$495 BILLION DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

ON

H.R. 14832

A BILL TO PROVIDE FOR A TEMPORARY INCREASE IN THE PUBLIC DEBT LIMIT

JUNE 12, 1974

Printed for the use of the Committee on Finance

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$495 BILLION DEBT LIMIT

WEDNESDAY, JUNE 12, 1974

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

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

Present: Senators Long, Byrd, Jr., of Virginia, Mondale, Bentsen, Bennett, Curtis, Hansen, and Dole.

OPENING STATEMENT OF SENATOR BYRD

Senator BYRD (presiding). The committee will come to order.

The committee hearing today concerns H.R. 14832, a bill to increase and extend the present temporary debt limit. Under present law, the permanent debt limit is set at $400 billion. In addition, there is a temporary additional limit of $75.7 billion effective through the end of this month. Unless the temporary limit is extended, on July 1 the debt limit will be reduced to its permanent level of $400 billion.

The House bill would increase the temporary limit to $495 billion and would extend the period in which the temporary debt limit applies through March 31, 1975.

On June 6, the debt subject to the limit was $471.6 billion.

[The press release announcing these hearings, the bill, H.R. 14832, and a staff memorandum concerning the bill, follow:]

PRESS RELEASE

FOR IMMEDIATE RELEASE
June 11, 1974

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Office Bldg.

FINANCE COMMITTEE ANNOUNCES HEARINGS ON THE PUBLIC DEBT

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee will hold a one-day hearing on Wednesday, June 12, 1974, on H.R. 14832, a bill to increase the present temporary ceiling on the public debt from $475.7 billion to $495 billion and to extend the period to which the temporary ceiling applies until March 31, 1975.

The Chairman announced that this legislation should be passed before June 30, 1974, because at that time the permanent debt limit of $400 billion would go into effect, significantly below the current outstanding debt of the Treasury Department.

The Honorable Paul Volcker, Under Secretary of the Treasury, will be the principal witness for the Administration. He will be accompanied by the Honorable Roy L. Ash, Director of the Office of Management and Budget.

The hearing will be held in Room 2221, Dirksen Senate Office Building and will begin at 10:00 A.M.

PR #74

93D CONGRESS
2D SESSION

H. R. 14832

IN THE SENATE OF THE UNITED STATES

MAY 28, 1974

Read twice and referred to the Committee on Finance

AN ACT

To provide for a temporary increase in the public debt limit.

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 March 31, 1975, 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 by $95,000,000,000.

SEC. 2. Effective on the date of the enactment of this Act, the first section of the Act of December 3, 1973, providing for a temporary increase in the public debt limit for a period ending June 30, 1974 (Public Law 93-173), is hereby repealed.

Passed the House of Representatives May 23, 1974.

Attest: W. PAT JENNINGS,

Clerk.

II

June 12, 1974

MEMORANDUM

TO Members of the Committee on Finance

FROM: Michael Stern, Staff Director

SUBJECT Increase in Temporary Debt Limit (H. R. 14832)

House Bill. -- Under present law, the permanent debt limit is set at $400 billion, with a temporary additional limit of $75.7 billion, effective through June 30, 1974. H. R. 14832 would:

1. Increase the temporary debt limit from $475.7 billion to $495 billion; and

2. Extend the period in which the temporary debt limit applies through March 31, 1975.

(The Administration had requested a temporary debt limit of $505 billion through June 30, 1975.)

Budget Outlook. -- The actual fiscal year 1973 deficit on a Federal funds basis was $25 billion; the unified or consolidated deficit was $14.3 billion. The current deficit estimates for fiscal year 1974 have been revised downward to $15.1 billion (Federal funds) and to virtual balance on a unified budget basis. These figures are shown in the table below:

(Billions of dollars)

	1973 Actual	1974 Current Estimate	1975 Budget Estimate	1975 Current Estimate
Federal funds:				
Receipts	$161.4	$181.8	$202.8	$201.4
Outlays	186.4	199.3	220.6	221.3
Deficit (-)	-25.0	-17.5	-17.9	-19.9
Unified Budget:				
Receipts	232.2	266.0	295.0	294.0
Outlays	246.5	269.5	304.4	305.4
Deficit (-)	-14.3	- 3.5	- 9.4	- 11.4

Senator BYRD. We are pleased to welcome today the Honorable Paul Volcker, Under Secretary of the Treasury, accompanied by Mr. Roy Ash, Director of the Office of Management and Budget.

Mr. Secretary, you may proceed as you wish.

STATEMENTS OF HON. PAUL A. VOLCKER, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS, AND HON. ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Statement of Hon. Paul A. Volcker

Mr. VOLCKER. Thank you, Senator.

I will proceed by reading parts of my statement and submit the entire statement for the record, if that is appropriate.

Senator BYRD. The entire statement will be published in the record.

Mr. VOLCKER. I first want to express the regrets of Secretary Simon, who wanted to be here personally but is in a meeting of the so-called Committee of Twenty this morning on international monetary reform. This meeting has been long scheduled and winding up some negotiations, so he could not get here.

As you indicated, the occasion for this hearing is the need for legislation on the debt limit and we are coming very close to the expiration of the current temporary ceiling. The House has enacted H.R. 14832, which provides a temporary limit of $495 billion through March 31, 1975. This is a tight ceiling, $10 billion below the temporary ceiling we requested to cover the Federal Government's financing requirements through the entire fiscal year 1975.

Even so, this necessary legislation to increase the temporary debt limit encountered resistance in the House, and you may recall it was necessary for the Speaker to cast a tie-breaking vote on this legislation. We interpret the vote in the House as an expression of concern regarding inflation, the size of the Federal budget, and the Government's deficit spending, concerns that we share.

Inflation is the No. 1 domestic problem facing this Nation. Part of the explanation for our double digit rate of inflation now lies in the Federal deficits which have occurred in 14 of the past 15 years. As Secretary Simon has said on a number of occasions, we believe that we must find ways to trim the budget deficit in the coming fiscal year and aim at a balanced budget in fiscal year 1976. The administration and the Congress both are on notice that this inflation problem must be solved.

The time has come when the Congress and the Administration must find better procedures for examining the budget and keeping it in line with our economic situation. In this regard, the administration firmly supports legislation, which has just been reported by the Conference Committee, that would set up a mechanism for the Congress to look at the Federal budget as a whole—receipts and outlays—and set Federal fiscal priorities within overall budget aggregates that will bring us nearer to achieving our economic policy goals.

For years, people have thought of the debt limit as a substitute for positive budget control. But the debt limit is clearly not up to that. Positive budget control is needed at the beginning of the budget process when receipts are estimated and funds are appropriated, rather than at the end as in the case of the debt limit.

Several Secretaries of the Treasury have discussed the fatal flaw in the debt limit—that it is the tail rather than the head of the budget control efforts. In fact, the necessity for legislation periodically on the debt limit has sometimes had a perverse impact.

Since the debt limit is "must" legislation, it has been used as a vehicle to pass other, often unrelated legislation, much of which has added to outlays. Currently, of course, there are pressures to append tax reduction to this debt limit bill, a move that we believe could only aggravate the Nation's inflation problem.

The administration is firmly opposed to any tax reduction at this time, even if it were enacted along with so-called reform measures intended to offset the revenue loss. The issues are complex, as you know, but one of the things we need at this time is to encourage investment in new capacity to meet our energy requirements, to increase food output, and generally to strengthen the economy.

Even if personal income tax reduction were offset in terms of revenue by increases in other taxation, the package would tend to increase consumption and reduce investment. This would exacerbate current pressures on the Nation's productive capacity and contribute to continued inflation.

In the absence of final passage of debt limit legislation the $475.7 billion debt limit will revert to its permanent ceiling of $400 billion on July 1. Since the debt subject to limit on that date will exceed the permanent limit by about $75 billion—more or less depending on the exact level of the cash balance—congressional action is necessary to maintain the borrowing authority and the credit of the U.S. Government.

I have attached to my statement a series of tables explaining the debt outlook and the budgetary picture and changes in our receipts estimates in particular. I think the primary table of immediate interest with respect to the debt limit is table 2, which shows the estimated levels of debt over the next fiscal year on the conventional assumptions of a $6 billion cash balance and a $3 billion margin for contingencies, and also a $3 billion margin for the effects of the housing program announced by the President several weeks ago to provide some special support for that area of the economy.

I should emphasize that the $495 billion debt ceiling enacted by the House extends only through March. It does not provide leeway, therefore, through that date, as you can see on table 2, for the usual $3 billion contingency margin or the $3 billion allowance requested to provide for Federal Home Loan Bank borrowing from the Treasury under the new housing program.

I am not requesting restoration of the $10 billion of borrowing authority that the House cut from our request, nor am I requesting a longer period, even though this tight limit could well create some difficulties in financing all programs, perhaps particularly including the housing program. Clearly, further action will be needed before the end of the fiscal year.

I would note that an error of only 1 percent in either outlays or receipts amounts to approximately $3 billion, the whole amount of the usual contingency allowance.

In conclusion, Mr. Chairman, I would just urge one further point. As you know, great uncertainty and agonizing problems for the administration and the Congress have been created on more than one occasion in recent years because of difficulties in achieving timely enactment of a new debt limit, in part because of the addition of unrelated and highly controversial provisions to this necessary legislation.

I am most strongly convinced that review of the debt limit and these hearings can be an occasion for orderly review by this committee of the financing of the Federal Government and its relationship to economic developments. However, this necessary and desirable process should not be permitted to threaten, as it sometimes has, a financial crisis for our Government as a byproduct of controversy over other measures.

Thank you.

[The prepared statement of Paul A. Volcker follows:]

STATEMENT OF HON. PAUL A. VOLCKER, THE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Mr. Chairman and members of the committee, it is a pleasure for me to appear before this Committee today to discuss the current economic climate and our latest revisions of the Federal budget. Secretary Simon has asked me to emphasize that only a firm commitment to a meeting of the International Monetary Fund's Committee of 20 today and tomorrow—a meeting that will consolidate negotiations on international financial agreements that we have been working on for the past two years—kept him from being present in person.

The need once again for legislation on the debt limit is the occasion for this meeting with you, and I must note that we are coming very close once again to the expiration of the current temporary ceiling.

As you know, the House has enacted H.R. 14832, which provides a temporary limit of $495 billion through March 31, 1975. This is a tight ceiling, $10 billion below the temporary ceiling we requested to cover the Federal Government's financing requirements through fiscal year 1975. Even so, this necessary legislation to increase the temporary debt limit encountered resistance in the House, and it was necessary for the Speaker to cast a tie-breaking vote on this legislation. We interpret the vote in the House as an expression of concern regarding inflation, the size of the Federal budget, and the Government's deficit spending, concerns that we share.

Inflation is the number one domestic problem facing this Nation. Part of the explanation for our double digit rate of inflation now, lies in the Federal deficits which have occurred in 14 of the past 15 years. As Secretary Simon has said on a number of occasions, we believe that we must find ways to trim the budget deficit in the coming fiscal year and aim at a balanced budget in fiscal year 1976. The Administration and the Congress are on notice that this inflation problem must be solved.

The time has come when the Congress and the Administration must find better procedures for examining the budget and keeping it in line with our economic situation. In this regard, the Administration firmly supports legislation, which has just been reported by the Conference Commttee, that would set up a mechanism for the Congress to look at the Federal budget as a whole—receipts and outlays—and set Federal fiscal priorities within overall budget aggregates that will bring us nearer to achieving our economic policy goals.

For years, people have thought of the debt limit as a substitute for positive budget control. But the debt limit is clearly not up to that. Positive budget control is needed at the beginning of the budget process when receipts are estimated and funds are appropriated, rather than at the end as in the case of the debt limit.

Several Secretaries of the Treasury have discussed the fatal flaw in the debt limit—that it is the tail rather than the head of budget control efforts. In fact, the necessity for legislation periodically on the debt limit has sometimes had a perverse impact. Since the debt limit is "must" legislation, it has been used as a vehicle to pass other, often unrelated legislation, much of which has added to outlays. Currently, of course, there are pressures to append tax reduction to this debt limit bill, a move that we believe could only agravate the Nation's inflation problem.

The Administration is firmly opposed to any tax reduction at this time, even if it were enacted along with so-called reform measures intended to offset the revenue loss. The issues are complex, as you know, but one of the things we need at this time is to encourage investment in new capacity to meet our energy requirements, to increase food output, and generally to strengthen the economy. Even if personal income tax reduction were offset in terms of revenue by increases in other taxation, the package would tend to increase consumption and reduce investment. This would exacerbate current pressures on the Nation's productive capacity and contribute to continued inflation.

In the absence of final passage of debt limit legislation, the $475.7 billion debt limit will revert to its permanent ceiling of $400 billion on July 1. Since the debt subject to limit on that date will exceed the permanent level by about $75 billion—more or less depending on the exact level of the cash balance—congressional action is necessary to maintain the borrowing authority and the credit of the U.S. Government.

Attached to my statement are the usual tables. The first of these shows actual operating balances and debt subject to limit through May 31 and estimated debt subject to limit at the end of June this year. Table 2 extends these estimates through fiscal year 1975, based on the conventional assumptions of a $6 billion cash balance and a $3 billion margin for contingencies. In addition, we have shown a $3 billion contingency item beginning in August to cover Treasury loans to the Federal Home Loan Bank System, reflecting housing measures recently announced by the President.

The revised budget figures for fiscal years 1974 and 1975, which underly these estimates, are presented in Table 3. The expenditure figures will be discussed in detail by the Director of the Office of Management and Budget. Changes in revenue estimates are shown in Tables 4 and 5. Apart from the effects of the action taken by the House Ways and Means Committee with respect to taxation of the petroleum industry, the principal changes reflect some shortfall of corporate income tax receipts from earlier estimates, despite the fact that profits themselves appear to be running up to the assumptions that underly the budget projections.

As this Committee is well aware, changes in the public debt are related more directly to the surplus or deficit in the Federal funds than in the unified budget surplus or deficit. The current relationships between these budgetary concepts is shown in Table 3.

In summary, the unified budget is now projected to be in deficit by $3.5 billion in fiscal 1974, a somewhat smaller figure than projected in February. In fiscal 1975, the unified budget deficit is projected at $11.4 billion. In contrast the Federal funds budget, which includes receipts and expenditures handled by the Government as "owner," is now projected to be in deficit by $17½ billion in fiscal 1974 and this deficit will increase to nearly $20 billion in fiscal 1975.

This Federal funds deficit results from the fact that large expenditures are made from the Federal funds into the trust funds, and not to the public. As a result of these intra-governmental payments, the trust funds will have a surplus of $8.5 billion in fiscal year 1975. Since we are required to invest this trust fund surplus in Government securities, the increase in the public debt during fiscal year 1975 will far exceed the unified budget deficit.

I should note that the $495 billion debt ceiling enacted by the House extends only through March, and does not provide leeway through that date for the usual $3 billion contingency margin or the $3 billion allowance requested to provide for Federal Home Loan Bank borrowing from the Treasury under the new housing program.

I am not requesting restoration of the $10 billion of borrowing authority that the House cut from our request or a longer period, even though the tight limit could well create some difficulties in financing all programs, including the housing program, and further action will be needed before the end of the fiscal year. I would note that an error of only 1 percent in *either* outlays or receipts amounts to approximately $3 billion, the whole amount of the usual contingency allowance.

The fact that there was no contingency allowance in the $475.7 billion temporary debt ceiling that was enacted in December and expires at the end of this month has created problems in managing the Treasury's cash position economically and effectively. We felt obligated to operate with an unduly low cash balance in the first part of April and again in mid-June—dropping to about $2 billion, enough to cover expenditures for only one and a half working days—in part because of a debt limit problem we anticipated would develop. Our projections show that we will remain under the debt limit at the end of June only by holding our cash balance to a lower figure than would otherwise be desirable in light of the fact that both July and August are deficit months.

In another area of financial management, the Treasury has for some months been studying whether changes should be made in its tax and loan account system. Under this system, which as been in effect since World War I, certain taxes are paid into Treasury tax and loan account in commercial banks. The Treasury then calls the money out of these accounts as it is needed for disbursements, thus avoiding disruptive effects on the money market that Treasury operations would otherwise cause.

In view of the recent high levels of interest rates, the Treasury had become concerned that the imputed earnings value of these deposits had become considerably greater than the value of the services banks perform for the Government. Our study had revealed that this is so, and we are now in the process of deciding how the value can best be recouped, bearing in mind that it must be done without upsetting the money market or delaying tax collections. It is possible that we will need to propose that we be given a limited authority to invest a portion of our operating balances to improve the efficiency of our cash management, an authority which we now lack. We will be publishing our report shortly, making our conclusions known to the Congress and the public.

In conclusion, I would urge upon the Congress one further point. Great uncertainty and agonizing problems for the Administration and the Congress have been created on more than one occasion in recent years because of difficulties in achieving timely enactment of a new debt limit, in part because of the addition of unrelated and highly controversial provisions to this necessary legislation. I am most strongly convinced that review of the debt limit and these hearings can be an occasion for orderly review by this Committee of the financing of the Federal Government, and its relationship to economic developments. However, this necessary and desirable process should not be permitted to threaten, as it sometimes has, a financial crisis for our Government as a byproduct of controversy over other measures.

TABLE I.—PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1974 (BASED ON ESTIMATED BUDGET OUTLAYS OF $269,500,000,000 AND RECEIPTS OF $266,000,000,000)

[In billions of dollars]

	Operating cash balance	Public debt subject to limitation
Actual:		
1973:		
June 30	$12.6	$459.1
July 31	7.2	460.0
Aug. 31	3.1	462.8
Sept. 30	8.3	462.4
Oct. 31	6.7	463.4
Nov. 30	4.7	465.0
Dec. 31	10.4	470.8
1974:		
Jan. 31	10.5	469.1
Feb. 28	7.7	471.6
Mar. 31	8.4	475.4
Apr. 30	11.5	472.9
May 31	6.4	476.8
June 30 (estimated)	6.0	474.0

Source: Office of the fiscal Assistant Secretary, June 12, 1974.

PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1975, BASED ON ESTIMATED BUDGET OUTLAYS OF $305,400,000,000 AND RECEIPTS OF $294,000,000,000

[In billions of dollars]

	Operating cash balance	Public debt subject to limitation	With $3,000,000,000 margin for contingencies	With special Federal home loan bank program [1]
1974:				
June 30	6	474	477	477
July 31	6	478	481	481
Aug. 31	6	484	487	490
Sept. 30	6	480	483	486
Oct. 31	6	482	485	488
Nov. 30	6	486	489	492
Dec. 31	6	488	491	494
1975:				
Jan. 31	6	486	489	492
Feb. 28	6	492	495	498
Mar. 31	6	495	498	501
Apr. 30	6	492	495	498
May 31	6	499	502	505
June 30	6	494	497	500

[1] Not included in outlay assumption of $305,400,000,000.

TABLE III.—BUDGET SUMMARY

[In billions of dollars]

	1974	1975
Receipts:		
Federal funds	$181.8	$201.4
Trust funds	105.3	116.8
Inter-fund transactions	21.1	24.2
Total, budget receipts	266.0	294.0
Outlays:		
Federal funds	199.5	221.3
Trust funds	91.2	108.3
Inter-fund transactions	21.1	24.2
Total, budget outlays	269.5	305.4
Surplus or deficit (−):		
Federal funds	−17.7	−19.9
Trust funds	14.1	8.5
Total, budget	−3.5	−11.4

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

TABLE IV.—COMPARISON OF FISCAL YEAR 1974 RECEIPTS AS ESTIMATED IN JANUARY AND MAY 1974

[In billions of dollars]

	January 1974 budget	Change to May 1974: Economic and re-estimate	Legislation	Total	May 1974 estimate
Individual income tax	118.0				118.0
Corporation income tax	43.0	−2.3	−1.0	−3.3	39.7
Employment taxes and contributions	67.7	−1.2		−1.2	66.4
Unemployment insurance	6.2	+0.7		+0.7	6.9
Contributions for other insurance and retirement	4.0				4.0
Excise taxes	17.1	+0.1		+0.1	17.2
Estate and gift taxes	5.4	−0.3		−0.3	5.1
Customs duties	3.5	−0.1		−0.1	3.4
Miscellaneous receipts	5.0	+0.3	−0.2	+0.1	5.2
Total budget receipts	270.0	−2.8	−1.2	−4.0	266.0
Underlying income assumptions, calendar year 1973:					
Gross national product	1,288				1,289
Personal income	1,035				1,035
Corporate profits before tax	126				126

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, May 2, 1974.

Note: Figures are rounded and may not necessarily add to totals.

