on occasion computed what I think our net Federal debt is as compared to our gross debt. On the net Federal debt that I compute I deduct the money that we are holding in the social security fund and the money that is held by the Federal Reserve Board in terms of bonds, which is in effect money that the Federal Government owes to the Federal Government. Now some would quarrel with me when I would contend that these Government-held trust funds must be netted out of the national debt, but in the last analysis if you did not hold this money in the Government trust fund you would still owe the money and insofar as you hold money in the funds you are just that much further along the line toward meeting the contingent obligations of the Government which will fall due in the future.

Secretary FOWLER. Yes. I think the real figure to look at here and certainly an important figure to look at is the amount of debt that is held in private hands as distinct from the trust funds, and that figure ranges around between $210 to $220 billion. That is the direct debt of the United States to private individuals, private companies, banks, institutions in this country and abroad.

The CHAIRMAN. Could you give us a chart to show that for the record so that we could look at it on that basis?

Secretary FOWLER. Yes, and, Senator I have also, which I would be glad to supply for the record, a series of charts which I will accompany with an explanatory comment dealing with the public debt as a percent of gross national product, the growth of gross public and private debt since 1946, the gross public and private debt, the varying percentages of the total for the same time, the real per capita Federal debt in 1957–59 dollars, the Federal debt interest as a percentage of receipts, the per capita Federal debt and disposable personal income—all of which tend, as I said to Senator Curtis yesterday, to put the problem of the debt into overall perspective.

The CHAIRMAN. Well, I would like to have that, and I would instruct the staff to publish the various charts that are helpful to people who want to study this problem.

(The material referred to follows.)

[Excerpt from statement by Hon. Henry H. Fowler, Secretary of the Treasury, before the House Appropriations Committee, February 7, 1967]

III. Public Debt

As I have indicated, the projected budget deficits resulting mainly from increased defense costs will again require the Federal debt to rise. There is no question, however, of the capacity of our economy to carry the extra burden.

In the first place, the Federal debt has grown at a much slower rate than the economy. From the peak of more than one and one-third times the GNP in fiscal 1946, as shown on Chart 10, the public debt has steadily declined, dropping to 58% in 1960 and to 45% in 1966. We estimate that it will fall further to about 41% in 1968. This would compare with 51% in 1940, before the large wartime debt rise began. By this measure, the size of the Federal debt should be less of a strain on the carrying capacity of the economy.

While the dollar amount of the Federal debt was growing slowly—and declining relative to GNP—private debt of businesses and individuals and State and local debt was growing rapidly. As Chart 11 shows, in the 20 years since 1946 the public debt increased by 27% while the debt of other borrowers increased to between 5 to 8 times their 1946 levels. In consequence the Federal share of total indebtedness in the country, as indicated on Chart 12, declined from 58% at the end of 1946 to 29% by December 31, 1960, and was only 22% at the end of last year. During most of the postwar period, this relative decrease in the Federal debt enabled the private economy to expand sharply without overstraining our resources.

The burden of the Federal debt on each individual has also been sharply reduced since 1946. The growth in our population has substantially exceeded the increase in the Federal debt and as a result, the debt per person has dropped from $1,909 in 1946 to $1,628 in 1966. Adjusting the per capita debt for changes in the price level, in Chart 13 we used 1957–59 dollars, the burden per capita has declined from $2,849 to $1,439—or almost 50 per cent.

An even more striking story is told when we relate the debt per person to income received. As shown in Chart 15 the decline in Federal debt per capita from $1,909 in 1946 to $1,628 in 1966, is contrasted with disposable income. Per capita disposable personal income—the income left after Federal as well as State and local taxes—rose from $1,132 in 1946 to $2,567 in 1966. In relative terms therefore, the debt has declined from 169% of disposable income in 1946 to 63% in 1966.

Secondly, while the debt burden has been decreasing relative to the economy, so has the interest burden. Despite the rise in debt and interest rates, interest on the debt as a per cent of GNP declined from 2.3% in 1946 to 1.9% in 1960, and even after the sharp 1966 rise in rates is still about 1.8%.

