INCREASE IN PERMANENT DEBT LIMITATION

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HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

H. R. 13580

AN ACT TO INCREASE THE PUBLIC DEBT LIMIT

AUGUST 15, 1958

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INCREASE IN PERMANENT DEBT LIMITATION

FRIDAY, AUGUST 15, 1958

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to notice, at 10:15 a. m., in room 312, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Smathers, Anderson, Douglas, Gore, Martin, Williams, Malone, Carlson, and Bennett.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

I submit for the record a copy H. R. 13580.

(H. R. 13580 is as follows:)

[H. R. 13580, 85th Cong., 2d sess.]

AN ACT To increase the public debt limit

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 21 of the Second Liberty Bond Act, as amended (31 U. S. C., sec. 757b), is amended to read as follows:

"SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $285,000,000,000 outstanding at any one time. The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation."

SEC. 2. During the period beginning on the date of the enactment of this Act and ending on June 30, 1960, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended by the first section of this Act, shall be temporarily increased by $3,000,000,000.

SEC. 3. The Act entitled "An Act to provide for a temporary increase in the public debt limit", approved February 26, 1958 (Public Law 85-336; 72 Stat. 27), is hereby repealed.

Passed the House of Representatives August 6, 1958.

Attest:

RALPH R. ROBERTS, *Clerk.*

The CHAIRMAN. The first witness on H. R. 13580 is the Secretary of the Treasury.

It has been suggested that the Secretary read his statement, and then that the Director of the Budget read his statement without interruption; and that the questions follow the two statements.

Senator KERR. That is they will both read them before either is questioned?

The CHAIRMAN. Yes.

Mr. Secretary, we are delighted to have you, sir. Please proceed.

Secretary ANDERSON. Thank you, Mr. Chairman.

STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE TREASURY; ACCOMPANIED BY JULIAN B. BAIRD, UNDER SECRETARY FOR MONETARY AFFAIRS; AND DAN THROOP SMITH, DEPUTY TO THE SECRETARY

Secretary ANDERSON. Mr. Chairman and gentlemen, the President requested on July 28, in letters addressed to the Speaker of the House and the President of the Senate, that the Congress increase the regular statutory debt limit to $285 billion and provide an additional temporary increase of $3 billion to expire June 30, 1960. H. R. 13580 was passed by the House on August 6 to carry out the President's request. I am appearing this morning to urge your favorable consideration of this bill.

I appeared before this committee last January to urge enactment of a bill to provide a temporary increase of $5 billion in the statutory limit on the public debt. The bill was enacted and approved on February 26, 1958, and provides a temporary increase from $275 billion to $280 billion until June 30, 1959, in the limit on the public debt.

When I appeared in January, the need for a debt-limit increase was predicated on the following factors:

1. The fact that cash balances should be maintained at a more adequate and prudent level.

2. There was need for more flexibility to allow efficient and economical management of the debt.

3. Even with a balanced budget there would still be large seasonal fluctuations in receipts which would make operations under the $275 billion limit most difficult.

The budget estimates on which we made our recommendation anticipated a deficit for the fiscal year ending June 30, 1958, of $388 million, and a surplus for the fiscal year ending June 30, 1959, of about $466 million.

At that time, it was particularly difficult to estimate the extent of the change in economic conditions. The impact of the recession on corporate profits, which are such an important source of revenue, and the extent of the duration of the interruption in the growth of personal income were hard to foresee for a period extending 18 months into the future.

Instead of a budget deficit of $388 million for the year ended June 30, we incurred a deficit of $2.8 billion. This deficit was brought about because our net revenues amounted to $69.1 billion, against the January estimates of $72.4 billion.

Instead of entering the current fiscal year ending June 30, 1959, with an anticipated budget surplus of $466 million, we are now faced with an estimated budget deficit of about $12 billion. This amount is based on estimates of $79 billion for expenditures and $67 billion for receipts. In giving these estimates we recognize the difficulty of making judgments this far ahead. They are our best estimates, and as such, provide a reasonable approach to consideration of the debt limit.

This substantial change in the outlook of our fiscal situation for the current year makes it imperative that we again review the statutory debt limit.

We can no longer operate with a $5 billion temporary extension of the $275 billion limit because we cannot look forward to a debt of $275 billion or less on June 30, 1959. The estimated deficit will result in the public debt outstanding on June 30, 1959, of nearly $285 billion. It is estimated that our cash working balance will amount to between $4 to $5 billion on that date.

An increase in the debt limit is needed even though the general revenue balance in the Treasury on June 30, 1958, amounted to about $9,750 million, as compared to $5,590 million on June 30, 1957. On June 30, 1958, the gross amount of public debt and guaranteed obligations subject to the debt limit was $276,013 million as compared to the debt subject to limit on June 30, 1957, of $270,188 million.

The general fund balance on June 30, 1958, amounted to about $9,750 million, but the cash working balance (funds available to meet the day-to-day expenditures representing balances in Federal Reserve banks in available funds and in Treasury tax and loan accounts) amounted to $8,628 million or about $4 billion higher than on June 30, 1957. The lower balance a year ago was due to the fact that a large part of the tax collections in that month was used to retire public debt obligations.

These reductions (of tax anticipation issues) amounted to $4,650 million in June 1957, while in June 1958 there were no maturing tax anticipation issues, and outstanding marketable public debt obligations increased about $650 million. However, the lower 1957 balance made it necessary for the Treasury to borrow $3 billion on July 3, 1957, to cover the heavy outlays during July last year. With the higher balances on June 30, 1958, the Treasury did not have to do any cash financing this July, even though expenditures are expected to exceed receipts by about $4.7 billion during the month. We are borrowing $3.5 billion in early August for cash requirements of the next couple of months.

The statutory debt limit should be amended to give recognition to the current outlook for the year. During the period since 1954, while the Treasury has been operating under temporary increases in the public debt limit, and public debt obligations were issued in excess of the permanent debt limit, it could be reasonably estimated that the excess could be repaid from tax collections prior to the expiration of the temporary increases in the debt limit, and in fact they were. In the situation we now face, that is not the case. At this point I would like to direct your attention to the attached chart which graphically illustrates this situation.

Mr. Chairman, if you will look at the chart and tables, the first table indicates the requirements of the public debt, column 1 showing an average working balance of $3½ billion; column 2 showing the public debt subject to limitation with that amount of working balance; column 3 shows an allowance to provide flexibility in financing and for contingencies, and the fourth column shows the public debt limitation that would be required with both the operating balance and the contingencies.

You will notice that with these two, operating balance and contingencies, there are several periods between now and June 30 when we come very close to or exceed the $288 billion which we are requesting.

I should also point out that in establishing the $3.5 billion worth of working capital, we should bear in mind that at current rates of expenditure the Treasury is spending approximately $1.5 billion on each 5 working days.

With increased expenditures contemplated for next year, these expenditures would increase.

It would appear that the only sound course at the present time is to permanently increase the statutory limit to $285 billion.

In addition, a further temporary increase of $3 billion will afford us a margin to take care of contingencies. Furthermore, a regular limit of $285 billion may present problems to the Treasury before the end of the fiscal year because there are still substantial seasonal fluctuations in the collection of revenues. We will have to look at the situation again before the end of the fiscal year to determine our course of action beyond that date in the light of developments. When budget surpluses are again in prospect, the matter of the permanent debt limit can be reviewed.

The figures we are using today do not include any changes in estimated expenditures which could eventuate due to recent developments in the international situation.

These developments do, however, point up the need for being in a position to take care of contingencies.

I am appending a table setting forth our forecast of cash balances and outstanding public debt for the period ending June 30, 1959, including actual figures for the period from January to June 1958.

(The chart and table referred to are as follows:)

Actual cash balance and debt, January–June 1958, and forecast, July 1958–June 1959, based on constant operating cash balance of $3.5 billion (excluding free gold)

[Based on tentative estimates—subject to revision]

[In billions]

	Operating balance: Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public debt limitation required
Actual:				
Jan. 15, 1958	$1.7	$274.1		
Jan. 31	2.2	274.2		
Feb. 15	1.7	274.0		
Feb. 28 [1]	3.4	274.3		
Mar. 15	2.8	275.3		
Mar. 31	5.1	272.3		
Apr. 15	5.0	274.9		
Apr. 30	5.2	274.7		
May 15	4.6	274.6		
May 31	5.1	275.3		
June 15	3.3	274.9		
June 30	8.6	276.0		
Estimated:				
July 15 (actual)	5.5	275.2		
July 31	3.5	275.2	$3.0	$278.2
Aug. 15	3.5	276.5	3.0	279.5
Aug. 31	3.5	276.8	3.0	279.8
Sept. 15	3.5	277.6	3.0	280.6
Sept. 30	3.5	275.6	3.0	278.6
Oct. 15	3.5	278.6	3.0	281.6
Oct. 31	3.5	279.7	3.0	282.7
Nov. 15	3.5	280.5	3.0	283.5
Nov. 30	3.5	280.8	3.0	283.8
Dec. 15	3.5	283.0	3.0	286.0
Dec. 31	3.5	281.9	3.0	284.9
Jan. 15, 1959	3.5	283.3	3.0	286.3
Jan. 31	3.5	283.3	3.0	286.3
Feb. 15	3.5	284.2	3.0	287.2
Feb. 28	3.5	283.4	3.0	286.4
Mar. 15	3.5	284.8	3.0	287.8
Mar. 31	3.5	281.5	3.0	284.5
Apr. 15	3.5	283.4	3.0	286.4
Apr. 30	3.5	284.5	3.0	287.5
May 15	3.5	284.9	3.0	287.9
May 31	3.5	285.2	3.0	288.2
June 15	3.5	287.2	3.0	290.2
June 30	3.5	283.0	3.0	286.0

[1] Statutory debt limitation of $275 billion was temporarily increased on Feb. 26, 1958, to $280 billion until June 30, 1959.

NOTE.—When the 15th of a month falls on Saturday or Sunday, the figures relate to the following business day.

Forecast of cash position and debt, fiscal year 1959

[Based on tentative estimates—Subject to revision]

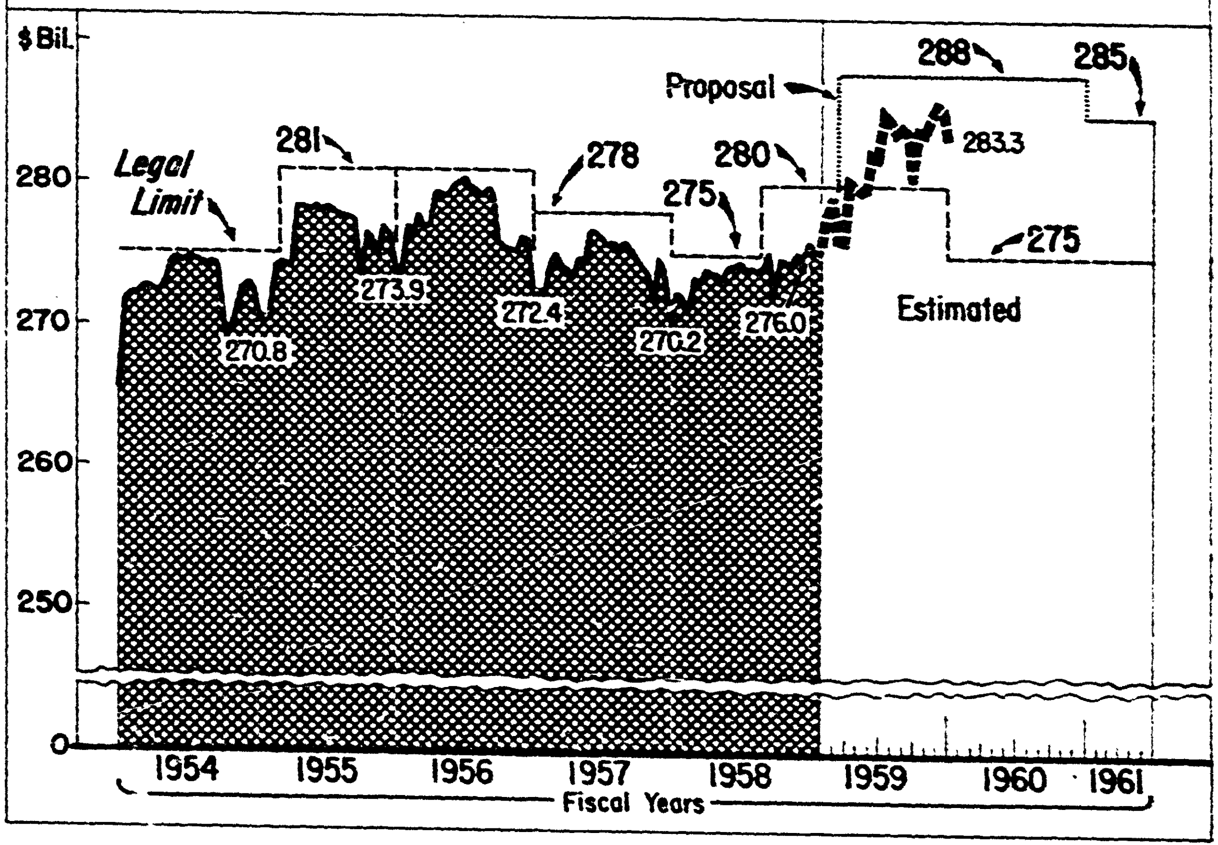
[In billions]

	July 1958	August	September	October	November	December	Subtotal July-December
Change in general fund balance	−4.7	+1.2	−1.6	+0.1	−1.3	+1.1	−5.2
General fund balance at beginning	9.7	5.0	6.2	4.6	4.7	3.4	9.7
General fund balance at end	5.0	6.2	4.6	4.7	3.4	4.5	4.5
Operating cash balance at end (including gold)[1]	4.3	5.6	4.0	4.1	2.8	3.9	3.9
Public debt outstanding:							
Beginning	276.3	275.9	278.8	276.4	280.2	280.0	276.3
Change	−.4	+2.9	−2.4	+3.8	−.2	+2.2	+5.9
End	275.9	278.8	276.4	280.2	280.0	282.2	282.2
Debt subject to limit	275.6	278.5	276.1	279.9	279.7	281.9	281.9
Midmonth figures:							
Operating cash balance (including gold)[1]	6.0	5.2	2.2	5.5	3.0	2.9	....
Debt subject to limit	275.7	277.8	276.3	280.2	279.6	282.0	....

	January 1959	February	March	April	May	June	Total
Change in general fund balance	+1.7	−1.0	−1.7	+0.2	+1.4	−0.2	−4.8
General fund balance at beginning	4.5	6.2	5.2	3.5	3.7	5.1	9.7
General fund balance at end	6.2	5.2	3.5	3.7	5.1	4.9	4.9
Operating cash balance at end (including gold)[1]	5.5	4.6	2.9	3.0	4.5	4.2	4.2
Public debt outstanding:							
Beginning	282.2	285.2	284.4	280.8	283.9	286.1	276.3
Change	+3.0	−.8	−3.6	+3.1	+2.2	−2.5	+7.3
End	285.2	284.4	280.8	283.9	286.1	283.6	283.6
Debt subject to limit	284.9	284.1	280.5	283.6	285.8	283.3	283.3
Midmonth figures:							
Operating cash balance (including gold)[1]	5.7	3.4	2.8	4.2	3.8	2.2	....
Debt subject to limit	285.1	283.7	283.7	283.7	284.8	285.5	....

[1] This balance differs from the general fund balance as it includes only Treasury accounts in Federal Reserve banks (collected), Treasury tax and loan accounts, and gold in general fund.

PUBLIC DEBT SUBJECT TO LIMIT



Office of the Secretary of the Treasury

Secretary ANDERSON. If I may, one moment, Mr. Chairman, refer to the second table, under the heading "Public Debt Outstanding," the figure indicates the amount of public debt that will be outstanding at the beginning of the month. The second figure indicates the change, and the third figure indicates the debt outstanding at the end of the month.

Then the last line indicates the midmonth balance. So that you have the beginning, the middle, and the end of the month and I should say that even in this 15-day period there can be wide fluctuations of several billions of dollars.

Thank you, Mr. Chairman.

The CHAIRMAN. The next witness will be the Director of the Budget, who will make his statement and then the witnesses can be examined by the committee.

STATEMENT OF MAURICE H. STANS, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. STANS. Mr. Chairman and members of the committee——

Senator MALONE. Mr. Chairman, are we going to ask the distinguished Secretary of the Treasury any questions?

The CHAIRMAN. Both of them will be asked but it was suggested we will get the whole picture before us and then examine the Secretary of the Treasury and the Director of the Budget.

Senator MALONE. Who is our second witness?

The CHAIRMAN. The Director of the Budget, Mr. Stans. He is looking at you now.

Senator MALONE. I have seen him before, but I do not have any pleasant recollection.

The CHAIRMAN. Go ahead, Mr. Stans.

Mr. STANS. On June 12, when I last testified before this committee, I summarized the prospective budgetary situation for the fiscal year 1959 as it then appeared. Since the budgetary outlook is directly related to consideration of H. R. 13580, I propose today to bring the 1959 budget outlook up to date.

Last January, the budget estimates indicated total expenditures of $73.9 billion for this fiscal year. It now appears that spending will be substantially higher than that amount, and probably will reach $79 billion.

Of course, it is impossible to prepare precise revisions of the expenditure estimates before the close of the congressional session. At present, for example, some major appropriation bills for fiscal 1959 have not yet been enacted. Moreover, a number of substantive bills are still pending before the Congress which could affect significantly the total expenditures this year.

However, many changes from the January budget can be reasonably estimated at this time. These changes can be grouped in several categories:

First, defense: Expenditures for military functions will be up by about 500 to 700 million dollars from the budget estimates, taking into account recommendations by the administration for added authorizations and also the military and civilian pay raises which have been enacted. This estimated increase is in addition to the $500 million that was included in the budget for defense contingencies.

Next, agriculture: It now appears that agricultural programs will cost roughly a billion and a half dollars more than was anticipated last January. This increase reflects various factors such as the exceptionally large wheat crop and changes in the outlook and programs for exports.

Third, housing: Under the housing legislation enacted earlier in this session, spending for mortgage purchases and for direct housing loans to veterans could be more than $1 billion above the budget.

Fourth, unemployment benefits: Advances to States under the temporary program for providing supplemental unemployment compensation to workers, combined with higher expenditures for unemployment benefits to veterans and former Federal employees, are estimated to increase the budget by $600 million.

Fifth, postal service: The enactment of pay raises higher than recommended and taking effect at an earlier date, together with postage rate increases which fall short of the President's recommendations, will result in a postal deficit this year which will be a half billion dollars greater than estimated in the budget.

Sixth, the general category of other increases: A number of other programs will cost more than originally expected. Pay of civilian employees outside the Defense and Post Office Departments will be higher than budgeted because the pay raise was higher and most of the retroactive payments were made in fiscal 1959. Construction programs of the Corps of Engineers and the Department of the Interior have been speeded up and some construction of the General Services Administration has been shifted from lease-purchase to direct financing. Other increases have been enacted for aid to schools in federally affected areas, health research, hospitals, small-business investment, and veterans' programs. The National Aeronautics and Space Administration will have a larger program than its predecessor, and supplemental appropriations are pending for atomic energy, postal construction, civil defense, overseas information activities, and other items. The overall effect of these various increases is about a billion dollars.

Finally, reductions: A decrease from the January budget seems likely for interest on the public debt. The amount of appropriations for mutual security programs reported in the Senate is somewhat below the budget also, but the effect on expenditures would not be as much in the first year as the change in appropriations. I think we can estimate these two reductions in round figures at about one-half billion dollars.

Beyond these categories, other legislative items that would add substantially to the budget have received some favorable action in the Congress and are still under consideration. For example, the housing bill reported by the House Banking and Currency Committee would increase authorizations more than $1 billion over the budget. There are also bills for unemployment compensation for peacetime veterans, area assistance, minerals stabilization, waste treatment facilities, airport construction, public assistance, and educational television, which propose to provide authorizations not budgeted or to increase budgeted amounts. These examples, which do not at all exhaust the list, could increase authorizations for fiscal 1959 by as much as $2 billion, and would also provide further authority for succeeding years.

I very much hope that final action by the Congress on these bills will not require expenditures beyond those recommended by the administration.

However, with some allowance for the uncertainties related to this pending legislation and other matters, I believe it reasonable to expect that 1959 expenditures will exceed the budget by $5 billion, thereby making the total about $79 billion.

The Treasury and the staff of the Joint Committee on Internal Revenue Taxation estimate that our revenues will amount to about $67 billion.

Thus the present outlook is for a budget deficit in the general magnitude of $12 billion.

I hope that we will be able to keep expenditures below the $79 billion we currently estimate.

I hope that revenues will exceed the present estimate of $67 billion. I hope that the deficit will turn out to be less than $12 billion.

But we must recognize that there are many uncertainties in estimating expenditures and revenues this far in advance. It is possible that the actual deficit could be even higher than we now foresee.

It is my belief that the debt limit should be high enough to provide for these expectations, and should also allow for seasonal variations in tax collections and for flexibility in managing the debt. I therefore endorse H. R. 13580, which would provide a permanent limit of $285 billion, with a temporary increase of $3 billion above that amount.

The CHAIRMAN. Thank you, Mr. Stans.

The chairman would like to read this statement.

When Congress convened in January it was told by the administration that the budget would be virtually balanced in the past fiscal year and that there would be a surplus in this fiscal year. Actually there was a $2.8 billion deficit in the last fiscal year ending June 30 and another deficit of $12 billion is anticipated in the present fiscal year.

The administration has asked for 2 debt ceiling increases in a period of 6 months aggregating $13 billion, making a total debt limit of $288 billion.

The Secretary of the Treasury has indicated that he may have to ask for another debt ceiling increase when Congress convenes in January.

This unprecedented deterioration of our fiscal condition in a brief space of 6 months should shock every American into a realization of the perils that confront us.

Deficit spending will promote serious inflation and if continued will destroy much of the present purchasing power of our existing 50-cent dollar.

The Budget Director anticipates an $80 billion expenditure budget this fiscal year, and this will continue. In 5 years it is predicted we will spend $400 billion. On the basis of the present revenue there would be an accumulated deficit of $65 billion in the next 5-year period. The debt then would approach $350 billion.

It is evident that we have a runaway budget and little effort is being made by either the administration or Congress to control it.

I have discussed this matter with the President, who has expressed his deep concern.

As chairman of the Joint Committee on Reduction of Unessential Expenditures, I am preparing a memorandum for him urging that all expenditures in the new budget now in preparation be reduced, including those for programs and projects which may be desirable but not absolutely essential. Waste and extravagance in every branch of the Federal Government should be eliminated.

Unless we change our course, we are going to certain disaster in our fiscal economy.

When the American dollar goes down, then the currency of the world collapses. Drastic action will be necessary to prevent this real disaster.

Now, Mr. Secretary, I am going to make my questions brief because the members of the committee have other meetings.

I am somewhat mystified as to why it was, that 6 months ago, a balanced budget predicted in the last fiscal year, and this year, and now we found that the aggregate of the deficits approaches $15 billion. Why was it that the estimates given to the Congress in January were so erroneous?

Secretary ANDERSON. Mr. Chairman, there is always a very great hazard in trying to anticipate both the direction which the economy will take and the amount of revenues which are going to be derived under the direction which the economy is moving, because one must remember that the amount of revenue collected does not always move in direct proportion to such things as gross national product.

In the instance of corporations, for example, which are very important to our calculations, any decline in profits, quite apart in some instances from volume of business, are exceedingly damaging to our revenue estimates.

Now the deficit which has occurred at the end of this fiscal year is essentially brought about by a decline in revenues.

In January we estimated there would be $72.4 billion of revenue. The revenues which have been collected thus far are $69.1 billion.

Most of this is in the area of personal incomes.

Now, the deficit which is anticipated for fiscal 1959 is represented generally by a decline of $7 billion in estimated revenue receipts, and about $5 billion in increased expenditures over the budget estimates.

The CHAIRMAN. Weren't those conditions that brought about the reduction in revenue more or less apparent in January?

That does not happen overnight. We go back 6 months or so in collection of our taxes.

Secretary ANDERSON. One——

The CHAIRMAN. There was nearly as much recession in January as there was in February and March. I just do not understand why, under the conditions existing at that time, you overestimated the revenues so much.

Secretary ANDERSON. Well, very frankly, Senator, I point up again that one has to—if one looks by hindsight it is always easier to see where your mistakes have been, but when one tries to anticipate what is going to be a decline in corporate profits, and the rate of corporate profits, one just cannot make precise judgments, and a fluctuation of several billions of dollars is not an unusual thing.