TABLE V.—COMPARISON OF FISCAL YEAR 1975 RECEIPTS AS ESTIMATED IN JANUARY AND MAY 1974

[In billions of dollars]

	January 1974 budget	Change to May 1974: Economic and re-estimate	Change to May 1974: Legislation	Change to May 1974: Total	May 1974 estimate
Individual income tax	129.0	+1.5	+0.5	+2.0	131.0
Corporation income tax	48.0	-1.8	-1.7	-3.5	44.5
Employment taxes and contributions	75.3	-0.2		-0.2	75.1
Unemployment insurance	6.0	+0.6		+0.6	6.6
Contributions for other insurance and retirement	4.3	+0.1		+0.1	4.4
Excise taxes	17.4	-0.1		-0.1	17.3
Estate and gift taxes	6.0	-0.4		-0.4	5.6
Customs duties	3.8	-0.1		-0.1	3.7
Miscellaneous receipts	5.2	+0.4	+0.2	+0.6	5.8
Total budget receipts	295.0		-1.0	-1.0	294.0
Underlying income assumptions, calendar year 1974:					
Gross national product	1,390				1,401
Personal income	1,135				1,142
Corporate profits before tax	124				124

Source: Office of the Secretary of the Treasury Office of Tax Analysis, May 9, 1974.

Note: Figures are rounded and may not necessarily add to totals.

The CHAIRMAN (presiding). Mr. Ash, I think it would be best to hear your statement at this point so we can ask questions of both of you when you have finished.

STATEMENT OF HON. ROY L. ASH

Mr. ASH. Yes, Mr. Chairman.

I also have a full statement that I will submit for the record and merely make a couple of observations at this time.

The key to the debt limit, as well as to economic health, is sound fiscal policy. Sound fiscal policy, as we all know, begins with expenditure controls. The budget is being managed with the maximum restraint legally possible, given the legislation the Executive is called upon to administer. Over and above that, congressional action is called for and the administration fully expects to engage Congress in a discussion of those actions that might lead toward an even more constrained spending plan for the years ahead.

But pending that legislation for reductions or eliminations in those areas where we believe there may be some possibilities of saving money, we believe it is essential that we move on with the proposed increase in debt limit at this time to provide for the increases that are inevitable in the period immediately ahead, because of the programs that we are administering.

I join with Secretary Volcker in his statement. I have also some data to submit along with the record that he will be submitting that will support the proposition that the debt ceiling should be increased at this time.

[The prepared statement of Roy L. Ash follows:]

STATEMENT OF ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and Members of the Committee:

The Under Secretary of the Treasury has explained the need for an increase of the statutory debt limit. In support of the request for this increase, I will discuss the budget outlook and its effect on the public debt subject to statutory limitation.

BUDGET TOTALS

The fiscal year 1974 deficit is now expected to be about $3½ billion, $1 billion less than was estimated in the President's budget in February. Outlays are now estimated to be about $5 billion less than in February, while receipts are $4 billion less.

The estimated deficit for fiscal year 1975 has increased by $2 billion since February to $11½ billion. Total outlays are up from the February estimate of $304½ billion to $305½ billion, and receipts have been revised downward by $1 billion to $294 billion.

On a full-employment basis, the February budget estimated a $4 billion surplus in fiscal year 1974 and an $8 billion surplus in fiscal year 1975. The current estimates are for surpluses of about $8 billion in 1974 and $9 billion in 1975. The combined surplus for the two years is $17 billion, $5 billion larger than was anticipated in February.

The following table compares current estimates of receipts, outlays, surplus or deficit, and budget authority with estimates shown in the February budget.

BUDGET TOTALS

[Fiscal years, in billions of dollars]

Description	1973 actual	Budget estimate 1974	Budget estimate 1975	Current estimate 1974	Current estimate 1975
Budget receipts	232.2	270.0	295.0	266.0	294.0
Budget outlays	246.5	274.7	304.4	269.5	305.4
Deficit (−)	−14.3	−4.7	−9.4	−3.5	−11.4
Full-employment receipts	243.0	278.0	311.0	276.0	312.0
Full-employment outlays	245.0	274.0	303.0	268.0	303.0
Full-employment surplus or deficit (−)	−2.0	4.0	8.0	8.0	9.0
Budget authority	276.4	310.9	322.1	308.7	324.5

RECEIPTS

Receipts are currently estimated to be about $266 billion in 1974, $4 billion below the February estimate. The current estimate for 1975 is $294 billion, compared with $295 billion in February. These receipts estimates are quite tentative. Even for fiscal year 1974 there is still considerable uncertainty associated with the large quarterly payments of corporate income taxes to be made in June.

Of the $4 billion drop in estimated 1974 receipts, $3.3 billion is in corporation income tax receipts. The drop in expected corporate taxes results from the Congress not enacting the Administration's proposed windfall profits tax ($1.0 billion) on which the estimated receipts were based and re-estimates based on tax collection experience so far this year ($2.3 billion). Social insurance taxes and contributions and other receipts are also down, by $0.7 billion.

The downward revision of $1 billion in estimated 1975 receipts reflects a decline in corporate income taxes, offset in part by higher individual income and social insurance taxes. The current estimate assumes passage of the proposal of the House Ways and Means Committee for a phaseout of the percentage oil depletion allowance combined with a windfall profits tax. The substitution of these measures for the Administration's original windfall profits tax proposal reduces estimated corporation income tax receipts by $1.7 billion in 1975. Revised estimates, conisistent with the lower than previously expected corporate tax receipts for 1974, account for a $1.8 billion further decrease. Estimated individual income tax receipts are up by $2 billion, primarily as a consequence of the larger money incomes produced by higher inflation; and social insurance taxes and contributons are up by $0.5 billion.

OUTLAYS

Outlays in 1974 are now expected to be $269.5 billion, approximately $5 billion below the February estimate. The decline in outlays is concentrated largely in three areas: lower than expected spending in health and education programs, $2.5 billion; decreased spending for defense, $1.0 billion; and increased offshore oil receipts (which are counted as an offset to outlays), $0.7 billion. On the other hand, a shift in Farmers Home Administration asset sales from 1974 to 1975 increases 1974 outlays by $0.8 billion and decreases 1975 outlays by the same amount. These figures incorporate revisions based on data received after the completion of the mid-session review and of testimony on the debt limit before the House Ways and Means Committee.

The decreased military spending is attributable to later than planned congressional action on the second supplemental appropriation and to the fact that spending is generally slower than had been anticipated. For education programs, the estimate of spending has been reduced by $0.9 billion because States are drawing down more slowly than anticipated the funds made available to them from the release of 1973 reserves and from the 1974 appropriation. These funds remain available and are expected to be used at a later date. Outlays for health programs are now estimated to be about $1.6 billion less than in the February budget. Most of the reduction is in the Medicare and Medicaid programs; claims for payments are lagging behind expectations. The increase in offshore oil receipts stems from lease prices being higher than was assumed in the budget.

The current estimate for 1975 outlays of $305.4 billion is $1 billion higher than the February estimate. Decreases attributable to higher than expected offshore oil receipts ($3.0 billion) and Farmers Home Administration asset sales ($0.8 billion) are more than offset by expected increases in unemployment benefits ($1.6 billion), interest on the public debt ($1.0 billion), veterans compensation ($0.6 billion), housing programs ($0.5 billion), and smaller amounts in numerous other programs.

Estimates of receipts from offshore oil leasing have been raised to reflect higher prices and an increase in acreage to be leased. Higher outlays for unemployment benefits reflect both the Administration's proposal for the extension of benefits and revised estimates. Estimates for interest have been increased in response to the higher than previously anticipated interest rates. Legislation recently enacted by the Congress has raised outlays for veterans compensation. ~~The~~ higher outlays in housing programs reflect the release of funds for model cities and urban renewal and a re-estimate of outlays under the GMMA Tandem Plan. In his housing policy recommendations of May 10, President Nixon announced a four-point plan to make additional mortgage money available to assist the housing market. If interest rates remain high, mortgage commitments under this plan could cause outlays in 1975 to be about $3 billion higher than reported here.

The following table shows the major changes in receipts and outlays since the budget was presented in February; Tables 1 and 2 present further details.

CHANGES IN OUTLAYS AND RECEIPTS SINCE THE BUDGET

[Fiscal years; in billions of dollars]

	1974	1975
February budget receipt estimates	270.0	295.0
Changes:		
Individual income taxes		+2.0
Corporation inome taxes	−3.3	−3.5
Social insurance taxes and contributions	−.5	+.5
Other	−.2	
Current receipt estimates	266.0	294.0
February budget outlay estimates	274.7	304.4
Changes:		
Increase in offshore oil receipts	−.7	−3.0
DOD military and MAP	−1.0	
HEW, health	−1.6	
HEW, education	−.9	
Unemployment benefits	+.3	+1.6
Veterans service-connected compensation	+.1	+.6
Interest on the public debt	+.2	+1.0
Farmers Home Administration asset sales	+.8	−.8
Housing programs	−.1	+.5
Food programs	−.2	+.3
Civil service retirement and health benefits	−.3	+.2
Old-age, survivors, and disability insurance trust funds	−.2	
EPA construction grants	−.2	+.1
DOT-Federal-aid highways	−.2	
All other (net)	−1.2	+.5
Current outlay estimates	269.5	305.4

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THE BUDGET BY FUND GROUP

The concept of Federal debt subject to limitation is roughly consistent with the Federal funds part of the unified budget. For this reason, changes in the Federal debt subject to limitation are more closely related to the Federal funds surplus or deficit than to the unified budget surplus or deficit.

Since February, estimates of Federal funds receipts for 1974 decreased by under $4 billion while outlays decreased by over $4 billion, resulting in a $½ billion decrease in the anticipated 1974 Federal funds deficit. For 1975, the Federal funds receipts estimate has decreased by $1½ billion; estimated outlays have increased by about $½ billion; and the anticipated Federal funds deficit has increased by $2 billion.

The following table compares current estimates with those of the February budget for receipts, outlays, and surplus or deficit separately for Federal funds and trust funds. As the table shows, most of the changes in 1974 and 1975 have occurred in the Federal funds.

BUDGET TOTALS, BY FUND GROUP

[Fiscal years; in billions of dollars]

	1973 actual	Budget estimate 1974	Budget estimate 1975	Current estimate 1974	Current estimate 1975
Receipts:					
Federal funds	161.4	185.6	202.8	181.8	201.4
Trust funds	92.2	105.6	115.8	105.3	116.8
Interfund transactions	−21.3	−21.1	−23.6	−21.1	−24.2
Total	232.2	270.0	295.0	266.0	294.0
Outlays:					
Federal funds	186.4	203.7	220.6	199.5	221.3
Trust funds	81.4	92.1	107.4	91.2	108.3
Interfund transactions	−21.3	−21.1	−23.6	−21.1	−24.2
Total	246.5	274.7	304.4	269.5	305.4
Surplus or deficit (−):					
Federal funds	−25.0	−18.1	−17.9	−17.7	−19.9
Trust funds	10.7	13.5	8.4	14.1	8.5
Total	−14.3	−4.7	−9.4	−3.5	−11.4

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

In both 1974 and 1975, the Federal funds deficit results from the fact that large payments are made from the Federal funds into the trust funds, and not to the public. Federal funds transactions with the public are expected to be in surplus in both years.

CONCLUSION

As in February, both the 1974 and 1975 budgets have full-employment surpluses, which will help restrain excessive demand and prevent a worsening of inflation. The severe inflation of the recent past has been largely a result of supply shortages in the agricultural and energy sectors, rather than of problems with the economy as a whole. Specific measures—particularly programs to encourage expanded production—have been applied to these problems. The worst of their inflationary effects should now be past. Restraint, however, remains necessary to prevent the rapid inflation in these two sectors from spreading to the rest of the economy via a wage-price spiral. It also must be maintained in order to prevent demand from becoming generally excessive and adding further to inflationary pressures. Many basic industries—steel, for instance—are producing as much as they can, and we must be careful not to permit demand to increase beyond the output capacity of the economy. Augmented inflation would be the certain result.

The past months have proved the wisdom of the course, which was adopted in February, of generalized restraint combined with remedial measures for specific problem areas such as housing, agriculture, and energy. They have demonstrated that this course still remains appropriate.

TABLE 1.—CHANGES IN BUDGET RECEIPTS

[Fiscal years; in billions of dollars]

	1973 actual	1974				1975			
		Budget estimate	Changes due to— Economic conditions and reestimation	Changes due to— Legislation	Current estimate	Budget estimate	Changes due to— Economic conditions and reestimation	Changes due to— Legislation	Current estimate
Individual income taxes	103.2	118.0			118.0	129.0	+1.5	+0.5	131.0
Corporation income taxes	36.2	43.0	−2.3	−1.0	39.7	48.0	−1.8	−1.7	44.5
Social insurance taxes and contributions	64.5	77.9	−.5		77.4	85.6	+.5		86.1
Other	28.3	31.1	+.1	−.2	30.9	32.4	−.2	+.2	32.4
Total	232.2	270.0	−2.8	−1.2	266.0	295.0		−1.0	294.0

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

TABLE 2.—CHANGES IN BUDGET OUTLAYS BY AGENCY

[Fiscal years; in billions of dollars]

	1973 actual	1974 Budget estimate	1974 Current estimate	1974 Change	1975 Budget estimate	1975 Current estimate	1975 Change
Defense and military assistance	73.8	79.5	78.5	−1.0	85.8	85.8	
Agriculture	10.0	9.3	9.8	.5	9.2	8.9	−.3
(CCC and Public Law 480)	(4.4)	(1.8)	(1.7)	(−.1)	(1.5)	(1.5)	([1])
Commerce	1.4	1.5	1.4	−.1	1.7	1.7	([1])
Health, Education, and Welfare	82.0	96.8	93.8	−3.0	111.0	111.0	
(Social security trust funds)	(58.6)	(68.4)	(67.5)	(−.9)	(79.3)	(79.3)	(........)
Housing and Urban Development	3.6	5.0	4.9	−.1	5.6	6.1	.5
Interior	−2.3	−3.8	−4.8	−1.0	−2.7	−5.5	−2.8
Justice	1.5	1.9	1.8	−.1	2.1	2.1	([1])
Labor	8.6	8.6	8.9	.3	10.0	11.6	1.6
(Unemployment trust fund)	(5.4)	(5.8)	(6.2)	(.3)	(7.2)	(8.0)	(.8)
State	.6	.7	.7	([1])	.8	.8	
Transportation	8.2	8.4	8.2	−.3	9.1	9.3	.3
Treasury	31.0	35.8	36.1	.3	37.6	38.7	1.0
(General revenue sharing)	(6.6)	(6.1)	(6.1)	(........)	(6.2)	(6.2)	(........)
(Interest on the public debt)	(24.2)	(29.1)	(29.4)	(.2)	(30.5)	(31.5)	(1.0)
Corps of Engineers	1.7	1.6	1.7	.1	1.6	1.7	.1
Atomic Energy Commission	2.4	2.3	2.3	−.1	2.9	3.0	.1
Environmental Protection Agency	1.1	2.6	2.4	−.2	4.0	4.1	.1
General Services Administration	.5	−.3	−.2	.1	−.9	−.8	([1])
National Aeronautics and Space Administration	3.3	3.2	3.2		3.3	3.3	
Veterans' Administration	12.0	13.2	13.5	.2	13.6	14.2	.6
Foreign economic assistance	1.7	2.2	2.2	([1])	2.4	2.7	.3
Other agencies	13.8	15.7	15.2	−.5	16.5	16.9	.3
Allowances [2]		.3		−.3	1.6	.9	−.7
Undistributed intragovernmental transactions	−8.4	−10.0	−10.0		−10.7	−10.9	−.2
Total	246.5	274.7	269.5	−5.1	304.4	[3] 305.4	1.0

[1] Less than $50,000,000.
[2] Includes allowances for acceleration of energy research and development, civilian agency pay raises, and contingencies.
[3] In his housing policy recommendations of May 10, the President announced a 4-point plan to make additional mortgage money available to assist the housing market. If interest rates remain high, mortgage commitments under this plan could cause outlays in 1975 to be about $3,000,000,000 higher.

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

The CHAIRMAN. Thank you very much.
Senator Bennett?

CHANGES NEEDED IN PROVIDING DEBT CEILING INCREASES

Senator BENNETT. Mr. Chairman, we go through this process periodically. It has to be done. Otherwise the day would soon come when the Federal Government cannot pay its bills. I am one of those who believes that it should either be extended for long periods of time with a much larger margin for safety or, since Secretary Volcker reminded us again this morning that the debt ceiling is not an effective control on expenditures, it is an attempt to control them after the fact. I often wonder why we do not just drop this charade and particularly now, since Congress has or is about, apparently, to pass a bill which would at least give Congress the power, if it has the will, to control the expenditures more effectively.

TRIBUTES TO HON. PAUL VOLCKER

But today I would like to depart from the actual subject before us and remind the committee that this is Mr. Volcker's last appearance before the committee. He has served, I think, for 6 years as Under Secretary for Monetary Affairs. He has helped steer the country's problems through the devaluation of the dollar and through all of the related problems that have been attached to that because of the energy crisis. I think we will always be deeply in his debt for the leadership and the wisdom that he has shown, and I for one want to express my personal, and I hope this committee's, appreciation for his efforts and our good wishes for his success when he goes back into the less strenuous world of the private financial area.

The CHAIRMAN. May I just echo those views, Senator Bennett. I believe that that reflects the views of all of us on this committee. We are deeply grateful to Secretary Volcker for his dedicated and devoted service to the Nation.

Mr. VOLCKER. Thank you very much, Mr. Chairman. I appreciate it.

INFLATION AND INTEREST RATES

Senator BENNETT. Maybe you would like, since you are going to leave us fairly soon and therefore can get out from under some of the responsibilities that continued service might put on you, can you tell us how long you think double digit inflation will be with us and how long you think double digit interest rates are going to hang around?

Mr. VOLCKER. Well, I think those two questions may amount to the same thing, Senator.

Senator BENNETT. That is right.

Mr. VOLCKER. I think the double digit interest rates have followed the double digit inflation, and almost necessarily so, because the rate of interest is going to some way or another keep up with the rate of inflation. I think we have a good chance of seeing the inflationary picture begin to level off in the latter part of this year, beginning now. Beginning to level off does not mean it is going to level off entirely, of course, but two of the factors that have contributed heavily to inflation, food and energy, while neither are certain, should have reached the point where we get no further impetus for increases from them.

There are a lot of other inflationary pressures in the economy, and if we do pursue responsible fiscal and monetary policies during this period—which is not necessarily easy, it means somewhat restrictive policies—I think, given the food and energy situation, we have a good chance of seeing in the second half of the year a substantially lower rate of inflation than we have had in the first half. It is still going to be too high, but by the end of the year it will certainly be back in one digit comfortably. That would leave a long way to go before we have anything that is at all satisfactory. But I think it is very important, and that there is a reasonable prospect of beginning visible progress and clear progress down that path in the remainder of this year.

Senator BENNETT. Well, we have seen the double digit inflation, or rather interest rates, begin to turn down slightly, minutely.

Do you think that will continue or are we running a risk of having it turn back up again as it did once before a few months ago?

Mr. VOLCKER. I think the turndown has been rather marginal so far, but there is some indication perhaps of some leveling off, and I think that in part reflects the sort of outlook that I just suggested. It could well prove to have been the peak in interest rates, assuming the economy expands without undue pressure on resources and the price developments are such as I have suggested.

If that is not the case, if the budgetary deficit should turn larger rather than smaller, if monetary restraint were eased prematurely, I think we would see a response in interest rates in an adverse direction. Some of the effects of the tax cut would be to increase the deficit, increase Treasury borrowing needs, increase potential inflationary pressures, and I think it would bring higher interest rates than lower interest rates. With the policies that I would hope we will be following—I expect to be followed—and the outlook I foresee under those circumstances, I think there is a very good chance that we have seen the top of interest rates.

Senator BENNETT. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

FISCAL 1974 FIGURES

Mr. Secretary, I want to try to get an understanding of your view of fiscal 1974 figures.

Do I understand that the individual income tax is $118 billion, but you now estimate the corporate income tax collections to be down about $3 billion, a little over $3 billion?

Mr. VOLCKER. That is correct from the January estimates.

Senator BYRD. Yes; from the January estimate. Now, on your excise taxes, that $17 billion I assume includes the highway trust fund?

Mr. VOLCKER. Yes. Yes, it does.

Senator BYRD. And the highway trust fund I have been estimating at $6 billion.

Is that about what you have?

Mr. VOLCKER. I have not got a figure broken down in that detail right at hand, Senator.

Senator BYRD. Well now, on the total trust funds less the interfund transactions, I am using the figure of $84 billion, which includes the highway trust fund as well as social security trust fund.

How does that compare with the figure you used?

Mr. VOLCKER. Excuse me?

I did not get your figures.

Senator BYRD. $84 billion.