Interest on the public debt is the second largest category of expenditures in the budget. These payments could be related to either expenditures or receipts, but in Chart 14 they are shown relative to receipts. In 1946 they were 12% of receipts, rising to 16% in 1950, and in 1968 are estimated at 11%. Thus even on this least favorable basis the interest burden has declined.

Each of these measures shows that the burden of the public debt has been reduced during the past two decades. I want to stress this trend. In terms of all these measures, it is abundantly clear that we are today well able to bear the present and prospective burden of the public debt.

In this connection, let me take the present occasion to remind the members of this Committee that the forthcoming vote to increase the public debt ceiling for the balance of this fiscal year, which I understand will be before the House very shortly, is a matter of utmost urgency. Our cash supply is running down and additional borrowing is needed by the end of February to pay the bills incurred in carrying out defense and other programs. I cannot believe that the Congress will force this Government to renege on its commitments.

Chart 10

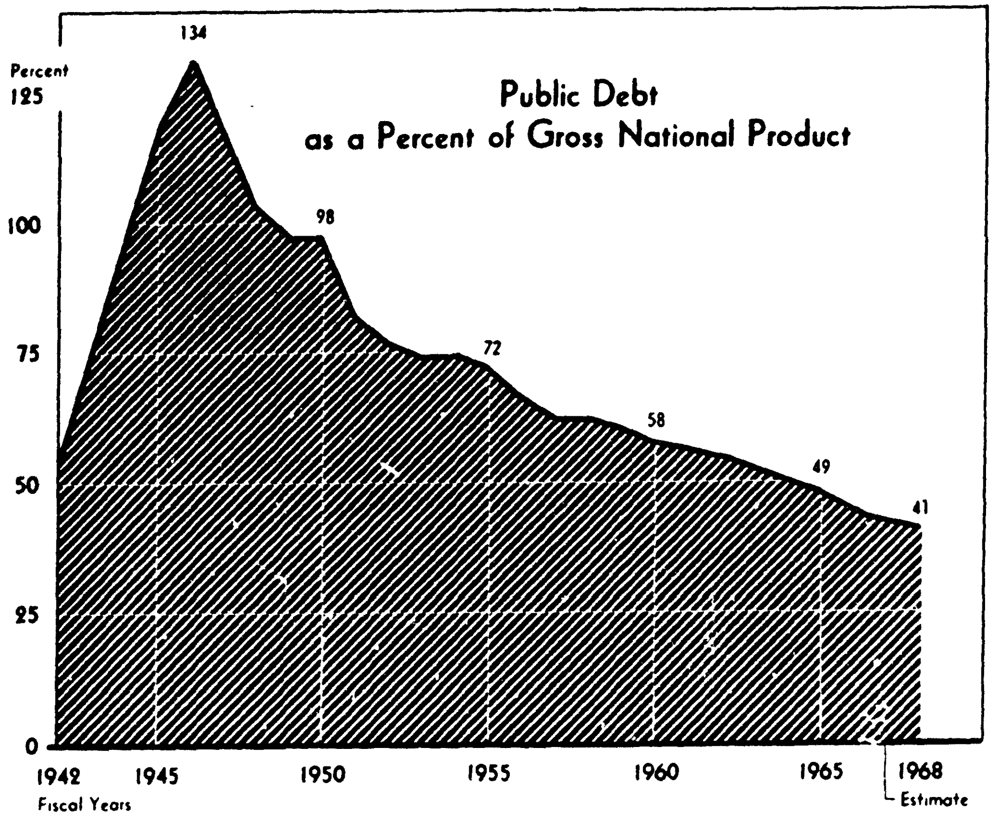


Chart 11

GROWTH OF GROSS PUBLIC AND PRIVATE DEBT

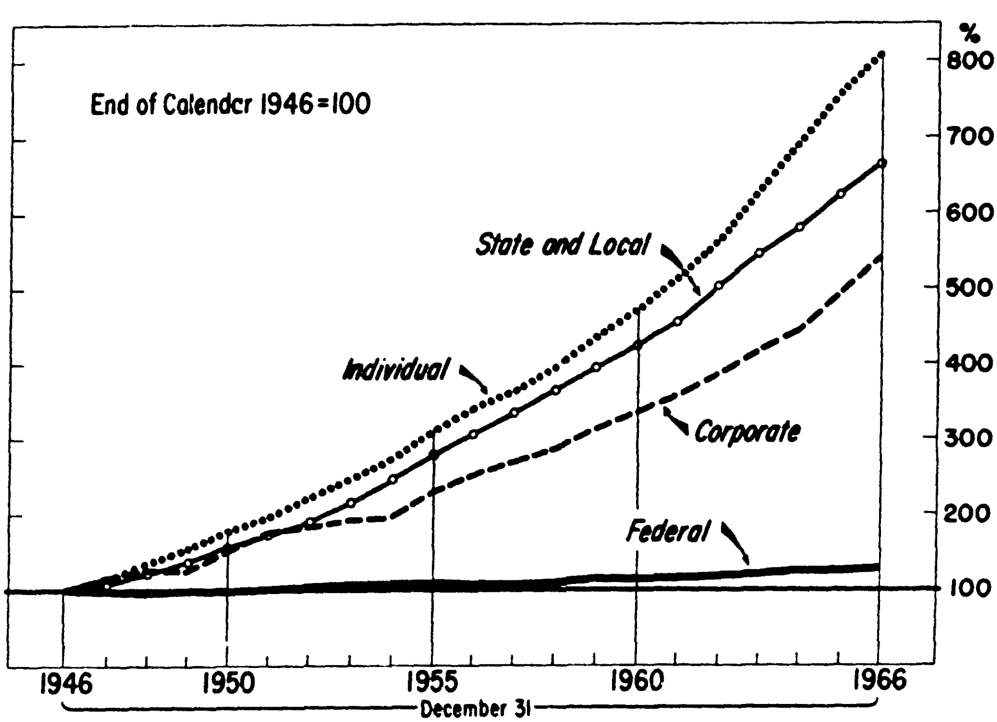


Chart 12

GROSS PUBLIC AND PRIVATE DEBT

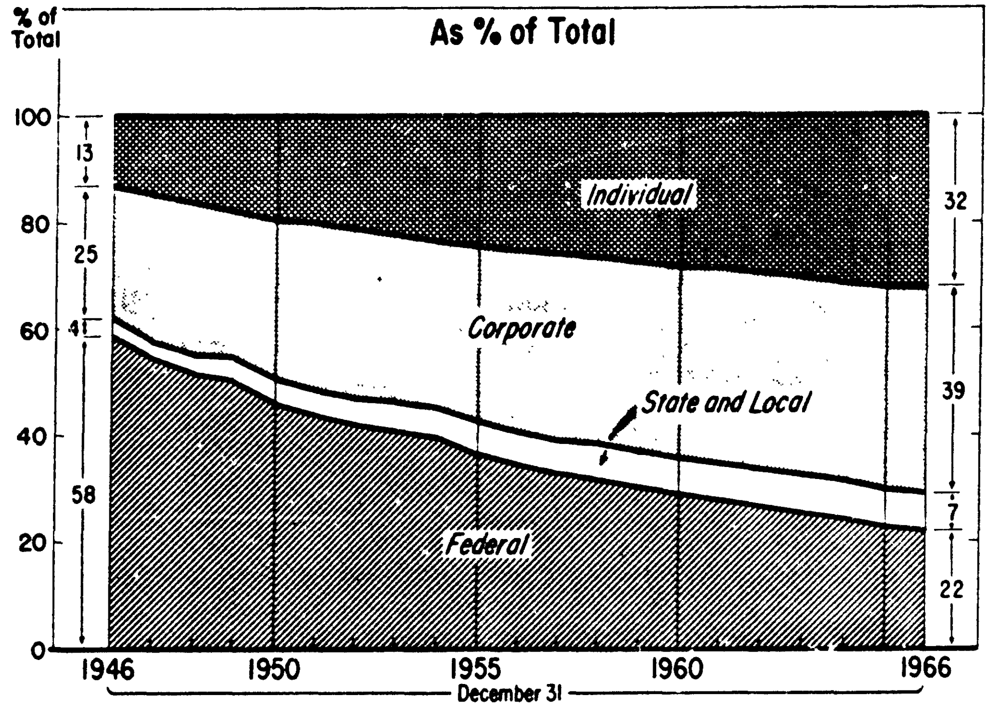


Chart 13

REAL PER CAPITA FEDERAL DEBT IN 1957-'59 DOLLARS

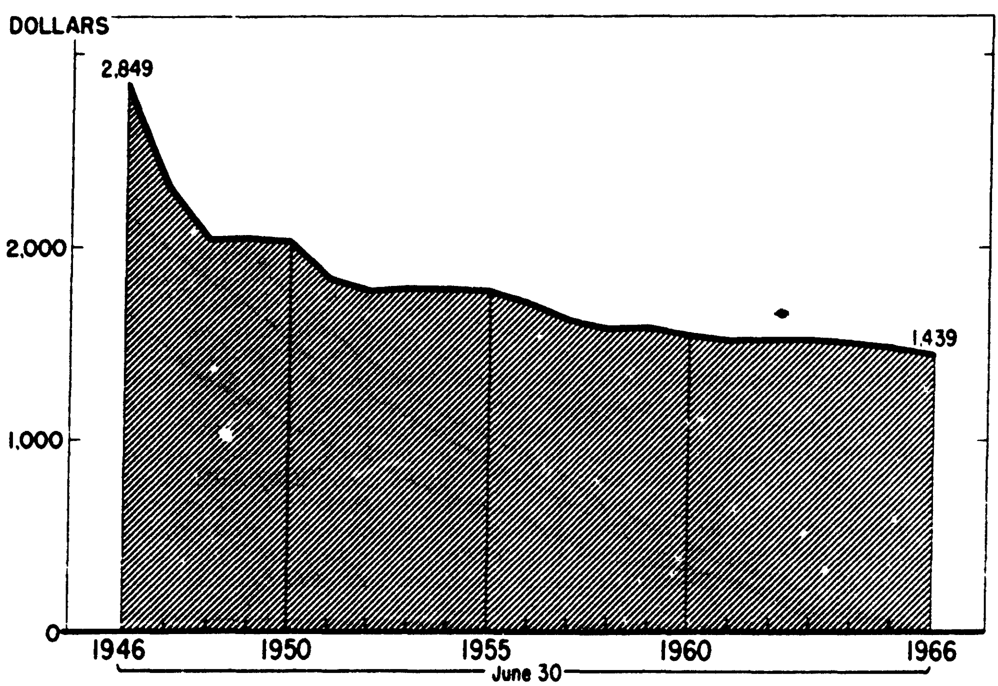
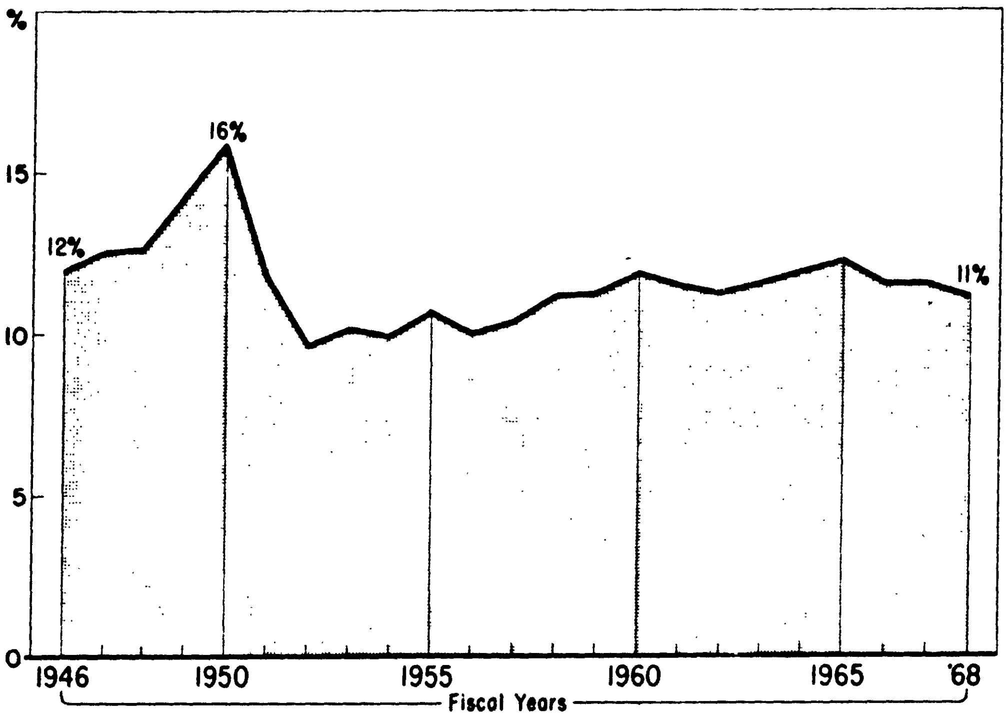