The CHAIRMAN. That decline had already occurred in the latter part of 1957.

Secretary ANDERSON. There had been some decline in 1957.

The CHAIRMAN. Apparently there had been no consideration given to that decline.

Secretary ANDERSON. There was consideration given to it Senator, but frankly, the decline in profits was greater in the first half of 1958 than we anticipated, and——

The CHAIRMAN. You actually estimated in January a $3 billion increase in tax receipts, did you not, as compared to the previous years?

Secretary ANDERSON. Yes, we did.

The CHAIRMAN. Yet the recession started——

Secretary ANDERSON. Two billion.

The CHAIRMAN. The recession started about September or October.

Secretary ANDERSON. Well, it certainly started back in the fall of 1957.

The CHAIRMAN. And business conditions of corporations are reflected a year later in the taxes.

That is correct, is it not?

Secretary ANDERSON. That is correct.

The CHAIRMAN. That is a great portion of taxes, are not paid currently.

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Without being critical, and you know of my great respect and admiration for you, I just think that that was quite an error $15 billion over 2 years?

Secretary ANDERSON. It was about a break even, sir.

Senator KERR. A $400 million deficit for this year and four- or five-hundred-million-dollar surplus.

The CHAIRMAN. That is approximately what I said.

Secretary ANDERSON. $1 billion change.

The CHAIRMAN. That changed to a deficit of $15 billion.

Secretary ANDERSON. Over the 2 years.

The CHAIRMAN. Over the 2 years.

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Well, that is a colossal miscalculation. I have been keeping up with these things for 25 years and I do not remember a greater error.

Secretary ANDERSON. Well, sir, I would like to point out to the Senator that even using the best data that we have, and the best calculations we have, we are still in 1958 revising the figures we thought were earned as corporate profits back as far as 1955.

Recently, in July, the Economic Indicators pointed out that in 1955, we earned $44.9 billion.

Senator KERR. Is that corporate?

Secretary ANDERSON. Corporate, when as a matter of fact prior to that time we had considered we had earned $42.5 billion or an increase of $2.4 billion.

In 1956 it was estimated that we had earned $43 billion. In the July revisions we determined that we earned $45.5 billion or an adjustment of $2.5 billion.

Even for 1957 it was estimated at that time we earned $41.2 billion. In July of 1958 we have revised it upward by $2.2 billion——

Senator KERR. $44.3 billion?

Secretary ANDERSON. Beg pardon?
Senator KERR. $44.3 billion?
Secretary ANDERSON. $43.4 billion.
Senator KERR. Yes.
Secretary ANDERSON. From $41.2 billion to $43.4 billion, this was in 1957.

The CHAIRMAN. Was the fact that the administration in January did not recognize there was a recession the reason that you did not reduce your estimates then? You could have reduced the estimates then although the budget was made up in October and November.

Secretary ANDERSON. Yes.

The CHAIRMAN. But even in January, I think you said the same surplus would exist. But I would not press that because it is water over the dam.

What I am concerned about very much is, When do you think and how do you think the budget can be balanced again?

Secretary ANDERSON. Well, Senator, the only way that the budget can be balanced is by reductions of expenditures or by increasing revenues or both.

The CHAIRMAN. Now assuming that we have more inflation, and I am one who believes we are going to have it, especially if we continue this deficit spending, won't the increase in revenue be absorbed by the inflated prices the Government will pay for what it buys?

Secretary ANDERSON. That would depend, of course, on the extent of the inflation.

The CHAIRMAN. Do you think these continued deficits will stimulate inflation?

Secretary ANDERSON. A deficit is certainly on the inflationary side and a continuation of deficits would be more inflationary than a single deficit.

I think what this country has got to realize is that it must pay its bills, and that whatever is required we must not allow either inflation or deflation in this country to run a ruinous course.

The CHAIRMAN. A deficit of $12 billion, if continued, would certainly be very inflationary, would it not?

Secretary ANDERSON. If continued; yes, sir.

The CHAIRMAN. And that would offset any increase in revenue because the Government then would have to spend more for what it buys.

Secretary ANDERSON. Well, I would like to reply to this categorically because I do not know how much the inflation would increase.

The CHAIRMAN. Inflation reduces the value of the dollar and therefore dollar appropriations won't buy as much.

Secretary ANDERSON. That is correct.

The CHAIRMAN. In your judgment what prospect is there for reducing the Federal expenditures?

Secretary ANDERSON. Well, Senator, I will say that this is not a job simply for the Treasury. This is a job for Congress, it is a job for all of the Departments of the Government.

I should like to point out that if one takes the appropriations and expenditures for defense, mutual security, for interest on the debt, for all veterans benefits, and for atomic energy, we are talking about approximately 83 percent of what we spend, and the remaining functions of the Government are cared for by approximately the remaining 17 percent.

Senator KERR. Which amounts to what in terms of dollars?

Secretary ANDERSON. Well, it would be——

Mr. STANS. $13 billion to $14 billion, according to the January budget estimate.

Secretary ANDERSON. I think one simply——

The CHAIRMAN. It is true we have a joint responsibility, I agree with you on that. But isn't the first step on the preparation of the budget taken in the executive branch?

Secretary ANDERSON. The executive branch has the responsibility for the preparation of the budget and submitting it to the Congress as recommendations; yes, sir.

The CHAIRMAN. That is a first step toward reducing expenses.

Secretary ANDERSON. Yes.

The CHAIRMAN. So the responsibility for initiating reductions rests primarily upon the executive branch when it prepares the budget.

Secretary ANDERSON. The administration certainly has the first responsibility in preparing the budget. But I would certainly say that any effective reduction of expenditures has to be a cooperative effort between the——

The CHAIRMAN. Everybody recognizes that.

Secretary ANDERSON. Between the Congress and the Administration.

The CHAIRMAN. I am speaking of the first responsibility.

Secretary ANDERSON. Yes.

The CHAIRMAN. If these deficits continue and apparently you think there is great difficulty in reducing expenditures because 87 percent——

Secretary ANDERSON. Eighty-three percent.

The CHAIRMAN. Are untouchable. I do not agree with that. You include foreign aid in that 83 percent, and I think the time has got to come when we have got to stop supporting nations abroad out of borrowed money.

We have added $62 billion to the public debt of this country in order to give away in these programs abroad and I think we have got to do something about that.

Now suppose we cannot reduce expenditures or rather we do not reduce expenditures, I think we can. Would you advocate an increase in taxes to balance the budget?

Secretary ANDERSON. Senator, let me say in response to your question, first, that in outlining these five areas in which the major expenditures occur, I do not by that method purport to suggest that they are untouchable. I simply point out that in the world of tensions in which we live, and considering the nature of the items which are involved, that one must appreciate the difficulties that are associated with the realization of balancing the budget.

Now with reference to the second aspect of the question, I am not at this moment prepared to say what recommendations we would make with reference to our tax structure.

I will say that I believe that the country must take into consideration and be willing to evaluate all courses that are necessary or may become necessary to assure that inflation in the country does not impose a ruinous course upon the country.

The CHAIRMAN. And you think a $12 billion or $10 billion deficit over a series of years would certainly be inflationary, there is no question about that.

Secretary ANDERSON. I am certain of that.

The CHAIRMAN. I want to insert in the record quotations from witnesses who testified before this committee, including Secretary Humphrey, Mr. Bernard Baruch, and others, to the effect that deficit spending was perhaps the most inflationary of all.

(The information referred to is as follows:)

OFFICIALS OF TRADE AND BUSINESS ASSOCIATIONS

Question 14. How much of a factor in your opinion has deficit spending by the Federal Government since the end of World War II been in contributing to or promoting inflation?

1. (Mr. Brinkman:) It appears to be rather conclusive that deficit spending since World War II has been a factor in contributing to inflation by exerting pressure on a tight-money supply, which was during a period of our economic history when consumers were competing for relatively scarce goods and services.

2. (Mr. Farley:) Deficit spending by the Federal Government has been a significant, though not the only, factor contributing to inflation since the end of World War II. Lax fiscal policies tied in with loose monetary and credit policies were especially conducive to inflation in the immediate postwar years. Budget surpluses, reduction of the Government debt, and credit restraint were not sufficiently pursued.

3. (Mr. Lightner:) The total deficits from 1940 through 1946 were $215,027 million. Here is the source of the inflationary conflagration that could not be extinguished. In the 11 years 1947 through 1957 there were 6 deficit years, with a total deficit of $25,696 million, and 5 surplus years with a total surplus of $15,905 million. The net budget deficit for the 11 years was therefore $9,791 million.

Superficially it would appear that a net total deficit of some $9.8 billion over an 11-year period would be inflationary on net balance. But there were 2 surplus years at the beginning of the period (1947, 1948), 2 at the end (1956–57) and one in the middle (1951). The surplus years prevented the deficits from having an uninterrupted inflationary effect.

4. (Mr. Patton:) With the now acknowledged multiplier effect of a balanced budget in the framework of properly structured taxation and Government programs, there is no need for a budgetary deficit. However, deficit spending cannot be given the major blame for price inflation during the past few years.

5. (Mr. Shuman:) The real basis for our postwar inflation was laid during the war when truly enormous deficits were financed to a large degree by selling bonds to the commercial banks. While postwar deficits have contributed to inflation, this contribution has not been a major factor in comparison with the rise in the public debt which took place during the war years.

6. (Mr. Talbott:) Deficit spending since World War II has not been the chief cause of postwar inflation, but deficit spending during World War II was, without doubt, the biggest single cause of the immediate postwar inflation—especially rapid increase in prices during the period 1945–48.

During World War II Federal deficit greatly inflated the money supply. In addition, wartime borrowing from the Federal Reserve System and commercial banks added greatly to bank reserves and the lending capacity of the banking system, and thereby made possible a further increase in the money supply by a multiple expansion of bank credit.

It should be pointed out that rapidly rising Government expenditures, even though covered or nearly covered by taxation, may create excess demand and inflationary pressures. Given our present tax structure, inflation of prices, and incomes increases tax revenues more than proportionately and helps to cover growing Government expenditures. To be sure, such a process also raises the costs of Government, too, but where there is a lag in Government spending, deficits in real terms may be concealed for a time by inflationary finance. In other words, inflation may precede a deficit rather than follow it during a period of rapid mobilization when future commitments of Government are increasing sharply.

During the inflation of 1956–57, current Government deficits could hardly be made a whipping boy since cash surpluses were achieved in those years.

Inflations are complex phenomena. Government deficits are only one element in a given situation, though at times they may be the crucial element. Certainly, continuous deficits financed by central banks or the banking system will produce advanced inflation. Historically, nations have taken this route to avoid the hard political problems of honest public finance.

EXECUTIVES OF CORPORATIONS

1. (Mr. Adams:) I think it is difficult to measure the inflationary impact of postwar Treasury deficits. Wartime spending probably caused the initial inflationary surge.

A large Treasury budget and high tax rates are in themselves inflationary; they reduce the volume of savings and force increased bank credit which in turn increases the supply of money.

2. (Mr. Beise:) Deficit spending by the Federal Government since the end of World War II was not a significant contributor to inflationary pressures except as it was associated with wartime expenditures in 1952 and 1953.

3. (Mr. Ecker:) Directly, deficit spending by the Federal Government has not been a major factor among the forces contributing to monetary expansion during the period since World War II.

Indirectly, Government deficits did contribute to inflationary pressures. Financing of Government deficits by individuals and businesses absorbed funds which might otherwise have gone to finance a portion of the requirements of private enterprise which were financed by commercial banks.

4. (Mr. Fitzgerald:) On balance, deficit spending by the Federal Government over the past decade has not been carried out on a scale to contribute greatly to inflationary pressures.

5. (Mr. Gund:) The deficits during the Korean war had an effect on rising prices during that period. Little effect since then, except through spending for military hardware which furnishes protection but is not available for civilian economy.

6. (Mr. Jarvis:) Deficit spending has of course been a contributing factor. However, much of the deficit spending that has shown up in the past decade in the form of inflation was actually spent or "planted" during the war itself.

7. (Mr. Jerome:) Deficit spending by the Federal Government since the end of World War II has had some inflationary effect, but the great increase in debt during this period has been in private debt.

8. (Mr. Keener:) Federal Government deficits have not been a major factor contributing to inflation since World War II. As a whole, during this period there has been a surplus. This does not mean that governmental spending and taxing programs have not encouraged inflation.

9. (Mr. Leftwich:) It would be difficult to isolate Federal deficit spending since World War II as a main inflationary force. Federal deficit financing unquestionably contributed to inflation pressures, but it was probably more of a piece with other directly related causes such as farm price supports, etc.

10. (Mr. Livingston:) The comparatively modest rise in the Federal debt in the postwar period compared with the war years, and the approximate balance in the number of budget deficit and surplus years, suggests that the postwar inflation must be attributed mainly to the very large volume of deficit war financing.

11. (Mr. McConnell:) The high level of Federal spending for goods and services has in itself contributed to inflation since the type of goods and services needed most were in competition with the booming sectors of private demand for raw materials, skilled manpower and productive capacity.

12. (Mr. Smith:) On the whole Federal deficit spending has been a minor factor in contributing to inflation in the postwar period. Much more of a factor contributing to inflation was the huge Federal deficit of World War II. A second factor contributing to inflation was not related to the deficit, per se, but to the sheer size or weight, of Federal expenditures for final goods and services produced by the economy.

13. (Mr. Symes:) Deficit spending, in the sense of the Federal Government's spending more cash than it received, has been a minor factor. The huge increase in the money supply which contributed to the postwar inflation was created by deficit financing during the war.

14. (Mr. Odell:) The Federal deficit has been a factor, but in recent years it has not been a major factor, in contributing to inflation.

ECONOMISTS AND PROFESSORS

Question 14. How much of a factor in your opinion has deficit spending by this Federal Government since the end of World War II been in contributing to or producing inflation?

1. (Mr. Ellis:) Negligibly. Budget deficits since World War II have not been sufficient to account for inflation.

2. (Mr. Ensley:) The total cash deficit in the deficit years 1949 and 1952-55 amounted to $10.8 billion—in current prices, total gross national product for these 12 calendar years aggregated $3,880 billion. Deficits, therefore, represented less than 0.3 percent of income over the entire period. The deficits, per se, therefore, hardly represent a major factor in the postwar inflation.

3. (Mr. Haberler:) I do not think that deficit spending by the Federal Government since the end of the war has been an important inflationary factor. But it cannot be denied that the large size of the budget (even if balanced) and the fact that the Government is ready to incur a deficit in periods of depression so as to counteract the decline in output and employment is, at least from the long run standpoint, a highly inflationary factor.

4. (Mr. Leavey:) Increased Government spending is inflationary irrespective of whether the budget is balanced or unbalanced. Deficit spending merely postpones the ultimate adjustment since it has the effect of running presses to print money.

Our experience since the Korean war was demonstrated the fallacy of believing that there is any correlation between inflation and deflation and between budget surpluses and deficits. In the so-called constant-dollar period of 1951-55 there was a budget deficit every year with a total deficit for the 4 years of approximately $21 billion. Actually there was a continuing inflation during the period, which was hidden by the decline in farm prices. In the years 1956 and 1957 the country experienced the sharpest inflation in the postwar period even though budget surpluses were shown in both years.

5. (Mr. Lee:) In the period since World War II there is little evidence that Government deficits, per se, have contributed in material ways to inflation. It is rather than Government surpluses have been reduced in times of inflation when Government surpluses should, in fact, have been increased.

6. (Mr. Samuelson:) Postwar fiscal policy has on the whole been well devised.

7. (Mr. Thompson:) Deficit spending by the Federal Government since the end of World War II has contributed to inflation by indirectly encouraging more expansion in the private sectors of the economy than would have been likely otherwise.

8. (Mr. Whittlesey:) Deficit financing since the end of World War II was not a significant factor in causing inflation. The inflation in this period was mainly the delayed result of developments that occurred during World War II and factors resulting from the Korean war.

9. (Mr. Yntema:) Deficit spending by the Federal Government since the end of World War II has not been an important factor in contributing to or producing inflation.

The deficit financing of the Government that occurred during World War II did, however, have a major inflationary effect in the postwar period. The inflation of 1946-48 was primarily a reaction to the excess money and near money that was created by Government borrowing during the war.

The following is an excerpt from the comments made by Mr. Malcolm Bryan, President of the Federal Reserve Bank of Atlanta (p. 113 of the compendium):

"The principal problems of the postwar period have been the direct result of fiscal inadequacy in the war period, when far too much reliance was placed on borrowing, especially through bank credit, and far too little reliance was placed on taxation and on borrowing the savings of the public. The resulting expansion in the money supply brought in train an almost inevitable inflation, to which most of the postwar economic problems are directly and importantly related.

"The adequacy of the fiscal system to meet the expenditure requirements of the Federal Government, however, is not the whole test of the system's long-run economic soundness. The size of the tax take, and the sources on which levied, may be having an important effect on the monetary savings available to the American economy, and may exert an inflationary pressure by promoting the substitution of bank-credit expansion for real savings."

The following are excerpts from the testimony of Dean Charles C. Abbott with respect to the effect that deficit financing has on inflation:

Excerpts from part 6, page 2064:

"Dr. ABBOTT. Deficit financing creates inflationary pressures. So does inept debt management. It is the job of the Federal Reserve to counteract pressures that arise from these directions just as much as it is to offset the consequences of overspending or speculation by private persons and business concerns."

Excerpt from part 6, page 2065:

"The CHAIRMAN. * * * I assume you regard deficits as inflationary.

"Dr. ABBOTT. Potentially inflationary. Sometimes immediately inflationary—always potentially inflationary. It depends in part on how the debt is managed.

"The CHAIRMAN. In the period from 1939 to date we have lost 52 cents of the purchasing power of the dollar and have increased our debt very heavily. Do you think deficits have been one of the main factors in bringing about that loss of the purchasing value of the dollar?

"Dr. ABBOTT. Yes, I do. * * *"

Excerpt from part 6, page 2072:

In answer to a question by Senator Martin, Dean Abbott had the following to say: "I would say in the first place that deficit spending will make more difficult the control of inflation."

The following excerpts were taken from the comments made by Mr. Carl E. Allen, president of the Federal Reserve Bank of Chicago (p. 116 of the compendium):

"It is important to note that the huge sums required for financing the war were raised in large part by methods which produced rapid expansion of bank credit and the money supply. Unfortunately, only 40 percent of the funds obtained were raised through taxation and an excessive portion of the balance was derived from the sale of securities to commercial banking institutions, resulting in creation of new supplies of money. The expansion of bank credit and purchasing power contributed to the buying power of our people in the postwar period and to the inflationary pressures which, held in abeyance in large part by wartime regulations, became active when those regulations were removed."

(P. 118 of the compendium):

"One of your questions suggests that the growth of private debt in recent years may have become a threat to the stability and vitality of the American economy. I believe that to be the case, and I would include public debt as well because that is the debt of the people just as surely as their own private debts. They must both be serviced and paid out of private income."

(P. 122 of the compendium):

"As mentioned earlier in this letter, we have suffered grievously from inflation in the past 20 years, and, while inflationary pressures appear relatively inactive at the moment, their resurgence is an ever-present possibility and source of anxiety. Government deficits under such conditions are, of course, undesirable."

EXCERPTS FROM MR. BARUCH'S TESTIMONY

Mr. Baruch in his prepared statement had the following to say about the effect of inflation on our economy and the most important cause of inflation. He said:

"But, above all else, once and for all, we must relieve our defense program and our entire economy of the toll paid to inflation. Think of the planes we could have bought, the research we could have conducted, the extra benefits we could have provided our Armed Forces with the billions lost through inflation.

"Inflation, gentlemen, is the most important economic fact of our time—the single greatest peril to our economic health. Its most important cause has been the tremendous expenditures for war—for nonproductive goods and services—which were financed too largely through borrowing and too little through taxes."

Further in his statement Mr. Baruch had the following to say:

"A nation, no less than an individual, must keep its financial house in order. Its financial strength, no less than an individual's, will determine its capacity to withstand economic adversity. The credit of the United States Government is the foundation upon which our solvency and security rest. The strained conditions of our credit handicaps our efforts to cope with the recession. We must prevent any further weakening of it by tax cuts or deficit spending or lifting the borrowing ceiling every time the debt presses against it."

At the conclusion of his prepared statement Mr. Baruch was questioned by members of the committee; the following is an excerpt from the hearings:

"The CHAIRMAN. Do you regard Federal deficit financing as one of the main factors in creating inflation?

"Mr. BARUCH. Yes, sir. I think the main cause of inflation today was the deficit financing of war—the enormous borrowing in World War II and Korea. The war expenditures should have been accompanied by sufficient taxes to pay for them as nearly as possible and by controls, on prices, profits, and wages * * *."

Senator Anderson (Democrat, of New Mexico) asked Mr. Baruch the following question (p. 1047): "Can we, in your opinion, Mr. Baruch, have sound economic growth with either inflation or with $9 billion deficits?" Mr. Baruch answered with an emphatic, "No, sir."

Senator Williams asked Mr. Baruch the following question (p. 1071):

"Senator WILLIAMS. Earlier this year Congress was asked and agreed to increase the national debt by $5 billion.

"There is talk now that perhaps we will be asked again either during this year or next year to increase the debt further. What would be your opinion as to action we should take in compliance with that?

"Mr. BARUCH. I think it would be a most disastrous thing."

The Chairman submitted to Mr. Baruch several questions, requesting that Mr. Baruch supply the answers for the record. Two of these questions deal with inflation and are quoted as follows (p. 1086):

"The CHAIRMAN. Do you agree that deficit financing by Government is, in fact, a postponement of taxes?

"Mr. BARUCH. Of course. If the deficit is ever to be made up it will have to be made up out of taxes in the future. Deficit financing is worse than the postponement of taxes. It has the same effect as printing money.

"The CHAIRMAN (p. 1087). If we allow the inflation spiral to be renewed and continued, what do you foresee as the results in the next 1, 2, or 3 years?

"Mr. BARUCH. If the inflationary spiral is resumed we will see a continued rise in prices; a progressively larger national debt; a dollar shrunken even more than it is now; the continued reduction in value of all savings, pensions, insurance; the scaling down and eventually the possibility of the repudiation of all debts."

EXCERPTS FROM SECRETARY HUMPHREY'S TESTIMONY

In his opening statement to the committee, Secretary Humphrey stated (p. 17):

"Federal deficits necessitate increased Federal borrowing—more Federal borrowing to the extent it comes from banks, means the creation of additional bank credit. This tends to create more spendable dollars than there are goods to buy.

"As your chairman, Senator Byrd, so clearly pointed out in his remarks to the Senate on August 13, 1954: 'Deficit spending is perhaps the greatest single factor in the cheapening of the value of the money.'

"In ending deficits, we have eliminated this very inflationary pressure."

* * * * * * *

In a colloquy with Senator Byrd (p. 65):

"The CHAIRMAN. I think you have said before that large deficit spending—and we have had large deficit spending during World War II and the Korean war—is probably the most important factor in inflation; is that correct?

"Secretary HUMPHREY. I think there is nothing that will push you along the road to inflation much faster than large Government deficit spending."

* * * * * * *

In a colloquy with Senator Flanders (p. 356):

"Senator FLANDERS. * * * (In) general would you say that massive Government expenditure tends in the direction of inflation through an increase in the money supply?

"Secretary HUMPHREY. Well, massive Government expenditure, particularly if it is deficit expenditure, is inflationary."

* * * * * * *

In a colloquy with Senator Jenner (p. 649):

"Senator JENNER. The first question, is it correct to say that the proposals for permanent deficit spending with their extreme increase in Government budgets, their artificially low interest rates and profits, and their indifference to paying off the debt, would bring about massive inflation?

"Secretary HUMPHREY. It certainly would, Mr. Senator, and there is no way that I could imagine that you could bring it on to a greater degree than by the combination of circumstances that you have outlined in this question."

EXCERPTS FROM MR. MARTIN'S TESTIMONY

The following colloquy between Senator Williams and Mr. Martin (p. 1817):

"Senator WILLIAMS. Do you feel that Government deficits are one of the major contributing factors toward inflation?

"Mr. MARTIN. I think that—I never favor deficit financing, although I recognize that it can sometimes have an impetus on our economy.

"But again, it is like debt, that I commented on yesterday. It is not a situation to be desired. Under certain circumstances it may be useful, but—and I do not want to make a blanket statement on it, but I never favor deficit financing. I think it is wrong in principle; and I think it is not really the benefit, even when it is used, that those who claim it has the benefits think it has."