Mr. VOLCKER. This is trust fund receipts?

Senator BYRD. Trust fund receipts, that is right.

Mr. VOLCKER. You have got the trust funds exclusive of the highway trust fund?

Senator BYRD. No; including the highway trust fund, all of the trust funds—social security, highway trust funds—all of the trust funds.

Mr. VOLCKER. Well, all of the trust funds, we have receipts of $105 billion in 1974.

Senator BYRD. Well now, do you not have to take off of that your interagency transactions or interfund transactions?

Mr. VOLCKER. I think you are correct, if you just take tax receipts in effect in the trust funds.

Senator BYRD. Yes; that is right.

Fiscal 1975 Figures

All right, now let us go to fiscal 1975. Now, as I understand it you have revised your figure upward for individual income tax collections to $131 billion from previously $129 billion.

Mr. Volcker. That is correct.

Senator Byrd. And you have revised your corporate figure down from $48 billion to $44.5 billion?

Mr. Volcker. That is correct.

Senator Byrd. So you anticipate a larger deficit in fiscal 1975 than you previously estimated?

Mr. Volcker. Yes.

Senator Byrd. In round figures it would be $20 billion on a Federal fund basis or $11 billion on a unified basis?

Mr. Volcker. $20 billion on Federal funds, $11 billion on unified. That is correct.

Debt Interest—Fiscal 1974 and 1975

Now, what is your latest figure for debt interest for fiscal 1974?

Mr. Volcker. $29 billion, as I recall it. But let me give you the exact number.

$29.4 billion in fiscal 1974.

Senator Byrd. $29.4 billion, which is up about $1.5 billion from your estimate?

Mr. Volcker, Yes, sir. The $29.4 billion is $0.3 billion higher than estimated in January 1974.

Senator Byrd. Now fiscal 1975, what do you estimate the tax to be?

Mr. Volcker. $31.5 billion.

Senator Byrd. So most of your borrowing now, I assume you are paying somewhere around 8 percent. You are paying that on short-term money, you are paying not quite that much, I guess, on long-term money.

Mr. Volcker. Yes, we pay about 8 percent in rough magnitude wherever we are borrowing.

Senator Byrd. Wherever you are borrowing?

So I assume with this figure of $31.5 billion, which is up almost $2.5 billion on the original January estimate, that indicates that the interest rate that the Government will have to pay will not be coming down.

Mr. Volcker. It is primarily because interest rates have increased from the time of the early estimates, and we had assumed the level of interest rates then prevailing, and interest rates have increased, so these costs have gone up.

Senator Byrd. So you are assuming that the amount the Government will have to pay will remain about what it is right now?

Mr. Volcker. Yes. The convention is to use current rates, although we may have, I think, for the next fiscal year some reduction from the current levels.

Positive Budget Control

Senator Byrd. Now, you stated that positive budget control is needed at the beginning of the budget process, and I certainly agree with that. Is that the situation today?

Mr. VOLCKER. Well, I think Mr. Ash can certainly speak to that more effectively than I.

Senator BYRD. Maybe I should direct it to Mr. Ash.

Mr. ASH. Only to a limited extent today, Senator. While the President does submit his budget, that budget, of course, is given considerable attention by the Congress and generally it does not end up the same as it was submitted. We particularly commend the Budget Reform Act that Congress is now in the process of passing, because we believe that it will allow the Congress to join with the executive in providing considerably greater degree of positive budget control at the beginning of the budgetmaking process, rather than merely adding up the totals at the end, as has been the case for so many years.

Senator BYRD. Well now, budgetmaking process begins, of course, in the executive branch.

Mr. ASH. That is right. Yes, sir.

Senator BYRD. I assume that you are now working on fiscal 1976?

Mr. ASH. We begin next month working on fiscal 1976 budget.

Senator BYRD. And that is where you really need positive governmental budget control.

Mr. ASH. Let me tell you what we intended to do beginning next month. We, of course, do not at this stage have a refined view of what the economy will be for that period covered by fiscal 1976 budget. But given what we do see from here, and subject to change if the economy changes, we plan to submit budget guidance to the departments and agencies—to give them marks—which will permit us to reach a balanced budget in fiscal 1976. Then we expect the agencies to come back to us with what that would require regarding their mix of programs. This will undoubtedly require legislation, because if we were merely to price out legislation as it today exists we would have a deficit for fiscal 1976. We believe it would be a very proper time, and not too early, for the President to propose to the Congress legislation along with his budget that would lead to a balance in fiscal 1976. Then it will again be up to the Congress to determine whether that legislation would be acceptable.

You may remember something similar was done for the fiscal 1974 budget. We proposed certain courses of legislation. None of them was even considered by the Congress, let alone acted upon. But that does not mean that we should not try it again. Fiscal 1976 instructions to the departments and agencies will be consistent with the objective of a balanced budget, subject, of course, to a new look as we get closer to that fiscal period and the economic conditions of that time.

Senator BYRD. I assume that you are speaking now——

Mr. ASH. A unified budget is what I am speaking of.

Senator BYRD [continuing]. On a unified budget basis.

Of course, it is an improvement. I think that you should get a balance on the Federal fund basis. But anyway, on the unified budget basis plan to get that balanced. That is an improvement.

FULL EMPLOYMENT BUDGET SEEN A GIMMICK

But let me ask you this. I assume that from what you say that the White House and the executive branch of Government has given up now this idea of full employment budget.

Mr. ASH. Well, I am not sure that I would say given up. A full employment budget is merely one other way to look at the data as they reflect certain——

Senator BYRD. Well, let me put it this way, then. For the last 6 years the administration has brought to the Congress——

Mr. ASH. Yes, sir.

Senator BYRD [continuing]. Has recommended to the Congress a deliberately unbalanced budget on a Federal funds basis to the extent of anywhere from $15 to $25 billion. That is a built-in deficit before the Congress even begins to work on it. I assume that you plan to change that for the future year.

Mr. ASH. Under some conditions—the ones that you have suggested, or that you have identified, in the past—the policy had been to adopt a budget stance that might have an actual deficit, but near full employment balance. This was the stance that would provide an appropriate amount of stimulus for the economy when it was underperforming.

But as we look ahead, we believe it would be proper economic policy to have a substanial full employment surplus—as we will have for 1975, as we are about to complete for 1974. The balance on a unified basis that we seek for 1976 would generate more than a $20 billion full employment surplus.

Thus, while we continue to make calculations on a full employment basis, a full employment balance is not the objective. The objective is to be certain not to have a full employment deficit, and under some circumstances and conditions to generate full employment surpluses. A full employment surplus will be the objective for 1974, 1975, and 1976.

Senator BYRD. The so-called full employment gimmick, in my judgment, is an absolute fraud on the American people. Under that concept the Government can spend whatever money it might take in if you had full employment, which no one expects to have and no one intends to have.

Mr. ASH. You will note that for 1975 and 1974—that is, the year just closing—and also for 1976, we would be generating large full employment surpluses. In those 3 years, we will accumulate about a $40 billion surplus, rather than just a balance, on a full employment basis.

Senator BYRD. If you are in that good a shape, why would you come in here and ask for an increase in the debt ceiling? Why would you be spending $31.5 billion in interest charges?

Mr. ASH. The full employment surplus or the full employment calculation is an economist's calculation of the impact of the Federal fiscal policy on the economy.

Senator BYRD. It is a theoretical economist's calculation.

Mr. ASH. And it is unrelated to—well, I should not say it is unrelated. It is related to, but is different from, the calculation of actual expenditures, actual revenues, actual deficits.

Senator BYRD. It is totally unrelated, totally unrelated to it. It has nothing to do with it because the money does not come in.

Mr. ASH. It is derived from it, but it certainly is a different set of figures and is not the same as actual outlays, actual revenues, and the deficit that needs financing.

Senator BYRD. Well, the fact is that the only thing that I am trying to ascertain from you is whether we have changed our policies to some extent.

Mr. ASH. I think we have in the sense that, as you have seen, in 1974 we moved a long way from full employment balance. In 1975, we are moving farther. In 1976, we will move so far away from full employment balance that it will be clearly possible to say that the full employment calculation was not the determinant of what the budget posture of the administration would be.

Senator BYRD. I think we can get along much better if we forget that word "full employment."

Mr. ASH. Well, it is gradually losing its effect, and it has been for some time.

Mr. VOLCKER. They say, Senator, part of the purpose of the full employment calculation is to apply discipline to spending. At the least, the idea was that we should not be spending more than the revenues that we could generate in full employment.

LACK OF DISCIPLINE IN LAST 6 YEARS

Senator BYRD. I must say, Mr. Secretary, if you can show me where any discipline has been applied in the last 6 years—in no period of the history of our Nation have we had the smashing Government deficits that we have had in the 6-year period, fiscal 1970 through fiscal 1975. Deficits of $133 billion, 25 percent of the total national debt.

Now, where is there any discipline in that?

There is no discipline in that. There is no discipline in that. As a matter of fact, to start out in each of those years, the administration itself has brought in a deliberately unbalanced budget on a Federal funds basis to the extent of anywhere from $15 billion to $25 billion.

What I am trying to ascertain today is whether we have changed that philosophy or whether we are still adhering to that process.

Mr. ASH. We certainly are moving a long, long way, as you can see, by working in 1976 toward an actual balance on a unified basis, even as it generates an over $20 billion full employment surplus. So I think the role of the full employment calculation is changing, and it has been changing since the budget for fiscal year 1974.

Senator BYRD. Well, I believe you had better make some changes because I do not see how this country can be in any worse shape financially than it is now.

Maybe you do not agree with that, but I do not think it is in very good shape now.

Mr. ASH. Well, because of our belief that inflation is a very important issue, and because Federal spending contributes to it, we believe that as we go to the agencies and departments this year for their guidance, we should say, balance is our objective. And we will then say, now let us see what legislative programs are necessary to bring that about. I am sure that the matter will be back in your hands, because we do not have the authority without legislative change to achieve a balance. But that does not mean that we cannot propose the necessary changes.

BALANCED BUDGET NECESSARY

Senator BYRD. That is right. You have the authority to present a balanced budget.

Mr. ASH. That is right; yes, sir.

Senator BYRD. And I think the responsibility.

Mr. ASH. Well, sir, we had an experience in 1974 which maybe was to be expected. We did propose a number of legislative changes, and I must say we were somewhat disappointed that not a single one even got considered, let alone enacted. That does give us a clue as to what we might expect in 1976, but we should try, and we will.

Senator BYRD. But your budget that you presented in fiscal 1974 was about $15 billion out of balance itself.

Mr. ASH. It still was in deficit, and even with that deficit we could not get the congressional actions that we really felt were necessary. And as you know, we took some actions unilaterally, only to regret the day and the amount of lawsuits that we are now defending.

Senator BYRD. I supported the actions.

Mr. ASH. We worked at it. I am afraid the realistic way to work at it is to propose again to the Congress what legislative changes should be made. Then, hopefully, the Congress will respond with action making those changes, and then we will carry out the will of the Congress in that respect.

Senator BYRD. Well, I supported those—what you did in that effort.

Mr. ASH. We, neither of us, got very far.

Senator BYRD. I supported what you did in that regard, but I do not believe you are going to get back—the country is going to get a balanced budget until the administration itself submits a balanced budget. I do not think the Congress—it is your view, I think, that the Congress overspends beyond what the administration spends. I think that is correct, but so long as you bring in a deliberately unbalanced budget, then we are not going to have a balanced budget.

Let me say this. I try to get out among the public as much as possible. I am spending a lot of time in Virginia recently, in the coalfields of southwest Virginia, and all over the State, and the public, I think, is deeply concerned about the Government's financial condition, more so than most of us in Washington realize.

Now, they are not sophisticated in the financial aspects. They do not know exactly why they feel that way, but I have the feeling that they do feel that the Government is on an unsound basis financially. I am convinced that we are not going to get the cost of living down until we get the cost of Government down.

Mr. ASH. I think that is a very good statement to which I could also subscribe. I think that that feeling of the public might well reflect itself back through the Congress as it considers the budget that we are now about to begin to prepare.

Senator BYRD. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

POSSIBLE VETO OF A DEBT LIMIT BILL LADEN WITH TAX AMENDMENTS

It is my understanding that there are now about 42 amendments that are pending on the so-called little tariff bill, transferring tax liability from Commerce to Treasury, and I am told further that if that amendment or that bill appears likely to succeed. I am told that we can anticipate that these amendments will be shifted to the debt limit bill.

My question to either of you, or to both of you, is, if that were done, what would your advice be to the President of the United States?

Mr. VOLCKER. I very strongly feel that the debt ceiling bill should not be a vehicle for adding all sorts of extraneous legislation, and would approach that question from that point of view—in a negative frame of mind.

Now, as a practical matter, I suppose it depends upon what the amendments are, but an amendment would certainly raise the serious issues.

Senator HANSEN. Well, I am sure you have read about them. I could recite some of them but I do not think I need to.

Mr. VOLCKER. You are talking about a reduction in taxes?

The CHAIRMAN. Well, I think you discussed some of them in your statement here.

Mr. VOLCKER. Well, I think a major reduction in taxes means we recommend a veto. It is opposite to the purposes of the fiscal responsibility we want to see incorporated in this bill and elsewhere.

Senator HANSEN. Do you share that feeling, Mr. Ash?

Mr. ASH. I certainly do, Senator.

Senator HANSEN. Would a tax cut help generate more investment or more inflation?

Mr. VOLCKER. More inflation I certainly believe.

Mr. ASH. And probably the higher interest rates that Mr. Volcker had earlier indicated would go along with it. Both of those I believe go in the direction opposite of what the people of this country truly want.

Senator HANSEN. If we passed a large tax cut, would this public debt increase be sufficiently large to cover the anticipated loss in revenues to go to this $495 billion limit?

Mr. VOLCKER. No, sir.

BALANCED BUDGET NEEDED

Senator HANSEN. I share the concerns expressed so ably by the distinguished senior Senator from Virginia. I think in the last few decades, we brought into the national budget picture some new ideas, new gimmicks. I think that best describes them. I believe that is the word that Senator Byrd used. I really do not think we are fooling anybody. It might be plain from my statement, from my remarks this applies not only to the Republican administration, but to previous Democratic ones as well, are simply a way to try to placate people into thinking that we are in better financial shape than we are and I think the thing has been deceptive.

I think it would be better to keep the budget in terms that people can understand. As a former Governor of Wyoming, I know we have a State law that we cannot operate in the red. We simply cannot do it.

I wish we had a comparable situation at the Federal level. I know that there are those who believe that you can justify almost anything; as we have withdrawn from the acceptance of individual responsibilities. There is a growing number of politicians, some of whom are in high elective office, that seem to think the way to win votes is to do the thing that is popular with people. In the long run spending is not going to be popular because it is not popular now. The people who are hurting least are not the people whose incomes have an escalator clause in them. They have been taken care of. But there are a lot of others that I think do deserve our sincere attention that are being hurt badly. Inflation is hurting them, and the prime root cause of inflation, in my judgment, has been the failure of Congress and of the executive branch of the Government to keep the budget balanced.

And I should think that if the alternatives are to spend some now in order that the economy might be stimulated so as to bring about a higher level of employment, as the lesser of two evils, the greater one of which would be to help plunge this country into a major depression and possibly trigger a worldwide depression that would be ominous. But this full employment budget, it seems to me, was poorly advised. I felt it was poorly advised at the time. I am not trying to blame you with it, but I just do not think it is very good, and hope the people have finally caught up to what we are doing to them. I think it has been very deceptive, and we would be better advised to meet the problem head on.

Possibility of Ever Having a Balanced Budget

Now, is it your opinion—when do you think we may anticipate a balanced budget in terms of, not including all of the trust funds that we used so loosely in past years, but trying to think about the time when we get sufficient tax revenues to pay for current expenses? When will that time likely be?

Mr. Ash. Do you mean a Federal funds balance rather than a unified budget balance?

Senator Hansen. Right.

Mr. Ash. A balance of Federal funds probably is so far out into the future that we could not put a particular date on it. It would require a fundamental change in our whole view of the relationship of the trust funds to the Federal funds and how they should be dealt with. The fact that over $20 billion of moneys are now paid each year from the Federal funds into the trust funds means that we would have to generate a $20 billion surplus on a unified budget basis in order to come to that.

It is hard to foresee from here any finite time in the future when economics and politics would merge to bring about that kind of a condition. I think our main goal, our main immediate goal here is to get to a balance on a unified basis. Once we are there and have that discipline built in, then I think we can look beyond it. But that is a goal in itself that we ought to work hard to achieve and hold.

Senator Hansen. If I understand you then, Mr. Ash, in the foreseeable future you do not anticipate——

Mr. Ash. Federal funds balance.

Senator HANSEN. The time will come when we will have what I think of as a truly balanced budget.

Mr. ASH. On a Federal funds basis.

Senator HANSEN. Yes.

Mr. ASH. There are substantial payments from one pocket of the Government to the other. If that is considered, as it now is, as a deficit in Federal funds, then we have really got to move a long way.

I think one way to consider that possibility or what would be involved in that possibility is to look at the composition of our annual outlay. It gives us a clue of what the problems are. For example, consider fiscal year 1975, where we contemplate spending over $300 billion. First subtract from that outlays for entitlement programs, contractual obligations, et cetera—all the programs in which the Government has a legal obligation to pay under existing legislation. Then exclude defense. I think that we should not kid ourselves into believing that we could substantially reduce defense without creating another set of problems. The interesting fact is that the amount remaining is $26 billion for everything, everything, which means that if we are talking about reductions of $5 or $10 or $20 billion, we are talking basically about putting other Government sevices out of business. We would not have an Intenal Revenue Service because we could not afford the tax collectors, we would not have veterans hospitals, and so on.

I am merely saying that we have so constructed our programs over the years that now a big, big proportion of outlays is built in by self-actuating legislation. This legislation so commits our expenditures that there is not discretionary opportunity within the budget—as there once was—to increase this program or reduce that program, and to change that program.

What is required are some fundamental changes in the legislative approach to building in future costs. The budget for 1975, to take as an example, really had only about 1 percent of it that might be considered increases in discretionary items, $3 billion out of $300 billion. The rest was no more than pricing out existing legislation or continuance of programs that were so firmly embedded that the abiilty to move them very much was very, very small.

So we have got to deal with fundamentals. We cannot work at the margin and do much good. If we are to move to balance on a unified basis—and even more as if we are to move to balance on a Federal funds basis—we have got to start way back with fundamentals. I mean such things as social security programs, food stamp programs, aid to families with dependent children. And sure, defense—we always look at that anyway, among other Government operating programs. We have got to look at every last program from a zero base. Until we look at them from a zero base, so long as we continue to look at them only at the margin, we really have not done the job. I think this is one of the advantages of the Budget Reform Act by which the Congress will join with the executive in assuming the responsibility for budget totals. It may well illuminate the level at which the problem must be dealt with. The legislation we are today working with automatically amost fully determines what present and future years' expenditures will be.

We cannot, on the one hand, continue to exhort either the Congress or the Executive to reduce expenditures by $10 billion or $20 billion without at the same time going to the various specific programs that make up Federal spending. We cannot deal in generalities. It is a luxury that we cannot afford. We cannot afford the luxury of a demagogic statement that we are going to reduce the budget $10 or $20 billion unless we are willing to deal with the very particular programs that make it up. That is what the issue is. We have got to step up and face it.

Inflation and Retirement Savings

Senator Hansen. Well, then, I gather from what you are saying, since you do not anticipate within the foreseeable future that we are going to have a really truly balanced budget, that some of the cliches we have used in this country that I think are important and have validity, such as being thrifty, trying to take care of yourself, trying to save for your old age and your social security are really a bunch of hogwash. I have listened to Dr. Freedman, and I know that he thinks that inflation is going to be here permanently, so the way to cope with it is not to try to do anything about it but to put these escalator clauses in everything, and of course, the trouble I see with that is that you do not build escalator clauses into savings accounts.

Many pension plans do not have them in. The personal savings that people do, contracts that are entered into do not have escalator clauses in them. This encompasses a significant segment of society that is trying to answer in a responsible fashion the individual's concern and obligation to take care of himself, and what you are saying is that this concept under the management that we are giving the Federal budget these days really is not going to do a very good job because these people are going to be shortchanged. There is no way on earth that I can save money today and with inflation expect that I will be able to buy 5 or 10 years from now the number of pounds of steak or what or whatever it may be that the dollars I save today will buy.

Mr. Ash. Well, the only way on earth is the one of getting back to the fundamentals of the programs that this country has adopted that have built-in cost growth. Unless we get back to the fundamentals and deal with those programs, then the rapid growth of outlays will continue to be a problem.

This is why, as we set about preparing the budget that we will be starting next month for 1976, we want to focus on those fundamentals. We want to bring everybody's attention to it and see if we can achieve the restraint at which we aim.