Chart 14

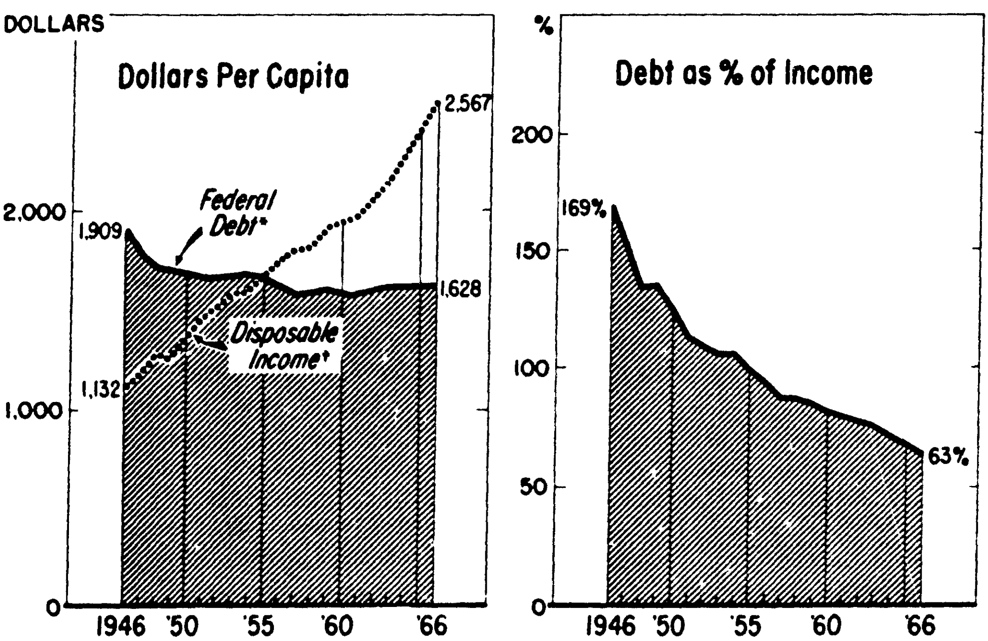
FEDERAL DEBT INTEREST AS PERCENT OF RECEIPTS