* * * * * * *

The following colloquy between Senator Byrd and Mr. Martin took place on page 1436:

"The CHAIRMAN. On Senator Carlson's time, the Chair would like to ask one question. As I understand your testimony this morning, Mr. Martin, you think too much spending and too little savings are among the chief factors in the current inflation?

"Mr. MARTIN: That is correct, sir.

"The CHAIRMAN. Now the Federal Government owes, as you know, approximately $275 billion and is spending from 98 to 99 percent of its current income. Would you agree with me that perhaps the Federal Government is perhaps the chief offender?

"Mr. MARTIN. I do agree with that, sir.

"The CHAIRMAN. Would you agree that reduction in the public debt would be one of the best things to do to avoid any further inflation?

"Mr. MARTIN. I do, indeed."

The following collqup between Senator Martin and Mr. Martin (p. 1955):

"Senator MARTIN. Mr. Martin, you indicated yesterday that you estimated we might have a deficit of $10 billion in fiscal 1959 and that therefore a tax cut would not be desirable.

"Do you think a $10 billion deficit a favorable factor to reverse the recession and regain high employment levels?

"Mr. MARTIN. Well, I do not like deficits under any conditions, Senator; but since we are in a recessionary period, the point I tried to emphasize yesterday was that I was willing to accept the deficit financing on a temporary basis as a stimulant to the economy; but I questioned (p. 1956) whether it was wise, without having a clearer indication of the extent of the current recession, to perhaps double the amount of that deficit and put the Government so far in the hole that Congress would have to face up very quickly to the necessity of cutting down on various Government programs or of raising taxes in trying to get back to a budget balance again.

"Senator MARTIN. Do you feel a higher figure of Government debt would put us back on an inflationary spiral, or assist in doing that?

"Mr. MARTIN. Well, you are projecting into the future—I certainly think it would tend in that direction."

EXCERPTS FROM MR. BURGESS' TESTIMONY

A colloquy between Senator Flanders and Mr. Burgess at page 1129:

"Senator FLANDERS. I would like to inquire, Mr. Secretary, whether, in your judgment, the expansion of credit by deficit Government financing involves a peculiar contribution to inflation.

"The thing that has been in my mind is this: If we have large Government expenditures without corresponding Government income, so that we have to increase our indebtedness, that, by means we discussed yesterday tends to increase the available supply of money.

"Now, is it not true that that kind of an expenditure which does not go into the production of goods and services for people to buy, is it not true that that is a particularly vicious kind of credit production from the standpoint of inflation?"

"Mr. BURGESS. Yes, that is entirely true and that is a point we always try to make, that when the Government spends money, it does not produce goods which the people can buy.

"On the other hand, if we have an increase in commercial loans of banks, the mechanical effect at the borrowing window may be just as inflationary as with the Government, but the people who borrow use the money normally to produce goods or services which meet human needs, so it tends to balance off the additional creation of money.

"May I add this, Senator; that historically the great inflations of history have been based on the deficit financing of governments."

* * * * * * *

"The CHAIRMAN (p. 1180). Government debt is certainly not productive, is it?"

"Mr. BURGESS. Government debt is not productive; therefore, it is the worse kind of debt.

"And I added in my fi answer that, as you study the history of prices and economic movements, the great inflations have been caused (p. 1181) by Government deficits which were financed out of bank money, and particularly when they were financed out of Federal Reserve money. That is the most dangerous, central bank money."

The CHAIRMAN. Suppose the joint efforts of all of us to reduce the budget are unsuccessful and we are faced with this inflation, which may be ruinous to us, would you then advocate under those conditions an increase in taxes?

Secretary ANDERSON. Senator Byrd, I do not want to rule that out, rule out as a possibility changes in our tax structure. At the same time, I would not like to try to say today what we would recommend at some time in the future.

The CHAIRMAN. I do not mean any specific recommendation. I am speaking of increase in the general tax burden in order to reduce or stop the inflation.

Secretary ANDERSON. I would simply like to say that we would not rule out the possibility of changes in the tax structure which might increase the revenues of the country, and that we would have to be governed both by circumstances that then existed and by what we judge to be the effect of the proposals, both short and long range.

The CHAIRMAN. I certainly recognize the great hardship of any increase in taxes.

I do not see how it could be accomplished to any great extent and this makes it more imperative to reduce these expenditures. I want to point out since 1954 we have increased the domestic civilian expenditures by 60 percent.

Has the stock market in your judgment gone up in the face of declining earnings, in the face of bad news, on the theory that we are facing a future inflationary period?

Secretary ANDERSON. I of course would not be in position to know what motivates people in their purchases, but I would think certainly the market conditions affecting the stock market and other markets would be influenced by what people believe the future course of the economy would be.

The CHAIRMAN. So those who purchased stocks evidently had in mind that there is going to be more inflation, because under normal conditions the stock market would not go up in the face of the fact that some of these companies are earning much less than they were earning the year before.

Just one more question and then other members of the committee will interrogate you.

You asked in—when was it, February——

Secretary ANDERSON. January.

The CHAIRMAN. For a $5 billion temporary increase on the basis to expire on June 30, 1959. Now, I want to ask you if you could not live with the proposition that this $5 billion temporary increase be left as it is, and that then you be given a permanent increase of $8 billion.

It does not seem quite reasonable to me that just 3 months ago you should ask for a temporary increase of $5 billion, and then come and say that that part of it should be made permanent, and the balance of it should be extended to 1960.

I am the one who first suggested a temporary increase to Secretary Humphrey. I think it has the advantage of giving Congress a chance to look over the fiscal situation, it requires the administration to come up and justify an extension.

I fully realize, as all Members of Congress must recognize, there must be a sufficient debt ceiling to permit you to pay the expenses that have been authorized. I would like to know whether you think you could live with the situation whereby the present temporary increase remains as it is, and that in addition the permanent limit is raised $8 billion to $283 billion. That would give you $288 billion until June 3, 1959, and $283 billion thereafter.

Secretary ANDERSON. Senator Byrd, if I may, I would like to point out the reasons why we have asked for the permanent increase of $10 billion.

On the bottom of page 3 of my statement you will notice that I say that since 1954, while the Treasury has been operating under temporary increases in the public debt limit, and the public debt obligations were issued in excess of the permanent debt limit, it could be reasonably anticipated that the excess could be repaid from tax collections prior to the expiration of the temporary increases in the debt limit, and in fact, they were so—on page 2, the next to the last paragraph of my statement, I point out the estimated deficit will result in a public debt outstanding on June 30, 1959, of nearly $285 billion.

The CHAIRMAN. But that includes cash on hand.

Secretary ANDERSON. Yes.

Now it has been my feeling, Senator Byrd, that if we should recommend less than the $10 billion permanent debt limit, the Members of this Congress and others might very well say to me, "This is all right, where do you expect to get the money by next June 30?"

The CHAIRMAN. Where did you expect to get it when you recommend a temporary increase in February?

Secretary ANDERSON. At that time we were operating under a budget which had forecast coming out at a surplus position.

The CHAIRMAN. You were operating at a time when you must have known that your estimates of revenue were not correct because the recession started 6 months before that date.

Let me ask you this: Isn't it true under this $288 billion limit, in the bill now pending, that you will have a leeway—borrowing capacity plus the cash on hand, on October 31 of $12 billion, $12.2 billion; December 31, $10 billion?

Secretary ANDERSON. I have to look at the figures here.

The CHAIRMAN. Let's take October 31, you will have leeway, and by that I mean you will have an unused borrowing authority, plus the operating cash balance, of $12.2 billion.

Secretary ANDERSON. I assume what the Senator is doing is adding together the operating balance, contingencies — —

The CHAIRMAN. The leeway is composed of the operating balance plus the unused borrowing authority.

Secretary ANDERSON. That is correct, Senator Byrd, if one could run his operating balances down to zero and his — —

The CHAIRMAN. I didn't say run them down to zero. I just asked you whether it was not true that both of them add to $12.2 billion, on October 31.

Secretary ANDERSON. That is correct.

The CHAIRMAN. And on December 31 there would be a total of $10 billion, and on March 31, $10.4 billion.

April 15 of next year, $8.5 billion. Of course, there has been a controversy from time to time as to how much cash balance should be on hand. I think you finally decided there should be from 3 to 4 billion dollars.

(The leeway chart is as follows:)

Estimated leeway under proposed $288 billion statutory debt limit

[In billions]

Fiscal year 1959	Proposed $288 billion statutory debt limit	Estimated debt outstanding (subject to limit)	Leeway under $288 billion debt limit: Unused borrowing authority	Estimated operating cash balance	Total
1958					
July 15	[1] $288	$275.7	$12.3	$6.0	$18.3
July 31	[1] 288	275.6	12.4	4.3	16.7
Aug. 15	288	277.8	10.2	5.2	15.4
Aug. 31	288	278.5	9.5	5.6	15.1
Sept. 15	288	276.3	11.7	2.2	13.9
Sept. 30	288	276.1	11.9	4.0	15.9
Oct. 15	288	280.2	7.8	5.5	13.3
Oct. 31	288	279.9	8.1	4.1	12.2
Nov. 15	288	279.6	8.4	3.0	11.4
Nov. 30	288	279.7	8.3	2.8	11.1
Dec. 15	288	282.0	6.0	2.9	8.9
Dec. 31	288	281.9	6.1	3.9	10.0
1959					
Jan. 15	288	285.1	3.4	5.7	9.1
Jan. 31	288	284.9	3.1	5.5	8.6
Feb. 15	288	283.7	4.3	3.4	7.7
Feb. 28	288	284.1	3.9	4.6	8.5
Mar. 15	288	283.7	4.3	2.8	7.1
Mar. 31	288	280.5	7.5	2.9	10.4
Apr. 15	288	283.7	4.3	4.2	8.5
Apr. 30	288	283.6	4.4	3.0	7.4
May 15	288	284.8	2.2	3.8	7.0
May 31	288	285.8	2.2	4.5	6.7
June 15	288	285.5	2.5	2.2	4.7
June 30	288	283.3	4.7	4.2	8.9

[1] Based on $288 billion proposed limit (not actual $280 billion limit).

The CHAIRMAN. That is one reason Mr. Humphrey did not get his increase in the debt limit when he asked for it. He wanted a $15 billion increase. But he had a large operating cash balance on hand. The Congress will meet next year, next January, of course.

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. And we can review the situation then. What this does, what the House bill does, is to postpone the temporary increase to 1960, June 30, 1960.

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. I should think you would be willing to permit the Congress to go over this question when you have to ask for an increase in the temporary debt limit—as you know when this temporary debt extension was first authorized, it was 6 billion, and then a year later the administration consented to a reduction of 3 billion, you recall that.

Secretary ANDERSON. That is correct, sir.

The CHAIRMAN. Then I think it was last July, just a year ago, that you acquiesced in eliminating the temporary increase.

Secretary ANDERSON. We did not ask for a temporary increase.

The CHAIRMAN. Well, Secretary Humphrey, both of you appeared before the committee—you took office when?

Secretary ANDERSON. In July of last year.

The CHAIRMAN. Secretary Humphrey appeared before the committee in June and agreed that it could be eliminated, and I think you acquiesced in it at that time.

Secretary ANDERSON. As the Senator will remember, we did not ask for an increase, but sent letters to the respective commitees pointing out that we would try to operate within the limitation.

The CHAIRMAN. I understand that, but you acquiesced in it. That was just a year ago.

I talked with Secretary Humphrey, I worked in very close cooperation with the Treasury.

Secretary ANDERSON. Yes; we appreciate that.

The CHAIRMAN. And I think unless some great damage should result the bill that you yourself asked for just 3 months ago should be permitted to stand, along with an $8 billion increase in the permament limit.

Secretary ANDERSON. Would the Senator's amendment propose to expire on June 30, 1959?

The CHAIRMAN. That is right.

Just like it is now and just like you asked for 3 months ago.

All of this deterioration could not have come in 3 or 4 months. There was a recession last October, and the $5 billion temporary increase was your own proposal. The Congress did not change it.

Secretary ANDERSON. That is correct, sir.

In December of last year, we could not tell what the fourth quarter profits were for the end of the calendar year 1957. We could not tell what the first 2 quarters corporate profits would be for the calendar year 1958 until after the expiration of June.

These calculations are now based upon what we would anticipate revenues to be for the fiscal year 1959, after having the benefit of the experience of determining what the corporate earnings would be for the first 6 months of this year, and anticipating some recovery.

Now what we have done is to try to point out that with a debt anticipated of approximately 285 billion at the end of June of next year, that we would propose the increase of 10 billion on that basis as a permanent basis because we do not now see, under the circumstances as they exist, how you are going to retire it back to the permanent limit, and at the same time, ask for the extension of the temporary.

Now we also point out that we will have to look at the situation again before the end of the fiscal year to determine our course of action under those circumstances. So these are the bases upon which the request has been made.

The CHAIRMAN. Mr. Secretary, you know we meet in January.

Secretary ANDERSON. That is correct.

The CHAIRMAN. And you know if you come up then and prove to the two committees, the House Ways and Means Committee and the Finance Committee of the Senate you can get an extension of the temporary increase just as we have granted it before.

Secretary ANDERSON. That I know.

The CHAIRMAN. The second year they eliminated 3 billion of it and the third year they eliminated all of it.

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Just to be frank with you, I think the debt ceiling is the only protection the Congress has. You have $70 billion of unexpended balances, the executive branch, and if we appropriate 80 billion this year, there would be $150 billion available for expenditure if the money could be secured or if the administration chose to spend it.

Mr. Humphrey, who was opposed to the tight debt limit when he first came in testified to this committee and told me personally that he believed that a reasonably tight debt limit was a wise thing, because you can always come to Congress and get an increase when it is necessary. The debt limit, I think, will prevent extravagant expenditures.

Do you have any further comment to make on that?

What great harm could be done?

Secretary ANDERSON. Senator Byrd, we would certainly under the proposal have the same amount of debt limit through June of next year. I would still say, sir, we would prefer the other method because of the reasons which I have pointed out, because we believe that the debt outstanding will be approximately 285 billion by next June 30, and we do not have a way of paying it off. But I do not disagree——

The CHAIRMAN. We are not going to demand that it be paid off if it cannot be done. It simply gives us a review.

Secretary ANDERSON. Yes.

The CHAIRMAN. You do not see any disaster that would occur if this committee——

Secretary ANDERSON. I do not see where there would be a disaster.

Senator MARTIN. Mr. Chairman, I will be very brief because I know some members of the committee want to get to other meetings, and anything that I am now stating or any questions that I may ask are not in criticism of anyone in the administration and it is not in criticism of anybody in Congress.

There is not any question that—the chairman has stated it so well—that the expenditures of our country are the responsibility of both the executive department and Congress. You have already stated that there is danger of a deficit of $10 to $12 billion for quite a long time in the future unless expenditures are reduced, or taxes increased.

That is the statement as I understand it, and you also agree with our chairman that deficit financing, governmental deficit financing, is one of the greatest causes of inflation, and we all realize that inflation is so detrimental, particularly to the so-called middle class in our country and those living on fixed incomes.

Now, the chairman has stated and asked you the question relative to the buying of common stocks, and I do not know of a company that has not had decreased earnings, yet the stock market right even this morning indicates that the public is buying more extensively than anytime in many months, which indicates that the public is beginning to hedge against inflation, which is, and I feel, that is a very detrimental thing to our economy.

Now this matter of governmental expenditures, the chairman has already spoken about, and I just want to ask one or two questions relative to it.

We start out by budget estimates. I noticed that Chairman Mills the other day stated that maybe we could balance the budget by a decrease across the board of 20 percent.

To my own mind, and I have been in governmental work all my life, there is only about one item of expenditure in Government that is untouchable and that is interest on bonds at the local level or at the State level, or at the Federal level. There is not any question but what all of the others can be reduced if the Executive and Congress decide they should be.

Now, I had hoped, and the reason I am asking these questions right now, it is up to the American people. Here in the United States we the people are the Government, and I have always contended that when the people of the United States thoroughly understand a problem that they give a very good answer, and I think if the American people understood the great danger of deficit financing that they would demand that we would cut down the cost of government, and I would like to give as one illustration, this: I have urged expenditures for national defense practically all my life. You used to come down before Congress urging greater expenditures. But I would like to give an illustration, and this is particularly to the Budget Bureau:

Take, for example, in defense we have in the United States, or at least we did a year ago, because I made a survey of it a year ago, we have in the United States, 2,000 posts, stations, and camps with 1 million civilian employees. I do not think there is any question that a lot of those installations could be consolidated with others. Each one of those posts or stations or camps requires a commander, it requires a staff, it requires a security force, it requires a housekeeping force and that, to my mind, would make—could reduce expenditures of national defense without damaging national defense.

Then I think you should give further consideration to stockpiling. A war is never fought with the implements that you have on hand at the beginning of that war.

You develop new methods, and that is why the United States has been so successful in the wars it has waged, that we have the ingenuity to invent better things, and so forth.

Now, you spoke, Mr. Secretary, a while ago, that there would be two ways of reducing the budget, one was less expenditures and to my mind that is the sound way to do it, and the other is by increasing taxes. If we increased taxes right now isn't there danger of diminishing returns, that you would take away the incentive of the people?

Secretary ANDERSON. One always has to weigh, sir, the detrimental effects of a progressive tax system upon incentive, and I think this would have to be evaluated as a matter of judgment.

It would certainly raise such questions as to whether or not one wanted to increase current rates or to propose to look at other forms of revenue.

As I indicated to Senator Byrd, these are the sort of things which we do not rule out, but they are the sort of things which I think have to be determined and adjudicated in the light of their both current and long-range effects.

Senator MARTIN. Mr. Secretary, along last January when everybody was talking reduction of taxes to help in this curtailment of the so-called recession, I made the statement that I favored increasing taxes rather than decreasing them unless we could have a balanced budget, and I still stand on that proposition.

I think it is sound.

But I would just like to again ask you this question: What prospect is there of a balanced budget in the next 2 or 3 fiscal years?

Secretary ANDERSON. Senator, this is a very difficult question.

Senator MARTIN. I know it is, Mr. Secretary, and I apologize for asking it, but I want to get it to the people of the United States that the people of the United States have a very serious problem confronting them as far as deficit financing is concerned. I appreciate greatly the work that you have done and the work that Secretary Humphrey has done.

I appreciate the work that the present Budget Director has done. You have all done magnificent jobs, and I am leaving Congress, but I am not leaving active work in our country for a strong defense and, when I say a strong defense, the greatest part of our defense is a strong, sound, dynamic economy, so with that I would like for you to answer that question, or give comment on it. I know it is a difficult thing to answer.

Secretary ANDERSON. Yes. The comment which I would make, Senator, is this: In the first place, enlarged expenditure commitments tend to create not just expenditures which rise at one year and fall subsequently, but they tend to create a continuity of programs in which there is a continuing high level of cost and, therefore, higher levels of expenditures.

I think that, in fairness, one would say that, as one examines the kind of expenditure programs we are now engaged in, they are characterized more by a probability of continuance rather than a foreseeable short decline.

On the other hand, in examining revenues, one must remember that revenues go up as business revitalizes and makes improvement. One looks at the receipts, for example, between 1955 and 1956. In 1955, there were receipts of $60.4 billion. In 1956, this had increased to $68.2 billion.

Now, I think that most of us are looking forward to an increase in the level of business activity in this country. The announcement of personal incomes yesterday was higher than the alltime high of

August of last year. A number of other factors are equally significant.

Senator MARTIN. Right there, and I apologize for interrupting you.

Secretary ANDERSON. Yes.

Senator MARTIN. But isn't that increased income partly due to inflation?

Secretary ANDERSON. Well, I would say that most of it is due to a resumption of employment and hours of work, because we take into consideration the amounts of money which are transfer payments and deduct it from the total.

But it is always difficult even to make judgments a year ahead, and I think what one has to say here, instead of trying to be categorical about where we are going to be, is to say that the trend is for higher expenditures, that we have to be observant as to the rate of recovery which we accomplish in this country and as to the effect that it has upon the income and profits of individuals and the profits of business so that in a few months from now we will be better able to judge the course of our revenue receipts.

Senator MARTIN. I will end with this: There are three segments to expenditures of Government, governmental expenditures, in the United States: There is the Executive, there is Congress, and the people themselves; and the people themselves, if they want expenditures reduced, and they are vocal enough, it will be done. I will not take any more time.

The CHAIRMAN. I just want to make this comment about increase in taxes. The questions I asked the Secretary were to emphasize the fact that the expenditures should be reduced. My personal feeling is that increase in taxes, especially now, will bring about, as Senator Martin has said, diminishing returns, and, certainly, do great injury to recovery.

Secretary ANDERSON. Yes.

The CHAIRMAN. So, it is all the more important that we reduce expenditures.

Are there other questions?

Senator SMATHERS. Senator and Mr. Chairman, may I just say that I am prepared to vote for the request made by the Secretary of the Treasury, and I do not believe that we can intelligently ask a man of Bob Anderson's ability and responsibility to come down here and assume the job of running the fiscal policies of our Nation and then tie his hands in so doing. So, I am prepared to vote for him. However, before doing so, I would just like to ask two questions.

Mr. Secretary, we read where the discount rate has been raised today. Is it your view that we are moving already into an inflationary era from what had amounted to a recessionary atmosphere just a few months ago?

Secretary ANDERSON. Senator Smathers, I should like to say that the operations of the rediscount rate which became applicable in the Federal Reserve district at San Francisco yesterday, are, of course, the exclusive responsibility of the Federal Reserve System, and, while we exchange information quite completely, I believe very strongly in the independence of the Federal Reserve System, and recognize that this is purely a decision on their part.

I am sure it is a decision which has been made by the Federal Reserve bank in San Francisco and the Board here in light of their own evaluation of the changes in conditions.

I also believe that, as one looks at the deficit which has already accrued, as one looks at the deficit which is anticipated, one cannot escape the conclusion that these are inflationary in their character.

The degree to which they operate as inflationary elements is not confined to these factors alone, but to other elements which develop in the economy.

I think what all of us have to do is to watch the growth or change of any economic tendency in our economy quite carefully, to be willing to move in a manner so as to assure, as best we can, that neither inflation nor deflation run a ruinous course in our country.

Senator SMATHERS. You, then, yourself, have not arrived at or wish at this time, apparently, to take no official position as to whether or not we are actually moving into an inflationary period?

Secretary ANDERSON. Other than to say, sir, that, certainly, we have a revival in most of the areas of business activity. We have larger anticipated expenditures, for example, in housing. The business index for the last couple of months has been going up. The deficit for this last year has already been accumulated. The deficit for this next year is certainly looming as a large one, and one would simply have to say that these are all inflationary pressures, and that the problem now is to be sure that we do not allow these pressures to so affect our total economy in the country as to impose undue burdens and undue penalties upon us.

Senator SMATHERS. Is it your view that some of these actions which the Congress has taken this year, such as the housing bill and the road bill and things of that nature, the effect of them has been to pull us out of the recessionary period and move us into this prospective inflationary period?

Secretary ANDERSON. I think, Senator, that as one looks at the expenditures from the period January of this year through June 30, the actual expenditure in dollars was slightly less than we had anticipated.

On the other hand, a great many commitments were made during this period, commitments for defense expenditures, credit was eased, terms upon which housing might be started, both the terms of down payment and interest payments were decreased.

The road-building program was stepped up.

As one looks at the prospects for 1959, one sees a decline of about $7 billion in what we anticipated in revenues and an increase of about $5 billion over what we expected as expenditures.

This is the total where you add up to the $12 billion.

Now, with the economy of the country demonstrating a resiliency of its own, a capacity to readjust and to revitalize itself, I think all of this tends toward inflationary pressures that we have to be aware of and that we have to be sure we do not allow to come to be dominant.

Senator SMATHERS. Do you think if we reduced taxes and thereby had a substantial reduction in revenue return to the Treasury that that would have the effect of forcing the administration to make a smaller recommendation of expenditures to the Congress.

Secretary ANDERSON. Well, if there was a reduction in revenues, however it might be accomplished, one—both as an administration and as a Congress—would have to accept its reduced expenditures or increased deficit financing, and increased deficit financing would certainly be inflationary.

Senator SMATHERS. I gather from that if that were the case then it would be only logical to presume there would be a smaller recommendation of expenditures from the executive branch of the Government.

Secretary ANDERSON. I could not now speak for what will be recommended in the President's next budget, but certainly, nothing is more important than the consideration of expenditures, whether they are recommendations by the executive or actions taken by the Congress.

Senator SMATHERS. All right.