Treasury Savings Bonds

Senator Hansen. Well, one final observation.

Is the Treasury not really being pretty much deceptive and falsifying things to encourage anybody to buy Treasury savings bonds and that sort of thing these days?

I mean, how can you justify telling anybody to invest in a savings bond or whatever at a fixed rate of interest when you know perfectly well that a few years from now they are not going to get back. They would be better off to buy whiskey and store it in their basement considering the increase in the value of the bottle of whiskey during the war. I am not deprecating the war effort, but as far as any investments go, it is the poorest thing you could have done. You could have bought anything under the sun that had it not been for the importance of winning that war—and that was important. We have got a different picture today and I just cannot see how the Treasury can encourage people to make the investment in public funds today thinking that they have made a wise investment. If they believe in America, that is one thing, and if they want to do it on that basis, that is one thing. But as far as an investment goes, it is a poor buy. Is this not true?

Mr. VOLCKER. Well, I am not going to defend inflation at all. I think that the things you say about inflation are obviously appropriate, and all the indexes and all of the rest. I agree fully with what you have said.

Now, the savings bond program goes on year in and year out. We try to keep the rate competitive, and we have asked——

Senator HANSEN. What is the rate now?

Mr. VOLCKER. 6 percent.

Senator HANSEN. I am paying 13 percent at the bank on money borrowed right today. You can get 11½ percent on a CD if you have $100,000 or more.

Mr. VOLCKER. Well, if you have got a lot of money, but I think these rates are, for better or worse, in the range of rates that are available to small savers.

Now, there may be some inequity in this whole structure of interest rates, but I do not think you can single out the savings bond rate as being inequitable or unfair. I think it is reasonably in line with these other rates.

Senator HANSEN. I was not saying that——

Mr. VOLCKER. And the way to handle these problems is to handle inflation.

Senator HANSEN. I agree with you. I was not saying that savings bond rates as compared with other rates might not be fairly representative. I am simply saying that in good conscience you cannot tell people it is a good buy, because it is not.

Mr. VOLCKER. Well, I just do not like you to pick out savings bonds in particular.

Senator HANSEN. Well, that is your department. That is why I picked it out.

Mr. VOLCKER. None of these rates, I think, provides adequate recompense at this current rate of inflation.

Senator HANSEN. I would agree.

Mr. VOLCKER. Now, there are certain problems, as a practical matter, in institutions or elsewhere, of suddenly escalating these rates. You just cannot change these particular kinds of rates very fast. In fact, with inflation having reached the levels it has, in a way I would not like to see these rates escalated because it would indicate that we are ready to live with this rate of inflation, which I do not think we can do.

Senator HANSEN. I do not either.

Mr. VOLCKER. So the only answer to the problem I see—the only really effective answer—is to bring down the rate of inflation and eliminate it. So it is a very frustrating and unsatisfactory situation. It is one aspect of the whole inflationary problem, and another indication of the urgency of working on that problem.

Senator HANSEN. One final question. I have probably taken more time than I am entitled to, Mr. Chairman.

POSSIBLE TERMINATION OF PROHIBITION AGAINST HOLDING OF GOLD BY U.S. CITIZENS

Secretary Simon has indicated that he would like to terminate the current prohibition against the holding of gold by U.S. citizens.

What are your views on the subject?

Mr. VOLCKER. Well, he has indicated that this is a prohibition that he would like to remove just as soon as he can do it consistent with international monetary reform negotiations and with the inflationary situation in the country and other factors, and he certainly hopes and desires—I think he used both words—that this could come by the end of the year.

Senator HANSEN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Mondale?

STATE OF THE ECONOMY

Senator MONDALE. Mr. Ash, I think everyone agrees that inflation now is at an intolerable level and that Americans must sacrifice to abate this serious condition, but what bothers me is it seems to me the programs that I hear and observe lack in equity and in fairness, and it seems to me that the indispensable ingredient for a national appeal for sacrifice is the feeling by Americans that sacrifice is not being evenly distributed or fairly distributed throughout the country.

Now, if you look at present policies from the standpoint of the average family, we find that income taxes are rising, payroll taxes are up. As you know, there are no exemptions or preferences whatsoever in the payroll tax. It is flat tax. And as inflation rises, people go into higher income tax brackets. We find that whatever the reasons—income policies, or whatever—real wages, real purchasing power has dropped and is dropping. There was a story yesterday in the Wall Street Journal which I would like in the record following my question, which indicates that this year the average American's wage will lose 6 percent in purchasing power from a year earlier, and Mr. Robertson of the Pittsburgh Mellon Bank is quoted as saying the magnitude of the recent drop in real pay is entirely unprecedented in the post-World War II era.

We have the highest interest rates since I guess the Civil War, and the same article points out that compared to World War II when 10 percent of the consumers' income was needed to service debts, today 25 percent of after-tax income, a record portion, is taken out simply by interest charges, repayments and mortgages on installment loans.

Unemployment is rising. It is 5.2 percent. A continuation of these interest policies and a restrictive budget clearly indicates unemployment of 6 percent or higher. Social programs directed toward the same people who are suffering the most are the ones taking almost the entire burden of the restrictive budget.

A recent analysis by the Brookings Institution says that real spending after adjustments for inflation since 1972 for education, health manpower and community development was down by 30 percent, while there is a real increase in the defense budget for fiscal year 1975 of 6 percent. At the same time the public sees higher profits. They see a policy of resisting all tax relief to the average family, along with this announcement of a study to consider even further tax reductions for business, and an announcement that we intend to cut the budget even further than we have—and I have to believe based upon what you said today that those cuts will come in the form of even deeper restrictions on social programs in education and health and the rest.

And if I have heard you correctly, you are now looking at social security and food stamps, and I wonder whether there is any hope of persuading the average American that there is any sense of equity in this appeal for sacrifice.

[The articles referred to by Senator Mondale follow:]

[From the Wall Street Journal, June 11, 1974]

"BRAKE ON BUSINESS—ANALYSTS SEE A LAG IN CONSUMER SPENDING LIMITING A RECOVERY"

SQUEEZE IN "REAL" PAY, DEBTS CITED; MOOD IS "ROSIER" BUT BUYING PLANS DECLINE

WOULD TAX CUT REALLY HELP?

(By Alfred L. Malabre Jr.)

The American consumer is giving business forecasters the jitters.

Early in the year most private forecasters, as well as economists in the Nixon administration, predicted that a business recovery was likely to get under way around midyear. It's a view that many analysts, and President Nixon's advisers, still hold. But the consumer is causing worries. For it's generally agreed that any meaningful recovery would depend in large part on a pickup in consumer spending. And increasingly forecasters express concern that consumer outlays may in fact show little or no pickup in coming months.

Economists of Chicago's Continental Illinois National Bank & Trust find "economic weakness" to be "increasingly evident" in the economy's consumer sector. They warn that "without the support of strong consumer spending, which makes up 60% of gross national product, any business recovery would be modest at best."

Mr. Gaines' View

Similar concern comes from Tilford C. Gaines, chief economist of Manufacturers Hanover Trust in New York. Mr. Gaines sees the possibility of "considerable further weakening of consumer spending" in coming months. He says that the "current recession" may not get very much worse. But he also cautions that consumer sluggishness precludes any "sustained improvement in economic activity" any time soon.

Accounting for about 60% of GNP, as the Continental Illinois economists note, consumer spending dwarfs the combined expenditures of all private businesses and all levels of government in the U.S. Not surprisingly, past periods of economic recovery have invariably been marked by a substantial rise in consumer outlays. Such spending, in dollar terms, is on the rise now, too. But in "real" terms, with growth due merely to rising prices stripped away, consumer spending has been declining since last fall.

A major reason that consumer spending is likely to remain lackluster, economists say, is that consumers today are caught in an extraordinary financial squeeze. The squeeze has developed chiefly because prices in recent months have risen far faster than most incomes. Soaring energy costs, of course, have aggravated the situation.

Various statistics show the pattern. Weekly pay of workers in privte industry has fallen steadily for more than a year, if the paycheck totals are adjusted to remove inflation and tax payments. "Real" weekly pay has fallen nearly 6% below year-earlier levels. And per capita income of all Americans after taxes—a broader yardstick that includes such "transfer" payments as welfare—has recently begun to tell the same story. In the first quarter, the per-capita figure fell to the lowest level since 1972.

An "Alarming" Decline

Occasionad declines in such statistics are by no means unprecedented, particularly during recession periods, economists say. But the recent trend seems exceptional. Norman Robertson, chief economist of Pittsburgh's Mellon Bank, says that the magnitude of the recent drop in real pay is, in fact, "entirely unprecedented" in post-World War II America. In recent months, Mr. Robertson estimates, the decline has actually accelerated to an annual rate of about 8%, a pace that he finds "alarming."

Before a meaningful turnaround in the pay trend can occur, pay increases must clearly overtake the rate at which prices are climbing for a sustained period. Mr. Gaines of Manufacturers Hanover declares: "Until this situation is erased, until either inflation is slowed or consumer pay is increased enough to offset inflation, I don't see how the consumer sector can show any strength."

Some economists, in any event, regard the possibility of much heftier pay boosts later this year as a decidedly mixed economic blessing.

Any such boosts would doubtless tend to bolster consumer spending. But they might also drive up production costs, a development that could rekindle inflationary pressures. Rapidly climbing labor costs could also pinch corporate profits and that, in turn, could inhibit corporate spending for new plants and equipment. Such spending has been widely viewed as a major source of strength in the anticipated second-half recovery.

Dubious Source of Strength

Some analysts, it's worth noting, have long been skeptical that plant-and-equipment spending could provide major strength in a second-half recovery. Such spending is classified as a "lagging" business indicator, they point out. As such, it has tended in the early stages of past business recoveries to remain flat or actually decline.

Adding to the squeeze on consumers, many economists say, in the unusually high level of debt that Americans have accumulated in recent years. In 1972 and much of 1973, consumer debt rose at a record pace. Now, by no coincidence, a record portion of after-tax income—roughly one-quarter—is taken by simply by interest charges and repayments on mortgages and installment loans. In the early post-World War II years, by comparison, only about 10% of consumer income was needed to service debts.

At the same time, consumers have grown increasingly delinquent in paying their debts. At the end of February, the latest period available, a record 2.7% of consumer installment loans were delinquent for at least a month, according to a survey by the American Bankers Association in Washington. Repossessions were also at record levels, the ABA reports. In the past, ABA officials have labeled delinquency rates of more than 2.5% as uncomfortably high.

Many analysts believe that debt servicing and delinquencies will act to hold down consumer spending as the year unfolds. Per Lange, the ABA's survey director, says that the delinquency problem is prompting banks to "be a lot stricter about extending credit—more references are required, jobs are checked more closely, loans to pay off loans are being denied." He attributes the rise in delinquencies only partly to unforeseen economic woes stemming from the recent Arab oil squeeze. "Delinquencies were climbing before the energy crisis," he says. "The basic trouble has been the inability to pay to keep pace with prices."

Maintaining Living Standards

Some Senators, concerned over the consumer situation, have recently been pressing for a cut in personal taxes. There is doubt, however, that such a measure would spur much additional consumer spending. Phillips-Sindlinger, a research organization, found in a recent survey that "the American people are so concerned about the economy that they would hoard most of the money involved in any tax cut." Specifically, only 20% of those polled said that they would spend additional funds deriving from a 10% tax cut. The rest stated that they would use such money to pay off bills, or to bolster their savings. To the extent that it could intensify inflation, some economists also say, a tax cut might ultimately cause new problems for consumers.

Another reflection of the bind that many consumers are in, it's argued, is the fact that savings, as a percent of after-tax income, have recently dropped—to 6.6% in the first quarter from 7.8% in the last quarter of 1973. "Normally, the savings rate would rise significantly" in a time of slumping business activity "as people try to save for future difficult times," says Raymond F. Devoe Jr., economist at Spencer Trask & Co., a New York Securities firm. Recently however, because of inflation "consumers have been forced to forego savings in order to protect their standards of living to some degree," Mr. Devoe declares.

Surveys of buying plans also lead many forecasters to predict that consumer spending will stay sluggish. Very recent surveys suggest that the consumer mood, though still gloomy, may be lighter now than in the worst week of the Arab oil squeeze, when long gasoline-station lines were a familiar sight. But the findings hardly point to the sort of bounce traditionally associated with a general upturn in economic activity.

Reasonably typical is a report by the Conference Board in New York that "the consumer's view of the world is much rosier" than several months ago. However, the report goes on, "rising consumer confidence has not carried over into buying plans." The Conference Board's index of consumer buying plans in March-April actually dropped below January-February levels. Fewer consumers, for example, plan to buy a major appliance, the report states.

A Fortunate Few

Assessing the spending outlook, few forecasters attack major importance to the spread of so-called escalator clauses in wage contracts. Though about twice as many workers are covered by such living-cost agreements now as in the mid-1960's, the total still comes to only about five million in a labor force of nearly 90 million.

A sharp spurt in consumer outlays could occur, some economists say, if the public becomes so rattled by the price spiral that massive hedge-buying against still higher price tags begins. Alan Greenspan, president of Townsend-Greenspan & Co., a New York business consultant, warns that America "is rapidly approaching the crisis threshold of inflationary expectations which, if pierced, threatens massive economic disruption." Part of any such scenario would be a rush to spend any money as quickly as possible rather than to save.

Such a rush, of course, would not bring the healthy sort of rise in consumer spending necessary to fuel a sustained business recovery. Rather, analysts say, it would probably serve as a prelude to an economic bust. "The worst of all possible worlds would be a consumer buying spree now or in the near future," says Morris Cohen, economist of Schroder Naess & Thomas, a New York investment advisory concern.

Most forecasters remain cautiously hopeful that no such spree of hedge-buying will actually materialize. They generally doubt that even today's unusually high rates of inflation are high enough to subvert the American consumer's traditional tendency to try to save when the economic outlook seems uncertain.

[From the Washington Post, May 31, 1974]

"BROOKINGS SEES DEFENSE COST OF $142 BILLION"

By Michael Getler

New trends in U.S. defense policy imply that military spending will rise steadily—beyond increases caused by rising prices—from the $86 billion currently proposed for fiscal 1975 to a level that could hit $142 billion a year by 1980.

That is the assessment contained in the fifth annual analysis of the new federal budget and its implications for national priorities published yesterday by the Brookings Institution.

Defense specialists at the research institute estimate that an across-the-board improvement in U.S. combat readiness and capabilities, much of which will be set in motion in this year's budget, will mean an average increase of 5.2 per cent a year in real military spending through the end of the decade and probably into the 1980s.

In other words, the improvements being sought in both conventional and nuclear war forces, plus pay raises other than cost-of-living increases, will help push the total defense budget to almost $111 billion a year by 1980, even at today's prices.

When price-increase factors of 3 and 5 per cent a year are figured in, the totals hit $129 billion and $142 billion, respectively, in the Brookings' calculations.

If the new trends are approved and continued, along with numerous modernization projects already underway, the five-year decline in the share of the federal budget devoted to defense will come to an end in fiscal 1975, the analysts point out.

Furthermore, they estimate that future defense spending requests by the administration would then increase at roughly the same rate as the economy in general, "which means that there would be no room for a shift in federal spending from military to civilian purposes."

The analysts estimate that in terms of obligational authority, real spending on basic U.S. military forces is up $4.3 billion in the fiscal 1975 budget, a figure larger than the Pentagon estimate.

The Brookings specialists also say that the inflation factor allowed for defense in the January budget submission is already off by an additional $1.4 billion, raising the prospect of a new suplemental request or a decrease in real purchasing power.

The Brookings' study says the Pentagon explanation is that the Defense Department was "compelled" to use an unrealistic inflation estimate by the White House Office of Management and Budget.

The report reflects the views of its three authors—Barry M. Blechman, who did most of the defense section, Edward M. Gramlich and Robert W. Hartman. The study does not make recommendations or direct challenges to administration projects but it does pose issues and potential alternatives.

Calling some of the new trends set in motion by Defense Secretary James R. Schlesinger as potentially "the most far-reaching" since 1961 and worthy of considerable congressional scrutiny, the study focuses in particular on these points:

On the one hand, the Pentagon under Schlesinger is moving toward more efficiency by cutbacks in excess headquarters, support and reserve units, abandoning out-dated bomber defenses and pressing development of some lower-cost weapons.

But rather than take these savings out of the budget, the Pentagon and White House have decided to turn these funds—plus new money—into adding combat power.

The report questions the controversial decision by Schlesinger to develop—though not necessarily deploy—more accurate missiles able to knock out enemy missile silos. The authors suggest that the military gains from such missiles are dubious.

The Brookings review also calls attention more directly than the Pentagon has thus far to what the authors conclude is now a clear shift in U.S. planning which emphasizes fighting a short, intense war of perhaps several weeks duration in Europe rather than the longer 90-day engagement which previously was envisioned.

The emphasis on converting support units to combat troops, proposed large increases in weapons stockpiling and modernization, and a big and expensive expansion of airlift capability all fit into this transition, which the authors say matches the most likely Soviet battle plans in Europe and is thus probably a good idea.

[From the Washington Post, May 31, 1974]

"BUDGET STUDY SHOWS WAR ON GREAT SOCIETY"

(By Peter Milius)

The Nixon administration is winning, at least in part, its fight to cut back spending on the Great Society programs it inherited from the Democratic 1960s, according to a study of the federal budget published yesterday.

In real terms—that is, after adjustment for inflation—federal spending in such fields as education, manpower retraining, health and urban redevelopment has declined over the past two years, the study says.

The study—"Setting National Priorities: The 1975 Budget"—was published by the Brookings Institution. It is the fifth in what has become a yearly series. Its authors are Barry M. Blechman, Edward M. Gramlich and Robert W. Hartman, all senior fellows at Brookings.

President Nixon in 1973 went to war with the Democratic Congress over domestic spending programs. Fresh from his landslide re-election, and hoping to keep inflation from getting out of hand, the President proposed an unprecedented set of spending cutbacks. Congress howled in protest, and they fought almost all year.

This year the President was less combative on the spending issue in his budget. The economy was sagging, and in need of a little pepping up. It was also widely held that he was being more conciliatory because of Watergate.

The authors of the Brookings study suggest a third possible reason for the Presidents' seeming turnabout. They say his efforts to "hold down the growth" of spending on what they call social programs "have been at part successful."

The administration in each of its last two budgets has proposed increasing outlays for defense. It has justified the increased outlays by citing inflation, saying they amounted to a stand-still budget, and were required just to stay even with increasing pay and prices. The budget documents have made no comparable references to inflation's impact on domestic programs.

The Brookings study says that, if allowances are made for inflation, the President's budget for fiscal 1975 contemplates a spending level 30 per cent lower than in fiscal 1972 in "the social grant area," the fields of education, manpower retaining and urban redevelopment.

"Moreover," the study continues, "the administration's requests for social and seem designed to maintain a fixed level of nominal spending for these programs in the future. As prices increase, therefore, the real level of federal activity will be further reduced."

Total domestic spending, though, is not declining. What has happened instead is that there has been a change in its mix. While outlays in such areas as education have gone down in real terms, direct federal aid to individuals—cash payments under programs like Social Security, other noncash forms of assistance such as food stamps—have gone up dramatically.

At the same time, the authors note, "the defense budget seems poised for a turnaround from a steady declining share of the budget to substantial real increases for 1975 and the future."

The administration has described its budget for the fiscal year beginning July 1 as fiscally neutral, one that will neither pump the economy up and add to inflation nor slow it down and thus risk a recession.

The Brookings study, on the other hand, says the proposed budget would be quite restrictive. In the second half of the fiscal year, it says, the government would have a full-employment surplus under the President's spending plan of $14 billion, which would "represent the tightest fiscal policy since the early sixties." A full-employment surplus represents how much more the government would theoretically have to spend to pump the economy up to full employment, defined as a 4 per cent unemployment rate.

Some Democratic Senators are arguing the budget is too restrictive, and are pressing for a tax cut. The President opposes cutting taxes, saying it would be inflationary.

In theory, a full-employment surplus is money up for grabs. Over the long run, at least, it represents extra money that the government can either spend for new programs or give back to the public in the form of lower taxes.

The Brookings study estimates that, if the tax laws went unchanged, if no new programs were begun and if prices did not rise, the government would have a full-employment surplus of $45 billion by fiscal 1980. At a 5 per cent inflation rate, that surplus would be $93 billion, or $71 billion in 1975 dollars.

That means the government could look forward to a sizable degree of fiscal latitude over the next five years, the study says. But it cautions that there are going to be a lot of demands made on that "extra" federal money.

