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$358 BILLION DEBT LIMIT

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HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETIETH CONGRESS

FIRST SESSION

ON

H.R. 10867

AN ACT TO INCREASE THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT, AND FOR OTHER PURPOSES

JUNE 23, 1967

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

80-631 WASHINGTON : 1967

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FRIDAY, JUNE 23, 1967

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

The committee met, pursuant to call of the Chair, at 9 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Smathers, Anderson, Gore, Talmadge, Hartke, Fulbright, Ribicoff, Metcalf, Harris, Williams, Carlson, and Morton.

The CHAIRMAN. Mr. Secretary, we said 9 o'clock, and for a change we got up ahead of the press, but since we have some high-powered Senators here I am going to call this meeting to order.

This morning we will hear from the Honorable Henry H. Fowler, Secretary of the Treasury; and the Director of the Budget, the Honorable Charles L. Schultze, with regard to the proposal to increase the public debt limit.

(The bill (H.R. 10867) together with a summary prepared by the committee staff, follows:)

[H.R. 10867, 90th Cong., first sess.]

AN ACT To increase the public debt limit set forth in section 21 of the Second Liberty Bond Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, effective July 1, 1967, the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) is amended by striking out "$285,000,000,000" and inserting in lieu thereof "$358,000,000,000".

SEC. 2. The face amount of beneficial interests and participations (except those held by the issuer thereof) issued under section 302(c) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1717(c)) during the period beginning on July 1, 1967, and ending on June 30, 1968, and outstanding at any time shall be added to the amount otherwise taken into account in determining whether the requirements of the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) are met at such time. Nothing in the preceding sentence requires any change in the budgetary accounting for beneficial interests and participations.

SEC. 3. Effective July 1, 1968, and each July 1 thereafter, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) shall be temporarily increased by $7,000,000,000 during the period beginning on such July 1 and ending on June 29 of the succeeding calendar year.

SEC. 4. Section 18(a) of the Second Liberty Bond Act (relating to notes of the United States; 31 U.S.C. 753(a)) is amended by striking out "not more than five years" and inserting in lieu thereof "not more than seven years".

Passed the House of Representatives June 21, 1967.

Attest:

W. PAT JENNINGS,
Clerk.

SUMMARY OF H.R. 10867 EXTENSION OF PUBLIC DEBT LIMITATION AS PASSED BY THE HOUSE OF REPRESENTATIVES

Present Law.—Under existing law, the debt limit of $336 billion is made up of two parts (a) a permanent limit of $285 billion and (b) a temporary additional limit of $51 billion. This temporary limit expires June 30, 1967.

$358 Billion Limit.—Under the House bill, this combination limit would be replaced by a new permanent debt limitation of $358 billion. Beginning with fiscal 1969, this permanent limitation would be increased by $7 billion (to $365 billion), but this additional limit would not apply on the last day of any fiscal year. Rather, the debt limit on the last day of each fiscal year would be $358 billion.

Participation Certificates.—Participation certificates issued under the Participation Sales Act of 1966 during fiscal year 1968 would be required to be taken into account in determining the debt subject to the limitation. Under the House bill, those issued in subsequent years would not be required to be taken into account.

Interest Rates.—The House bill also permits the Treasury Department to issue notes, not subject to the 4¼ percent interest rate ceiling, with a maturity of up to 7 years rather than up to 5 years as is presently authorized.

The CHAIRMAN. The public debt limit today is $336 billion. On July 1, the temporary portion of this limit—$51 billion—expires and the statutory limitation on the public debt drops to $285 billion. With an actual debt up near $330 billion, we can ill-afford to permit this to happen.

H.R. 10867 would increase the debt limit to $358 billion on a permanent basis—up $22 billion from the present limit. The base to which this new limit applies would also be enlarged to include participation certificates issued in fiscal year 1968, and there are provisions for issuing more debt outside the 4¼ percent limitation on interest rates.

Mr. Secretary, it is always a pleasure to welcome you to the committee. I know the House has made your trip over here a bit bumpier than usual and you had to make a detour on the way, but we are glad you got here safely.

Hopefully we can send you on to the White House in just a few days so your legislative journey can be completed before the June 30 deadline.