Thank you very much, Mr. Secretary.

The CHAIRMAN. Are there any further questions?

Senator MALONE. Mr. Secretary, I do not have to state again in the record my high regard for you, and that you are being used as a middleman. The things that happen and cost money, about all the say you have in it is as one member of the Cabinet; is that not true?

Secretary ANDERSON. Yes, I would say that is true.

Senator MALONE. If you are overruled or whatever the ruling of the Cabinet or the President on policy that costs money, then your sole job is to pay the bills, is it not?

Secretary ANDERSON. Certainly the responsibility of the Treasury to meet the obligations of the Government exists.

Senator MALONE. Well, isn't that what you are for?

Secretary ANDERSON. Yes.

Senator MALONE. Therefore, you have very little to do with the policy that spends the money but when it—after it is committed, Congress appropriates it—then you just have to tell them how to get it, that is about it; is that correct?

Secretary ANDERSON. That is correct, sir.

Senator MALONE. So far as the people are concerned, I have been in many States in the last few months, the people are stunned, they are beyond reaction. It has been going on now 24 years, and they do not know what to do. I think the election, though, is going to be a very great disappointment to many of us. There are more than 250 depressed areas in the United States accounting for around 6 million unemployed.

There is a bill in the House to help depressed areas. If it passes it will cost you a little more money. We bring about these depressed areas ourselves.

The State Department has advocated this bill for 15 years, that we remake the industrial map of the United States and the depressed areas as a result of our imports, low-cost labor, then we have the money, the Government money to train workers for other jobs, these working men, and ship them somewhere else, and then make up as near as we can, maybe some help to the stockholders and to the people that we break with the policies.

That is just something that is coming up.

Didn't our inflation start about 1933 and 1934? Didn't it really become accelerated——

Secretary ANDERSON. Senator, my recollection of the movements of the level of costs, prices during that era, is not sufficiently clear to be responsive.

Senator MALONE. Would you supply for the record some kind of a chart as to when this inflation of the dollar, the cheapening of the dollar, really became accelerated for the first time?

Secretary ANDERSON. We will certainly furnish what we have available to the Senator.

Senator MALONE. If you do not have it available, who do you think would have it?

Secretary ANDERSON. I am sure we have all the figures, Senator.

Senator MALONE. I am sure you do, too.

How much inflation has there been in the last 12 to 18 months, say, 2 years, to make it easy?

Secretary ANDERSON. According to our calculations, beginning January 1956, the purchasing power of the dollar, equated to the period 1947–49, I mean 1939, is equal to 100, I beg your pardon——

Senator ANDERSON. Say that again.

Secretary ANDERSON. 1939 equaled 100. The purchasing power of the dollar on January 1956, would be 51.8. On January 1957, it would be 50.3. On January 1958, it would be 48.6.

Senator MALONE. 48.6?

Secretary ANDERSON. In June of 1958, on the same basis, it would be 48.0.

Senator ANDERSON. Forty-eight what?

Secretary ANDERSON. 48.0.

Senator MALONE. Then even according to your figures there is a steadily increasing inflation?

Secretary ANDERSON. There has been a steady decline in purchasing power during this period.

Senator MALONE. Do you have any figures compared to 1933—the 1933 dollar compared to the 1939 dollar?

Secretary ANDERSON. I do not have them with me, I would be glad to get them for the Senator.

Senator MALONE. If you will, I would appreciate it.

(The information referred to is as follows:)

Consumer Price Index and purchasing power of the dollar

	Consumer Price Index (1947–49=100)	Purchasing power of the dollar [1] (calendar year 1939=100)		Consumer Price Index (1947–49=100)	Purchasing power of the dollar [1] (calendar year 1939=100)
Year:			Recent months:		
1933	55.3	107.4	1956—January	114.6	51.8
1939	59.4	100.0	April	114.9	51.7
1940	59.9	99.2	July	117.0	50.8
1941	62.9	94.4	October	117.7	50.5
1942	69.7	85.2	1957—January	118.2	50.3
1943	74.0	80.3	April	119.3	49.8
1944	75.2	79.0	July	120.8	49.2
1945	76.9	77.2	August	121.0	49.1
1946	83.4	71.2	September	121.1	49.1
1947	95.5	62.2	October	121.1	49.1
1948	102.8	57.8	November	121.6	48.8
1949	101.8	58.3	December	121.6	48.8
1950	102.8	57.8	1958—January	122.3	48.6
1951	111.0	53.5	February	122.5	48.5
1952	113.5	52.3	March	123.3	48.2
1953	114.4	51.9	April	123.5	48.1
1954	114.8	51.7	May	123.6	48.1
1955	114.5	51.9	June	123.7	48.0
1956	116.2	51.1			
1957	120.2	49.4			

[1] As measured by the BLS Consumer Price Index.

Senator MALONE. Now, it depresses me to read the papers, and I brought them with me this morning on my way up and I took a little look at them. Who is it who makes these commitments all over the world that Congress then receives legislation to fulfill, and then you have the responsibility to get the money? Who is making these commitments all over the world, moneywise?

Secretary ANDERSON. Senator, I would assume that there are some commitments made by a variety of departments.

Senator MALONE. By what?

Secretary ANDERSON. By a variety of the departments of the Government, primarily in the——

Senator MALONE. Who are the principal ones?

Secretary ANDERSON. Primarily the State Department and the Defense Department.

Senator MALONE. The State Department is a spearhead. I think Mr. Dulles testified that he was the one who carried out the policy, discussed it with other members of the Cabinet, and then he was the one who went into the nations and promised the money and all. Who is it that promises these trade concessions; is that the Department of Commerce, or who is that?

Secretary ANDERSON. I think the State Department is the American representative, Senator.

Senator MALONE. I notice in the paper this morning, that "United States Aide Assures Canada on Trade."

Chief of Foreign Commerce Predicts Easier Customs in Toronto Talk—

and goes on to say:

The imposition of import limitations on Canadian oil, Mr. Macy said—

Loring K. Macy. I crossed his trail once before on another matter. I think it was Mr. Loring K. Macy when we got a man by the name of Lee who was one of the finest traders we were able to find out of the Department of Commerce about 1948, and we had him up as a witness, but Mr. Macy said that they need not worry about this. It would not hurt Canada, our limitations on Canadian oil, he went on to say. The purport of the article is they need not worry, we would take care of everything.

We have in the Wall Street Journal, that great journal of New York, the bible, you know, the bible of economy, "United States Allies Ease Curbs on Trade with Red Nations.

"Weeks Doesn't Spell out Items; Machine Tools, Oil Tankers Probably on List."

In my visit to Russia in 1955, I traveled 14,000 miles there in each of the Socialist Republics, as they call them, I found a good deal of machinery from Cincinnati and various places, but they were making a play then that they were limited to certain items. I had the list, I got it in Paris, but of course those items are reaching Russia and Communist China at the same time. Now they are coming out into the open, and I just thought it might be of interest to the committee that the nation that we are building up to fight us—that probably they need that machinery. If we are going to fight them, we will want to make it as fair as we can. We don't want to pick on any cripples.

What effect does it have, when the Federal Reserve Board raises the discount rate to 2 percent from 1¾ percent? What is the effect?

Secretary ANDERSON. Well, of course the effect will be that the area where it is applicable, which is the San Francisco area, that commercial banks borrowing from the Federal Reserve Bank will pay a quarter of 1 percent more interest.

Senator MALONE. What is the effect on the customer? I mean the ordinary guy out there in Wellington, Nev., or up in Vermont, who does not know anything about the Federal Reserve Board. He just wants to finance his business.

Secretary ANDERSON. It would be difficult for me to give an answer as to how quickly or whether the banks will transfer it.

Senator MALONE. What has it done for him? What is the effect of it?

Secretary ANDERSON. Well, obviously it is done with the idea of placing some measure of restraint upon borrowings as represented by the increase in the rediscount rate.

Senator MALONE. They have the ability to do that. How much of a leeway does the Federal Reserve Board have on the discount rate? How low could they go and how high could they go?

Secretary ANDERSON. There may be a limit as to how high they can go. I frankly am unaware of any limitation.

Senator MALONE. Could you furnish that for the record? You couldn't remember all about it.

Secretary ANDERSON. Yes.

(The information referred to is as follows:)

The Federal Reserve Act provides that any Federal Reserve bank may establish from time to time, subject to review and determination by the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business. No mention is made of how high the rates could be set, but the rates are set with the view of accommodating commerce and business.

Secretary ANDERSON. The process, as the Senator knows, is normally for the board of directors of the respective banks in the Federal Reserve districts to make a recommendation to the Federal Reserve Board in Washington that the rate be increased, and the Board itself then——

Senator MALONE. As a restraint, then, on business.

Secretary ANDERSON. Well, as some restraint on the borrowings by commercial banks from the central banks.

Senator MALONE. Of course that means the customers, it is handed on to the customer.

Secretary ANDERSON. Ultimately it would have that effect.

Senator MALONE. Isn't that what it is for?

If they are extending too much credit in the bay area and they want to slacken that up or they think they can stand that much interest, then they regulate it, isn't that the purpose of it?

Secretary ANDERSON. Yes. But I would say this is more of a signal, when the increase is up a quarter of 1 percent, that there is a belief on the part of the Board of Directors of the Federal Reserve Bank of San Francisco that there should be an added restraint on borrowings.

Senator MALONE. Yes.

Now then, a business that goes into business and they can pay 1 percent or whatever the discount rate is at the moment, or pay 2 percent, whatever it is, and they go into business on that basis and have to refinance on a higher rate, what effect does that have on a business?

Secretary ANDERSON. Well, I would assume the Senator is meaning if you went into a business and calculated your return on one rate of interest——

Senator MALONE. Yes.

Secretary ANDERSON. And thereafter you were required to refinance at a higher rate of interest, that there would be a diminution of profit.

Senator MALONE. And maybe a disappearance of profit.

Secretary ANDERSON. Yes; I think——

Senator MALONE. And maybe a failure of business.

Secretary ANDERSON. I think one must keep in mind these interest payments are tax deductible and therefore the measure of the effect of it would be the necessary cost after taxes.

Senator MALONE. Which is very little these days at best, is that about right?

Secretary ANDERSON. Yes, sir.

Senator MALONE. Now, then, I see that the "U. S. Offers Prospects of Easing Water Lack if Arabs Accept Aid Plan. Officials Privately Talk of Help From the Atom, Scientists and American Capital."

American capital is what interests me. Who made that commitment?

Secretary ANDERSON. Senator, the only thing I can say on that subject is to refer the Senator to the speech the President made at the General Assembly, and other than that, I would not be in position to know any details about it.

Senator MALONE. Anyway, if they send this aid over there, all you have to do is pay the bill. You do not know anything about it; anyway, you are not responsible for it. You just pay the bill.

Secretary ANDERSON. Well, all the commitments or charges that are made by any of the Departments of Government ultimately find their way to the Treasury and we have to pay them.

Senator MALONE. You are ultimately the fall guy. You have to come up here and face the music. That is why we feel the way we do about you this morning. I have been in Arabia, been in a private plane and flew all over in 1947. That is a pretty big order, to ease the water supply in Arabia. It sounds good on paper; a good deal like building the dam for Nasser on the Nile. I have been up the Nile, too, I suppose you have.

I see Mr. Dulles, according to the Wall Street Journal of August 15, that is today, "Dulles Battles at U. N. to Save Mideast Program; Arabs are Skeptical of Aid Plan," of furnishing water, I suppose. We used to fly a hundred miles there and just see a camel and a goat and a man and woman and a little boy or something, you know. We would be up there 700 feet high, and 50 or 60 miles further you would see another little unit. They milk the goat and make cheese out of it, they told me is how they live, and some dried dates. If you had a well every little bit, I suppose that is what they have in mind. The Arabs live there and they are skeptical.

These headlines bother me.

On curbing inflation——

Secretary ANDERSON. As I indicated before, Senator, this particular move of the Federal Reserve System is a signal toward a restraint on borrowing.

Senator MALONE. They think if they borrow too much money it might be more inflation?

Secretary ANDERSON. I think it should be said so far as I know there is very little borrowing at this moment by the commercial banks from the Federal Reserve. The free reserves have been relatively high in the country.

Senator MALONE. But in any case it is going to cost them a quarter percent more today than it did yesterday.

Secretary ANDERSON. When they borrow.

Senator MALONE. I see, too, "Tunisia Will Get United States, British Arms." Tunisia, is that the place which has been a colony of France for a good many years, where they have all that trouble in there?

Secretary ANDERSON. I think probably the Senator refers perhaps to Algeria.

Senator MALONE. Tunisia, it says. "Move To Strengthen Nation Against Algerian Rebels Approved by French."

Secretary ANDERSON. Tunisia, of course, is the country of which Mr. Bourguiba is President, and I think the Senator is probably referring in his question relative to France to the Algerian situation.

Senator MALONE. We have already given them the arms and the newspapers carried the story pretty liberally that the sidearms and arms they are using on the Algerians we have already furnished the French, that is true, is it not?

Now, we are furnishing arms to Tunisia to fight off the Algerians.

Secretary ANDERSON. I have not had the privilege of reading the article.

Senator MALONE. I understand that. You have to read them every morning to get as mad as I get.

I see that "Paris Sets Rules For Algeria Vote." They are going to vote on something that the French will let them have and they set the rules. That sounded very interesting.

The New York Times has an editorial this morning, "A New Hemispheric Policy."

> The announcement in Washington on Tuesday that the United States is now willing to join an Inter-American Development Institution has great significance for the hemisphere. Moreover, it is startling news, for it represents a basic change in thinking in the executive branch of the Government.
>
> This is one more important result of the shock administered to the Government by Vice President Nixon's South American trip last May. Since then the President's brother, Milton Eisenhower, has made his swing around Central America and Secretary Dulles has visited Rio de Janeiro. Both returned with reports that seem to have reinforced the deductions from Mr. Nixon's experience.

The upshot of the editorial is that we have a new bank coming up, is that right?

Secretary ANDERSON. The United States has indicated its willingness to engage in the establishment of an Inter-American financing institution.

Senator MALONE. What does that mean from our standpoint, who puts up the money?

Secretary ANDERSON. Well, certainly this country would be a participant.

Senator MALONE. Will put up the money?

Secretary ANDERSON. Would be a participant.

Senator MALONE. About like 1 horse and 1 rabbit.

Secretary ANDERSON. Senator, I do not know.

Senator MALONE. I do not want to force an answer because you are only one member of that Cabinet.

I see by the Washington Post that "Curbs Eased On Red Trade," and it goes on to say that "The United States yesterday announced changes in its export policy allowing substantially more United States goods to go to Iron Curtain countries," which of course is very interesting. It has been going there ever since World War II. The committee here of Congress, of the Senate, uncovered the fact that they had been sending copper to Russia here during World War II, or in Korea, during Korea.

Wasn't Britain the first to recognize Red China? At least it led the way.

Secretary ANDERSON. You mean of the Western powers? I do not know, my memory is not such that I can give it.

Senator MALONE. I will supply it for the record. It was. In my opinion, I said on the Senate floor at that time we had promised to follow them but we raised so much trouble over here they didn't do it at once.

Then the Post also says, "British, United States To Let Tunis Have Arms," and then, "Ike's Plan Stirs Ire in Mideast; Nehru Is Critical." Mr. Nehru, that great capitalist in New Delhi. I visited him about 4½ hours.

We got along fine because there was nothing that I told him that he had heard before.

Now, Mr. Secretary, I want to say to the chairman of our committee, the distinguished Senator from Virginia, I think we have the wrong man here this morning. I think I have read the headlines of only one morning, and every morning it will just scare every American who is asked to read the papers, either Dulles or somebody has promised more money or another bank we are going to finance or more free trade, I think we ought to have Mr. Dulles here before we pass on this thing just to find out what basis he is doing this on because our Secretary of the Treasury and we all agree I am sure, I am not telling anybody a thing, that we consider him one of the finest men in the Cabinet, all they do, it just filters down to him and down to him to take the rap and he is such a fine man he generally gets what he asks for and if we could get to the bottom of this and if we are getting Mr. Dulles, we are getting pretty close to it.

We did have another man doing this sort of thing at random and that was—who was the fellow who tried to take over Pennsplvania—Mr. Stassen. He was running wild 4 or 5 years. At least we have got it cut down to only one man now in all this business.

Mr. Stassen is a fine man, according to his lights, and has more energy than any human being I ever saw, but at least we have got it cut down to one man.

Don't you think, Mr. Secretary, it would be a good idea for this committee to hear Mr. Dulles to see just about how far we are going in the red?

Secretary ANDERSON. Frankly, Senator, I think that it would not add anything at this time to the calculations which we have made; any commitments that would be made would have to be made under existing appropriations or else they would have to be submitted to the Congress next year.

Senator MALONE. As our distinguished chairman has said, you have $70 billion as a backlog there. He can call on that, can't he?

Secretary ANDERSON. Yes, but the calculations which we have made take into consideration what we judge to be the expenditures.

Senator MALONE. Where is Mr. Dulles today?

Secretary ANDERSON. I do not know, sir, but I would assume in New York.

Sentor MALONE. Is there anybody there that he could promise money to?

Secretary ANDERSON. I beg your pardon?

Senator MALONE. Is there anybody there meeting him that he could promise money to? Maybe we do not have the whole story yet.

Secretary ANDERSON. I am sure, sir, that the calculations with which we are concerned are those that take into account the reasonable expenditures which we expect out of existing appropriations between now and next June and I would think any other ones would have to be brought before the Congress.

Senator MALONE. If he promises more money between now and next June and he could take it out of that $70 billion, couldn't he, if he could get the debt limit raised high enough?

Secretary ANDERSON. It could only come out if it were appropriated for the purpose.

Senator MALONE. Well, I do not think—Mr. Chairman, I would like to ask you a question about this: We have a new slant on that $70 billion. I think you have been under the impression, at least I have gathered that, and I depend a lot on your satistics, that this $70 billion is there, as a backlog, it has really been authorized, it is really available any time the Appropriations Committee sets it up, would it not?

The CHAIRMAN. It is appropriated.

Senator MALONE. It is appropriated, and you do not have to do anything. All you have to do is spend it.

Secretary ANDERSON. Yes, that is correct, sir, but what we do in making the estimates which we submitted to the committee is determine from each of the departments of the Government their best judgment as to the rate at which the money is going to be spent.

Senator MALONE. That is true. But Mr. Dulles is unpredictable. All this in the last few days has been promised that I read you, it is in the current papers this morning. Now Mr. Dulles is the fellow who is doing this.

We got rid of Stassen under some condition, I do not remember why he quit, some reason, though, that he quit, and then he went to Pennsylvania, and they wouldn't turn the Treasury over to him so I guess he is going to work.

It is kind of hard on him to do that now. But Mr. Dulles has not gone to work yet. He is spending money. He is committing it all over the world, and when he goes into a place he has two things to buy these agreements with, and, Mr. Secretary, I have to tell you

I have been in all these nations and I do not say I know all about them, but I know some of the people and they will sign anything as long as we pay for it with no idea of keeping it at all and I do not blame them.

So when he has the taxpayers' money, within the billions, to say to the Arabs, "Now if you will just keep quiet another year, and not cause us too much trouble, we will furnish the water for the Sahara Desert," that is quite a promise, but they might keep quiet for a year, if you show them a billion or two dollars. He has promised that.

Then he can also make further trade agreements and give more of the lifeblood of this Nation to buy agreements. All this was debated on the floor, all of it was asked Mr. Dulles and he said "Yes" to every one of them.

Senator DOUGLAS. Mr. Chairman——

Senator MALONE. I am going to finish, if you don't mind, and I do not interrupt you.

Senator DOUGLAS. I beg your pardon.

Senator MALONE. What I am getting at, Mr. Chairman, we just have the wrong man here. You know Congress is not going to turn this man down, he is just too fine a fellow for that, because he has come up here and said, "Now here are the commitments that the Secretary has made." He didn't mention it to the Secretary. But he is the fellow who is making them, "And I have got to meet the bills," and he is showing you unmistakable evidence he cannot match them, he cannot meet them unless you do this. So far as I am concerned, Mr. Chairman, it could be we could cancel Mr. Dulles' passport by congressional act, and just not give him this $10 billion, and the first thing you know he would be doing this diplomacy on his own account instead of paying for it, and I am in favor of that, and I am not in favor of raising the debt limit.

The CHAIRMAN. I say the Judiciary Committee would have to cancel his passport.

Senator MALONE. That is all right. We might suggest it. We are acquainted with them.

I just want to make this further suggestion: We do not have the money, and it is just like the water in the sink, the more we appropriate to do this thing with and buy them, the less it is worth, and inflation is keeping pretty close tab on the appropriations above the amounts you collect, and you are bleeding the American public white. Our people in Nevada, you are getting over a hundred million dollars—a hundred million dollars from the State of Nevada, around a hundred million dollars in taxes, and there are only 300,000 people there, counting everybody. And they just cannot go much further. The mines are shut down on account of imports, titanium factories are shutting down on account of imports from Japan; 700 men laid off the other day, last 6 months, 1,400 of them in copper at Ely. Lincoln has about 1,500 men working in the whole county in mines, because we are a great tungsten and lead county; Humboldt County, 40 percent of taxable property wiped out. By what? By Mr. Dulles making all these trips around and promising them to the Arabs and to the European countries, Asiatic countries, and giving it to them in order for them to sign his agreements which no one intends to keep.

When the tug is tightened, Europe is going to be neutral. I have said all I am going to say. I am going to vote against it, and I just love the Secretary of the Treasury, I just think he is one of the finest men I ever knew. It is not his fault. Some way or another he has got to say "No," and he can say it if he doesn't have any money.

The CHAIRMAN. Are there any further questions?

Senator ANDERSON. What effect do you think this is going to have, Mr. Secretary, on your financing problems this fall? What I am trying to point out is that the $12 billion is bound to be inflationary. You mentioned a minute ago in answer to Senator Malone that a Government bond, or that the dollar from 100 in 1939 was 48 today. I was just trying to do a little calculating.

Suppose a man bought one of these E-bonds, thousand-dollar maturity value, and he paid $750 for it in 1939, and let the interest ride, as we have been able to do after the termination of the bond. I figure that he would have something like $500 of interest, maybe, plus little more, he would get after he paid even the most modest tax. He would get back about $1,150 when he cashed in the bond, maybe more than that; $1,250. He gets a 48-cent dollar on it as against the 100-cent dollar he paid for it. So he is going to get back $850 today for the $750 he put in the investment some 20 years ago. Most people are going to start thinking about that on these Government bonds some of these days.

I just happened to send to my office for an analysis of an investment firm which it makes up and I noticed that 2½s at 61 were 101 when they made this appraisal of value of stocks April 30, and the Wall Street Journal this morning shows them 98$^{12}/_{32}$. This, I assure you, is a responsible firm. I do not want to get into it, but they are advisers to the Riggs National Bank, and they are advisers to the Smithsonian and so forth. I think they are highly regarded. They recommend to me in their letter of August 12 that out of an investment of around $150,000 of surplus funds that I buy $75,000 Treasury 3⅞s maturing in 1974, and $75,000 2⅝s, maturing in 1965; one to yield 3.69, and the other to yield 3.29. Those were above par a short time ago, way below par August of last year. Every time we come to the end of the year the Government bond market seems to drop off pretty substantially.

Wouldn't this deficit have a bad effect on the refinancing?

Secretary ANDERSON. Senator Anderson, I think what you have said emphasizes the concern which the country must have in taking what steps it can and deems wise to prevent a runaway inflation.

Now, both the volume of refinancing which we have to do, and the number of times which we have to go into the market increases the difficulties so far as our debt is concerned.

One has to realize that the prices which are paid by investors for these securities are dependent upon a number of factors, dependent not only upon the way in which the value of the dollar may be moving, but dependent in part upon the way in which the economy generally is moving, and, normally, if you get a higher level of business activity, a higher demand for credit from other parts of the American economy, this, of course, has an adverse effect upon the bond market.

I think, recently, if one looks at the problems you have got to weigh (1) the technical situation which resulted from a great deal of speculation that took place during the period in which they were constantly revising the market, and one has to look at changed economic conditions, one has to look at the fact that the Canadians elected to refinance a substantial part of their debt at comparatively higher rates of interest. All of these have to be weighed, but, certainly, as a general proposition, the larger amount of the deficits when we already have a high order of national indebtedness is going to make the problem more, rather than less, difficult.