Note: 1967 and '68 estimated

Chart 15

PER CAPITA FEDERAL DEBT AND DISPOSABLE PERSONAL INCOME



**June 30, each year* *†Calendar years*

GNP—Debt ratios, 1929–65

End of calendar year	Gross national product (billions)[1]	Percent of ratios of debt to gross national product				
		Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	16.9	18.4	112.6	74.8	222.6
1930	83.1	19.3	22.9	131.5	85.6	259.2
1931	56.9	26.6	29.3	152.6	96.3	304.8
1932	96.8	36.6	34.7	172.2	99.8	343.3
1933	60.3	39.8	32.3	156.2	83.9	312.3
1934	68.6	45.9	28.0	135.4	72.2	281.5
1935	77.4	45.3	25.1	119.0	63.8	253.2
1936	86.5	45.2	22.7	107.7	58.2	233.8
1937	87.6	47.8	22.4	105.5	58.1	233.8
1938	87.6	50.7	22.6	101.6	57.0	231.8
1939	94.8	50.2	21.2	93.9	53.6	218.9
1940	107.6	47.3	18.8	84.8	49.3	200.1
1941	138.8	46.3	14.4	71.8	40.1	172.6
1942	179.0	62.8	10.7	60.5	27.9	162.0
1943	202.4	84.0	8.9	55.4	24.1	172.4
1944	217.4	106.8	7.8	50.7	23.3	188.5
1945	196.0	142.2	8.3	51.2	27.9	229.6
1946	221.4	117.2	7.4	49.9	27.4	201.9
1947	245.0	104.9	7.3	52.9	28.9	194.0
1948	261.2	96.8	7.6	53.7	31.9	190.0
1949	260.5	98.7	8.7	54.1	36.0	197.6
1950	311.2	82.5	8.2	54.2	35.0	180.0
1951	338.2	76.7	8.4	57.0	35.5	177.5
1952	361.0	74.1	8.6	50.4	37.6	176.7
1953	360.8	76.3	9.8	59.2	41.7	187.0
1954	379.8	73.4	10.7	57.5	43.6	185.2
1955	409.7	68.5	11.1	62.1	46.4	188.2
1956	433.2	63.9	11.6	64.4	47.9	187.7
1957	438.1	62.8	12.5	68.1	50.5	193.9
1958	469.2	60.3	12.7	67.2	51.0	191.3
1959	496.8	58.6	13.0	69.6	53.1	194.3
1960	503.4	57.7	13.9	73.4	56.9	201.8
1961	542.8	54.6	13.8	73.0	57.2	198.6
1962	574.5	52.9	14.3	74.2	59.5	200.9
1963	608.8	50.9	14.7	75.8	62.5	203.8
1964	649.4	49.1	14.6	76.0	64.6	204.3
1965[2]	705.6	45.5	14.5	77.5	65.2	202.7

[1] Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through 1965. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.
[2] Preliminary.

International comparison of changes in the value of money

	Indexes of value of money			Annual rates of depreciation (percent)	
	1955	1960	1965	1955–65 [1]	1964–65
El Salvador	100	101	100	0	0.6
Guatemala	100	101	100	0	−.8
Venezuela	100	89	89	1.2	2.0
United States	100	91	85	1.7	1.7
Ecuador	100	103	85	1.7	3.0
Luxembourg	100	94	84	1.7	3.4
Canada	100	91	84	1.8	2.3
Greece	100	91	84	1.8	2.9
Thailand	100	89	83	1.9	.9
South Africa	100	91	82	2.0	3.5
Belgium	100	92	81	2.2	3.8
Switzerland	100	94	80	2.2	3.3
United Arab Republic (Egypt)	100	93	80	2.2	12.7
Germany (Federal Republic)	100	91	80	2.2	3.3
Portugal	100	90	79	2.2	3.2
Australia	100	86	79	2.3	3.8
New Zealand	100	87	76	2.7	3.4
Austria	100	90	74	2.9	4.8
United Kingdom	100	88	74	3.0	4.6
Netherlands	100	88	74	3.0	5.0
Pakistan	100	84	73	3.1	5.2
Philippines	100	90	72	3.3	2.3
Norway	100	87	72	3.3	3.9
Italy	100	91	72	3.3	4.3
Ireland	100	88	71	3.3	4.8
Sweden	100	83	70	3.6	4.6
Mexico	100	75	69	3.7	3.7
Japan	100	93	69	3.7	7.1
Denmark	100	88	68	3.8	6.4
Vietnam	100	95	66	4.1	13.9
Iran	100	72	65	4.2	1.8
France	100	76	63	4.6	2.4
Israel	100	82	58	5.3	7.3
India	100	77	57	5.4	8.8
Finland	100	72	56	5.6	4.3
China (Taiwan)	100	58	52	6.4	−.2
Spain	100	69	49	6.9	10.7
Turkey	100	53	43	8.0	4.4
Peru	100	67	43	8.1	14.3
Colombia	100	64	36	9.8	8.7
Korea	100	61	30	11.3	12.0
Bolivia	100	12	9	21.1	3.0
Chile	100	26	8	22.5	22.4
Argentina	100	20	7	23.4	22.3
Brazil	100	32	3	29.7	38.2