National health insurance is one possibility; cutting taxes is another. Still another that the authors mention is the likely need for great amounts of capital in the next few years for such things as housing, anti-pollution equipment and "to develop new sources of energy." To make that capital available to private borrowers, the authors say, the government may want to reduce its own outstanding debt. Part of any surplus would then have to go to that.

Mr. ASH. Senator, that is probably one of the most fundamental questions we have been addressing for some time. I would particularly appreciate the opportunity to speak to it at this time.

If we take the period from fiscal year 1969 through fiscal year 1975, the facts are somewhat contrary to the conclusions that you have drawn from one source or another. Social programs—what we call human resources programs—have increased from being 35 percent of Federal expenditures to 50 percent of the Federal expenditures.

Senator MONDALE. Could I interrupt?

You are talking about social security?

Mr. ASH. We are talking about all social programs.

Senator MONDALE. But you include social security?

Mr. ASH. Yes, but other human resources programs have gone up at the same rate. It makes no difference whether one includes or excludes social security. The percentage increase is almost exactly the same.

In any event, the recipients of social security are certainly a beneficiary group that we do not want to overlook and that we do want to make sure shares fully in the growth of the economy.

So, since 1969, there has been a very massive shifting of priorities. Social programs having gone from 35 percent of Federal outlays to 50; defense expenditures having gone from 45 percent down to less than 30. We have substantially shifted the flow of resources in the Federal Government in these last 5 years. The social programs clearly are not taking the burden of restraint, either in the past or in our proposals for the future.

Our objective is the same as yours—to make sure that we equitably distribute the burdens that have to be borne by society in dealing with any of our problems. And one can merely look at the last 5 years to see the evidence of that equity swinging substantially in favor of social programs.

You mentioned that profits had increased. Profits are a component of the gross national product that fluctuates more than most. As a percent of the GNP they have been higher in some past years than they are now, and lower in others. That is, again, I think, a fact that the data will confirm.

As to real purchasing power and its drop, it is true that the real purchasing power of the wage-earner over the last year has dropped, but there have been times past when the farmer's purchasing power has gone up and down, when retirees and social security recipients had dropped, relative to the economic growth, and when savers' incomes had dropped. Over the long run—and again I refer to just these last 5 years—the real purchasing power of the average worker, factory or otherwise, has gone up substantially—notwithstanding inflation, and notwithstanding tax changes. I think that one cannot take the first quarter of 1974 and extrapolate data of that quarter, first annualizing it, and then extrapolating it, to define the whole of the future of the country. There are ups and downs for any one group relative to any other group. It turns out that this first quarter has been a down for a number of people. But that is exactly what gives us the challenge and creates the need that we deal with inflation. Unless we deal with inflation, those least able to pay will bear some of its burden.

When you look at Federal programs last year, in earlier years, and at programs that we plan for the future, I think you will see that we do attempt to distribute equitably the burdens that have to be carried, whether they be public works programs, or agricultural programs, defense programs, or social programs. The objective is to have a balance, so that the broadest interest of the greatest number of people is served. I think this has been the objective of the budgets prepared for past years, and congressional action on them has been in response to the same objective of achieving equity. We have all got that goal in front of us. Equity is, in some extent, subjectively defined. We all do our best in determining what we believe constitutes proper equity.

The proposals that the President put forth, say, in that 1974 budget that the Congress did not deal with are, I think, not at all inequitable. They were proposed in order to correct inequities and make more equitable expenditures that we do make.

Spending Levels in the Social Grant Area

Senator Mondale. The Washington Post, on May 31, reviews the recent study by the Brookings Institution on the budget. And that study shows that if allowances are made for inflation, the President's budget for fiscal 1975 contemplates a spending level of 30 percent lower than fiscal 1972, in the social grant area: education, manpower, retraining, and urban redevelopment.

Are they wrong?

Mr. Ash. I am sure that they are wrong. I do not know exactly what data they refer to, but I think it is possible—because I participated in a hearing yesterday where a subject of like kind came up—that they have overlooked the special revenue sharing programs that are proposed to supplant some of the categorical programs. And if, for example, you deal only with categorical programs, by that calculation, a reduction may appear, when the real fact is that there was a substantial increase. If I had in hand the analysis you have, I could better respond to your question.

Education Outlays

Senator Mondale. I am not an expert in all of those areas by any means, but I know in education, where I have a special interest, I think real spending this year for education, including the adjustment for inflation, shows a reduction of $800 million in spending.

Mr. Ash. This year over last year? Taking into account special revenue-sharing proposals that are also included in the budget?

Senator Mondale. Well——

Mr. Ash. It makes a difference. If we take 30 categorical programs and consolidate them into one special revenue sharing program, then clearly we should not leave out the consolidated revenue-sharing program that takes their place, in making calculations.

Senator MONDALE. Yes.
How much of that do you anticipate goes to education?

Mr. ASH. Well, the education revenue sharing programs had a substantial amount—some $2 billion—and the comprehensive manpower and training——

Senator MONDALE. That manpower training—we have got a manpower training bill that was passed that is pretty good—which seeks to incorporate, as much as we can, the so-called notions of revenue sharing.

I am talking about money for elementary and secondary education and higher education, and so on.

Mr. ASH. In 1974, also, you may remember there was a double budget for some education appropriations so that some of the accounts could be moved forward a year and work better with the school systems. So one has to look at more than year-to-year changes, particularly when one year, has, itself, had a significant increase to provide for extra funds in order to make a transition.

I think the key is to look at, say, a 5-year period, and then take into account the effect of special revenue sharing that in some cases supplants categorical programs.

GREATER TAX PREFERENCE SEEN FOR WEALTHY

Senator MONDALE. Well, here you have a reputable independent agency that makes that determination—one which strikes me as being accurate. Based upon your testimony, even further cuts are planned in these fields. You made a special point of separating out defense. We are in the middle of this tax issue again, and not only does the administration oppose any modest tax reduction for these persons suffering the most from inflation, but at the same time announces that they have got a high-level task force working on further tax preferences for business.

I think Americans look at the latest oil profit figures and tax figures, showing the major oil companies and multinationals paid 1 percent, 2 percent, 3 percent in taxes. And we are told, you cannot have any rollbacks at all. You know, I do not think it looks very good to the average American. I think what he believes is we have a policy of greater preferences for the wealthy, and blood, sweat, and tears for him. You know, I am not quoting from radical journals here; I am quoting from the Wall Street Journal of yesterday, which is not known as a prominent socialist document; and the Brookings Institution. And I really believe that an enormous, gaping hole is developing; a gap between what you think you are doing and what the American people think you are doing and what I think you are doing.

Mr. ASH. I think the data do not show that. When we talk about programs——

Senator MONDALE. Well, let us do this. Would you take this story and respond to that figure—the 30-percent cut—and see how you come out?

Mr. ASH. I would very much like to.

Senator MONDALE. Let us see what the figures are.

[The information referred to follows:]

The 80% cut which you mention from the Brookings study is, in several ways, misleading. For one, the authors search through a host of measures of program level—including outlays, net obligations incurred, budget authority, and end-of-year balance of obligated budget authority—to produce their figure. Now, the OMB staff works hard to present the budget in consistent and informative terms. You will find almost every figure in terms of outlays. By playing with different measures—and there are strong pressures to do so which are resisted—there's no problem in coming up with all sorts of dramatic numbers.

Second, a good government will be continuously phasing out programs as they become unneeded or prove relatively ineffective, and will be introducing new ones. The 80% decline figure has concentrated on waning programs and rather arbitrarily ignored growing ones. For instance, its 1972 base includes over $1½ billion of emergency employment act funds. This program was in response to high unemployment, and should be tied to it. The budget provided for 1975 funds for the kinds of programs which were carried out under the emergency employment act, but as part of a new comprehensive manpower assistance program, providing the States with more flexibility on how best to use the funds. Excluding emergency employment act funds, manpower outlays in 1975 have increased by 25% (in current dollars) over 1972. In addition, the Administration proposed some $.8 billion in supplemental unemployment benefits subsequent to the submission of the budget to the Congress.

Similarly, while community development has not grown—1975 outlays (in current dollars) are planned to be about 1% less than 1972 outlays—aids to low- and moderate-income housing, an activity closely related to community development, is up by nearly 45%.

The Brookings analysis speaks of grants, but neglects the appearance of General Revenue Sharing. In 1975 States and localities will have over $6 billion of this general purpose funding. In 1972 they got none. States are using much of their money for education, and localities are free to use funds for community development and manpower, if they choose.

It is more meaningful to look at broad trends. For major budgetary categories, OMB has developed constant dollar figures. The following table shows that social programs, and grants, are not being neglected.

FEDERAL BUDGET OUTLAYS IN CONSTANT DOLLARS (FISCAL YEARS; IN BILLIONS OF FISCAL YEAR 1969 DOLLARS)

	1972	1975	Percent change
National defense	$63	$57	−10
Payments to individuals	61	82	+35
Grants-in-aid to State and local governments	30	37	+25
Total budget outlays	185	207	+10

$0.9 Billion Reduction in Educational Spending Explained

Senator Mondale. One final point: in your statement, you indicated that there was a $0.9 billion reduction in educational spending because the States are drawing down more slowly than anticipated the funds made available to them for release in 1973, reserved for 1974 appropriations.

Can you tell me what that is? That came as a surprise to me.

That is today's testimony. It is on page 4.

Mr. Ash. Yes, we make those funds available to the States to draw down as they meet the requirements for drawing them down. They have not put in front of us the requisite data and supporting information. We have an obligation to pay these funds out when the requirements are met.

Senator MONDALE. Could you supply for the record a fairly detailed analysis on how that $0.9 billion shortfall works out?

Mr. ASH. We will.

[The information referred to follows:]

Estimated shortfall in education outlays (fiscal year 1974, in millions of dollars)

Elementary and secondary	$-418
Vocational education	-46
Higher education	-333
Educational research	-1
Education of the handicapped	+45
Other education aids and administration	-109
Total	-862

There are still 2 months of outlay experience yet to be reported and the final number could be less of an underrun by as much as $800 million.

MOST REDUCTIONS INCLUDED CONSTRAINTS ON GROWTH

Mr. ASH. May I just clarify one thing that we have been talking about here, particularly for the benefit of any press interest?

When we talk about cuts and reductions, that generally means restraints on growth. We are not talking about absolute reductions. You will notice that virtually every program has its own built-in growth. The need is not to cut programs. The need rather, is to extrapolate their growth and see if their rates of built-in growth are the ones that the Congress and the administration find acceptable. When we move from a level of about $270 billion in expenditures in 1974 to about $300 billion in 1975, almost all of that increase is built-in growth of existing programs. Therefore, references that I make to reductions, do not at all need to be, and generally are not, references to absolute reductions. Basically, I am talking about the need to review the rates of growth built into our programs, and to see if those rates of growth might be modified, while still maintaining our goal of equity.

SOCIAL GRANT PROGRAMS AND INFLATION

Senator MONDALE. One of the problems here is—I agree with you that you have to look at the rates of growth—but you have to look at the rates of growth in relation to inflation. And when you do, you find that most of the social grant programs are losing purchasing power dramatically because they are not keeping up with inflation, there is a net decrease in purchasing power.

Mr. ASH. Actually, sir, it is just the opposite. We have tens of millions of recipients of benefits from social programs who receive cost of living adjustments. These include social security recipients, Food Stamp recipients, and Government retirees, both civilian and military. Five million people in the private sector have wage contracts that have built-in indexing. In fact, some of these people have index formulas that grow faster than does the rate of inflation. When indexes increase faster than the rate of inflation, their beneficiaries may have a vested interest in the highest inflation rate possible, because their own increase is inflation, plus a bonus. With food stamp recipients, subsidies to school lunch programs for 24 million children, 600,000 postal workers; 5 million Federal military and civilian employees through comparability adjustment—with all the millions of persons whose incomes are automatically adjusted upward with inflation, indexing itself can be an inflationary factor. Indexing, helps those who have it but, nevertheless, it puts some of the burden of inflation over onto others who do not have that help.

Senator MONDALE. I recognize the index in some of that; what I was referring to is the social programs again, the health, education, manpower, community development programs.

In the same Brookings study, they point out that the Federal social programs would increase by less than 2 percent in 1975, which, of course, is clearly less than the rate of inflation.

Mr. ASH. I do want to suggest again that we do not take any 1 year as a measure of what has been, is being, or will be done. There is no question about it in anybody's mind that these last 5 years have reflected a very, very substantial change in priorities. Federal Government monies have been directed increasingly toward health and education and welfare of all kinds and away from defense. Any 1 year's comparison as to any one categorical item may show that it did not go up that year, but when you look over any reasonable period, the change has been dramatic and tremendous.

DEFENSE BUDGET

Senator MONDALE. Well, I think you have to throw social security in there to end up with that figure. In the social development programs of education and health and so on—take title I—there has been a negative rate of growth after inflation, as has been true in many of the other social programs. It is true that as the percentage of GNP rose, the defense budget has dropped in percentage. And yet, if you look at the amounts being spent—when I came to the Senate I believe we were spending $50 billion, and now we are spending $90-some billion this year.

Mr. ASH. Not that; no, sir.

Senator MONDALE. One hopes we do not end up with total peace; it would be $150 billion.

Mr. ASH. Defense expenditures this year will take the lowest percentage of the gross national product of any year since 1951. The people of this country are giving up a lesser percentage of the goods and services that they otherwise could privately consume for defense than in any year since 1951. This is a substantial reduction in the real cost to every one of the people of this country for defense.

Senator MONDALE. One would have hoped, if we are nearer peace, it might have been less.

Mr. ASH. Well, it has moved down at a fairly fast rate, and is the lowest percentage of GNP since 1951. We had many peaceful years in the meantime. Certainly today we are at the lowest percentage we have for as long as most of us have been paying taxes—maybe not remembering, but at least paying taxes.

Senator MONDALE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dole.

Inflation Rate

Senator Dole. Well, I just have a couple of questions, and you may have already covered these; but I do notice on page 10 of your statement you indicate that the worst of the inflationary problems are over. Can you tell me what you expect the rate to be in November?

Mr. Volcker. I am not going to pick out a precise figure for November, but I indicated earlier—I guess you are referring to Mr. Ash's statement——

Senator Dole. Right.

Mr. Volcker. We agree it is going to be lower. We indicated earlier it is going to be less than two digits if we do the right things between now and November.

Senator Dole. If you do not do the right thing there will be less than two digits of us left, too. [Laughter.]

Mr. Volcker. I think it is a fair comment that dealing with inflation may be becoming politically popular, and I hope that comes through in the right kinds of actions in the administration and the Congress too, in fact, deal with inflation effectively, because I cannot see how it is going to be politically popular not to in the long run.

Wage and Price Controls

Senator Dole. I find a great number of big spenders talking all of a sudden about inflation. They do not have the record to back it up, but they have the politics; and it makes it rather difficult. That is why I was interested. It is the most pressing problem—politics aside. I hope you are correct that it takes on this new meaning for a great many people who have not paid much attenion to it in the past. There is not any effort afoot by the administration to seek any new authority for controls, is there?

Mr. Volcker. No, sir.

Mr. Ash. No effort. We in fact believe that to impose wage and price controls could be counterproductive at this time. What we do need is more capacity, more production. I know of no case where price controls have increased supply or reduced demand. If they had any effect, I think it was to reduce supply and increase demand. We think one of the many ways to deal with inflation is to make sure there is a fully adequate supply of products available that will bring prices down. We see it on meat today. We know the problems of prices coming down.

Livestock Industry

Senator Dole. The livestock people are about to go bankrupt.

Mr. Ash. There is a problem.

Senator Dole. That has been the other side of the coin, and I do not know if they are going to be able to produce much longer, with the price they receive now. We had a meeting with Secretary Butz earlier this morning, trying to figure out some way to help the livestock industry and in effect help the American consumer. It is very critical now in many areas. We suggested one way would be, of course, additional purchases of commodities; and I assume you have some role in that.

Mr. Ash. We will be talking about that this afternoon.

Possible Effects of Failure To Get a Debt Limit Bill

Senator Dole. All right. I think it has been made clear that we are going to—I think the chairman refers to these things as horses—we are going to put a number of riders on this horse before it reaches the President. And then the President is going to be forced to veto it, and then it is going to come back and some of us are going to be encouraged to vote to sustain the President's veto. And hopefully, the debt ceiling itself will get to the President before the deadline.

How much time do we have after June 30 before everything collapses?

Mr. Ash. Well, a number of things collapse at midnight, June 30, like the sale of "E" bonds that we were talking about earlier.

Mr. Volcker. You have all of the problems once you pass over that time period. I cannot give you an estimate on the number of days we could last without a debt limit, but it would be only several days.

The Chairman. May I just interject?

If you cannot give us an estimate now, I think you had better get one sometime soon, because that is a very important piece of information.

Mr. Volcker. You are talking about days. Let me emphasize that. You are not talking about weeks; you are talking about days. We have what—$3 billion, $4 billion worth of Treasury bills maturing every week, and we have not got the cash to pay those off.

Tax Riders on the Debt Limit Bill

Senator Dole. It is important, because I have a feeling we may be in late that evening. It might be better if we just tack all of these on tomorrow as we mark up the bill; put on all these amendments and send it to the floor fully saddled, and then just pass it to speed up the process. We would save all of that debate on the floor and all the demagogic statements that are going to be made. We could do those ourselves and fill the hearing record and save about 2 weeks' time. It would probably help you, too. It is going to be difficult for a lot of us to stand up and vote against tax "relief," and vote to sustain a veto. Maybe it might be better—in fact, I am working on an amendment—just to tack a lot of it on tomorrow and save a lot of that time on the Senate floor because we are very busy. We are told that every day.

There ought to be some way out. If we think to wait for all of the floor statements to be made—there are a lot of floor statements to be made—we all like it and we all want to make a nice statement. It is pretty hard to have it both ways. But that is what is going to happen.

Mr. Volcker. I understand your problem. It is a bit ironic to be here this morning talking about inflation, and then to put tax cuts on debt ceiling bills.

Senator Dole. Well, I think we already know it is going to be a charade anyway; why not speed it up.

Mr. Volcker. Well, I understand that problem. I do not look forward with any joy to being here on June 30, worrying about whether the debt ceiling is passed in a clean manner. But we have done it before.

Senator DOLE. But seriously, it just seems to me that—if we know what it is, we may as well face up to it and saddle up and get out of here.

Mr. VOLCKER. Yes, I understand: but that is not a judgment I can make. I assure you that that kind of bill is not acceptable.

Senator DOLE. Well, we knew that earlier.

I have no further questions.

The CHAIRMAN. Senator Bentsen?

Senator BENTSEN. I have no questions, thank you, sir.

CAPABILITIES OF THIS NATION

The CHAIRMAN. I want to ask about a couple of things, and I know Senator Byrd wants to ask a couple of more things.

For one thing, I try to persuade people in that country really has not been destroyed, that in spite of what people may represent, this is still the richest Nation on the face of the Earth, even though Congress every now and then gives every indication that it is going to declare us bankrupt by an act of Congress and forbid the payment of any more debts or any bills the Government might owe.

You have made available from time to time some charts showing what the debt is in constant dollars, how it compares with previous years, what the gross national product is, what the gross public and private debt is, and a great number of things in there that one can use to support an argument one way or the other.

I think on the whole it tends to show that we are still the richest Nation on the face of the Earth, that we are in a position to do about anything this Nation wants to do if it is willing to make the sacrifice, even including controlling inflation.

Would you be so kind as to update those charts and make them available for the committee report?

Mr. VOLCKER. We would be happy to, Mr. Chairman.

The CHAIRMAN. I suppose it would be adequate just to have them in the hearings, but we will decide that.

[The material referred to follows:]

TABLE 1.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

	December 1946		December 1960		December 1970		December 1973	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Federal debt:								
Public	$259	58	$290	29	$389	18.2	$470	16.3
Federal agency	1½	(1)	6½	1	12½	.6	11½	.4
Total	260½	58	296½	30	401½	18.8	481½	16.7
State and local debt	16	4	72	7	149	7.0	187	6.5
Corporate debt [2]	109½	24	365	37	997½	46.7	1,395½	48.4
Individual debt	60	13	263	26	586½	27.5	821	28.4
Total	446	100	996½	100	2,134½	100.0	2,886	100.0

[1] Less than ½ of 1 percent.
[2] Includes debt of privately owned federally sponsored agencies.

Source: Office of the Secretary of the Treasury, Office of Devt Analysis.