Senator ANDERSON. What I am trying to get to here is this person who puts in $750 and 20 years later takes out approximately $1,240 to $1,250, if he just leaves it alone for these 20 years. He has, on the surface, a $500 gain. Actually, with a minimum tax, it is going to come down to a $400 gain, and, by the time he gets through with the erosion of the dollar, he has lost $200 for holding an investment 20 years in Government bonds.

Secretary ANDERSON. Of course, this is so, whether it be a Government security, municipal, or industrial, or whatever it might be.

Senator ANDERSON. I just happened to look. That is not true, exactly, if you get to stocks.

Secretary ANDERSON. No, because stocks move——

Senator ANDERSON. If these deficits continue, aren't you going to force people completely out of buying bonds into the buying of stocks? That is why I say I am not really objecting to this increase in debt limit. I do not know what else you can do, but, certainly, it is the overall problem of Government to bring these things back into balance. Billions of dollars can be saved in the agricultural program. We all know we do not have to have $6 billion or $7 billion to take care of an agricultural program that used to cost $250 million.

I just wondered how far the Treasury could go to say we have to bring this thing back into balance to try to make it possible for the Treasury to refinance. How many billions do you have to refiance the rest of this fiscal year? It is an enormous sum. Is it not a hundred billion?

Secretary ANDERSON. Approximately $30 billion.

Senator ANDERSON. Fiscal year?

Secretary ANDERSON. Fiscal year.

Senator ANDERSON. No; it cannot be.

Secretary ANDERSON. Yes; we started out in July with $45 billion for the balance of the fiscal year through May 15, next year, and we have financed about $15 billion, approximately $30 billion, not including bills.

Senator DOUGLAS. How much would they be?

Secretary ANDERSON. About $22 billion.

Senator ANDERSON. I had another figure. I admit I have been completely wrong on it.

Secretary ANDERSON. We are talking about refinancing.

Senator ANDERSON. When you have maturity coming up, you have to refinance.

Secretary ANDERSON. That is correct.

Senator ANDERSON. I thought you had more than $30 billion of maturities.

Secretary ANDERSON. No, sir; about $80 billion that we have not already financed. A few billion in savings bonds.

Senator ANDERSON. I merely hope the Treasury keeps sounding an alarm that this is going to make the problems of refinancing more and more difficult as inflation continues, and $12 billion deficits are bound to be inflationary, no matter what anybody wishes or desires, Mr. Secretary.

Secretary ANDERSON. Senator, I sounded an alarm quite recently.

Senator ANDERSON (presiding). Keep sounding it. I have no further questions.

Senator Carlson.

Senator CARLSON. I have just 1 or 2 things. This is the end of the session, when we get to a period of accounting. It has been a period where Congress, and I am a part of the Congress, has voted to greatly increase funds, and we have exceeded budget requests on many items, and I was just checking this list that concerns me, for the future. If I remember correctly, the President recommended to Congress in his budget message that we vote for increased salaries for postal, classified, and military, a billion fifty some million; that may not be quite an accurate figure. I would like to ask how much we spent on those three increases.

Secretary ANDERSON. I would like to refer that to the Director of the Budget; he has that figure, if you will.

Senator CARLSON. Just roughly, if you will.

Mr. STANS. Senator, I cannot give you the figures, offhand, I will supply them for the record. The increase was about $400 million, roughly, more than was in the budget.

(The following information was later supplied for the record:)

The President's budget for 1959 proposed military and civilian employee pay raises which would entail an estimated $1.052 million of expenditures in 1959. As enacted, the annual cost of these pay raises is now estimated at $1,445 million, an increase of $393 million. In addition, retroactive pay increases were enacted which had not been recommended by the President. The cost of the retroactive raise is estimated to be over $375 million, most of which has been expended in fiscal 1959.

Senator CARLSON. The point I want to make is that—and I am the one who is going to vote for this debt-limit increase—I do not think we can do it any other way, and do not like it any better than anyone else. But we ourselves, are very often responsible for these increases. Senator Anderson mentioned agriculture; I think that must concern every Member of the Congress. I notice you have a billion and a half more for 1959.

Now, it just has been growing by leaps and bounds, and I come from a wheat State. We grew 400 million bushels more wheat this year in the United States than last year. I would urge the executive branch of the Government to give some thought to going over some of these farm programs and see if we cannot reduce them. I have discussed several times the domestic parity program for wheat. I think we ought to look at it for cotton and rice.

I do not say that is the only solution to this problem, but I do think this continuous rise ought to be looked into, and the executive branch of the Government has that responsibility, and these other items where we have these increases; I noticed the Post Office deficit; here we raised postage rates 1 cent this year, and I noticed by Senator

Byrd's statement that he has given us that the estimated deficit on June 30, 1959, could be $700 million.

What is the Bureau of hte Budget going to show?

Mr. STANS. We now estimate, Senator, after taking into account the increase in postage, the increase in wages, the increase in transportation paid the railroads and other factors, that the post office will show a deficit this year of around $600 million.

Senator CARLSON. Well, it is an amazing thing, when I believe we started in at the beginning of this year with an anticipated deficit of $550 million or $600 million and then we raised the postage rates and second- and third-class rates, and still we are going to come up with $600 million deficit.

Mr. STANS. Yes, sir, Senator, the pay increase, and the increased transportation costs to the railroads and other costs have just almost wholly absorbed the increase in postage rates within 1 year.

Senator CARLSON. I am willing to assume my share of responsibility for voting many increases that we voted this time, but it concerns me and I am not so certain but that Congress is going to have to give serious consideration to Senator Byrd's proposal of an item veto. I served as a Governor of a State with an item veto, and I think it is very important in the fiscal policies of a State or a nation, and most of our States have it.

Here the other day the President vetoed a bill with $589 million in it, and I think that might be helpful if we could get something like that. I am concerned about it, and I have to assume my share of the blame.

I thank you, Mr. Secretary. You are doing a good job, but it is a difficult job and we do not seem to help you too much.

Secretary ANDERSON. Senator, the whole problem of curbing excessive expenditures, of being sure that we accomplish these things, what ought to be done for our country, is not just a problem for any one of us, but it is a problem for the whole Nation, and I think while each of us have some more specific responsibilities than others, we must regard it as a national problem.

The CHAIRMAN. Are there any further questions?

Senator DOUGLAS. Mr. Chairman, am I privileged to ask any questions?

The CHAIRMAN. Yes, Senator Douglas.

Senator DOUGLAS. Mr. Anderson, let me say in the beginning that I think in company with all the members of this committee, insofar as I know all the Members of Congress, we appreciate very much the modest manner in which you conduct yourself and your very gentlemanly conduct.

I would say that you have less of the insolence of office than anyone I know. It is no indication of the great power which you have, which shows itself in your personal bearing. I hope you will realize that I hold you in high esteem.

Secretary ANDERSON. I appreciate that, Senator.

Senator DOUGLAS. When, in January, you estimated the deficit was going to be only around $300 million, you were estimating revenue of $72.4 billion, is that not true?

Secretary ANDERSON. That is correct, sir.

Senator DOUGLAS. And in practice, the revenue for the fiscal year which ended the 30th of June amounted to only $69.1 billion.

Secretary ANDERSON. That is correct.

Senator DOUGLAS. So that the deficit of $2.8 billion was entirely caused by the reduction in revenues.

Secretary ANDERSON. Yes, practically.

Senator DOUGLAS. Was it not the economic recession which caused the reduction in revenues? There have been no changes in taxes.

Secretary ANDERSON. I think that is a fair statement; yes, sir.

Senator DOUGLAS. The decline in business activity and production, diminished corporate profits and, therefore, diminished corporate taxes; there was some reduction in individual incomes and, therefore, reduction in individual income taxes, and some slight reduction in excise taxes; is that not true?

Secretary ANDERSON. That is correct, sir, most of it——

Senator DOUGLAS. So that the deficit has been due to the recession and not the recession due to the deficit.

Secretary ANDERSON. Yes. I think the decline in receipts at the end of this fiscal year was a reflection of the lessening of production.

Senator DOUGLAS. This may appear ungracious, but may I remind you, you appeared on the 7th of February before the Joint Economic Committee, and at that time, which was a month after the submission of the budget, I questioned you as to whether you still stood on your estimates, and I raised the point that the decline in production and the increase in unemployment, would inevitably shrink corporate profits and individual incomes and, hence, result in a decrease in revenues and, therefore, increase the deficit beyond what you contemplated. Do you remember that?

Secretary ANDERSON. I do indeed, sir.

Senator DOUGLAS. You will find it on pages 433 and 434 of the hearings.

Secretary ANDERSON. Yes, sir.

Senator DOUGLAS. And in view of that, I questioned whether your request for an increase in the debt limit was adequate. You will forgive me, will you not, if I read some of the passages?

Secretary ANDERSON. Yes, sir.

Senator DOUGLAS. Page 434:

> I know no one likes to admit publicly that they had overestimated, but it would be very humiliating, Mr. Anderson, if you have to come back before Congress adjourns and ask for a raise in the debt limit once again. I may say I am going to vote for an increase in the debt limit to $280 billion. But I beg you, don't force us to do this twice. If we are going to do it, do it enough the first time and give yourself enough leeway.
>
> I think you are really heading for the rocks, myself.

Do you remember that?

Secretary ANDERSON. I do, sir.

Senator DOUGLAS. Do you think I was a prophet of gloom and doom when I uttered those sentiments?

Secretary ANDERSON. I can only say, sir, that your prophecy turned out to be a requirement on our part that we come back.

Senator DOUGLAS. Forgive me if I turn the knife around a little, not at you but at the Treasury. [Laughter.]

Who was the more accurate prophet, the Treasury or the Senator from Illinois?

Secretary ANDERSON. Well, I could only say, sir, that the Treasury was more optimistic than the circumstances apparently justified.

Senator DOUGLAS. And who was more realistic, the Treasury or the Senator from Illinois?

Secretary ANDERSON. The Senator from Illinois came closer to the figures on June 30 than we were.

Senator DOUGLAS. Very much closer. Would you see that this testimony is communicated to your predecessor in office, Mr. George M. Humphrey?

Secretary ANDERSON. Yes, sir.

Senator DOUGLAS. Because Mr. Humphrey devoted a considerable portion of his energies for some months trying to discredit the Senator from Illinois, calling him a prophet of gloom and doom, alleging he had made prophecies which he had never made, twisting testimony to give a false impression of what the Senator from Illinois had said, and conducting himself in a manner very different from the present occupant of the secretaryship of the Treasury.

Now, Mr. Anderson, I would like to question you about this coming year. You estimated in January and in February that the revenues to the Government for fiscal year 1958-59 would be approximately $74 billion, is that not true?

Secretary ANDERSON. Yes, $74.4 billion.

Senator DOUGLAS. Now you estimate it will be $67 billion.

Secretary ANDERSON. Yes, sir.

Senator DOUGLAS. Now then, in other words, you now say that your January and February estimates for fiscal 1958-59 were $7 billion too high.

Secretary ANDERSON. Yes, sir.

Senator DOUGLAS. Why have you revised your estimate? Is it not because of economic recession?

Secretary ANDERSON. Senator Douglas, in the first place, one makes these calculations largely on the basis of what you anticipate——

Senator DOUGLAS. I understand.

Secretary ANDERSON. Will not only be the level of business activity in the year in which you are then living, but how much revenue you will get out of it.

Now as circumstances turned out, even with the relatively high level of business activity in 1957, we did not get in revenue collections as much as we would normally have anticipated from that level of business activity.

Senator DOUGLAS. Mr. Anderson, one of the reasons I like you is that I think you are characteristically honest in your replies. Is it not true that you expect a decrease in corporate profits for fiscal 1958-59 to a figure appreciably below what you expected in January and February, and consequently the revised estimates for collections from corporate taxes will be less than your original estimates?

Secretary ANDERSON. That is correct.

Senator DOUGLAS. And that this accounts for the major portion of the deficit?

Secretary ANDERSON. Larger than any other single item.

Senator DOUGLAS. And that in addition, do you not believe that personal incomes will grow to the point which you anticipated for 1958-59? Is that not true?

Secretary ANDERSON. That is correct, sir.

Senator DOUGLAS. And similarly, that there will not be the same increase in collection of excise taxes?

I do not want to get into a contest with the Treasury and the administration, but I will now take on the Budget Bureau a little bit, because I hold in my hand here, as has been remarked before, a document entitled "Corporate Excise Tax Rate Extensions, Executive Proceedings" on the 7th of June of this year. That was 2 months ago. The Bureau of the Budget came in with estimates that for the then current year—that was only 3 weeks before the year ended—that you would collect about $70 billion in revenue.

I questioned you and the Director of the Budget at that time, and pointed out that our staff estimated that the collections would be $69.1 billion. As a matter of fact, the collections were only $69.1 billion, so that our staff hit it right on the nose, and you were off by a billion dollars, even though you had only 3 weeks to go.

Should we not all agree and publicly confess that not all the wisdom and financial ability is concentrated down on Pennsylvania Avenue, and that some of it might be located up here on Capitol Hill?

Secretary ANDERSON. Certainly, Senator, we do not subscribe to the proposition we have a monopoly either on wisdom or the ability to judge the conditions in the future.

Senator DOUGLAS. Would you not say that evidence indicated that possibly more of it was located up here than down at Pennsylvania Avenue?

Secretary ANDERSON. I would certainly say, sir, that the estimates for last year and this year were more accurately judged by you than by us.

Senator DOUGLAS. In this period where the favorite sport of executive officers is to denigrate the Legislature, these words should be put in letters of burnished gold and presented on the desk of the leading administrative officials of this administration to contemplate in the morning.

Now, Mr. Secretary, let me ask another question, if I may. What are you estimating for business conditions for this coming year? Are you assuming total tax collections of $67 billion?

Secretary ANDERSON. We are assuming, of course, in the latter part of this year there will be a general improvement in conditions.

Senator DOUGLAS. Yes. But how much of an improvement?

Secretary ANDERSON. The estimates on which we are basing these calculations, Senator, the January budget, contemplated a level of personal income of $357 billion.

Senator DOUGLAS. For fiscal 1959?

Secretary ANDERSON. For calendar 1958. This is calendar 1958.

Senator DOUGLAS. Calendar?

Secretary ANDERSON. Yes. This has now been revised to $352 billion—$357 billion to $352 billion.

Senator DOUGLAS. What would that produce in terms of a decrease in receipts from individual income taxes?

Secretary ANDERSON. We are estimating about $2.5 billion.

Senator DOUGLAS. What is that?

Secretary ANDERSON. About $2.5 billion.

Senator DOUGLAS. Billion?

Secretary ANDERSON. Yes.

Senator DOUGLAS. Decrease?

Secretary ANDERSON. Yes.

Senator DOUGLAS. Does that include corporate, or is it just individual?

Secretary ANDERSON. This is individual.

Senator DOUGLAS. Individual. Below your estimates of January?

Secretary ANDERSON. That is correct.

The CHAIRMAN. Senator, will you yield at that point.

I would like to ask, what is the percentage.

Secretary ANDERSON. Would you mind if Dr. Smith gives you the answer to that?

Mr. SMITH. That can be described in either of two ways, Senator Byrd. The reduction of about $2.5 billion is from $38.5 billion to $36 billion. That would be roughly about 7 percent in the tax receipts.

I might add——

The CHAIRMAN. Seven percent reflects a 7-percent loss in tax receipts?

Mr. SMITH. Yes; 7 percent loss in tax receipts in the individual income-tax component.

Now this also reflects an unusually high relationship between the individual income and the tax receipts therefrom, because with the reduction of $5 billion in the assumed personal income, $2.5 billion reduction in individual receipts suggests a 50-percent relationship, which of course is not the typical relationship.

Actually, the reason that exists is because, as the Secretary indicated earlier, we had last year an unusually low individual low income-tax receipt from the presently published figure of personal income, so we start from a lower basis of individual income-tax receipts.

Senator DOUGLAS. Mr. Secretary, could I ask, what do you expect the receipts from corporate income tax to be for fiscal 1959 as compared to estimates of January and February?

Secretary ANDERSON. In January we estimated that corporate profits would be approximately $44 billion.

Senator DOUGLAS. And that would yield $23 billion in corporate income taxes?

Secretary ANDERSON. That would yield a little over 20. You see, while the 52-percent rate applies, not all corporations are in the bracket at 52 percent.

Senator DOUGLAS. What is your estimate now?

Secretary ANDERSON. We are now estimating corporate profits of $36 billion.

Senator DOUGLAS. $7 billion less.

Secretary ANDERSON. $8 billion less.

Senator DOUGLAS. $8 billion less. And a decrease in corporate income taxes of how much?

Secretary ANDERSON. Of about $3.7 billion.

Senator DOUGLAS. So these are the two big items.

In other words, you expect fiscal 1959 to fall greatly below your expectations of a few months ago.

Secretary ANDERSON. That is correct, sir, and to be——

Senator DOUGLAS. And to be below fiscal 1957.

Secretary ANDERSON. Yes; I think that I should distinguish now—calendar 1957. We are giving calendar 1958 figures.

Senator DOUGLAS. It would be below calendar——

Secretary ANDERSON. Because it would be reflected in 1958.

Senator DOUGLAS. In the meantime, the population is growing.

Secretary ANDERSON. That is right.

Senator DOUGLAS. So you have national income and prosperity at a lower level despite the fact that our population is growing, and that normally, there is an increase in productivity of 3 percent or 3¼ percent per man-hour per year, so we are, not only failing to keep up with the past, but also to make the usual gains, according to your estimates.

Secretary ANDERSON. Well, the calendar year——

Senator DOUGLAS. Please, Mr. Anderson, let us not get diverted on a wild goose chase on differences between calendar years and fiscal years.

Secretary ANDERSON. Yes.

Senator DOUGLAS. I am quite well aware of that difference, but I mean these are just rough figures that I am giving. One can so confine a problem as to make it disappear.

Let me ask this question. In other words, the bad financial situation of the Government during the coming year is due more to the recession than to any increase in expenditures by the Federal Government. The increased expenditures by the Federal Government would be something in the order of $4 billion.

Secretary ANDERSON. $5 billion.

Senator DOUGLAS. An estimated decrease in revenues of the order of $7 billion.

Secretary ANDERSON. Yes.

Senator DOUGLAS. The increase in expenditures has been occasioned largely by increased military outlays which Congress believed were necessary for the national security in view of all these tensions?

Secretary ANDERSON. Well, I do not think that of the $5 billion most of it is in the—not most of it is in the military.

Senator DOUGLAS. A large part of it.

Secretary ANDERSON. A substantial part of it? No, only a half billion.

Mr. STANS. May I answer, Senator? In my opening statement I indicated that of the $5 billion increase in expenditures over the budget, about $500 million to $700 million is in defense. The rest is in civilian programs.

Senator DOUGLAS. I see. Atomic energy?

Mr. STANS. Atomic energy is a relatively small additional amount.

Senator DOUGLAS. That is really in defense, in my judgment.

Mr. STANS. Well, it is less than $100 million in atomic energy.

Senator DOUGLAS. Foreign aid?

Mr. STANS. Actually, we expect a decrease in expenditures in foreign aid, for mutual security.

Senator DOUGLAS. What I am trying to get at is, if one takes the deficit of $15 billion for 2 years, then $10 billion of the deficit will be created by the decline in business activity, or two-thirds of the total; only $5 billion, or one-third of the total, will be created by an increase in expenditures above those budgeted, and therefore it has been the recession which has primarily created the problem; is that not true?

Secretary ANDERSON. That is correct, sir.

Senator DOUGLAS. Suppose conditions should not improve next year as you anticipate? Have you given yourself enough leeway or will you possibly have to be coming back in January or February or March or April for another increase in the debt limit?

Secretary ANDERSON. Senator, I would hope certainly that we would have a rate of sustainable recovery from here on. Our calculations, as you can see, are based upon changes of underlying assumptions which we have made.

These, I recognize, could vary.

Senator DOUGLAS. Here is the point. I like you so much, Mr. Anderson, that in February I was desirous of sparing you the humiliating experience of coming up before the House and Senate a second time and asking for a further increase in the debt limit when we would have to bring up all these factors now before you, and I hate to ask these questions because I do not like to humiliate anyone, even of the opposite political party.

So that is why I urged you to ask for a larger increase in January and February. You said "No."

Now have you given yourself enough leeway? I would hate to see you embarrassed a third time, Mr. Secretary, and for me to have to go through this same process with you again to prove that I am a better prophet than you are. That would pain me to the very depths of my being.

Why do you not come in and ask for $15 billion so that you will not have to be humiliated?

Secretary ANDERSON. Senator, I fully realize that I or any other occupant of this office faces a very substantial hazard in trying to guess even a year or 12 months ahead in an economy which is as vast and as complex as ours. I have the highest regard for the Senator and for his experience in analyzing the movements of our economy.

Senator DOUGLAS. I wish that could be said to Mr. Humphrey.

Secretary ANDERSON. I can only say that we have in our estimates tried to take into consideration what all of the departments believe are their best estimates of expenditure. We have tried to take into consideration what we think are reasonable assumptions, and we have tried to be modest in our approach to the problem.

Senator DOUGLAS. If you believe, if you think the deficit is going to be $12 billion, and your—how much is the debt now?

Secretary ANDERSON. Approximately $278 billion.

Senator DOUGLAS. Well, $276 billion, plus $12 billion is $288 billion. Suppose your deficit should go above that, you will have to come down here again to request an increase in the debt limit, will you not?

Secretary ANDERSON. If the Senator will look at the chart appended here, he will see, for example, where on May 31 of 1959 we are running $288.2 billion, which is over the $288 billion debt limit, which simply means we would have to cut down on either the contingency or operating capital.

Senator DOUGLAS. You mean some interest-free deposits in the banks?

Secretary ANDERSON. We would get to $290 billion. You are up against the proposition several times, and frankly I have in my statement called attention to the fact we will have to look at the debt ceiling problem again before the end of the next fiscal year.

The CHAIRMAN. Will the Senator yield at that point?

These figures include $6.5 billion on hand.

Senator DOUGLAS. I was going to come to that.

The CHAIRMAN. That is something the Senator from Illinois opposed when Secretary Humphrey was Secretary of the Treasury, and he thought it was entirely too much to keep on hand.

Senator DOUGLAS. I am going to come to that.

Let me say this: I think in justice you should come in for a larger increase because of probable business conditions, so personally if you would come in for $15 billion, I would give it to you, not because I want to but because I think it is more realistic.

Secretary ANDERSON. Yes.

Senator DOUGLAS. Now let me turn to this question of the deposits of Government funds in private banks. We have conversed, both privately and publicly, about that. Do I understand you say they amounted to $9¾ billion on the 30th of June?

Secretary ANDERSON. On the 30th of June, $9,029 million.

Senator DOUGLAS. $9 billion.

Secretary ANDERSON. Yes.

Senator DOUGLAS. Those are interest-free deposits?

Secretary ANDERSON. Yes. They were made up in this way, Senator: $401 million were represented by free gold which we have; $410 million by the money in the Federal Reserve System; and $8,218 million in the commercial banks, against which at that time there were outstanding calls by us of $2,227 million, so that the amount above the outstanding calls was $5,991 million.

Senator DOUGLAS. These are interest-free deposits?

Secretary ANDERSON. Yes.

Senator DOUGLAS. How do these deposits arise? Do they arise from collection of taxes, which are then deposited by the Federal Government in the banks, or do they arise from the purchase of short-term Government securities by individuals and banks?

Secretary ANDERSON. They arise in both those ways.

Senator DOUGLAS. But which is the chief origin?

Secretary ANDERSON. The tax collections would be the largest.

Senator DOUGLAS. Would you supply a table——

Secretary ANDERSON. We are looking for the table here, sir.

For the year 1957, Senator Douglas, proceeds from the sale of certificates, bonds, and so forth, $14.587 billion.

Senator DOUGLAS. Would you give me that figure again, Mr. Secretary?

Secretary ANDERSON. $14.587 billion.

Senator DOUGLAS. From what source?

Secretary ANDERSON. From the sale of securities.

Senator DOUGLAS. Sale of securities.

Secretary ANDERSON. From withheld and excise taxes, $26.709 billion.

And from other income by arrangements which we make, $4.153 billion.

Senator DOUGLAS. Mr. Secretary, when you sell shorttime governments, bills, notes, and so forth, what are your margin requirements? When an individual has purchased these securities, the margin on stock was 50 percent; it is now 70 percent.

Secretary ANDERSON. There is no margin.

Senator DOUGLAS. You mean that a man can buy the Government bonds without a cash payment, but entirely on borrowings from banks?

Secretary ANDERSON. It would be on whatever the bank requirement was.

Senator DOUGLAS. I understand. What is that margin generally?