In the interest of expediting this hearing I would suggest that both you and Mr. Schultze read your statements in chief before we proceed with any interrogation.

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

Secretary FOWLER. Thank you, Mr. Chairman, and members of the committee.

I am here today to talk about financing a war. It is a costly war and it must be financed consistently with the preservation of soundly balanced, and fruitful, economic growth at home while we are fighting to maintain freedom in a far-off corner of the world.

Fiscal responsibility means differing things in differing circumstances.

In a wartime context it must include the courage and willingness to vote to raise the money that is as necessary as the guns, planes, and materiel needs of our forces in Southeast Asia. Those who support our national effort to defend freedom from Communist aggression in Vietnam do not hesitate to vote overwhelmingly for appropriations to support our forces there. They will equally support legislation needed to facilitate the financing of those appropriations.

Fiscal responsibility means, in contemporary circumstances, that in financing the war we should obtain as much as possible from current tax revenues as the economic outlook permits.

It means that expenditures in excess of revenues have to be financed with debt, and that we must have the ability to borrow the needed amounts of money in the market. We do not intend to be in the position of "squeezing a buck" where it can cost the lives of our soldiers or the freedom of a democratic people.

Finally, fiscal responsibility means that we must have flexibility in our borrowing to manage the public debt as a constructive force in the economy.

The present temporary ceiling of $336 billion extends only through June 30 of this year. On July 1, the limit reverts to the permanent level of $285 billion. We expect the actual debt to be about $327 billion on June 30, and to rise considerably above that level in coming months, so it is obvious that prompt action is needed.

Let me underscore at this point that it was not a part of our plans to present this important matter to this body at so late a date. I am very conscious of the fact that we were urged to present our recommendations early, so as to permit ample time for study and review.

We did, in fact, have our initial hearing before the House Ways and Means Committee on May 15—an earlier starting date than usual. The time consumed between then and now has resulted, in good part, because we requested action before the House on two matters that had long been of interest to the Senate Finance Committee and that had been far too long deferred on the grounds that the speediest possible action was needed on the debt ceiling. I refer to the matters of revising the permanent debt ceiling and modifying the 4¼ percent interest rate ceiling on Treasury issues maturing in over 5 years. Because of the time taken on these matters by the other body, because of these being consistently raised by this body in February, I am able to urge your prompt approval of a bill which goes some worthwhile distance in directions long urged by distinguished members of this committee.

There should be no misapprehension about the nature of our debt limit need, nor about the impact of Vietnam on our economy and our budget. Let me cite the recent record.

In fiscal year 1966, the special cost of Vietnam was $6.1 billion. Absent this cost, and absent also the $1.2 billion of extra revenue from the Tax Adjustment Act of 1966, which was enacted because of Vietnam, the administrative budget would have been in surplus by $2.6 billion instead of in deficit by $2.3 billion. And the actual deficit, incidentally, was the smallest since fiscal year 1960. In fiscal year 1967 the special cost of Vietnam will be a little over $20 billion. Eliminating that cost along with the $4.6 billion of revenues from the Tax Adjustment Act of 1966, there would be a budget surplus this year of some $5 billion—instead of the deficit of roughly $11 billion that now appears to be in the making.

For fiscal year 1968, it was estimated last January that the special cost of Vietnam would be $22.4 billion. Without that Vietnam cost, and also without the added tax measures proposed in January, the

1968 budget was estimated to yield a surplus of $8.8 billion rather than a deficit of $8.1 billion.

On a revised reading for fiscal year 1968, we would place Vietnam costs and other expenditures a little higher and total receipts somewhat lower. In testimony before the House Ways and Means Committee on May 15, I indicated that the prospective deficit in fiscal year 1968 was, in round numbers, some $11 billion.

But the point still stands that, absent Vietnam and absent the special tax measures proposed in January we would be looking at a budget surplus rather than a sizable deficit.

Senator ANDERSON. Mr. Secretary, you are talking about surpluses and surpluses. There hasn't been any surplus for years, has there?

Secretary FOWLER. I was trying to give the committee, Senator, a picture of what we would be confronted if it were not for the cost of the war in Vietnam.