[1] Compounded annually.

NOTE.—Depreciation computed from unrounded data. Value of money is measured by reciprocals of official cost-of-living or consumer price indexes.

Source: Table prepared by First National City Bank of New York, July 1966.

The CHAIRMAN. For example, the chart that I was privileged to see showed—or else I computed from it—what the national debt was in terms of 1966 dollars and showed what the per capita debt was on the basis of 1966 dollars in 1945 and in 1966. I believe the indication was that in terms of 1966 dollars our per capita debt was about one-third of what it was in 1945.

If you have that chart, I would like to have it for the record. Here is what my chart shows. We are talking about the net Federal debt, not the debt that the Federal Government owes the Federal Government. We are talking about debt the Federal Government owes to people who privately hold obligations of the Federal Government both here and abroad. We are talking in terms of 1966 dollars. That is how an economist likes to look at it if he wants to allow for inflation which occurs in anybody's currency including ours. Mind you, I am not saying that inflation is a good thing; let us agree on balance it is a bad thing——

Secretary FOWLER. It is less, the value of the dollar in—and people should know and they do not seem to realize it, that the value of the dollar has depreciated less in the last 10 to 15 years than any currency in the world of any major country. There are only three countries, Guatemala, El Salvador, and Venezuela in which the value of the currency has been more stable than the dollar.

The CHAIRMAN. Now, could you give us whatever you have on that subject so we could have that to help complete the record; if it will not fit inside our hearing volume I will put it in the Congressional Record. I think it would be well to have it so that people who worry about these things might have the picture somewhat in perspective. Here is a figure I have on this. This is the latest I could get. I obtained it about a month ago in preparation for my speech to the New York Economic Club where I said a few things you did not agree with and perhaps a few things you did agree with.

In terms of 1966 dollars, the net Federal debt on a per capita basis—that is, privately held Federal debt on a per capita basis—was $2,901 in 1945, and in 1966 it is $941.

If you are thinking in terms of constant dollars, the per capita debt is one-third of what it was in 1945.

Now, when we hear such horrible things as the currency will not buy what it used to buy, the Government is running a deficit, we have a war on our hands, interest rates are too high, and everything else that one can imagine, it is somewhat comforting that although the national debt has gone up in terms of dollars, in terms of constant dollars on a per capita basis, it is one-third of what it once was. And that is because in spite of our best efforts we have not been able to prevent some depreciation in the value of our currency, and two, because we have a growing country with more people than we had back at that time.

Secretary FOWLER. I think another interesting computation, Senator, is the fact that a great body of that debt was the price we paid for winning World War II and for sustaining our position in Korea, and the costs that come afterward, perfectly fine and appropriate costs, veterans pensions, et cetera. If you take out of the debt those elements that are directly attributable to war, you get a much different picture of the amount of the debt the Federal Government has accumulated for, shall we say, nonwar reasons.