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

TABLE 2.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

December 31	Private			State and local	Federal			Total	Percent Federal of total
	Individual	Corporate [1]	Total		Public	Agency	Total		
1929	$72.9	$107.0	$179.9	$17.8	$16.3	$1.2	$17.5	$215.2	8
1930	71.8	107.4	179.2	18.9	16.0	1.3	17.3	215.4	8
1931	64.9	100.3	165.2	19.5	17.8	1.3	19.1	203.8	9
1932	57.1	96.1	153.2	19.7	20.8	1.2	22.0	194.9	11
1933	51.0	92.4	143.4	19.5	23.8	1.5	25.3	188.2	13
1934	49.8	90.6	140.4	19.2	28.5	4.8	33.3	192.9	17
1935	49.7	89.8	139.5	19.6	30.6	5.6	36.2	195.3	19
1936	50.6	90.9	141.5	19.6	34.4	5.9	40.3	201.4	20
1937	51.1	90.2	141.3	19.6	37.3	5.8	43.1	204.0	21
1938	50.0	86.8	136.8	19.8	39.4	6.2	45.6	202.2	22
1939	50.8	86.8	137.6	20.1	41.9	6.9	48.8	206.5	24
1940	53.0	89.0	142.0	20.2	45.0	7.2	52.2	214.4	24
1941	55.6	97.5	153.1	20.0	57.9	7.7	65.6	238.7	27
1942	49.9	106.3	156.2	19.2	108.2	5.5	113.7	289.1	39
1943	48.8	110.3	159.1	18.1	165.9	5.1	171.0	348.2	49
1944	50.7	109.0	159.7	17.1	230.6	3.0	233.6	410.4	57
1945	54.7	99.5	154.2	16.0	278.1	1.5	279.6	449.8	62
1946	59.9	109.3	169.2	16.1	259.1	1.6	260.7	446.0	58
1947	69.4	128.9	198.3	17.5	256.9	.7	257.6	473.4	54
1948	80.6	139.4	220.0	19.6	252.8	1.0	253.8	493.4	51
1949	90.4	140.3	230.7	22.2	257.1	.8	257.9	510.8	50
1950	104.3	167.7	272.0	25.3	256.7	1.1	257.8	555.1	46
1951	114.3	191.9	306.2	28.0	259.4	.8	260.2	594.4	44
1952	129.4	202.9	332.3	31.0	267.4	.9	268.3	631.6	42
1953	143.2	212.9	356.1	35.0	275.2	.8	276.0	667.1	41
1954	157.2	217.6	374.8	40.2	278.8	.7	279.5	694.5	40
1955	180.1	253.9	434.9	46.3	280.8	1.4	282.2	763.4	37
1956	195.5	277.3	472.8	50.1	276.6	1.7	278.3	801.2	35
1957	207.6	295.8	503.4	54.7	274.9	3.2	278.1	836.2	33
1958	222.9	312.0	534.9	60.4	282.9	2.4	285.3	880.6	32
1959	245.0	341.4	586.4	66.6	290.8	5.7	296.5	949.5	31
1960	263.3	365.1	628.4	72.0	290.2	6.4	296.6	997.0	30
1961	284.8	391.5	676.3	77.6	296.2	6.8	303.0	1,056.9	29
1962	311.9	421.5	733.4	83.4	303.5	7.8	311.3	1,128.1	28
1963	345.8	457.1	802.2	89.5	309.3	8.1	317.4	1,209.1	26
1964	380.1	497.3	877.4	95.5	317.9	9.1	327.0	1,299.9	25
1965	415.7	551.9	967.6	103.1	320.9	9.8	330.7	1,401.4	24
1966	444.2	617.4	1,061.6	109.4	329.3	14.0	343.3	1,514.3	23
1967	476.2	672.9	1,149.1	117.9	344.7	20.1	364.9	1,631.9	22
1968	513.9	757.6	1,271.5	128.4	373.1	21.4	394.5	1,794.4	22
1969	548.7	882.1	1,430.8	137.9	382.0	30.6	412.6	1,981.3	21
1970	586.3	959.0	1,545.5	149.3	401.6	38.8	440.4	2,135.0	21
1971	648.3	1,045.0	1,693.3	166.3	435.2	39.9	475.1	2,334.6	20
1972	734.4	1,176.1	1,910.5	178.6	461.1	41.4	502.5	2,591.5	19
1973	821.3	1,335.6	2,156.9	187.4	481.5	59.8	541.3	2,885.6	19

[1] Includes debt of federally sponsored agencies excluded from the budget which amounted to $700,000,000 on Dec. 31, 1947; $30,600,000,000 on Dec. 31, 1969; $38,800,000,000 on Dec. 31, 1970; $39,900,000,000 on Dec. 31, 1971; and $41,400,000,000 on Dec. 31, 1972; and $59,800,000,000 on Dec. 31, 1973.

Source: Commerce and Treasury Departments.

TABLE 3.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, 1929–PRESENT

End of calendar year	Government debt						Private debt					
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]		Total Government and private debt	
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and noncorporate business	Corporate business	Individual and noncorporate business	Amount outstanding (billions)	Per capita
1929	$17.5	$17.8	$35.3	$143	$145	$288	$107.0	$72.9	$874	$595	$215.2	$1,757
1930	17.3	18.9	36.2	140	153	293	107.4	17.8	868	581	215.4	1,742
1931	19.1	19.5	38.6	153	157	310	100.3	64.9	805	521	203.8	1,636
1932	22.0	19.7	41.7	176	157	333	96.1	57.1	767	456	194.9	1,555
1933	25.3	19.5	44.8	201	155	355	92.4	51.0	733	404	188.2	1,493
1934	33.0	19.2	52.2	260	151	411	90.6	49.8	714	392	192.9	1,520
1935	36.2	19.6	55.8	283	153	437	89.8	49.7	703	389	195.3	1,529
1936	40.3	19.6	59.9	313	152	466	90.9	50.6	707	394	201.4	1,566
1937	43.1	19.6	62.7	333	151	484	90.2	51.1	697	395	204.0	1,576
1938	45.6	19.8	65.4	349	152	501	86.8	50.0	665	383	202.2	1,549
1939	48.8	20.1	68.9	371	153	524	86.8	50.8	660	385	206.5	1,569
1940	52.2	20.2	72.4	393	152	545	89.0	53.0	670	399	214.4	1,615
1941	65.6	20.0	85.6	489	149	638	97.5	55.6	727	414	238.7	1,779
1942	113.7	19.2	132.9	837	141	978	106.3	49.9	782	367	283.1	2,128
1943	171.0	18.1	189.1	1,242	131	1,384	110.3	48.8	801	355	348.2	2,529
1944	233.6	17.1	250.7	1,678	123	1,801	109.0	50.7	783	364	410.4	2,947
1945	279.6	16.0	295.6	1,987	114	2,101	99.5	54.7	707	389	449.8	3,197
1946	260.7	16.1	276.8	1,825	113	1,938	109.3	59.9	765	419	446.0	3,123
1947	257.6	17.5	275.1	1,771	120	1,891	128.9	69.4	886	477	473.4	3,254
1948	253.8	19.6	273.4	1,715	132	1,847	139.4	80.6	942	545	493.4	3,334
1949	257.9	22.2	280.1	1,713	147	1,860	140.3	90.4	932	600	510.8	3,393
1950	257.8	25.3	283.1	1,685	165	1,850	167.7	104.3	1,096	682	555.1	3,627
1951	260.2	28.0	288.2	1,671	180	1,851	191.9	114.3	1,232	734	594.4	3,817
1952	268.3	31.0	299.3	1,694	196	1,890	202.9	129.4	1,281	817	631.6	3,988
1953	276.0	35.0	311.0	1,714	217	1,931	212.9	143.2	1,322	889	667.1	4,142
1954	279.5	40.2	319.7	1,705	245	1,950	217.6	157.2	1,327	959	694.5	4,236
1955	282.2	46.3	328.5	1,691	276	1,961	253.9	180.1	1,522	1,079	762.5	4,552
1956	278.3	50.1	328.4	1,638	294	1,925	277.3	195.5	1,632	1,151	801.2	4,65[illegible]
1957	278.1	54.7	332.8	1,609	315	1,918	295.8	207.6	1,712	1,201	836.2	4,820
1958	285.3	60.4	345.7	1,624	342	1,960	312.0	222.9	1,776	1,269	880.6	4,992
1959	296.5	66.6	363.1	1,653	371	2,024	341.4	245.0	1,903	1,366	949.5	5,293
1960	296.6	72.0	368.6	1,627	395	2,022	365.1	263.3	2,002	1,444	997.0	5,469
1961	303.0	77.6	380.6	1,635	419	2,054	391.5	284.8	2,112	1,537	1,056.9	5,704
1962	311.3	83.4	394.7	1,654	443	2,097	421.5	311.9	2,240	1,658	1,128.1	5,994
1963	317.4	89.5	406.9	1,663	469	2,131	457.1	345.8	2,395	1,812	1,209.8	6,337
1964	327.0	95.5	422.5	1,690	494	2,183	497.3	380.1	2,570	1,965	1,299.9	6,718

See footnotes at end of table, p. 46.

TABLE 3.—ESTIMATED GROSS GOVERNMENT AND PRIVATE DEBT, 1929–PRESENT—Continued

End of calendar year	Government debt						Private debt				Total Government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and noncorporate business	Corporate business	Individual and noncorporate business	Amount outstanding (billions)	Per capita
1965	330.7	103.1	433.8	1,688	526	2,214	551.9	415.7	2,818	2,124	1,401.8	7,156
1966	343.3	109.4	452.7	1,736	553	2,290	617.4	444.2	3,123	2,247	1,514.3	7,660
1967	364.9	117.9	482.8	1,827	590	2,417	672.9	476.2	3,370	2,385	1,631.9	8,172
1968	373.1	128.4	501.5	1,850	637	2,487	757.6	513.9	3,862	2,548	1,794.4	8,896
1969	382.0	137.9	519.9	1,875	673	2,547	882.1	548.7	4,478	2,691	1,981.3	9,716
1970	401.6	149.3	550.9	1,950	724	2,673	959.0	586.3	4,820	2,796	2,135.0	10,289
1971	435.2	166.3	601.5	2,091	804	2,835	1,045.0	648.3	5,155	3,032	2,334.6	11,083
1972	461.1	178.6	639.7	2,200	862	3,062	1,176.1	734.4	5,663	3,410	2,591.5	12,135
1973	481.5	187.4	668.9	2,293	892	3,185	1,335.6	821.3	6,360	3,911	2,885.6	13,741

[1] Total Federal securities, including public debt and Budget Agency securities.

[2] Debt divided by the population of the conterminous United States and including Armed Forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.

[3] Includes debt of federally sponsored agencies excluded from the budget.

[4] Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates for the years 1939 through present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.

Note: Details may not add to totals because of rounding.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

TABLE 4.—GROSS GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

End of calendar year	Gross national product[1] (billions)	Ratios of debt to gross national product (percent)				
		Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	18.1	18.4	110.7	75.4	222.5
1930	83.1	20.8	22.7	129.2	86.4	259.2
1931	66.9	28.6	29.1	149.9	97.0	304.6
1932	56.8	38.7	34.7	169.2	100.5	343.1
1933	60.3	42.0	32.3	153.2	84.6	312.1
1934	68.6	48.1	28.0	132.1	72.6	280.8
1935	77.4	46.8	25.3	116.0	64.2	252.3
1936	86.5	46.6	22.7	105.1	58.5	232.8
1937	87.6	49.2	22.4	103.0	58.3	232.9
1938	87.6	52.1	22.6	99.1	57.1	230.8
1939	94.8	51.5	21.2	91.6	53.6	217.8
1940	107.6	48.5	18.8	82.7	49.3	199.3
1941	138.8	47.3	14.4	70.2	40.1	172.0
1942	179.0	63.5	10.7	59.4	27.9	161.5
1943	202.4	84.5	8.9	54.5	24.1	172.0
1944	217.4	107.5	7.9	50.1	23.3	188.8
1945	196.0	142.6	8.2	50.8	27.9	229.5
1946	221.4	117.8	7.3	49.4	27.1	201.4
1947	245.0	105.1	7.1	52.6	28.3	193.2
1948	261.2	97.2	7.5	53.4	30.9	188.9
1949	260.5	99.0	8.5	53.9	34.7	196.1
1950	311.2	82.8	8.1	53.9	33.5	178.4
1951	338.2	76.9	8.3	56.7	33.8	175.8
1952	361.0	74.3	8.6	56.2	35.8	175.0
1953	360.8	76.5	9.7	59.0	39.7	184.9
1954	379.8	73.6	10.6	57.3	41.4	182.9
1955	409.7	68.9	11.3	62.0	44.0	185.9
1956	433.2	64.2	11.6	64.0	45.1	184.9
1957	438.1	63.5	12.5	67.5	47.4	190.8
1958	469.2	60.8	12.9	66.5	47.5	187.6
1959	496.8	59.7	13.4	68.7	49.3	190.8
1960	503.4	58.9	14.3	72.5	52.3	197.7
1961	542.8	55.8	14.3	72.1	52.5	194.7
1962	574.7	54.2	14.5	73.3	54.3	196.6
1963	611.8	51.9	14.6	74.7	56.5	197.9
1964	654.0	50.0	14.6	76.0	58.1	199.1
1965	719.2	46.0	14.3	76.7	57.8	194.9
1966	772.6	44.4	14.2	79.9	57.5	196.0
1967	825.0	44.2	14.3	81.5	57.7	197.8
1968	898.6	41.5	14.3	86.7	57.2	199.7
1969	953.7	40.1	14.4	95.7	57.5	207.7
1970	1,009.5	39.9	14.8	98.6	57.2	210.6
1971	1,098.4	39.8	15.3	98.1	57.7	210.9
1972	1,220.8	37.8	14.8	97.2	58.6	208.4
1973	1,290.0	37.3	14.5	108.2	63.7	223.7

[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 present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of December 31 levels.

Note: Details may not add to totals because of rounding.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

TABLE 5.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT OUTSTANDING, BY MAJOR CATEGORIES

[Dollar amounts in billions]

	December 1946		December 1960		December 1970		December 1973	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Federal debt	$229.5	57.9	$239.8	27.4	$301.1	16.1	$349.1	13.8
State and local debt	13.7	3.5	64.9	7.4	145.0	7.7	184.5	7.3
Corporate debt[1]	93.5	23.6	306.3	35.0	836.5	44.7	1,170.9	46.3
Individual and noncorporate debt	59.9	15.1	263.3	30.1	586.3	31.3	821.3	32.5
Total	396.6	100.0	874.1	100.0	1,868.9	100.0	2,525.8	100.0

[1] Includes debt of privately owned federally sponsored agencies.

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

Source: Office of the Secretary of the Treasury, Office of Debt Analysis.

TABLE 6.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, BY MAJOR CATEGORIES

[Dollar amounts in billions]

Dec. 31—	Private			State and local	Federal	Total	Percent Federal of total
	Individual	Corporate [1]	Total				
1916	$36.3	$40.2	$76.5	$4.5	$1.2	$82.2	1
1917	38.7	43.7	82.4	4.8	7.3	94.5	8
1918	44.5	47.0	91.5	5.1	20.9	117.5	18
1919	43.9	53.3	97.2	5.5	25.6	128.3	20
1920	48.1	57.7	105.8	6.2	23.7	135.7	17
1921	49.2	57.0	106.2	7.0	23.1	136.3	17
1922	50.9	58.6	109.5	7.9	22.8	140.2	16
1923	53.7	62.6	116.3	8.6	21.8	146.7	15
1924	55.8	67.2	123.0	9.4	21.0	153.4	14
1925	59.6	72.7	132.2	10.3	20.3	162.9	12
1926	62.7	76.2	138.9	11.1	19.2	169.2	11
1927	66.4	81.2	147.6	12.1	18.2	177.9	10
1928	70.0	86.1	156.1	12.7	17.5	186.3	9
1929	72.9	88.9	161.8	13.6	16.5	191.9	9
1930	71.8	89.3	161.1	14.7	16.5	192.3	9
1931	64.9	83.5	148.4	16.0	18.5	182.9	10
1932	57.1	80.0	137.1	16.6	21.3	175.0	12
1933	51.0	76.9	127.9	16.3	24.3	168.5	14
1934	49.8	75.5	125.3	15.9	30.4	171.6	18
1935	49.7	74.8	124.5	16.1	34.4	175.0	20
1936	50.6	76.1	126.7	16.2	37.7	180.6	21
1937	51.1	75.8	126.9	16.1	39.2	182.2	22
1938	50.0	73.3	123.3	16.1	40.5	179.9	23
1939	50.8	73.5	124.3	16.4	42.6	183.3	23
1940	53.0	75.6	128.6	16.4	44.8	189.8	24
1941	55.6	83.4	139.0	16.1	56.3	211.4	27
1942	49.9	91.6	141.5	15.4	101.7	258.6	39
1943	48.8	95.5	144.3	14.5	154.4	313.2	49
1944	50.7	94.1	144.8	13.9	211.9	370.6	57
1945	54.7	85.3	140.0	13.4	252.5	405.9	62
1946	59.9	93.5	153.4	13.7	229.5	396.6	58
1947	69.4	109.6	179.0	15.0	221.7	415.7	53
1948	80.6	118.4	199.0	17.0	215.3	431.3	50
1949	90.4	118.7	209.1	19.1	217.6	445.8	49
1950	104.3	142.8	247.1	21.7	217.4	486.2	45
1951	114.3	163.8	278.1	24.2	216.9	519.2	42
1952	129.4	172.3	301.7	27.0	221.5	550.2	40
1953	143.2	180.9	324.1	30.7	226.8	581.6	39
1954	157.2	184.1	341.3	35.5	229.1	605.9	38
1955	180.1	215.0	395.1	41.1	229.6	665.8	35
1956	195.5	234.1	429.6	44.5	224.3	698.4	32
1957	207.6	249.1	456.7	48.6	223.0	728.3	31
1958	222.9	262.0	484.9	53.7	231.0	769.6	30
1959	245.0	287.0	532.0	59.6	241.4	833.0	29
1960	263.3	306.3	569.6	64.9	239.8	874.2	27
1961	284.8	328.3	613.1	70.5	246.7	930.3	27
1962	311.9	353.5	665.4	77.0	253.6	996.0	25
1963	345.8	383.6	729.5	83.9	257.5	1,070.9	24
1964	380.1	417.1	797.2	90.4	264.0	1,151.6	23
1965	415.7	463.2	878.9	98.3	266.4	1,243.6	21
1966	444.2	517.8	962.0	104.8	271.8	1,338.6	20
1967	476.2	562.7	1,038.9	113.4	286.5	1,438.8	20
1968	513.9	652.9	1,166.8	123.9	291.9	1,582.5	18
1969	548.7	764.8	1,313.5	133.3	289.3	1,736.0	17
1970	586.3	836.5	1,422.8	145.0	301.1	1,868.9	16
1971	648.3	909.2	1,557.5	162.4	325.9	2,045.8	16
1972	734.4	1,019.7	1,759.1	175.0	341.2	2,270.2	15
1973	821.3	1,170.9	1,992.2	184.5	349.1	2,525.8	14

[1] Includes debt of privately owned, federally sponsored agencies excluded from the budget which amounted to $700,000,000 on Dec. 31, 1947; $30,600,000,000 on Dec. 31, 1969; $38,800,000,000 on Dec. 31, 1970; $39,900,000,000 on Dec. 31, 1971; $41,400,000,000 on Dec. 31, 1972; and $59,800,000,000 on Dec. 31, 1973.

Source: Commerce and Treasury Departments.