Secretary ANDERSON. I do not know.

Mr. Baird advises me about 5 percent.

Senator DOUGLAS. So there is a 70-percent margin now on the purchase of stocks, and a 5-percent margin on the purchase of Government bonds?

Secretary ANDERSON. Yes, sir. It could be less than 5 percent.

Senator DOUGLAS. I am informed it is as low as 2 percent.

Secretary ANDERSON. Yes, I think there would be some as low as that.

Senator DOUGLAS. When a bank invests in governments, how does it buy? What is the process by which a bank buys?

Secretary ANDERSON. It would buy the bonds and pledge it in its tax and loan account.

Senator DOUGLAS. How does it pay the Government for those securities?

Secretary ANDERSON. Well, we would withdraw the funds on orders by——

Senator DOUGLAS. What they fundamentally do is what any commercial bank does; is that not true? It has set up a credit to the account of the Federal Government against which the Federal Government can draw if it so desires.

Secretary ANDERSON. They set up an account for tax and loan funds.

Senator DOUGLAS. That is a commercial procedure in which the banks create monetary purchasing power which they credit to the Government in the purchase of short-time securities.

Secretary ANDERSON. Subject to our withdrawal.

Senator DOUGLAS. Yes, as in any bank.

Secretary ANDERSON. Yes.

Senator DOUGLAS. But as long as it is not withdrawn, they, therefore, collect interest for the short-time securities.

Secretary ANDERSON. Correct; after their issuance.

Senator DOUGLAS. And pay no interest to the Government on deposits which are in their banks.

Secretary ANDERSON. That is correct.

Senator DOUGLAS. So that they use the commercial banking system to buy short-time governments on which they collect but the Government does not collect interest on the balance.

Secretary ANDERSON. On the deposits.

Senator DOUGLAS. Yes.

Is it not possible for the banks then to use the deposits which the Government has with them to buy more short-term securities upon which they will get interest?

Secretary ANDERSON. Well, Senator, it would be rather precarious business. If I may point out, as an example, whereas on the 30th of June, as was indicated by our figures, $5.991 billion not subject to call was in the various banks, on July 31, a month later, this had reduced itself to $458 million in all the banks, so the withdrawals during that month, calls on the banks, were about $5.5 billion.

The time within which the money can remain in the tax and loan account is normally quite short because of the——

Senator DOUGLAS. May I ask you this question: When you pay the obligations of the Government—salaries, payments on contracts, and so forth and so on—are the checks drawn on the individual banks or on the Federal Reserve System?

Secretary ANDERSON. They are drawn on the Treasury.

Senator DOUGLAS. They are drawn on the Treasury, and how are they paid out?

Secretary ANDERSON. They are paid out of the Federal Reserve, which is the fiscal agent of the Treasury.

Senator DOUGLAS. Not on the individual banks?

Secretary ANDERSON. No, sir.

Senator DOUGLAS. I have urged for several years, and I think this is one matter the chairman and I have agreed on, that the Treasury review this policy of interest-free deposits.

The CHAIRMAN. The Senator does not limit it to one matter.

Senator DOUGLAS. No, no. I said it is one matter. [Laughter.]

That the Treasury review this policy of interest-free deposits.

I put into the record of the hearings on the debt ceiling increase in February a study which I made of, I think, all the banks in New York which are members of the New York Clearinghouse, and I think that included all banks except 1 or 2 that are outside of the clearinghouse, and I made this study over a period of years, weekly, on their balances. And I showed, as I remember the figures roughly, subject to correction, there were some banks where the balances on a permanent deposit never fell below 50 to 60 million dollars.

So that even at low tide, so to speak, even at fiscal low tide, they were using enormous sums of money deposited on which the Federal Government got no interest.

I would agree that where the balance fluctuates, that you cannot expect the same rate of interest, although I do not see any reason why that could not perhaps be invested in short-time governments so that the Government could collect the interest instead of the banks.

But on the hard core of deposits, and except for possibly one sporadic moment when you mentioned the whole reserve went down, that hard core has been very considerable. I also studied the Philadelphia accounts published by the Philadelphia Clearinghouse, and I think the same thing is true, substantially, for all the other banks of the country, and I think you will find we are making interest-free deposits in enormous quantities to the banks of the country.

I have nothing against the banks. I want to make that clear. But as has been correctly pointed out, we are in a difficult financial situation. Do you not think you had better start collecting some interest on these interest-free deposits?

Secretary ANDERSON. Senator Douglas, this is a matter which I am sure you have given considerable study to. I think one has to take into consideration the fact that we depend upon the commercial banks to sell and issue United States savings bonds, we depend on them to handle the withholding of social security and all these other things.

Senator DOUGLAS. In other words, you will forgive me for interrupting, what you say is this: You say this is justified as an exchange of gifts. They give something to the Government in unpaid services, so we will give them interest-free deposits.

Secretary ANDERSON. I think this: One has to weigh the actual services which we ask of and which the banks do perform for us. I think also that one has to weigh the very important and valuable asset which we have in using those banks and distribution centers for sales of securities where banks buy and redistribute to very small institutions all over the country in which we would like to see the securities, where the techniques of the market are such that the very smallest of the banks do not have a practical and feasible means of bidding.

There are also very tangible considerations which we have to give.

There is another thing we have to consider. Back in the thirties when banks generally paid interest on their deposits, experience taught us this was very frequently abused, and if we, the Government, were going to charge interest on a demand deposit in a bank, it would be difficult to see how others would carry——

Senator DOUGLAS. Wait a minute. On this question of demand deposit, I am not asking that interest be paid on them. I am simply saying if we maintain these balances, which to my mind are not necessary, but if you do maintain them, why not put some of the money in time deposits so that you can collect interest.

I know you cannot collect interest, under the law, on demand deposits, but why can you not under time deposits?

Secretary ANDERSON. So far as I am advised, Senator—and frankly, I do not have in mind the study the Senator indicates; I will look it up. I do not have it in mind, but the money which goes into the tax and loan accounts we regard as demand deposits.

Senator DOUGLAS. But I introduced this evidence based on the clearinghouse figures over a period of years. We will get the appropriate tables and send them to you, which showed that even at the point of lowest deposits, there were New York banks which, subject to correction, had 50 to 60 million dollars. That was the low tide over a whole period of years, interest-free deposits.

Secretary ANDERSON. Well, I am not familiar with the Senator's study, but I will get it.

Senator DOUGLAS. They are in the record, and I will ask to have them put in the record at this point.

(The material referred to follows:)

Weekly statistics on United States deposits in selected New York banks, January 1953 to August 1955

[In thousands]

Date	A	B	C	D	-	F	G	H	I	J	K
1953											
Jan. 7	$17,200	$29,493	$149,462	$77,732	$112,322	$58,239	$63,318	$16,229	$30,341	$61,723	$149,038
14	14,186	23,891	102,605	61,697	69,924	47,604	36,225	14,376	23,851	45,512	95,849
21	12,384	21,775	94,890	53,588	61,126	49,241	34,485	13,723	20,376	30,692	83,039
28	12,344	21,745	94,861	52,292	59,619	53,095	34,659	14,116	20,661	36,806	83,582
Feb. 4	12,621	23,971	97,201	59,198	73,121	57,231	36,378	15,674	26,645	43,455	101,230
11	12,881	25,328	97,321	61,631	77,695	60,223	37,969	16,914	27,999	45,886	109,775
18	13,826	33,592	109,788	68,952	97,165	71,053	45,102	21,615	32,293	51,309	130,649
25	13,098	35,113	110,037	67,135	95,443	73,089	49,635	22,412	31,071	49,671	130,086
Mar. 4	11,088	31,569	100,088	59,582	82,609	72,574	43,584	20,940	26,599	43,486	115,522
11	7,960	23,762	[illegible]	43,781	58,113	58,496	31,101	1,649	18,368	32,961	84,674
18	7,072	22,937	108,067	47,056	67,243	53,307	42,849	17,144	21,228	35,164	98,739
25	11,260	32,788	243,398	89,650	136,206	81,951	111,981	22,150	47,772	65,506	216,051
Apr. 1	9,876	35,715	220,306	96,616	123,705	79,645	94,679	21,305	45,049	58,350	205,363
8	7,994	30,271	150,410	76,727	85,745	65,580	64,141	18,704	31,282	42,307	152,982
15	6,010	24,177	104,271	49,373	56,133	53,859	40,008	18,250	16,859	29,813	105,019
22	4,625	18,487	79,990	30,855	37,641	51,589	31,179	16,664	11,454	21,106	71,693
29	3,106	12,458	59,282	20,748	25,561	38,138	21,914	11,256	8,477	14,309	52,517
May 6	15,222	18,149	94,982	53,761	85,335	40,528	21,484	11,681	25,982	22,377	107,177
13	15,439	17,026	90,563	40,392	71,401	34,405	24,315	10,014	22,672	19,681	98,873
20	9,336	20,078	80,118	42,167	65,338	42,023	24,143	12,234	27,439	20,718	107,477
27	6,373	18,526	69,580	36,381	46,510	39,987	25,151	11,804	26,651	17,535	94,313
June 3	6,649	11,275	60,795	23,156	25,179	33,135	14,311	8,047	18,704	10,576	61,382
10	18,610		90,852	14,100	13,159	42,416	8,579	5,595	27,082	6,012	64,692
17	9,418	15,832	79,977	26,657	26,077	33,190	15,302	8,352	30,819	12,749	57,487
24	7,326	24,857	134,057	50,221	71,847	30,987	46,002	13,030	44,927	29,962	115,736
July 1	8,919	27,122	156,528	63,912	91,763	62,871	68,854	13,525	41,605	38,489	143,778
8	5,863	22,908	110,753	49,686	58,105	49,451	40,460	12,045	23,138	25,871	91,988
15	11,360	29,546	139,398	43,040	71,450	32,349	30,898	13,306	69,311	30,558	117,476
22	40,049	83,654	378,434	109,783	267,421	128,578	126,972	25,191	214,199	137,657	357,741
29	35,845	78,228	362,872	98,242	231,434	117,459	114,880	23,977	198,471	124,380	332,733
Aug. 5	32,402	71,109	316,553	98,041	221,371	110,037	107,376	22,833	179,116	117,213	317,489
12	28,035	63,163	277,951	92,720	207,298	100,269	94,604	21,970	154,903	103,153	283,885
19	24,763	61,554	261,348	96,048	[illegible]	107,028	92,537	24,153	137,490	95,965	281,882
26	22,445	61,170	252,694	104,736	206,438	[illegible]	95,648	24,942	128,853	100,425	281,479
Sept. 2	20,875	56,198	252,548	111,138	201,503	99,857	90,988	34,019	118,167	103,559	265,903
9	16,208	44,485	228,800	102,645	185,336	82,646	76,415	19,950	103,502	88,737	235,711
16	13,378	39,687	205,277	91,709	164,004	74,778	64,984	19,821	97,121	77,685	208,639
23	12,065	40,126	201,967	92,112	173,162	81,341	86,930	21,067	85,114	73,081	222,088
30	12,157	43,860	336,274	107,048	221,637	82,627	93,047	23,181	83,767	74,680	253,937
Oct. 7	10,268	40,638	317,541	105,694	213,770	76,868	82,318	34,030	81,117	68,330	230,032
14	7,710	31,008	245,181	82,069	151,737	80,774	60,714	19,598	59,782	51,485	204,382
21	6,424	26,651	208,435	67,983	141,816	46,031	32,987	16,084	53,981	37,736	192,596
28	7,377	20,779	161,861	66,358	131,377	41,734	48,385	12,994	45,699	20,672	162,657

Nov. 4	6,771	19,496	151,439	77,384	128,666	40,603	46,239	12,609	48,128	31,716	155,440
10	19,735	34,393	168,788	87,737	146,610	54,355	58,746	15,054	63,429	45,672	191,289
18	28,486	54,750	207,475	103,270	175,634	77,039	74,850	21,218	81,330	64,237	244,679
24	25,694	53,655	195,207	96,411	159,912	79,380	73,217	21,945	73,472	60,700	223,978
Dec. 2[1]	------	------	------	------	------	------	------	------	------	------	------
9	13,579	32,512	145,541	65,228	96,944	62,245	52,488	16,051	43,501	37,650	144,057
16	8,582	24,478	115,253	48,988	67,409	55,492	37,555	14,159	29,888	29,117	104,411
23	8,056	27,472	115,650	50,728	65,784	59,963	42,664	16,242	29,732	31,344	104,793
30	8,263	27,888	120,833	51,610	65,833	61,596	44,206	17,814	29,414	32,198	107,070
1954											
Jan. 6	7,438	24,662	125,234	50,800	63,544	55,947	41,821	16,295	26,303	37,456	100,899
13	4,784	16,829	96,953	35,066	42,656	39,438	29,251	11,858	16,597	27,872	68,557
20	4,642	16,865	95,798	34,842	42,228	44,053	30,042	12,513	16,363	27,915	67,442
27	4,570	17,081	95,904	34,748	41,668	45,680	31,999	13,037	17,067	27,821	68,806
Feb. 3	5,184	18,628	103,658	46,383	54,124	46,825	32,969	13,121	22,898	35,035	88,858
10	5,648	18,273	97,176	46,596	55,124	44,284	32,030	12,981	24,377	34,685	88,226
17	6,561	23,945	107,186	55,307	62,940	55,311	38,189	16,546	28,745	40,645	107,015
24	7,364	26,878	112,382	57,124	69,023	63,781	44,712	18,320	29,979	42,032	112,667
Mar. 3	6,196	24,330	117,011	60,457	68,789	63,870	43,214	21,296	28,224	38,506	104,876
10	4,170	17,218	93,644	46,364	49,372	49,344	33,492	17,870	19,096	27,191	74,749
17	5,430	21,751	100,678	54,545	60,423	56,419	36,894	19,243	21,183	32,227	88,199
24	8,962	34,110	157,923	78,193	108,627	76,455	92,040	25,132	36,812	53,399	171,701
31	10,445	38,727	167,856	87,942	114,205	74,962	96,362	24,952	35,974	55,521	187,053
Apr. 7	9,903	39,778	173,073	91,855	110,332	78,972	86,210	24,718	34,545	50,985	178,727
14	6,874	28,274	119,824	66,481	69,072	65,113	47,068	19,712	21,586	31,592	108,866
21	5,779	22,850	101,841	53,995	51,661	56,592	38,812	16,503	16,153	24,694	83,886
28	8,941	19,180	92,532	76,581	43,569	51,111	35,145	14,570	42,986	22,732	77,307
May 5	12,695	14,932	94,780	112,394	52,943	41,784	33,091	16,129	86,725	26,584	85,719
12	8,112	9,416	79,827	73,713	40,384	25,571	24,224	13,153	58,731	20,116	59,377
19	20,388	29,837	128,502	92,754	98,454	52,474	42,302	20,823	66,085	45,664	96,167
26	28,014	41,385	156,293	99,306	128,537	72,633	54,892	23,477	69,556	58,827	175,581
June 2	23,637	37,000	158,625	89,875	119,719	71,509	51,878	21,140	59,840	58,138	160,712
9	15,889	26,931	132,202	67,215	88,872	56,467	39,390	16,352	41,931	45,348	118,863
16	9,469	20,356	106,683	47,917	58,805	42,405	26,163	13,040	26,720	33,340	83,028
23	7,087	23,643	123,619	51,381	74,057	47,447	57,874	12,940	34,131	32,949	111,683
30	9,121	33,434	196,364	86,029	137,242	71,699	90,924	17,318	47,831	50,454	197,077
July 7	10,277	35,721	216,451	94,891	145,540	75,855	93,826	20,365	50,885	54,998	206,387
14	8,516	30,050	170,060	72,274	99,550	63,985	64,853	19,073	37,022	43,333	145,476
21	6,903	24,776	133,547	54,477	67,049	52,346	48,358	17,222	26,742	34,490	100,495
28	5,588	20,148	115,647	44,562	51,914	44,296	41,293	14,516	22,894	28,274	82,211
Aug. 4	10,545	29,650	166,454	74,805	124,695	58,588	53,950	15,991	47,150	51,425	167,507
11	13,594	34,157	196,174	86,731	165,388	68,488	59,949	15,368	58,090	61,875	212,691
18	14,084	37,627	197,377	88,853	167,660	73,269	61,507	19,435	56,478	64,008	210,760
25	13,106	37,858	182,044	83,442	154,341	72,839	62,160	21,062	51,647	59,456	193,582
Sept. 1	11,260	34,674	168,168	76,815	137,208	76,859	58,342	20,458	45,402	55,982	172,016
8	9,233	29,905	154,499	68,340	117,988	70,740	54,173	18,124	38,477	52,214	147,853
1953											
15	6,900	23,342	128,282	52,542	85,403	56,059	38,959	15,417	28,572	40,683	110,108
22	7,946	25,877	128,537	58,759	79,842	61,161	43,559	17,691	29,964	40,806	110,906
29	7,978	26,729	132,760	58,816	78,474	63,665	44,705	19,027	29,405	41,103	113,679
Oct. 6	22,221	61,350	247,408	119,322	186,475	90,239	78,985	26,042	73,781	72,145	210,449
13	30,470	79,668	288,163	142,039	239,115	96,290	92,144	27,957	95,683	83,847	248,021
20	27,986	70,731	261,580	148,638	207,535	86,838	82,851	32,779	72,413	216,573	167,805
27	24,807	62,277	236,888	131,237	179,767	77,618	75,193	72,468	63,467	192,697	146,580

See footnotes at end of table.

Weekly statistics on United States deposits in selected New York banks, January 1953 to August 1955—Continued

[In thousands]

Date	A	B	C	D	E	F	G	H	I	J	K
Nov. 3	$21,822	$58,113	$225,601	$131,311	$172,277	$72,845	$69,381	(3)	$72,242	$80,785	$186,970
9	20,275	55,444	212,470	128,723	166,133	70,731	67,289	----------	70,659	58,711	181,675
17	27,343	58,773	238,404	134,442	179,174	79,132	66,310	----------	82,679	68,252	191,390
23	29,124	57,096	229,230	126,883	165,048	78,959	64,992	----------	78,806	66,417	181,258
Dec. 1	26,232	52,768	214,208	122,009	150,051	77,010	62,165	----------	71,038	64,725	173,183
8	21,673	45,844	193,649	110,386	129,575	71,743	55,618	----------	60,363	61,142	155,629
15	17,078	33,490	166,450	94,881	105,013	63,248	44,765	----------	48,310	51,830	120,[illegible]
22	13,970	36,151	146,209	88,008	88,441	59,450	45,317	----------	40,560	46,456	118,187
29	11,812	31,969	136,125	77,907	74,339	54,433	41,807	----------	33,800	40,774	104,099
1955											
Jan. 5	9,028	26,721	132,091	75,524	67,806	49,926	42,345	----------	27,841	34,638	91,042
12	6,096	18,037	103,070	54,395	47,134	36,896	30,446	----------	18,197	23,419	63,005
19	4,960	13,703	86,393	39,083	33,025	29,369	23,848	----------	12,189	16,865	48,336
26	8,789	14,458	95,012	42,336	60,264	34,839	27,112	----------	22,991	26,594	61,476
Feb. 2	8,693	17,790	111,819	52,018	78,985	37,709	32,539	----------	29,688	32,214	82,284
9	7,992	18,221	116,839	55,905	82,863	38,571	35,006	----------	31,404	33,160	89,634
16	8,130	21,863	123,174	62,436	83,311	44,296	35,663	----------	32,848	35,680	97,590
23	8,497	25,590	126,184	71,690	80,277	49,024	42,657	----------	30,713	37,548	103,073
Mar. 2	7,368	24,515	128,696	72,329	78,672	51,456	42,679	----------	29,349	40,056	103,323
9	5,365	19,597	119,467	66,878	64,272	47,990	35,159	----------	24,700	35,614	86,491
16	4,491	19,200	114,501	61,249	56,318	46,697	29,674	----------	22,714	34,743	84,231
23	6,640	31,053	157,674	80,332	74,676	58,346	48,945	----------	30,013	46,313	126,127
30	5,282	27,330	154,059	69,931	63,387	48,921	42,986	----------	39,563	113,268	43,633
Apr. 6	12,551	(2)	325,107	142,665	199,439	84,811	88,630	----------	88,690	138,610	302,162
13	12,380	----------	314,838	130,551	197,743	77,635	82,866	----------	85,089	153,024	277,837
20	10,378	----------	261,624	105,838	157,660	64,184	70,336	----------	(4)	68,420	224,795
27	9,850	----------	246,127	101,066	144,631	61,490	69,330	----------	----------	64,154	212,675
May 4	11,361	----------	262,786	113,952	163,623	67,215	79,975	----------	----------	71,542	233,159
11	10,840	----------	248,825	109,458	155,929	65,446	78,783	----------	----------	67,867	233,117
18	13,329	----------	232,058	104,096	155,909	68,370	75,628	----------	----------	57,667	262,523
25	17,536	----------	213,807	100,432	158,875	67,114	67,700	----------	----------	44,264	321,250
June 1	15,098	----------	198,317	95,465	139,040	66,360	60,005	----------	----------	44,765	288,617
8	10,924	----------	174,017	80,779	106,941	59,156	56,618	----------	----------	41,418	222,741
15	6,276	----------	134,855	80,639	67,051	45,752	34,594	----------	----------	31,682	142,099
22	5,953	----------	15[illegible],084	72,421	75,998	51,999	41,177	----------	----------	35,583	148,147
29	7,867	----------	198,804	82,571	104,514	38,202	61,321	----------	----------	45,407	200,633
July 6	8,040	----------	223,660	98,840	116,158	66,685	65,574	----------	----------	55,602	203,707
13	5,393	----------	160,504	76,765	78,125	53,207	43,156	----------	----------	39,563	136,504
20	8,317	----------	227,773	86,736	122,415	63,233	50,866	----------	----------	49,180	209,956
27	14,032	----------	293,095	105,874	164,017	70,787	101,910	----------	----------	58,593	333,922
Aug. 3	11,871	----------	268,798	107,108	155,373	58,202	90,545	----------	----------	54,512	299,612
10	8,852	----------	222,503	93,070	130,289	52,887	75,629	----------	----------	45,404	241,911

[1] No listing was made for the week due to newspaper strike.
[2] Merged with bank D.
[3] Merged with bank K.
[4] Merged with bank C.

Source: New York Times.