The CHAIRMAN. Yes, and, Mr. Secretary, our studies indicate that the cost of veterans benefits after a war have exceeded the cost of the war itself. As a matter of fact, the present trend indicates that veterans benefits are beginning to run three times the cost of the war. I fear that with the creation of a new Veterans Committee in the Senate these benefits have the prospect of running 10 times the cost of the war.

But that is your problem in the future. If we are related to that responsibility, you will be worried about it, and I hope you will be around a long time here to worry about it, Mr. Secretary, and we will do what we can to cooperate.

Measured in terms of gross national product—and I think measured in terms of private income—the showing of the national debt would be about the same. Relatively speaking, the Federal debt has declined from 142 percent of gross national product in 1945 to 43 percent of gross national product today—less than a third of what it was in 1945. If measured in terms of the privately held Federal debt as a percentage of gross national product it has declined from 116 percent in 1945 to 28 percent today. Thus, the net Federal debt today is about one-quarter of the gross national product.

Furthermore, the assets held by the Federal Government—the property we own and the buildings that we have constructed, which, if need be could be sold off into private hands—greatly exceed the debt we owe.

Mr. SCHULTZE. As a matter of fact, Senator, one other point might be added to that—I do not have it in terms of net debt, but as the gross debt as a percent of gross national product—is now below what it was before we got into World War II.

The CHAIRMAN. In terms of what?

Mr. SCHULTZE. In other words, as a percentage of our gross national product, the debt is lower than what it was before we started into World War II.

The CHAIRMAN. You mean if you relate your national debt to your gross national product that percentage is a lower figure than it was at the beginning of World War II.

Mr. SCHULTZE. That is correct; yes, sir.

The CHAIRMAN. That ought to be a heartening thought to some people who feel we are bankrupt, and if we are out of business, it is only because we lack faith in ourselves. I am satisfied, and I would like to ask that this little tabulation I have here be included as part of the general information available.

(The document referred to follows:)

Federal debt related to gross national product and population

	1945	1946	1962	1966 [1]
Gross national product [2] (billions)	$196.0	$221.4	$574.7	$762.66
Gross Federal debt [3] (billions)	278.7	259.5	304.0	329.8
Federal debt owned by Federal Government (billions)	51.3	54.2	86.4	113.0
Net Federal debt [4] (billions)	227.4	205.3	217.6	216.8
Ratios of debt to GNP (percent):				
Gross Federal debt	142.2	117.2	52.9	43.0
Net Federal debt	116.0	92.7	37.9	28
Per capital debt:				
Gross Federal debt	$1,981	$1,817	$1,616	$1,666
Net Federal debt	$1,616	$1,437	$1,156	$955
Real per capita debt (1966 dollars):				
Gross Federal debt	3,557	2,875	1,730	1,641
Net Federal debt	2,901	2,274	1,238	941

[1] Estimated.
[2] Implied level as of Dec. 31, calculated as the average of the 4th and 1st calendar quarters.
[3] Gross public debt and guaranteed obligations as of Dec. 31.
[4] Gross debt less holdings of Federal Reserve System and Government investment accounts as of Dec. 31.

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

Secretary FOWLER. Thank you, Mr. Chairman.

The CHAIRMAN. You have been most courteous and most polite, and may I say that your patience and that of your assistants, Mr. Deming and others here, and that of the Director of the Budget, Mr. Charles Schultze, is really deserving of the highest praise.

We have detained you longer than we should and asked you questions that ranged far afield from this bill, and I want to express on behalf of the committee our appreciation of your tremendous patience and your good humor and your cooperative spirit.

We very much appreciate the manner in which all of you—Mr. Fowler, Mr. Schultze, Mr. Deming, and Mr. Sam Cohn—have testified. We will close this hearing now, and we will consider the bill in executive session at 10 o'clock tomorrow.

Secretary FOWLER. Thank you, Senator.

(Whereupon, at 12:40 p.m., the committee recessed, to reconvene in executive session at 10 a.m., Friday, February 17, 1967.)

O