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TABLE 7.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, 1916 TO PRESENT

End of calendar year	Government debt: Amounts outstanding (billions): Federal[1]	Government debt: Amounts outstanding (billions): State and local	Government debt: Amounts outstanding (billions): Total	Government debt: Per capita[2]: Federal	Government debt: Per capita[2]: State and local	Government debt: Per capita[2]: Total	Private debt: Amounts outstanding (billions): Corporate business[3]	Private debt: Amounts outstanding (billions): Individual and noncorporate business	Private debt: Per capita[2]: Corporate business	Private debt: Per capita[2]: Individual and noncorporate business	Total Government and private debt: Amount outstanding (billions)	Total Government and private debt: Per capita
1916	$1.2	$4.5	$5.7	$12	$44	$56	$40.2	$36.3	$391	$353	$82.2	$800
1917	7.3	4.8	12.1	70	46	116	43.7	38.7	420	372	94.5	909
1918	20.9	5.1	26.0	199	49	248	47.0	44.5	448	425	117.5	1,121
1919	25.6	5.5	31.1	242	52	294	53.3	43.9	504	415	128.3	1,213
1920	23.7	6.2	29.9	220	58	278	57.7	48.1	537	447	135.7	1,262
1921	23.1	7.0	30.1	211	64	275	57.0	49.2	522	450	136.3	1,247
1922	22.8	7.9	30.7	205	71	277	58.6	50.9	528	459	140.2	1,263
1923	21.8	8.6	30.4	193	76	269	62.6	53.7	554	475	146.7	1,298
1924	21.0	9.4	30.4	183	82	264	67.2	55.8	584	485	153.4	1,334
1925	20.3	10.3	30.6	174	88	262	72.7	59.6	623	511	162.9	1,397
1926	19.2	11.1	30.3	161	93	254	76.2	62.7	639	526	169.2	1,419
1927	18.2	12.1	30.3	152	101	253	81.2	66.4	678	554	177.9	1,485
1928	17.5	12.7	30.2	144	105	249	86.1	70.0	711	578	186.3	1,538
1929	16.5	13.6	30.1	135	111	246	88.9	72.9	726	595	191.9	1,567
1930	16.5	14.7	31.2	133	119	252	89.3	71.8	722	581	192.3	1,555
1931	18.5	16.0	34.5	149	128	277	83.5	64.9	670	521	182.9	1,468
1932	21.3	16.6	37.9	170	132	302	80.0	57.1	638	456	175.0	1,396
1933	24.3	16.3	40.6	193	129	322	76.9	51.0	610	404	168.5	1,336
1934	30.4	15.9	46.3	240	125	365	75.5	49.8	595	392	171.6	1,352
1935	34.4	16.1	50.5	269	126	395	74.8	49.7	585	389	175.0	1,370
1936	37.7	16.2	53.9	293	126	419	76.1	50.6	592	394	180.6	1,405
1937	39.2	16.1	55.3	303	124	427	75.8	51.1	585	395	182.2	1,407
1938	40.5	16.1	56.6	310	123	434	73.3	50.0	562	383	179.9	1,379
1939	42.6	16.4	59.0	324	125	448	73.5	50.8	559	386	183.3	1,393
1940	44.8	16.4	61.2	337	123	461	75.6	53.0	569	399	189.8	1,429
1941	56.3	16.1	72.4	420	120	540	83.4	55.6	622	414	211.4	1,576
1942	101.7	15.4	117.1	749	113	862	91.6	49.9	674	367	258.6	1,903
1943	154.4	14.5	168.9	1,122	105	1,227	95.5	48.8	694	355	313.2	2,275
1944	211.9	13.9	225.8	1,522	100	1,622	94.1	50.7	676	364	370.6	2,662
1945	252.5	13.4	265.9	1,795	95	1,890	85.3	54.7	606	389	405.9	2,885
1946	229.5	13.7	243.2	1,607	96	1,703	93.5	59.9	655	419	396.6	2,777
1947	221.7	15.0	236.7	1,524	103	1,627	109.6	69.4	753	477	415.7	2,858
1948	215.3	17.0	232.3	1,455	115	1,570	118.4	80.6	800	545	431.3	2,914
1949	217.6	19.1	236.7	1,445	127	1,572	118.7	90.4	788	600	445.8	2,961
1950	217.4	21.7	239.1	1,421	142	1,562	142.8	104.3	933	682	486.2	3,177
1951	216.9	24.2	241.1	1,393	155	1,458	163.8	114.3	1,052	734	519.2	3,334
1952	221.5	27.0	248.5	1,399	170	1,569	172.3	129.4	1,088	817	550.2	3,474

See footnotes at end of table, p. 50.

TABLE 7.—ESTIMATED NET GOVERNMENT AND PRIVATE DEBT, 1916 TO PRESENT—Continued

End of calendar year	Government debt						Private debt				Total Government and private debt	
	Amounts outstanding (billions)			Per capita [2]			Amounts outstanding (billions)		Per capita [2]			
	Federal [1]	State and local	Total	Federal	State and local	Total	Corporate business [3]	Individual and noncorporate business	Corporate business	Individual and noncorporate business	Amount outstanding (billions)	Per capita
1953	226.8	30.7	257.5	1,408	191	1,599	180.9	143.2	1,123	889	581.6	3,611
1954	229.1	35.5	264.6	1,397	217	1,604	184.1	157.2	1,123	959	605.9	3,696
1955	229.6	41.1	270.7	1,376	245	1,616	215.0	180.1	1,289	1,079	665.8	3,975
1956	224.3	44.5	258.8	1,320	261	1,576	234.1	195.5	1,378	1,151	698.4	4,094
1957	223.0	48.6	271.6	1,290	280	1,565	249.1	207.6	1,441	1,201	728.3	4,198
1958	231.0	53.7	284.7	1,315	304	1,614	252.0	222.9	1,491	1,269	769.6	4,363
1959	241.4	59.6	301.0	1,346	332	1,678	287.0	245.0	1,600	1,366	833.0	4,643
1960	239.8	64.9	304.7	1,315	356	1,671	306.3	263.3	1,680	1,444	874.2	4,795
1961	246.7	70.5	317.2	1,331	380	1,712	328.3	284.8	1,771	1,537	930.3	5,021
1962	253.6	77.0	330.6	1,348	409	1,757	353.5	311.9	1,879	1,658	996.0	5,292
1963	257.5	83.9	341.4	1,349	439	1,788	383.6	345.8	2,010	1,812	1,070.9	5,610
1964	264.0	90.4	354.4	1,365	467	1,832	417.1	380.1	2,156	1,965	1,151.6	5,951
1965	266.4	98.3	364.7	1,360	502	1,862	463.2	415.7	2,365	2,123	1,243.6	6,350
1966	271.8	104.8	376.6	1,375	530	1,905	517.8	444.2	2,619	2,246	1,338.6	6,771
1967	286.5	113.4	399.9	1,434	568	2,001	562.7	476.2	2,818	2,383	1,438.8	7,205
1968	291.9	123.9	415.8	1,447	614	2,061	652.9	513.9	3,202	2,547	1,582.5	7,846
1969	289.3	133.3	422.6	1,419	654	2,073	764.8	548.7	3,791	2,692	1,736.0	8,514
1970	301.1	145.0	446.1	1,461	704	2,165	836.5	586.3	4,104	2,845	1,868.9	9,001
1971	325.9	162.4	488.3	1,566	780	2,347	909.2	648.3	4,369	3,116	2,045.8	9,703
1972	341.2	175.0	516.2	1,627	835	2,461	1,019.7	734.4	4,862	3,502	2,270.2	10,631
1973	349.1	184.5	533.6	1,745	879	2,526	1,170.9	821.3	5,544	3,911	2,525.8	11,958

[1] Total Federal securities, including public debt and Budget Agency securities.

[2] Debt divided by the population of the conterminous United States and including Armed Forces overseas. Alaska is included beginning 1959 and Hawaii beginning in 1960.

[3] Includes debt of federally sponsored agencies excluded from the budget.

TABLE 8.—NET GOVERNMENT AND PRIVATE DEBT RELATED TO GROSS NATIONAL PRODUCT

End of calendar year	Gross national product[1] (billions)	Ratios of debt to gross national product (percent) Federal	State and local	Corporate	Individual and noncorporate	Total
1929	$96.7	17.1	14.1	91.9	75.4	198.4
1930	83.1	19.9	17.1	107.5	86.4	234.7
1931	66.9	27.7	23.9	124.8	97.0	273.4
1932	56.8	37.5	29.2	140.8	100.5	308.1
1933	60.3	40.3	27.0	127.5	84.6	279.4
1934	68.6	44.3	23.2	110.1	72.5	250.1
1935	77.4	44.4	20.8	96.6	64.2	226.1
1936	86.5	43.6	18.7	88.0	58.5	208.8
1937	87.6	44.7	18.4	86.5	58.3	208.0
1938	87.6	46.2	18.4	83.7	57.1	205.4
1939	94.8	44.9	17.3	77.5	53.6	193.4
1940	107.6	41.6	15.2	70.3	49.3	176.4
1941	138.8	40.6	11.6	60.1	40.1	152.3
1942	179.0	56.8	8.6	51.2	27.9	144.5
1943	202.4	76.3	7.2	47.2	24.1	154.7
1944	217.4	97.5	6.4	43.3	23.3	170.5
1945	196.0	128.8	6.8	43.5	27.9	207.1
1946	221.4	103.7	6.2	42.2	27.1	179.1
1947	245.0	90.5	6.1	44.7	28.3	169.7
1948	261.2	82.4	6.5	45.3	30.9	165.1
1949	260.5	83.5	7.3	45.6	34.7	171.1
1950	311.2	69.9	7.0	45.9	33.5	156.2
1951	338.2	64.1	7.2	48.4	33.8	153.5
1952	361.0	61.4	7.5	47.7	35.8	152.4
1953	360.8	62.9	8.5	50.1	39.7	161.2
1954	379.8	60.3	9.3	48.5	41.4	159.5
1955	409.7	56.0	10.0	52.5	44.4	162.4
1956	433.2	51.8	10.3	54.0	45.1	161.1
1957	438.1	50.9	11.1	56.9	47.4	166.0
1958	469.2	49.2	11.4	55.8	47.5	163.8
1959	496.8	48.6	12.0	57.8	49.3	167.5
1960	503.4	47.6	12.9	60.8	52.3	173.6
1961	542.8	45.4	13.0	60.5	52.5	171.3
1962	574.7	44.1	13.4	61.5	54.3	173.3
1963	611.8	42.1	13.7	62.7	56.5	175.0
1964	654.0	40.4	13.8	63.8	58.1	176.1
1965	719.2	37.0	13.7	64.4	57.8	172.9
1966	772.6	35.2	13.6	67.0	57.5	173.3
1967	825.0	34.7	13.7	68.2	57.7	174.8
1968	898.6	32.5	13.8	72.7	57.2	176.1
1969	953.7	30.3	13.9	80.2	57.2	182.0
1970	1,009.5	29.9	14.4	82.7	57.2	184.2
1971	1,098.4	29.8	14.9	82.2	57.7	184.6
1972	1,220.8	28.0	14.5	81.6	58.5	182.5
1973	1,290.0	27.1	14.3	90.8	63.6	195.8

[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 present. Prior to 1939, averages of 2 calendar year figures are used as the best approximation of Dec. 31 levels.

Note: Detail may not add to totals because of rounding.

Source: Federal debt, Treasury Department; other data, Bureau of Economic Analysis, Commerce Department.

TABLE 9.—ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900–73

	Federal debt (billions) Gross[1]	Net[2]	Privately held net[3]	Per capita Federal debt[4] Gross[1]	Net[2]	Privately held net[3]	Real per capita Federal debt[5] Gross[1]	Net[2]	Privately held net[3]
June 30:									
1900	$1.3	$1.3	$1.3	$17	$17	$17	NA	NA	NA
1901	1.2	1.2	1.2	16	16	16	NA	NA	NA
1902	1.2	1.2	1.2	15	15	15	NA	NA	NA
1903	1.2	1.2	1.2	14	14	14	NA	NA	NA
1904	1.1	1.1	1.1	14	14	14	NA	NA	NA
1905	1.1	1.1	1.1	14	14	14	NA	NA	NA
1906	1.1	1.1	1.1	13	13	13	NA	NA	NA
1907	1.1	1.1	1.1	13	13	13	NA	NA	NA
1908	1.2	1.2	1.2	13	13	13	NA	NA	NA
1909	1.1	1.1	1.1	13	13	13	NA	NA	NA
1910	1.1	1.1	1.1	12	12	12	NA	NA	NA
1911	1.2	1.2	1.2	12	12	12	NA	NA	NA
1912	1.2	1.2	1.2	13	13	13	NA	NA	NA
1913	1.2	1.2	1.2	12	12	12	$47	$47	$47
1914	1.2	1.2	1.2	12	12	12	46	46	46
1915	1.2	1.2	1.2	12	12	12	45	45	45

See footnotes at end of table, p. 52.

TABLE 9.—ESTIMATED FEDERAL DEBT RELATED TO POPULATION AND PRICES, 1900–73—Continued

	Federal debt (billions)			Per capita Federal debt [4]			Real per capita Federal debt [5]		
	Gross [1]	Net [2]	Privately held net [3]	Gross [1]	Net [2]	Privately held net [3]	Gross [1]	Net [2]	Privately held net [3]
Dec. 31:									
1916	1.2	1.2	1.1	12	12	11	40	40	37
1917	7.3	7.3	7.2	70	70	69	199	199	197
1918	21.0	20.9	20.7	200	199	198	473	472	469
1919	25.8	25.6	25.3	244	242	239	504	500	494
1920	24.0	23.7	23.4	223	220	218	449	443	439
1921	23.5	23.1	22.9	215	211	210	485	476	474
1922	23.2	22.8	22.4	209	205	202	480	471	464
1923	22.2	21.8	21.7	196	193	192	443	436	434
1924	21.5	21.0	20.5	187	183	178	424	415	403
1925	20.8	20.3	19.9	178	174	171	388	379	372
1926	19.9	19.2	18.9	167	161	159	369	356	351
1927	18.6	18.2	17.6	155	152	147	350	343	332
1928	18.4	17.5	17.3	152	144	143	347	328	326
1929	17.5	16.5	16.0	143	135	131	325	307	298
1930	17.3	16.5	15.8	140	133	128	339	323	311
1931	19.1	18.5	17.7	153	149	142	410	399	381
1932	22.0	21.3	19.4	176	170	155	525	507	462
1933	25.3	24.3	21.9	201	193	174	596	573	516
1934	33.3	30.4	28.0	260	240	221	756	698	643
1935	36.2	34.4	32.0	283	269	250	801	761	707
1936	40.3	37.7	35.3	313	293	275	874	819	768
1937	43.1	39.2	36.6	333	303	283	903	822	768
1938	45.6	40.5	37.9	349	310	290	972	863	808
1939	48.8	42.6	40.1	371	324	305	1,037	908	855
1940	52.2	44.8	42.6	393	337	321	1,088	933	889
1941	65.6	56.3	54.0	489	420	402	1,234	1,061	1,015
1942	113.7	101.7	95.5	837	749	703	1,938	1,734	1,628
1943	171.0	154.4	142.9	1,242	1,122	1,038	2,784	2,516	2,330
1944	233.6	211.9	193.1	1,678	1,522	1,387	3,681	3,338	3,042
1945	279.6	252.5	228.2	1,987	1,795	1,622	4,268	3,855	3,484
1946	260.7	229.5	206.1	1,825	1,607	1,433	3,315	2,919	2,603
1945	257.6	221.7	199.1	1,771	1,524	1,369	2,954	2,542	2,284
1948	253.8	215.3	192.0	1,715	1,455	1,297	2,785	2,363	2,107
1949	257.9	217.6	197.7	1,713	1,445	1,313	2,832	2,389	2,171
1950	257.8	217.4	196.6	1,685	1,421	1,285	2,634	2,222	2,008
1951	260.2	216.9	193.1	1,671	1,393	1,240	2,465	2,055	1,829
1952	268.3	221.5	196.8	1,694	1,399	1,243	2,479	2,047	1,819
1953	276.0	226.8	200.9	1,714	1,408	1,247	2,493	2,048	1,813
1954	279.5	229.1	204.2	1,705	1,397	1,246	2,492	2,041	1,821
1955	282.2	229.6	204.8	1,691	1,376	1,227	2,460	2,001	1,784
1956	278.3	224.3	199.4	1,638	1,320	1,174	2,316	1,867	1,660
1957	278.1	223.0	198.8	1,609	1,290	1,150	2,211	1,772	1,580
1958	285.3	231.0	204.7	1,624	1,315	1,165	2,192	1,775	1,573
1959	296.5	241.4	214.8	1,653	1,346	1,197	2,199	1,790	1,592
1960	296.6	239.8	212.4	1,627	1,315	1,165	2,133	1,724	1,528
1961	303.0	246.7	217.8	1,635	1,331	1,175	2,129	1,733	1,529
1962	311.3	253.6	222.8	1,654	1,348	1,184	2,126	1,733	1,522
1963	317.4	257.5	223.9	1,663	1,349	1,173	2,654	1,733	1,483
1964	327.0	264.0	227.0	1,690	1,364	1,173	2,113	1,706	1,467
1965	330.7	266.4	225.6	1,688	1,360	1,152	2,072	1,669	1,413
1966	343.3	271.8	227.5	1,736	1,375	1,151	2,059	1,631	1,365
1967	364.9	286.4	237.3	1,827	1,435	1,188	2,104	1,653	1,369
1968	373.1	291.9	238.9	1,850	1,447	1,182	2,034	1,591	1,300
1969	382.0	289.3	232.1	1,874	1,420	1,140	1,938	1,468	1,178
1970	401.6	301.1	239.0	1,950	1,462	1,160	1,915	1,436	1,139
1971	435.2	325.9	255.1	2,091	1,566	1,227	1,987	1,489	1,166
1972	461.1	341.2	269.9	2,200	1,628	1,288	2,022	1,496	1,184
1973	481.5	349.1	268.6	2,293	1,662	1,279	2,293	1,662	1,279

1 Total Federal securities outstanding, Unified Budget concept.
2 Borrowing from the public, Unified Budget concept. Gross Federal debt less securities held by Government accounts.
3 Borrowing from the public less Federal Reserve holdings.
4 Debt divided by population of the coterminous U.S., and including Armed Forces overseas.
5 Per capita debt expressed in December 1973 prices (consumer price index for all items).
n.a. Not available.

TABLE 10.—PRIVATELY HELD FEDERAL DEBT RELATED TO GNP

[Dollar amounts in billions of dollars]

	Gross national product [1]	Privately held debt [2]	Ratio of debt to GNP (Percent)	Year to year price changes [3] (Percent)
Dec. 31:				
1929	$96.7	$16.0	16.5	0.2
1930	83.1	15.8	19.0	−6.0
1931	66.9	17.7	26.4	−9.5
1932	56.8	19.4	34.2	−10.3
1933	60.3	21.9	36.3	0.5
1934	68.6	28.0	40.8	2.0
1935	77.4	32.0	41.3	3.0
1936	86.5	35.3	40.8	1.2
1937	87.6	36.6	41.8	3.1
1938	87.6	37.9	43.3	−6.8
1939	94.8	40.1	42.3	−0.5
1940	107.6	42.6	39.6	1.0
1941	138.8	54.0	38.9	9.7
1942	179.0	95.5	53.4	9.3
1943	202.4	142.9	70.6	3.2
1944	217.4	193.1	88.8	2.1
1945	196.0	228.2	116.4	2.3
1946	221.4	206.1	93.1	18.2
1947	245.0	199.1	81.3	9.0
1948	261.2	192.0	73.5	2.7
1949	260.5	197.7	75.9	−1.8
1950	311.2	196.6	63.2	5.8
1951	338.2	193.1	57.1	5.9
1952	361.0	196.8	54.5	.9
1953	360.8	200.9	55.7	.6
1954	379.8	204.2	53.8	−.5
1955	409.7	204.8	50.0	.4
1956	433.2	199.4	46.0	2.9
1957	438.1	198.8	45.4	3.3
1958	469.2	204.7	43.6	1.8
1959	496.8	214.8	43.2	1.5
1960	503.4	212.4	42.2	1.5
1961	542.8	217.8	40.1	.7
1962	574.7	222.8	38.8	1.2
1963	611.8	223.9	36.6	1.6
1964	654.0	227.0	34.7	1.2
1965	719.2	225.6	31.4	1.9
1966	772.6	227.5	29.4	3.4
1967	825.0	237.3	28.8	3.0
1968	898.6	238.9	26.6	4.7
1969	953.7	232.1	24.3	6.1
1970	1,009.5	239.0	23.7	5.5
1971	1,098.4	255.1	23.2	3.4
1972	1,220.8	269.9	22.1	3.4
1973	1,290.0	268.6	21.0	8.8

[1] Implied level of gross national product, Dec. 31.
[2] Borrowing from the public less Federal Reserve holdings, unified budget concept.
[3] Measured by the all item Consumer Price Index, December to December basis.

PRIVATELY HELD DEBT

The CHAIRMAN. Now, one chart that means something to me shows that in terms of the privately held debt of this Nation, we are not in nearly as bad shape as some would have us believe, especially in relative terms. For example, I asked that the debt be stated in constant dollars, and stating it in 1972 dollars so that we can allow for inflation, I notice that the high point appeared to be back here in the year 1945, at the end of World War II. And at that time, in terms of 1972 dollars, the per capita debt was $3,790.

Now, stated in terms of the same unit of purchasing power, in 1972, the latest figure that I have, the per capita debt was $1,288. Now, that was up from the previous year, but that was only about one-third of what it was in 1945.

Now, in some respects, all things considered, looking at the pluses and the minuses, that does not affect us too badly, does it?

Mr. VOLCKER. Well, I think when you put these public debt figures in perspective with the economy, and remembering about inflation—just taking the public debt alone in private hands, as you suggest—the trend has not been terribly adverse in recent years. It is declining as a percentage of the GNP. The figure you are referring to has been, in general, declining, although there are some year-to-year increases.

I think the Federal debt is manageable, and I would just like to put that clearly on the record. I do not think this country is bankrupt by a long shot.

The CHAIRMAN. In terms of constant dollars, it looks to me as though in 1972 we were about at the same place as we were when this administration came in several years ago.