Weekly statistics on United States deposits in selected New York banks, Aug. 17, 1955, through Sept. 5, 1956

[In thousands]

Date	A	C	D	E	F	G	J	K	L	M	N	O	P	Q	R	Total
1955																
Aug. 17	$8,798	$203,322	$92,222	$120,242	$56,574	$66,581	$45,623	$225,177	$102,999	$17,532	$35,614	$71,227	$4,858	$5,303	$3,834	$1,059,906
24	8,558	136,584	90,008	107,297	57,869	63,165	43,486	210,197	96,291	16,877	36,056	57,540	3,789	4,606	2,982	985,305
31	8,259	180,910	88,792	103,127	59,415	61,659	44,538	202,180	92,907	17,670	34,283	54,370	3,568	4,389	2,957	959,024
Sept. 7	6,937	174,489	81,805	94,554	57,687	59,210	47,390	180,015	80,966	16,329	28,117	50,797	2,814	3,488	2,508	887,106
14	4,876	133,452	59,281	64,419	44,829	40,916	34,180	126,677	56,188	12,455	18,614	35,003	1,788	2,679	1,652	639,009
21	4,053	112,026	55,068	51,507	41,264	33,742	31,717	101,521	48,439	12,273	17,629	17,462	1,213	2,375	872	530,161
28	4,393	130,042	67,164	64,247	50,994	45,061	37,649	130,477	60,271	12,583	21,609	22,562	1,202	2,445	855	651,554
Oct. 5	4,286	152,699	84,558	72,129	57,386	53,116	40,144	146,469	66,500	13,213	22,135	29,469	1,105	2,253	857	746,319
11	7,663	167,616	83,017	80,770	54,106	57,656	38,372	146,602	74,855	14,179	24,878	45,014	3,569	3,396	2,571	804,264
18	13,414	259,348	114,781	147,542	71,213	94,733	55,765	230,475	134,715	25,114	49,962	100,758	11,469	8,227	8,128	1,325,644
26	11,562	222,682	96,152	124,284	59,312	81,289	46,785	195,284	113,534	21,607	45,675	85,322	9,863	7,094	6,989	1,127,434
1955																
Nov. 2	9,927	209,751	92,667	121,685	57,457	72,136	46,834	183,520	107,908	19,634	41,321	77,358	7,398	5,859	5,664	1,059,710
9	7,866	185,882	84,205	109,276	50,340	60,415	41,180	159,267	94,769	16,046	33,669	64,424	5,771	4,454	4,063	921,627
16	7,441	184,428	83,515	104,829	55,466	53,869	41,945	161,943	92,373	16,547	33,531	58,206	4,467	4,359	3,243	906,162
22	8,582	186,954	88,261	104,466	60,797	58,853	44,229	168,074	94,125	17,326	34,613	54,675	4,103	4,271	2,83[illegible]	932,167
30	7,785	172,306	81,944	92,227	58,044	54,419	42,007	153,840	84,251	16,005	30,745	47,109	3,540	3,873	2,407	850,402
Dec. 7	5,521	152,818	75,259	69,058	51,950	45,127	39,674	129,783	63,156	12,022	24,505	35,511	2,234	3,164	1,480	711,282
14	3,410	114,882	54,352	40,756	39,721	26,904	27,666	85,493	37,869	7,767	15,591	19,528	1,049	2,309	635	477,932
21	33,199	159,411	52,586	165,833	42,922	22,221	36,881	86,106	31,518	23,766	15,858	50,786	995	4,466	3,26[illegible]	729,816
28	31,050	150,806	53,679	154,894	43,304	25,400	36,005	87,355	33,073	22,113	15,767	46,870	888	4,168	2,948	708,320
1956																
Jan. 4	22,713	156,116	63,427	147,143	44,315	31,363	36,859	95,915	38,532	16,968	14,956	45,579	650	3,205	2,141	719,882
11	12,231	113,659	46,389	75,378	28,447	23,792	21,414	64,236	26,662	9,695	7,200	26,815	410	1,787	1,133	459,248
18	3,278	78,923	28,538	32,361	20,417	17,290	12,104	42,908	17,606	3,550	3,534	12,998	169	505	238	274,419
25	1,941	62,845	23,620	21,444	17,580	17,040	9,715	36,538	13,210	2,679	2,637	8,194	119	295	96	217,953
Feb. 1	2,597	73,719	35,088	33,212	21,668	21,562	15,273	57,427	22,249	4,073	4,316	13,526	544	586	172	306,012
8	2,952	86,439	42,874	46,178	25,268	24,386	19,370	70,301	30,122	5,165	6,906	19,941	1,209	1,078	257	382,446
15	2,523	81,090	40,756	40,343	29,159	17,911	17,524	68,994	32,237	6,165	9,641	15,706	1,026	1,807	180	365,062
21	3,996	101,344	60,582	52,659	45,374	31,807	27,555	101,817	50,530	9,122	17,808	18,338	687	2,341	110	524,070
29	3,881	114,919	67,791	57,948	51,078	38,617	32,153	112,292	54,870	9,082	19,696	21,643	598	2,193	400	585,191
Mar. 7	2,985	123,295	69,290	57,572	51,392	35,316	37,616	108,150	56,124	8,209	18,928	24,741	461	1,840	536	596,455
14	3,783	90,022	45,731	32,554	38,751	19,375	26,278	69,477	36,337	6,088	12,000	14,798	229	1,755	283	397,461
21	8,602	89,768	88,949	89,560	68,009	58,676	58,358	165,168	96,013	14,869	34,201	34,273	446	3,037	232	910,161
28	10,692	275,236	121,762	138,917	85,977	92,685	85,868	264,696	152,383	19,521	50,884	58,135	632	3,460	201	1,361,049
Apr. 4	9,433	263,848	116,514	126,492	87,572	73,064	74,827	250,689	134,173	19,035	44,909	61,484	560	3,753	321	1,266,674
11	6,289	194,415	83,839	87,030	50,458	61,861	50,938	170,926	89,379	12,983	28,528	45,510	414	2,652	285	885,507
18	5,585	168,113	71,910	72,117	43,764	53,007	44,080	142,220	74,516	11,135	22,647	37,997	345	2,159	239	749,834
25	6,050	166,357	73,316	73,551	44,996	57,600	43,772	144,415	73,938	11,591	22,728	37,155	346	2,572	239	758,626

Weekly statistics on United States deposits in selected New York banks, Aug. 17, 1955, through Sept. 5, 1956—Continued

[In thousands]

Date	A	C	D	E	F	G	J	K	L	M	N	O	P	Q	R	Total
May 2	$7,204	$211,848	$99,153	$109,888	$56,640	$75,034	$59,772	$194,246	$96,953	$16,435	$30,489	$54,011	$356	$3,285	$252	$1,015,566
9	7,146	211,294	100,860	114,211	56,933	75,763	60,125	197,276	97,787	17,894	30,318	57,162	337	3,285	209	1,030,600
16	37,490	203,094	104,211	113,642	64,015	71,099	59,523	204,163	97,997	19,455	32,770	51,815	319	3,948	184	1,033,725
23	8,570	206,321	115,909	120,624	73,041	78,471	62,511	218,948	105,442	20,706	37,624	48,409	298	4,306	167	1,101,347
29	7,995	207,349	116,518	119,627	74,607	78,833	62,041	220,463	107,361	19,208	37,375	47,498	268	3,966	149	1,103,258
June 6	8,168	180,388	98,781	93,456	63,606	59,686	54,076	175,610	85,480	18,210	27,286	40,844	248	3,364	121	909,324
13	6,770	128,071	66,861	58,886	46,169	35,536	36,560	113,646	56,826	13,756	16,676	26,065	227	2,673	75	609,797
20	6,869	120,607	68,744	58,130	47,740	42,372	36,403	116,417	57,941	14,617	19,159	18,455	533	3,062	55	611,124
27	7,917	201,316	92,350	105,265	61,007	97,284	62,777	200,326	93,750	15,582	33,893	32,506	1,369	2,947	38	1,008,327
July 3	10,724	236,989	106,906	122,041	69,568	102,008	73,534	221,850	108,566	16,692	37,240	44,514	2,003	2,807	34	1,155,476
11	8,602	190,565	87,071	96,338	55,033	72,908	56,337	170,335	82,876	12,099	28,095	42,349	1,717	1,981	23	906,629
18	7,568	155,342	69,361	75,901	46,559	58,942	43,649	135,209	63,850	10,358	21,402	32,464	1,440	1,576	17	723,658
25	6,362	128,259	55,291	58,298	37,344	49,361	34,150	105,930	52,393	8,736	16,446	24,235	1,129	1,278	14	579,226
Aug. 1	6,139	123,232	58,441	55,526	34,432	42,643	33,023	101,723	48,334	8,544	16,516	24,369	1,313	1,314	70	555,629
8	5,829	111,421	58,435	55,994	30,603	33,260	29,513	95,259	41,481	8,005	14,758	24,692	1,610	1,425	130	512,415
15	7,910	146,816	75,563	73,641	47,076	35,070	36,944	136,484	57,851	11,391	22,624	33,481	3,825	3,325	547	692,548
22	23,209	296,716	161,845	166,797	103,963	83,405	74,835	319,142	140,098	27,101	57,460	83,025	13,485	8,649	2,371	1,552,101
29	21,243	258,593	145,795	147,887	94,845	76,470	66,202	285,691	125,029	25,035	51,314	72,892	12,074	7,813	2,127	1,392,010
Sept. 5	17,563	233,303	134,116	134,137	86,956	70,473	66,503	251,077	110,894	24,266	44,172	65,811	9,771	6,376	1,720	1,257,158

Source: New York Times.

Weekly statistics on United States deposits in selected New York banks, Sept. 5, 1956, through May 1, 1957

[In thousands]

Date	A	K	C	D	E	F	G	J	L	M	N	O	P	Q	R	Total
1956																
Sept. 5	$17,583	$251,077	$233,303	$134,116	$134,137	$86,956	$70,473	$66,503	$110,894	$24,266	$44,172	$65,811	$9,771	$6,376	$1,720	$1,257,158
12	10,494	167,275	166,614	90,939	90,306	62,514	49,424	50,753	73,242	16,624	27,913	43,891	5,724	4,240	999	880,952
19	8,912	145,134	145,577	79,411	72,308	61,607	41,172	45,354	63,555	16,684	27,087	28,639	3,789	4,425	662	744,316
26	9,389	171,917	163,659	95,262	85,486	70,869	51,837	52,467	74,927	17,710	32,357	31,261	3,536	4,828	639	866,144
Oct. 3	8,950	195,223	185,042	112,628	95,375	76,783	62,621	57,947	83,977	17,728	36,123	37,902	3,329	4,569	601	978,696
10	6,305	144,241	144,966	93,838	70,093	56,816	49,460	42,854	62,700	13,255	25,298	29,687	2,284	3,136	477	735,340
17	9,027	100,986	108,924	86,923	47,820	41,206	46,378	65,925	42,603	10,922	26,489	26,834	6,581	2,209	282	623,109
24	22,866	65,772	76,436	114,149	30,558	27,965	62,899	148,071	27,877	9,539	43,649	36,729	30,194	1,473	186	[1] 718,273
31	17,348	64,800	78,323	127,772	32,871	26,967	55,123	126,396	28,336	7,815	37,706	31,815	14,568	1,628	115	651,583
Nov. 7	13,825	72,999	90,622	105,594	47,007	27,412	44,252	95,333	38,354	9,944	31,170	31,001	9,894	2,935	76	620,418
14	9,813	63,705	82,526	74,102	38,417	26,594	29,230	61,309	35,685	9,988	21,851	22,015	6,209	3,118	47	484,609
20	15,774	97,500	96,338	130,629	50,098	56,961	38,441	163,387	114,531	36,487	62,419	60,925	4,058	3,612	30	931,190
28	15,698	90,360	83,124	134,367	42,528	58,872	39,434	176,308	125,315	40,224	66,382	66,168	2,580	2,958	20	944,339
Dec. 5	10,695	93,481	88,098	111,579	43,007	51,199	37,005	128,504	92,092	27,944	49,340	48,648	1,511	2,098	12	785,213
12	4,437	64,106	69,614	63,735	25,911	32,285	22,186	65,141	41,387	11,200	21,186	20,821	564	1,082	15	433,670
19	30,064	71,339	149,027	47,366	88,771	34,271	18,814	25,146	30,327	18,757	57,715	7,473	122	1,574	13	580,779
26	48,826	86,695	214,364	52,544	142,235	39,361	24,796	23,754	35,940	25,494	94,706	6,992	68	1,842	12	797,629
1957																
Jan. 2	39,308	79,388	186,778	53,908	116,322	36,740	23,748	24,736	37,187	21,962	74,466	10,668	69	1,742	10	707,032
9	19,626	53,038	124,568	42,778	63,442	24,834	16,401	17,117	27,009	11,694	33,900	12,321	65	1,079	7	447,830
16	3,448	30,071	68,842	24,851	21,649	14,652	8,801	8,801	14,358	2,757	6,700	8,278	99	381	2	213,690
23	1,211	20,691	51,203	12,371	11,600	10,718	9,828	5,241	8,838	1,916	5,362	3,689	102	378	1	143,149
30	1,175	25,813	50,063	14,522	10,690	12,764	8,787	6,396	7,319	1,919	6,335	3,031	130	813	1	149,358
Feb. 6	2,079	54,868	76,771	24,011	37,488	19,030	15,984	27,723	23,353	6,262	10,494	17,067	2,629	1,793	1	329,553
13	2,102	27,721	55,125	18,775	16,306	14,287	6,702	13,200	13,633	6,465	4,271	7,239	2,401	1,442	1	199,670
20	3,239	62,620	71,223	41,732	32,033	31,671	15,403	21,288	32,439	8,799	15,038	6,955	2,574	2,613	1	347,628
27	3,423	69,243	71,048	45,458	35,745	33,364	21,840	21,223	37,039	8,021	15,894	6,898	2,291	2,307	1	373,795
Mar. 6	3,422	76,454	89,808	51,376	41,408	32,491	27,715	30,754	36,689	6,375	11,546	15,921	1,346	1,403	1	426,709
13	2,522	49,127	68,570	32,396	23,957	23,384	15,862	20,433	20,599	3,382	5,178	11,335	325	632	1	277,703
20	5,756	122,477	123,738	75,383	62,898	45,878	59,427	46,281	52,908	11,604	24,938	13,859	518	3,625	1	649,291
27	7,356	163,181	162,671	93,678	89,572	50,371	92,798	63,876	69,871	13,540	34,038	23,007	607	4,445	81	869,092
Apr. 3	18,224	233,124	234,991	175,339	173,612	102,708	129,647	95,515	146,259	21,776	58,939	43,296	628	5,564	8,050	1,447,674
10	12,983	151,269	168,363	119,280	122,887	76,071	84,287	65,235	103,795	14,059	38,256	31,875	441	3,692	7,012	999,505
17	9,428	111,486	131,587	86,671	88,951	58,144	62,678	47,611	74,040	10,515	26,974	23,214	365	2,606	5,172	739,442
24	8,091	104,275	117,119	76,012	75,779	51,968	59,068	40,790	64,389	9,426	23,253	19,586	328	2,206	4,402	656,694
May 1	8,010	127,492	135,143	85,200	87,725	55,466	60,739	49,273	70,934	11,477	27,205	26,323	327	2,599	4,429	732,342

[1] As reported in source. Detail does not add to total.

Source: New York Times.

United States deposits in New York banks, January 1953 to May 1, 1957; smallest amount of United States deposit in individual bank during period for which information is listed

Bank	Smallest amount United States had on deposit in period for which information is listed	Comment	Bank	Smallest amount United States had on deposit in period for which information is listed	Comment
A	$1,175,000		J	$5,241,000	
B	9,416,000	Before merger with bank K.	K	43,033,000	Before merger with bank B.
			L	7,319,000	
C	59,283,000	Before merger with bank I.	M	1,916,000	
			N	2,037,000	
D	14,100,000	Before merger with bank H.	O	3,031,000	
			P	65,000	
E	10,690,000		Q	295,000	
F	10,718,000		R	1,000	
G	6,702,000		B and K	20,091,000	Postmerger.
H	1,049,000	Before merger with bank D.	H and D	12,371,000	Do.
			C and I	50,063,000	Do.
I	8,477,000	Before merger with bank C.	Total	269,473,000	

Senator DOUGLAS. I went through the Philadelphia situation. I have it in my files, the Philadelphia figure. I am ready, though I have no private resources, to compile clearinghouse figures for every major city in the country, but I beg of you to help me do it, and I would ask that you submit clearinghouse figures of Government deposits in the major cities of the country, of individual banks in the major cities of the country, over a period of the last 8 years. Do you think that can be done?

Secretary ANDERSON. Frankly, I do not know what the problem involved would be. I would like to consult with the staff on this.

Senator DOUGLAS. May I ask some more questions.

I agree that in view of the military situation, the financial problem of the Government is going to be very difficult. Do you not think that before we start increasing taxes we should try to plug loopholes in the existing tax system?

Secretary ANDERSON. I think, sir, that the simplification and equity of the tax systems——

Senator DOUGLAS. Well, the plugging of loopholes such as this: Do you not think it is a condition of injustice when people with equal incomes pay unequal amounts of taxes?

Secretary ANDERSON. Well, I think, Senator, one would have to qualify that by inquiring why the unequal amount is paid.

Senator DOUGLAS. I know; but as a general principle, people with equal amounts of income should pay equal amounts of taxes. I am not going into progressive proportional or regressive taxation, but generally there should not be discrimination between people of a given income class.

Secretary ANDERSON. Yes.

Senator DOUGLAS. All right.

I have been studying this matter of loopholes in the Federal tax structure for several years, and I must say that I am disappointed in the attitude of the Treasury.

For instance, take the oil and gas depletion allowance which, on top of permitting intangible drilling and development costs to be charged off in the first year—the first year—which is a 100 percent depreciation also permits a 27½ percent deduction of gross income up to 50 percent of net.

Now this results, as studies before our Joint Economic Committee have shown, in an average tax rate to oil and gas companies of approximately 17 percent of their profits as compared to a normal tax rate of 52 percent. And it results in great loss of revenue to the Federal Government.

Some of us have been trying to plug that gap. In the Truman administration the Treasury was on our side. Since then, the Treasury has been opposed to us. We passed an amendment the other night on the floor of the Senate and got 31 votes, but it was opposed in committee by the Treasury.

Do you not think that change should be made?

Secretary ANDERSON. I know how the Senator feels about the depletion issue. I must very frankly say that my own studies over the years have led me to conclude that if we are going to have and develop an adequate amount of petroleum resources in a nation in which the very nature of the business is as hazardous as it is, that the depletion allowance has in practice worked out fairly well.

Senator DOUGLAS. Even though it has resulted in great tax favors to a particular group?

Secretary ANDERSON. Well, I think, sir, that one must estimate the other side, to point out that over a number of years the total amount of new reserves that were discovered in the country as compared to the increase in our utilization of them, indicates that there were slight additions.

Senator DOUGLAS. I am very glad that fact was brought out for the record, because again and again we hear that discovery is running behind use.

As a matter of fact, the ratio has been approximately constant, and except for the last few months——

Secretary ANDERSON. As I recall, sir, for about the last 2 years or 3 years, I am not sure whether it is 2 or 3, the rate of discovery has been less.

Senator DOUGLAS. That is merely one. I will say that figures drawn from statistics of income illustrate that the total depletion allowances amount to $2.9 billion.

Now the Senator from Illinois is not proposing that the allowance be completely eliminated; certainly not. He is proposing, however, that some of the excrescences be reduced, because he believes—I not only believe, but estimates have been made by the Treasury itself—that we could save $300 million to $325 million a year in this way.

What does the Secretary of the Treasury believe about the failure of our tax system to withhold taxes at the source on dividends and interest, although there is withholding at the source on wages and salaries?

These are roughly the facts: that, as you know, the recipient of dividends and interest makes his return and pays his tax. There is no withholding by the corporations or bodies that distribute the interest and dividends, and the figures show that the amount of dividends and interest reported is very much less than the amount of dividends and interest paid.

The last figures I have seen on dividends is that there was a gap of about $1¼ billion.

Even if we assume that $250 million of this consists of dividends received by people in lower income groups who would be exempt, and so forth, which I think is a most liberal estimate because you do not get great holdings of stock by low-income people, that would leave a billion dollars income evasion on which the taxes would be at least $200 million a year, and probably more than that, because the evaders would tend to be in the upper-income brackets. So I think the loss from this source is around $300 million a year.

Do you not think that should be allowed?

Secretary ANDERSON. Senator Douglas, I would think—and I would stand corrected if I am in error—I think we have not taken an adverse position. I think I simply want to point out that it is a difficult and complex allowance to be made, because some of the dividends and interest would be paid to persons who have no incomes, and you would sort of base it on the law of averages, but I think what we have done is to point out the difficulty of not taking such a step.

Senator DOUGLAS. There is a loss of money here by the Government.

Secretary ANDERSON. Yes.

Senator DOUGLAS. Instead of multiplying difficulties, why do you not solve the problem?

Secretary ANDERSON. I think this is worthy of study.

Senator DOUGLAS. I know while the withholding of interest is more difficult because of the coupon problem, I wish you would also apply yourself to that problem.

Senator CARLSON. Does this $300 million or $400 million he mentions include these coupons or interest?

Senator DOUGLAS. I was speaking purely of dividends.

Senator CARLSON. Well, the dividends, then, assuming that a nonprofit organization receives dividends and other groups which are exempt from taxes, would the Senator include all those in his idea? I just ask.

Senator DOUGLAS. Some income of the nonprofit corporations should certainly be taxed. They may be exempt from general property taxes, but are they exempt from taxation on income from all investments?

Senator CARLSON. Some schools are, are they not, and some churches?

Senator DOUGLAS. A few, perhaps.

I wish the Treasury would work on this, because we have got to deal with these things. I presented evidence like this the other night and was shouted down.

I know there is a difference between the Treasury and the Senator from Illinois on the question of the so-called dividend credit, which was sponsored and indeed enacted at the behest of your predecessor, George M. Humphrey, This provides that the first $50 per year of income from dividends is to be excluded from gross income, and therefore is not taxable.

It also provides that 4 percent of dividends received by an individual are to be deducted directly from taxes, not from taxable income. but directly from taxes.

In other words, that income from ownership of stock is taxed at a lower rate than income from effort.

Let me say I think this is morally unjustifiable. Even if you waive the question of whether dividends earned and other unearned income and say those should be taxed at an equal or greater note rate, I see nothing to justify a lower rate of taxation on ownership than on effort. And this costs the Government between $300 million and $400 million a year.

I know . humiliating to have to go back on Mr. Humphrey's baby, but these three things that I have mentioned come to a billion dollars a year, and there are others, Mr. Secretary.

Have you examined the abuses of capital gains or charging off what is in reality income to capital gains and thereby paying a maximum tax rate of 25 percent instead of a higher note? Have you considered the question of business expenses?

I am told the night clubs of New York are largely supported by the tax-free deductions of their entertainment; that the high, speculative prices for "My Fair Lady," which I am told went up to $80 a seat, occurred because business firms can invite guests and customers in, pay for the seats, and charge them off as tax-free expenses; that the suites of rooms which executives retain on a permanent basis down here in Washington can be charged as a business expense.

I know a man who I think has an apartment in New York, an apartment in London, an apartment in Paris, which are all, I am quite sure, deducted as business expenses.

Now, have you really considered those questions? Are you really ready to act on those issues, Mr. Secretary?

Secretary ANDERSON. Well, certainly, Senator, so far as the abuses of charging off business expenses, that is something, I think, all of us do the best efforts we can to find how we can eliminate it from the standpoint of corporate tax. As to what the Senator has had to say about the dividend exclusion and credit, I am sure he will appreciate that the corporations are first subject to tax before dividends and the individuals receiving dividends are again subject to a graduated tax.

Senator DOUGLAS. I do not want to keep the Secretary too long. I will merely ask him to study abuses in corporate spin-offs and split-offs and stock options, and so forth, and if we are going in for a period of austerity, which we may have to go in for in view of the threat from the Communist world, we can only do so if special privileges are abolished.

If we have great special privileges for some at a time others are heavily taxed, then we will have a system of injustice which will rankle and which will make it very difficult for us to carry on.

Mr. Secretary, I apologize for taking such a great length of time, but we have seldom had so amiable a Secretary of the Treasury before us, and so I thought perhaps I should take advantage of your kindness.

I hope you will not resent the time that I have taken.

Secretary ANDERSON. Senator, I will always be glad to consider any problem you have in mind.

The CHAIRMAN. Any further questions?

Senator BENNETT. None, Mr. Chairman. I would just say I realize it is 1 o'clock, and I am not one of those who feels that because everybody else questions at length, I should question at length. I have no questions.

The CHAIRMAN. I would like to say to the Secretary he has given his usual frank and splendid testimony. Thank you very much.

Secretary ANDERSON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Budget Director, I have a few questions, not many, to ask you.

Mr. STANS. Yes, sir.

The CHAIRMAN. I sent you a memorandum showing the budget submitted in January for this fiscal year and asking for current estimates. If you can read those we would like to get the revised estimates on the January budget for spending.

On national security, what is the budget picture there?

Mr. STANS. Senator, the January budget showed expenditures of $42.8 billion; and the present revised estimate that is comparable to that is a range between $43.3 billion and $43.5 billion.

The CHAIRMAN. Some of this information has been given, but this is in more detail.

Then it was approximately $4 billion more for the military functions?

Mr. STANS. No, sir.

The CHAIRMAN. What is it?

Mr. STANS. $500 million to $700 million more.

The CHAIRMAN. I see. Your figure now is what?

Mr. STANS. The figures are $43.3 billion to $43.5 billion, somewhere in that range.

The CHAIRMAN. That is the total. I was speaking of the first item.

Mr. STANS. I am sorry, sir. I do not have it broken down into the three individual components, because the figures that I have just cannot be precise enough at this point.

The CHAIRMAN. All right. The total, then, for national security is what?

Mr. STANS. $43.3 billion to $43.5 billion, somewhere within that range.

The CHAIRMAN. Foreign aid?

Mr. STANS. Well, again, taking the two categories together, where you show $4.1 billion as the January estimate we now estimate $3.8 billion.

The CHAIRMAN. International affairs.

Mr. STANS. No change.

The CHAIRMAN. No change.

Veterans' services and benefits.

Mr. STANS. Now, Senator, again I have to deal with the whole group of domestic civilian programs as a single figure, for the reason there are now so many variable that have to be approximated.

Where you show total domestic civilian programs of $26.8 billion, I now show an estimate of approximately $31.6 billion.

The CHAIRMAN. $31.6 billion. That is approximately a $5 billion increase in that.

Mr. STANS. I little less than $5 billion increase, that is right.

The CHAIRMAN. Your total budget expenditure.

Mr. STANS. Total budget expenditure, I have rounded out at $79 billion.

The CHAIRMAN. $79 billion.

There are some other questions I want to ask you.

Senator MARTIN. Mr. Chairman, I am sorry I did not have this sheet when you started. Wait a minute, I can get it here. Senator Williams has it.

Mr. STANS. I want to point out one factor, Senator, because of the way the figures show on this sheet. The military, actually the estimate for military expenditures is $500 million more than the figure of $43.8 billion to $43.5 billion. The reason for that is that $500 million was in the budget in the allowance for contingencies, which is under civilian programs in the work sheet the chairman gave me. That $500 million will be expended, and is in addition to the figure I mentioned previously for military.

The CHAIRMAN. Actually, there is an increase of nearly $5 billion in domestic civilian.

Mr. STANS. Yes; if you offset some reduction in mutual security against defense, then practically the total increase is in domestic.

The CHAIRMAN. The public has the impression that the military functions are considerably increased, but these figures you have presented here show, of the $6 billion, approximately $6 billion increase, about $5 billion of it is in the domestic civilian.

Mr. STANS. That is right. To avoid any misunderstanding, I would like to point out that military expenditures will be substantially higher than the previous year, but we are now talking about increases over the budget for this year.

The CHAIRMAN. In other words, these increases you have given us are over the January budget.

Mr. STANS. That is correct.

The CHAIRMAN. There are some other questions I asked there. Have you the answers? Perhaps we could insert that in the record. I see—did you get a second sheet?

Mr. STANS. I have no second sheet. I have some matters——

The CHAIRMAN. I would like this for the purpose of the record, if you could answer the questions I hand to you. Will you read them?

Mr. STANS. I think we can insert these figures. The Secretary of the Treasury has already given some of them.

How much was estimated in revenue from personal income taxes in estimating receipts at $74.4 billion? The figure was $38.5 billion. For corporate income taxes, the figure was $20.4 billion. And from all other sources was $15.5 billion. As they are revised, the personal income-tax figure is $36 billion.

Senator WILLIAMS. It was what before? I did not get the figure.

Mr. STANS. It was $38.5 billion. The corporate figure is now $16.7 billion. And all other is $14.3 billion.

The CHAIRMAN. That is a reduction of how much?

Mr. STANS. That is a total reduction of $7.4 billion.

The CHAIRMAN. $7.4 billion in the estimate?

Mr. STANS. In the estimate of revenues from the level in the budget. That is correct.

The CHAIRMAN. Next?

Mr. STANS. The next question is: In the budget last January, what national income and gross national product level was used as a basis for the estimates, and what are these levels as now revised?

These figures are provided by the Treasury Department, and I will quote them as they have given them to us.

The personal-income figure originally estimated was $357 billion. That has now been revised to $352 billion.

The corporate profit figure was originally $44 billion, and has now been revised to $36 billion.

Senator WILLIAMS. When did you make that revision?

Mr. SMITH. As of now.

Secretary ANDERSON. After the June figures came in, in July, so we say as of now.

Mr. STANS. I think we should explain for the record that the $357 billion figure for personal income is consistent with the revision made recently by the Commerce Department in connection with its revision of the national income figures of the last several years. (Prior to the Commerce Department revision, the January assumptions were $352 billions for personal income and $42 billion for corporate profits, these figures, as adjusted for consistency, are $357 billion and $44 billion, respectively.)

Now the question was asked for gross national product, and I do not have figures for that, and that was not directly used as a basis in estimating revenues in any specific sense.

The next question is: Do you think the spending budget for fiscal year 1960 will exceed $80 billion?

Honestly, I do not. I hope it will not. But it is entirely possible that it will. It depends, to a considerable extent, upon the size of the military programs that become necessary. Our military programs have a considerable number of built-in growth factors which are very hard to control and very hard to reduce.

I believe the Secretary of Defense is working diligently on the consolidation of programs and on other activities to hold the level of defense spending without endangering in any way the national security, but, until we have a fairly definite estimate of our expense requirements, I cannot be sure whether the budget for fiscal 1960 will require expenditures above $80 billion or under. I think it will be slightly under, but I cannot be sure.

The next question is: Do you anticipate further inflation?

Again, all I can do is to express a hope that we can move against the budget-deficit problem; that the resumption of the economy's upward movement will produce added revenues; that, with the help of the Congress, the administration can reduce expenditures or, at least, prevent them from increasing; and that the $12 billion deficit will be a onetime experience and not a continuing thing.

If that is the case, the danger that deficits would contribute to inflation would be substantially reduced.

Senator WILLIAMS. We are in complete agreement, Mr. Director, with the hope. What is your opinion as to the possibility of achieving any 1 of those 3, or the 3 in combination?

Mr. STANS. I think the economy is recovering. I am sure we all agree on that. I think we can expect an increase in revenues as a result. The extent of that increase in revenues is a very difficult thing to estimate.

I feel confident that our deficit in fiscal 1960 will be less than in fiscal 1959. I just cannot predict, at this time, how much.

For one thing, I do not know until we have reviewed the estimates of the agencies and have gone through the budget process of the next 8 months, what the necessary expenditure level will be.

Senator WILLIAMS. You follow, naturally, in your position, the actions of Congress in the appropriations and authorizations.

Mr. STANS. Yes, sir.

Senator WILLIAMS. Taking those into consideration, what is your opinion on that third phase of your problem as to the expenditures? Do you think we are bringing them under control, or are they getting out of control?

Mr. STANS. Well, I feel, Senator, that expenditures are going too high, and it is necessary that the Congress help us in taking steps to reduce the level of expenditures within the next few years.

I should say this: There are some factors in the budget in 1959 that may not recur in 1960. One of them is the Federal program to augment State unemployment insurance.

Another is the purchase of a billion dollars worth of mortgages on new housing.

If those programs do not recur, we have factors which will tend to reduce the level of expenditures in 1960, and may offset the factors that would otherwise tend to increase the level of expenditures within the Department of Defense and Atomic Energy and other places like that.

The next question asked me on this sheet: To what degree do you think inflation will increase the costs of goods and services to be purchased by the Federal Government?

Again, I must say I do not know. I hope that we will control inflation, prevent it from happening. If we do have substantial deficits, if other factors in the economy cause us to go into an inflationary spiral, obviously all of these costs will increase.

I have no basis for any projection at this time.

The last question is: Can you foresee a balanced budget?

Yes, I can foresee a balanced budget if two conditions prevail: If the economy continues its return to a normal growth pattern, with the Federal revenues thus increased, and if at the same time we can hold the line of expenditures or even reduce expenditures somewhat, I think we could have a balanced budget in a matter of a few years' time.

I do not foresee a balanced budget for 1960. That is about all I can say on that.

The CHAIRMAN. What do you mean by a "few years"? Are you assuming there will not be an inflation?

Mr. STANS. I am assuming that there will not be inflation which will increase our costs more than it will increase our revenues.

The CHAIRMAN. If the increased costs are equal to the increased revenue, you would still continue this present deficit unless you reduced expenditures.

Mr. STANS. What I meant by that previous answer, Senator, was that I am assuming there will not be an inflation which will increase the costs of the things we buy more than it will increase the individual and corporate incomes that contribute to our revenues.

The CHAIRMAN. I thought you were depending upon the increase in income to balance the budget.

Mr. STANS. I am depending upon the resumption of the economy to increase incomes, and thereby——

The CHAIRMAN. If that is accompanied by inflation, then you lose certainly a part of that benefit, because you would have to pay more in dollars for the things you buy.

Mr. STANS. Well, I think there are two ways in which our revenues can increase other than as the result of increase in rates: One is the normal resumption of the economy without inflation. The other would be the fact that inflation of the economy would produce an increase in our revenues simply by means of putting more money into circulation.

I am hoping that the second will not take place.

The CHAIRMAN. If we do have more inflation, then the balancing of the budget will be in the long future, will it not?

Mr. STANS. If we have inflation——

Teh CHAIRMAN. Inflation which increases the dollar costs which the Government has got to have in the way of buying military supplies, and so forth.

Mr. STANS. I think, Senator, it depends upon the degree of inflation, and it depends upon the extent to which inflation of itself increases the dollar incomes of people and corporations and thereby increases the dollar collections of taxes.

The CHAIRMAN. We have been having an inflation of approximately 3 percent a year lately, have we not?

Mr. STANS. I think it has averaged about that, yes, for the last couple of years.

The CHAIRMAN. And we are losing 3 percent, or 3 cents of the purchasing power of the dollar now.

Mr. STANS. That is correct.

The CHAIRMAN. If we lose 7 or 8 cents of the purchasing power of the dollar, that would certainly considerably increase the dollars which you have to expend for purchases.

You think by reason of that you would get more income.

Mr. STANS. I think there is a relationship that we have to consider, not only what the Government spends but on the income of all the people in the economy.

The CHAIRMAN. That is a very dangerous situation, though, I should think.

Mr. STANS. I do not approve of it by any means, Senator.

The CHAIRMAN. I know you do not.

Senator MARTIN. Mr. Chairman, I would like to make a comment that there is another way to balance the budget, even if our revenues remain the same as they are now, and that is to cut across the board, outside of the interest on the debt, 15 percent. That would balance the budget.

I mean if you cut right across the board the way the appropriations are now, saying for the next fiscal year, if we will cut, reduce them all 15 percent, excluding the interest on the debt, that would also balance the budget.

The CHAIRMAN. There is no doubt about it.

Mr. STANS. Mathematically it would, there is no doubt about it.

The CHAIRMAN. There is no doubt about it, the best way to do it is to cut your expenditures.

Senator MARTIN. That will also be the greatest defense against inflation.

Mr. STANS. I would like to point out, though, Senator, in the 1959 budget there were included 17 recommendations by the administration itself either to increase certain collections of the Government or to decrease expenditures.

The session of Congress is almost over now, and to the best of my recollection only one of those recommendations has been adopted.

Senator MARTIN. Mr. Chairman, that is true, and there are three elements to blame. It is the Executive, it is Congress, and the American people.

The American people are demanding expenditures for the things in which they are personally interested. On all other things they want a reduction. It has always been that way, and I suppose it always will be in our form of government.

Mr. STANS. That is at the heart of our problem.

Senator MARTIN. That is at the heart of our problem.

The CHAIRMAN. Do you not think, Mr. Stans, that we are now facing the most critical situation in time of peace in regard to Government expenditures we have ever faced?

Mr. STANS. I think it is a very critical situation, and one in which we all need to work to remedy it.

The CHAIRMAN. Because, first, the deficit is so large; and, secondly, it is going to be very difficult to balance the budget unless we cut expenditures.

This thing of balancing the budget by increasing inflation is an awfully dangerous thing, because that becomes uncontrollable, and if you cannot cut expenditures and we continue to have deficits of, say, $10 billion or $12 billion a year for a period of 5 or 6 years, we would be in a very critical situation.

Mr. STANS. I think it would be most unfortunate.

The CHAIRMAN. That would run your public debt up to $350 billion, it would increase your interest charges, and it would certainly start an inflationary spiral which would be very difficult to control.

But I have confidence in you, Mr. Stans, and I know you will do everything you can, and I hope Congress will cooperate. I think a great determined nationwide effort should be made next year to reduce these expenditures. These increases compared to the budget you submitted are alarming. Practically all of it is in domestic civilian. It is not in the military; is that correct?

Mr. STANS. That is correct.

The CHAIRMAN. It is not in military but in domestic civilian expenditures. We have got to do without things the Government is doing. They may be very desirable, but if they are not necessary they may have to be cut out.

Senator SMATHERS. Would not the Budget Director provide us for the record—he only gave us the total of domestic civilian—could we have that broken down as to what particular items——

The CHAIRMAN. I would like very much to see that broken down.

Senator SMATHERS. Have gone up, so that we can satisfy ourselves on what particular programs it is that we are overreaching ourselves.

Mr. STANS. If I may refer to my opening statement, Senator, I think many of the figures are fairly well presented there.

Senator SMATHERS. Are they in your opening statement?

Mr. STANS. Not down to the point of individual programs, because, as I said, many of the items are still on the floor of the Congress, and I have had to give some evaluation or consideration to them.

The CHAIRMAN. Mr. Stans, there may be a vast difference between annual Federal expenditures and new appropriations, etc. I find great confusion in the mind of the public and in the minds of some Members of Congress as to the distinction between the two.

Ordinarily, I try to talk in terms of expenditures because it is the difference between annual expenditures not appropriations—and so forth—and annual revenue which results in deficiencies or surpluses.

Earlier this week, in preparation for this meeting, I directed a question to you relative to expenditures.

At this time, I want to ask you a short series of questions relative to appropriations, and so forth. In the Bureau of the Budget you have a term "NOA" that stands for new obligational authority. When I speak of appropriations I use it as a short term for NOA.

We are coming to the end of this session of Congress and within the next few days there will be many statements relating to budget action taken by this Congress. I have seen as many as nine such statements at the end of a session. I might say all of them were wrong in the totals reached. This year, as usual, these statements again will be both incomplete and inaccurate. They will mix appropriations and expenditures. They are likely to omit permanent appropriations, authority to spend out of the debt, etc.

In order to avoid as many pitfalls as possible, for this record I should like to ask you:

1. What is the difference between annual expenditures and new obligational authority?

2. What are the elements of new obligational authority? Offhand, for instance, I think of regular appropriations, permanent appropriations, authority to spend out of the debt and contract authority. There are others.

3. How much new obligational authority was requested in the President's January budget? What was the total?

Please break the total down by regular appropriations, permanent appropriations, authority to spend out of the debt, etc.

4. How much has been requested, in addition, since the January budget was submitted? (What is the total additional requested?)

Please break down the additional requests into the various segments.

What is the overall total requested at this time? Will there be additional requests?

5. This is a difficult question for you to answer at this time, but it will be appreciated if you make the effort to supply an answer as best you can with whatever qualifications are necessary.

Will you give the committee the best figures you have to indicate the amount of new obligational authority, in all of the segments, granted by Congress to date?

6. Will you state for the record the total of unexpended balances remaining available at the beginning of the fiscal year July 1? By total, I mean the balances remaining available in appropriations, authority to spend out of the debt, contract authority, etc.

7. New obligational authority enacted in the current session of Congress will be in addition to this; will it not?

What do you estimate the total available spending authority will be at the conclusion of this session of Congress?

8. How much of 1959 expenditures do you estimate will be made out of new spending authority, and how much will be made out of balances carried over from prior years?

Would you give the answers for the record?

Mr. STANS. I will do that.

(The questions are repeated, with the answer supplied for each, as follows:)

1. What is the difference between annual expenditures and new obligational authority?

Not all of the appropriations and other new obligational authority enacted by the Congress lead to spending in the first year, since new authority allows spending over a period of years. Authorizations to pay salaries of pensions, for example, usually lead to spending in the same year in which they are enacted. But authorizations to buy guided missiles or to construct airfields may not result in spending for 2 or 3 years because of the time required to prepare designs, arrange contracts, complete production or construction, and finally pay the bills. For this reason, the amount of new obligational authority voted by the Congress for any one year and the amount of spending that year are usually different. Nontechnical definitions of each of the terms follow:

New obligational authority for any year is the total of authorizations enacted by the Congress which allow Federal agencies to incur obligations for the payment of money. These authorizations must precede all budget obligations and expenditures.

Expenditures in any one year are the amounts paid to liquidate obligations; i. e., pay the Government's bills. Most expenditures are made in the form of checks and are reported for the fiscal year in which the checks are issued. Budget expenditures exclude payments from funds held in trust and repayments of borrowing.

2. What are the elements of new obligational authority? Offhand, for instance, I think of regular appropriations, permanent appropriations, authority to spend out of the debt and contract authority. There are others.

The various types of new obligational authority are shown in the stub column of the table presented in reply to question 3, following.

3. How much new obligational authority was requested in the President's January budget? What was the total?

Please break the total down by regular appropriations, permanent appropriations, authority to spent out of the debt, etc.

The total amount of new obligational authority estimated for the fiscal year 1959 in the President's January budget was $72.5 billion. This figure breaks down as follows:

	In billions
Current authorizations:	
Appropriations (less appropriations to liquidate contract authorizations)	$62.9
Authorizations to expend from debt receipts	.8
Contract authorizations	.2
Reappropriations	.1
Total current authorizations	64.1
Permanent authorizations:	
Appropriations	8.3
Authorizations to expend from debt receipts	(1)
Contract authorizations	.1
Total permanent authorizations	8.4
Total new obligational authority	72.5

[1] Less than $50 million.

NOTE.—Detail may not add to total due to rounding.

4. How much has been requested, in addition, since the January budget was submitted? (What is the total additional requested?)

Please break down the additional requests into the various segments.

What is the overall total requested at this time? Will there be additional requests?

Additional requests over the budget estimates to date have been transmitted in the amount of $1,570 million. Our records show that these additional amounts break down as follows:

	Million
Authorization to expend from debt receipts	$325
Appropriations, reappropriations, and contract authorizations	1,145

Assuming that permanent authorizations will total the same as estimated in January, a total of $74,022 million has been requested to date. There will be additional requests; for example, substantive legislation for which no appropriations have as yet been requested include such items as the civilian pay increases and the science education program.

5. This is a difficult question for you to answer at this time, but it will be appreciated if you make the effort to supply an answer as best you can with whatever qualifications are necessary.

Will you give the committee the best figures you have to indicate the amount of new obligational authority, in all of the segments, granted by Conrgess to date?

We are maintaining records of amounts as they are enacted by the Congress, but not in detailed breakdowns. Our records indicate the following amounts enacted as of August 14:

	Million
Current authorizations to expend from debt receipts	$594
Current appropriations, reappropriations, and contract authorizations	55,695

This total of $56,289 million enacted covers items for which 54,219 million was requested. It includes the amounts in the independent offices appropriation bill which was vetoed by the President.

6. Will you state for the record the total of unexpended balances remaining available at the beginning of the fiscal year July 1? By total, I mean the balances remaining available in appropriations, authority to spend out of the debt, contract authority, etc.

Based on a preliminary report of the Bureau of Accounts in the Treasury Department, the total of unexpended balances as of June 30, 1958, was $71.2 billion, of which $45.1 billion represented balances of appropriations. These figures do not take account of year-end writeoffs or withdrawals of unobligated balances which are no longer available, since reports of such information are not due from the respective agencies until September 30. In fiscal year 1957, the writeoffs amounted to $2.5 billion.

7. New obligational authority enacted in the current session of Congress will be in addition to this, will it not?

What do you estimate the total available spending authority will be at the conclusion of this session of Congress?

Yes. The total amount available to Government agencies for expenditures in any particular fiscal year consists of the new obligational authority approved by the Congress for that year plus available authority enacted for prior years but still unspent.

In the January budget, the new and old obligational authority combined which would be available for expenditure in the fiscal year 1959 was estimated to be over $140 billion. It is not possible at this time to give a precise figure as to the amount which will actually be available at the close of this congressional session, but I believe it will be somewhat higher than the original estimate.

8. How much of 1959 expenditures do you estimate will be made out of new spending authority, and how much will be made out of balances carried over from prior years?

In the January budget, it was estimated that approximately two-thirds of the total expenditures in the fiscal year 1959 would be made out of new obligational authority and one-third out of balances carried over from prior years. My best judgment at this time is that these same percentages still apply.

Senator WILLIAMS. Mr. Stans, I notice that your expenditures, estimates on expenditures, for civilian domestic has been increased by $4.8 billion.

How much of that represents intentional increase in expenditures as antirecession measures?

Mr. STANS. That would be very hard to determine, because I am not sure with respect to each piece of new legislation the extent to which antirecession motives existed in the minds of the Congress.

Senator WILLIAMS. I am not, either, but that excuse is used very often, both in the Congress and in the executive. But I think we would be in agreement that perhaps some of it and perhaps a substantial part of the increase in expenditures was motivated by that thought. Is that not correct?

Mr. STANS. Certainly that is true of the housing bill, for example, which is a billion dollars of the estimate; and that certainly is true of the $600 million increase in unemployment insurance benefits.

Senator WILLIAMS. And some of those increases were recommended by the administration and approved by the Congress with that thought in mind, as antirecession measures; is that correct?

Mr. STANS. That is correct, especially in the case of the unemployment benefits.

Senator WILLIAMS. I notice that now, yesterday I think it was, the Federal Reserve Board has raised the discount rate again, and that was attributed to checking the trend toward inflation.

Do you think that is what they had in mind?

Mr. STANS. All I know, Senator, is what I read in the papers, and that seemed to be the explanation.

Senator WILLIAMS. Yes.

If the recession, deflation, has been checked, where we are now threatened with a return of inflation, would it not be more logical, rather than to put the brakes on something, to repeal some of these appropriations which were perhaps motivated from the point of view of antirecession, and stop accelerating the gas?

Are we not running at dual purposes? You are still approaching the time when you are ready to start spending on a lot of these antirecession measures. Why spend it if we have to put the brakes on? Why not stop the spending? That would solve a lot of our problems.

Mr. STANS. I think, Senator, that has been a matter of concern to some of us for some time. As more and more spending proposals were being generated, not only in the Congress but in the executive branch, some of us were concerned that since many of these programs take time to get underway, they would come after a resumption of recovery and would come at a time when we were acutally concerned more with inflation. That seems to be the actual fact.

Senator WILLIAMS. And we are actually pumping more air into the tube at the same time we are trying to patch the little hole; is that right?

Mr. STANS. That is the result of that situation.

Senator WILLIAMS. Could you suggest—I know it is getting late, and the closing days of this session, and we will not have much time to act, even if there was time to do it—but could you, on behalf of the administration, make some suggestions where we could move in, relieve this pressure of some of these programs which perhaps have been authorized, or can you do it by Executive order, and stop some of these spending authorizations?

Mr. STANS. Something can be done by Executive order, perhaps, in cases where appropriations have been increased by the Congress beyond the administration's request. In some of these cases the program commitments have already gone to the point at which they are beyond recall.

For example, the unemployment benefit program is fully committed.

Senator WILLIAMS. I appreciate that, but——

Mr. STANS. The housing money, particularly the extra billion dollars that was given to buy mortgages on low-cost housing, is 85 percent committed.

Senator WILLIAMS. That is true, but we both know that those are only two of the many, because I was checking just the other day, and we have increased—and we take the responsibility here in Congress—every appropriation bill for every agency and every department of the Government has been increased above budget estimates, and your budget estimate was increased substantially above the year before. The two together were substantially increased, and I am wondering if there is not something we can do somewhere in some of the departments, as well as some other programs.

Mr. STANS. I think it is too late for the Congress, perhaps, to reconsider the individual appropriations. I am sure if the Congress had known the facts at the time the appropriations were made that are known today, the actions might have been different.

The administration has some authority to place funds in reserve in the case of programs which can be deferred or reduced. But that is a limited, very limited possibility.

The CHAIRMAN. You could make some recommendations in the next budget.

Mr. STANS. We certainly will make recommendations in the next budget, not only to reduce expenditure levels for 1960, but looking forward to the succeeding years, because really, as the processes of government go, I think it is impossible to make sudden sharp reductions in any one year. I think you have to plan ahead for a considerable period.

Senator WILLIAMS. In making some of these reductions on programs which have been authorized and for which the funds have been appropriated, would it help the administration to know that you had the support of Congress back of your cut?

Mr. STANS. It certainly would.

Senator WILLIAMS. That leads to my question I really wanted to ask: Would you say it would be advisable for us to make a broad, as an amendment to the final appropriations bill, cut across the board in the overall total, with discretionary authority in the administration as to how to apply it in various departments?

It has been done before, you know.

Mr. STANS. As I recall, it was done——

Senator WILLIAMS. Then you would have—excuse me—you would have an expression as to our sentiments, and if we did not vote it we certainly could not criticize you for not doing it.

Mr. STANS. As I recall, it was done in 1950 with respect to the 1951 budget.

If the Congress undertook to do that, I personally not only would encourage it, but would do my best to see that it was properly applied.

Senator WILLIAMS. I appreciate that. And would you help some of us who are very much interested in that, in working out the amount in the suggestion?

Mr. STANS. I shall be very happy to work with the Senator on that.

Senator WILLIAMS. Thank you.

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. Gentlemen, we certainly appreciate your appearance, and are sorry we kept you so long.

Secretary ANDERSON. Thank you.

The CHAIRMAN. The committee will go into executive session.

(Whereupon, at 1:25 p. m., the committee adjourned, to proceed in executive session.)

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