If we update that, is it going to look any better, or worse?

Mr. VOLCKER. The last figure I have is 1973 in front of me here. I think the figure you are looking at is privately held debt, real per capita, $1,279, which is up from 1972. But it is less than it was in 1968.

The CHAIRMAN. What figure do you have? I am talking about the privately held net national debt. I am looking at table 9.

Mr. VOLCKER. Real per capita Federal debt, privately held.

The CHAIRMAN Yes.

Mr. VOLCKER. I am looking at—for 1972 you should have $1,184, unless that has been revised.

The CHAIRMAN. Let me see. Actually the 1972 figure would appear to be up by about $100 over what it was in 1972, I take it.

Mr. VOLCKER. That is right.

It is still less than it was in 1968, for instance.

The CHAIRMAN. Well, that is the year this administration came in, so all things considered, if it is the national debt you are talking about, I suppose you are a little better off than you were at that time, are you not?

Mr. VOLCKER. I think in terms of the burden on the average citizen, in some sense that is correct.

PRIVATELY HELD DEBT RELATED TO GNP

The CHAIRMAN. Now, in terms of per capita income of the American people, do you have that somewhere in real terms?

How do we compare with 1968?

Mr. VOLCKER. Well, first, looking at privately-held Federal debt related to GNP, which is a measure of national income, it is currently 21 percent. It has been declining virtually every year.

The CHAIRMAN. What were you in 1968?

Mr. VOLCKER. In 1968, 26.6 percent, now 21 percent.

The CHAIRMAN. Well, if that were so, during the period that you have been around here, that figure in relative terms looks very favorable?

DEBT SEEN MANAGEABLE

Mr. VOLCKER. I think relatively, whatever series you look at, the Federal debt has tended to be smaller, related to national income, related to other debt. And that trend has been going on for some time.

The CHAIRMAN. It seems to me that those are the factors that we are going to have to look at for as long as I am going to be in Government.

I do not expect to be here forever, and I might not be here after next year, for all I know. But it would seem to me that, looking at what the prospect for this Nation is during our lifetime, we are not going to pay that debt off, just like you are not going to pay off all the corporate debt structures.

Is there any reason why we ought to try to encourage the corporations to pay off all of their debt?

Mr. VOLCKER. We cannot pay off all of ours. It would not be consistent with the growth of the economy if we are paying off all of the debt in the country. I am thinking here particularly of private debt.

But if I may distinguish one thing, Mr. Chairman. I agree with the basic point that you are making that the country is not bankrupt and that this debt is manageable. On the other hand, it is not inconsistent to say that we perhaps have been running too big deficits and that it is extremely important, given the situation that exists in the economy, to exert firmer fiscal discipline than we have been.

It is not a question of the country going bankrupt next year, but it is a question of a grave economic problem in terms of the inflationary situation that exists.

The CHAIRMAN. Yes.

FOOD STAMPS FOR SSI RECIPIENTS

Now, there is some concern, especially among the State welfare directors, about a provision in the law which we have sought to amend in the Senate, but the House is simply not conferring with us on the social security bill that we sent to them. Our provision would continue to make SSI recipients eligible for food stamps.

If we send that measure down to the administration at the present as a piece of separate legislation, Mr. Ash, do you think you could recommend to the President that he sign that legislation? I am saying if it goes down there just on its own, not as an amendment to this bill or some other bill?

Mr. ASH. I am afraid I do not know enough of the specifics of the development of that prospective legislation at this time to know, but it would not take me long to find out our position on it.

The CHAIRMAN. I wish you would find out, because we passed the provision through the Senate last year. The House is supposed to take it up on the floor shortly. It has been recommended by the Ways and Means Committee. Basically, what that means is that if we do not continue these food stamps for the SSI beneficiaries—that is what the President recommended as a substitute for welfare for aged, blind, and disabled people—then they are going to lose their food stamps, or at least some of the SSI recipients will.

I would think that if we could have some assurance that this matter would be recommended to the President when it goes to him, then we could keep that matter off of this debt limit bill.

Mr. ASH. I will acquaint myself with the particular features of that legislation and then make sure to reply to you about it.

INTEREST RATES

The CHAIRMAN. I would appreciate it very much. Now, I think that the high interest rates we have in this country are upsetting a plan to repeal any provision to try to makē credit available to prospective homeowners and small businesses and others, at an acceptable long-term interest rate?

Mr. VOLCKER. Well, the President did announce a program some weeks ago, Mr. Chairman, that encompasses a roughly $10 billion program directed toward the homebuilders and home purchasers.

The CHAIRMAN. How much; $10 million or billion?

Mr. VOLCKER. $10 billion, in several different components to provide additional money to make mortgages available at reasonable rates. And when I say reasonable rates, those rates are high, even with Government assistance.

The CHAIRMAN. What would you call reasonable right now with Government assistance?

Mr. VOLCKER. Well, one portion of this program provides for 8¾ percent mortgages and, in effect, guarantees a certain availability at that rate. Historically, it is, of course, an extremely high rate, but in today's market the existence of that kind of mortgage is of considerable benefit to people.

I think it is illustrative, when you cite that kind of rate, that you cannot avoid this problem of high interest rates and distortions and problems it creates in a period of inflation. It quite correctly suggests to the businessman and the homeowner that you cannot solve the problems of high interest rates without dealing with inflation. One goes with the other like Siamese twins.

You are complaining about interest rates, and there are lots of reasons to complain about it. I think it is that you really complain about inflation.

The CHAIRMAN. Henry Fowler made the point, when he was Secretary of the Treasury, that he would urge that bankers think in terms of making money available to homeowners and small business people and others on some basis other than simply who could bid the highest for the money. Any administration that wanted to could recommend to us and could support a program that would simply earmark a certain portion of this credit which the Government can either expand or restrict or earmark however it wants to, if it has the will to do it, for the people that deserve it to have it on the most favorable terms.

I just wonder if we could not get this administration to support something that would help to bring that about for homeowners and others.

Mr. VOLCKER. Well, I think this administration has, by one means or another, pursued programs designed to make mortgage money more available. Previous administrations have had programs, as well, and some of these have been continued. There has been a very large effort through the years to provide, in effect, some kind of preferential money to homeownership.

There are limits, I think, to what you can do. These markets are competitive. When you try to push money in one direction, it turns out you are hurting the other homeowner that is not subsidized in another direction. And very difficult problems arise if you have to do this too much. When you have got the pressures you have on markets now, I think it is impossible to really do a fully effective job here.

One aproach toward this problem for the longer run is contained in the Fnancial Institutions Act—which the administration has proposed—which attempts to provide a more competitive environment for these institutions and for all borrowers and lenders. It recognizes that in the area of housing there may be some special need to provide a subsidy, so that that particular sector of the economy would have some special benefits.

The CHAIRMAN. I would like to ask you to add to these so-called Long charts an additional chart to show, in terms of constant dollars, what has been the annual gross national product on a per capita basis as far back as you have figures that permit you to do it, and put a final column alongside that that shows on a plus or minus basis the extent to which it either increased or declined each year.

If you do not have it now you can do it for the record.

Mr. VOLCKER. No, we can get those figures without question. I just wondered whether we had them here at the moment.

The CHAIRMAN. I have always thought that this should be added to the tables that I have requested.

[The following material was subsequently supplied for the record:]

CHANGES IN PER CAPITA REAL GROSS NATIONAL PRODUCT (1929 TO 1973)

Year	Gross national product (billions of 1958 dollars)	GNP per capita (constant 1958 dollars) [1]	GNP per capita, change from year ago (constant 1958 dollars)
1929	$203.6	$1,672	
1930	183.5	1,490	$-182
1931	169.3	1,364	-126
1932	144.2	1,154	-210
1933	141.5	1,126	-28
1934	154.3	1,220	+94
1935	169.5	1,331	+111
1936	193.0	1,506	+175
1937	203.2	1,576	+70
1938	192.9	1,484	-91
1939	209.4	1,589	+114
1940	227.2	1,714	+115
1941	263.7	1,969	+256
1942	297.8	2,200	+231
1943	337.1	2,456	+256
1944	361.3	2,601	+148
1945	355.2	2,529	+72
1946	312.6	2,202	-326
1947	309.9	2,142	-61
1948	323.7	2,199	+57
1949	324.1	2,164	-35
1950	355.3	2,333	+170
1951	383.4	2,476	+142
1952	395.1	2,508	+32
1953	412.8	2,577	+69
1954	407.0	2,497	-81
1955	438.0	2,640	+143
1956	446.1	2,641	+2
1957	452.5	2,631	-10
1958	447.3	2,558	-73
1959	474.9	2,676	+118
1960	487.7	2,699	+23
1961	497.2	2,707	+7
1962	529.8	2,840	+133
1963	551.0	2,912	+71
1964	581.1	3,028	+117
1965	617.8	3,180	+151
1966	658.1	3,348	+169
1967	675.2	3,398	+50
1968	706.6	3,521	+123
1969	725.6	3,580	+60
1970	722.5	3,526	-54
1971	745.4	3,600	+74
1972	790.7	3,786	+186
1973	837.4	3,980	+194

[1] Real gross national product divided by population of the United States for July 1 of each year. Population figure includes armed forces overseas beginning 1940 and Alaska and Hawaii beginning 1940.

Actuarial Deficit in Social Security Program

Now, I am very concerned about something that will have to be studied, I believe. The new Social Security trustees report predicts a very substantial actuarial deficit in the cash social security program, amounting to 3 percent over the longrun. This has just begun to be discussed in the newspapers.

I assume that Congress will not want to enact a substantial social security increase at any point in the immediate future, and I doubt that you are going to want to recommend that right now.

The basic reason for the large deficit forecast is a major series of changes in basic actuarial assumptions concerning the birth rate, the numbers of workers compared to the number of retired persons, and so on.

Now, I would suggest that the committee consider going to the Rules Committee to ask authority to contract with a panel of distinguished outside actuaries to do an independent evaluation of the social security actuarial assumptions and report back to the Finance Committee at the beginning of the next Congress. I wonder what you might be able to tell us on that subject.

It might be Mr. Ash who ought to answer that.

Mr. Ash. We share the same kinds of concerns about the future of the social security programs as you have just stated, particularly because of demographic changes that are inevitable and are right in front of us now. It is not a matter of speculation. It is a matter of calculation.

Because of that we internally, in addition to any outside work, have begun to determine how we will make our own analysis of the problems and prospective solutions, as a basis for recommendations to the President. We are not at all far along and would commend all and any efforts that would provide illumination on this problem. I am sure, as the years go by, that for Congress also this is going to be a major issue. We all will have to deal with social security and with the inevitability of a substantial strain if we merely allow the present system to operate without review and change over the years ahead.

The Chairman. Part of this problem is created by a falling birth rate. In other words, the assumption is that we will have a smaller number of new workers relative to the number of retired persons in the year 2000 than we have now.

Mr. Ash. Relative to the number retired and collecting social security.

The Chairman. Yes.

Need for More Family Units

Now, a considerable amount of that, then, relates to the fact that there are fewer family units being formed than one had previously anticipated. And it carries with it the additional problem that even in absolute terms now there are fewer families headed by two parents today than there were a few years ago. And that is a matter of concern.

Now, we ought to be thinking about just what we want to happen to this country. And one thing that has tended to encourage that has been the fact that we have a tax system which actually provides better tax treatment for two individuals not living together in a family than it does if these two people form a family unit.

I just wonder what thoughts you have on that subject. In other words, as far as the tax system is concerned, just on the face of it, a working man and a working woman pay more taxes if they are married than if they are not.

Mr. Ash. I think all I can do, at this stage, is to join you in observing we have some very serious problems. These relate not only to the social security, as we just discussed, but also to the whole business of welfare in one form or another, and to our tax structure. The combination of these three have what I think we all believe are some inequities in places, and opportunities for irregularities is well in other places. To solve these problems is a major task.

I can only say at this moment that I join you in identifying these problems without knowing what to suggest as solutions. We had better all be working on finding solutions, because time is not going to wait too long for us to find them.

The Chairman. Now, I do not believe that decisions of the Supreme Court decisions has tended more and more away from those who a constitutional amendment and perhaps change it thatway. And, hope, hopefully, if the Supreme Court sees fit to reverse a previous decision, it can reverse a subsequent one.

But as we know, all the major religions of this country encourage the formation of family units. The trend of the Supreme Court decisions has tended more and more away from those who would encourage families one way or the other and prayer or otherwise to try to suggest that religion is good for people and that they ought to think in these terms. The trend has seemed to be away from that. It seems to me we ought to be thinking about those aspects of it, too, just in terms of trying to maintain some of the values that, at least at an earlier date, people thought were very, very important.

Mr. Ash. That is an important dimension. I appreciate your thought on that.

The Chairman. That is all I would suggest at this point.

Senator Byrd, I believe you have a few other questions you wanted to ask?

Tributes to Hon. Paul Volcker

Senator Byrd. Just a couple of brief questions, Mr. Chairman.

First, I want to associate myself with Senator Bennett in his comments on Secretary Volcker's work and his conscientious and dedicated service. And I wish you, Mr. Secretary, the very best of luck.

Mr. Volcker. Thank you very much.

Fiscal 1975 Budget Increase

Senator Byrd. Mr. Ash, as I read your figures, the fiscal 1975 budget will be an increase of 13 percent in spending over the 1974 budget?

Mr. Ash. That is approximately right, yes, sir.

Senator Byrd. You do not regard that as a very substantial increase?

Mr. Ash. I regard it as a very substantial increase, one that was inevitable in pricing out existing programs, but one that is nevertheless substantial. We cannot keep going at a 13-percent increase year after year out into the future. It is one of the reasons that in future years we are going to have to put the brakes on a lot more than is implicit in that increase in 1975 over 1974.

Future of Revenue Sharing Program

Senator Byrd. We are in the third year of a 5-year revenue sharing program.

What do you foresee for the future of that program?

Do you anticipate that it will be continued, a $30 billion program over 5 years will continue beyond the 5-year period?

Mr. Ash. This is certainly not a final conclusion, because we have not seen through that program over a longer period. However, at this stage, we believe that the underlying philosophy of the general revenue sharing is a very good one. This is a philosophy toward decentralizing out of Washington to State and local governments the resources, and along with them the authority and the responsibility, to make their own judgments and decisions as to their own problems.

Second, the Treasury Department is taking the lead in an analysis of how well or how poorly the general revenue program has performed to date. This will form a basis for determining whether it has really met, as we expected it to, those fundamental objectives of decentralization.

With that analysis in hand, and as we come nearer the expiration of that 5-year term for the program, we would expect to have specific recommendations to put before the Congress. We are just now beginning to get data use in our analysis.

Senator Byrd. I think it is significant that you do not mention what seems to me is the crucial point. The fact is that you are trying to share revenue that you do not have. You do not have anything but red ink to share.

Mr. Ash. The Federal Government is borrowing, and it is granting money to the States and cities. I think that you might call this a passthrough. You cannot trace a single dollar because money is fungible. But because of the passthrough, the States and the cities have probably raised less real estate taxes than they would have, had they not had general revenue sharing. It is impossible to know for sure.

What we may have done to some degree is to relieve the burden of taxation on them. The citizens in general have not been adversely affected, but have been helped by that process. But this is a part of the analysis of what those moneys have been spent for.

Senator Byrd. I think they have been hurt by the process. It has certainly driven up the interest rates. It is bound to drive up the interest rates. The more the Government goes into the money markets, the more it is bound to drive up the interest rates. But is it logical to go into new programs, and that is a new program. We have not had it before.

Mr. Ash. That is right.

Senator Curtis' Budget Proposal

Senator Byrd. It is a new program, but whether it is logical to go into a new program when you are running these smashing deficits—if you do continue to go into new programs, how are you going to get the Government's financial situation under control?

Now, several of my colleagues—I am not one of them—have introduced legislation, Senator Curtis specifically, and I do not know who the cosponsors are; there are several. And his legislation would do two things.

One, it would require the President to submit a balanced budget, and No. 2, it would provide for an automatic surtax if the Congress goes beyond the balanced budget, spends more than the budget at balance.

What would be your position, as Budget Director, on that legislation?

Mr. ASH. I think it is certainly an important way to look at the budget, to consider that balance should be our objective, everything else being normal. However, there are times, as came out this morning when the Federal Government to introduce some stimulus into the economy. There are times when this stimulus would work for the betterment of the whole economy.

Theoretically, on the opposite side, there may be times when there should be an actual surplus. Politically, that is hard to bring about. But I certainly think that the central point of a balanced budget is the one that we should all have our eye on and, everything else being normal and on course, should be our goal. We only should vary from it when everything else is not normal and on course. Then there should be an opportunity to think not just in terms of balance per se, but in terms of what is the best for economic growth or development in employment in the country.

Senator BYRD. Would you favor or oppose the proposal of Senator Curtis?

Mr. ASH. If the proposal would say that every year, not withstanding economic circumstances, that we should nevertheless have a balanced budget, I would want to think more thoroughly before I adopted that. I can conceive of appropriate occasions for being on either side of balance in particular years. I would hope we would not preclude the prospect of having a surplus any more than the prospect of having a deficit, if economic conditions called for it.

BULK OF GOVERNMENT SPENDING PAID FOR BY LOW AND MIDDLE INCOME GROUPS

Senator BYRD. Is it not correct that the bulk of the Government spending must be paid for by those in the lower- and middle-income groups?

Mr. ASH. Well, I think that is a fact in the sense that the bulk of the income of this country goes to those in the lower- and middle-income groups; and they bear a bigger absolute amount of taxation. Certainly, though, on a per capita basis, those in the higher-income groups pay a substantially higher amount of income taxes. But in total dollars—and I believe you probably have also in mind social security revenues, which fall largely on middle-class working group—the biggest amount of dollars do come from those groups; particularly the middle-income groups.

Senator BYRD. Well, let us put it another way. The only way the Government can get appreciable sums of money is from the lower- and middle-income groups. . . .

Mr. ASH. That is right. You take it all away from the upper-income group and it would not make much difference.

Senator BYRD. That is what I was getting at. I asked the Joint Committee on Internal Revenue Taxation to give me this figure, and if you have a different figure I wish you would let me know.

But I put it this way: if the Government were to put a 100-percent tax, confiscate all income over $100,000, $200,000 on joint returns, the figure I was given, that the additional revenue gained would be $1 billion.

Mr. ASH. I do not have with me data bearing on that calculation.

Senator BYRD. A drop in the bucket; a drop in the bucket in trying to eliminate this deficit.

Mr. ASH. One billion dollars is certainly far short of the sum needed.

Senator BYRD. And then I got one more figure, that if you put 100-percent tax on all income over $20,000, $40,000 on joint returns, the additional revenue gained would be $8 billion— a tremendous amount, but less than half of what the deficit is going to be, the Federal deficit. To me, that gets back to the point that the people who are going to pay for the spending are those in the low- and middle-economic groups. That is the only place where you can get large sums of money.

Mr. ASH. If they do not pay for it through taxation, the Government incurs deficits and there is inflation. Then they pay for it through inflation.

Senator BYRD. That is exactly what is happening now.

Mr. ASH. Therefore, the real issue is the size and scope of Government programs that have to be paid for, because one way or another they get paid for. Therefore the objectives should be to reduce the size, scale, and scope of Government and its operations.

Senator BYRD. That is right. As I see it, it is being paid for now by inflation, and inflation is certainly a hidden tax. And I think it is a very cruel tax, because it hits hardest those on fixed incomes and those in the middle- and lower-economic brackets. And until we are able to eliminate these deficits, in my judgment, we are not going to eliminate this inflation.

Mr. ASH. I would like to suggest another dimension. Some view corporate income taxes as ones that could be raised to make up a deficit. However, there are many who feel that corporate income taxes also come out in higher prices, or possibly in lower pay to employees, but that they nevertheless fall on the same group of people. So, basically it is the great American middle-income group that bears the cost of virtually everything that the Government does.

Senator BYRD. I think that is certainly true, and that is why I have been so strong in my view that we must get this Government spending into control. It has gotten out of control; I think it is completely out of control. I do not share the optimism of our chairman. I think this country, financially, is in a very bad position. I think the Government—and by the Government I mean both the Congress and the administration taken together is leading the country hell-bent toward disaster.

Thank you, sir.

Mr. ASH. Thank you.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, gentlemen.

Mr. Volcker, it has been a great pleasure working with you; I am particularly pleased to have you here as the Acting Secretary of the Treasury today. I was thinking about asking you to check with Secretary Simon and have him confirm that you reflected his views in all respects, but I think we will just regard you as Secretary of Treasury today.

Mr. VOLCKER. Thank you. I am sure he does not have a different view on those points. Thank you.

[Whereupon, at 12:10 p.m., the committee adjourned, subject to the call of the Chair.]

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