The CHAIRMAN. Since Senator Anderson has a question I will have to let Senator Williams ask one because he requested it. But may I urge Senators that we try not to ask questions while the Secretary and the Director of the Budget are proceeding with their statements. In many instances I fear we will be asking questions they will cover later on in their statements anyway and we are going to be pressed for time. I have declined even to ask a question of what page are you on now.

Secretary FOWLER. Page 5.

The CHAIRMAN. I hope we might get on, but I will yield to Senator Williams at this point in the hopes we can restrain ourselves until the Secretary and the Director of the Budget are through.

Senator WILLIAMS. I agree with you. But I think we would make better time if we raised these points as we went along, and I was interested in the same point Senator Anderson is.

You are proceeding on the hypothetical basis that even if we did not have to finance the war in Vietnam, the economy would have the benefit from all the stimulant that results from this deficit spending. I think this projected surplus is an imaginary thing like I used to have when I was in the sixth grade.

Secretary FOWLER. Not an imaginary thing at all, Senator Williams. I think most of the economic opinion would show and demonstrate that in the peacetime context of 1964 and early 1965 the economy was using resources at a near full employment rate and closely approaching it, and I think that this analysis has pertinence for the point that I am just about to make, which has real pertinence for the future. In short——

The CHAIRMAN. Anyone else who wants to ask a question, now go ahead and ask it because I don't want to discriminate among Senators.

All right: fine.

Secretary FOWLER. In short, except for Vietnam we would now be facing potential Federal surpluses and trying to decide how best to employ those surpluses among tax reduction, debt reduction, and expenditures for needed domestic programs to raise the quality of life here at home.

But reality would have it otherwise, and instead of the welcome task of distributing fiscal dividends we have the difficult—yet necessary—task of financing a war that, however distant geographically, is very close in its meaning to our lives and ideals.

A number of steps have been taken already to insure that the special demands of Vietnam are financed soundly, in a balanced economy without the panoply of cumbersome direct controls that have been employed in past periods of heavy military expenditures. This approach has been accompanied by a record of upward price movement far below those that characterized World War II or the Korean war, and even below that in the major peacetime expansion of the mid-1950's.

In early 1966 the Tax Adjustment Act, passed promptly by the Congress, deferred declines in certain excise taxes and put corporations and individuals on a more current footing in their payment of income taxes.

Administrative measures were taken in the spring of 1966 to speed the payment of corporate income taxes, and steps were taken within the past several months to put certain excise taxes on a more current basis.

The investment tax credit was suspended in October 1966, not as a revenue measure but as a selective measure to help slow down an area of spending that was putting the economy and the financial markets under excessive pressure; as soon as it was clear that the special reasons for suspending the credit no longer existed, the President recommended lifting the suspension and the Congress has now acted.

As part of our sound financing program, we have launched the largest U.S. savings bond campaign since World War II. Holdings of savings bonds, which are the most stable and noninflationary form of debt financing that can be devised, have increased from $48.8 billion at the end of June 1965 to $50.7 billion in May 1967. Over $1.1 billion has been added to public holdings of these bonds just in the past year.

This year we are supplementing the sale of regular savings bonds with a new freedom share savings note. It carries a higher interest rate than series E savings bonds and must be held at least a year before redemption. It is designed to produce additional savings, while not diverting savings from thrift institutions, so we do not look to the freedom share to bring in multiple billions of dollars—but we do expect it to make a significant contribution to sound financing of the deficit.

Civilian expenditure programs have been held down to a minimum consistent with meeting basic national objectives in the many areas that we cannot afford simply to neglect because we are fighting a costly war.

We have also proposed a 6-percent tax surcharge to defray additional military expenditures and keep the overall Federal deficit within bounds that the economy and the financial markets can handle. We need to pay for the increased cost of the war projected for the next fiscal year. We certainly do not want to risk resumption of the monetary strains and excessively high interest rates that occurred last year, and that means the Government's own demands on the credit markets must be held down.

I am not here today to talk about the tax surcharge, however. That will be taken up in due course. Let me make a brief comment about the need for the increase. It will be needed and the economic evidence generated in the months since it was proposed has strengthened my conviction on this score. The economy neither needs nor can tolerate the kind of stimulus it would receive in the second half of this year from a Federal deficit of the size that would emerge without the proposed tax surcharge, given the other changes in the situation that have been and are occurring.

With or without the tax surcharge, however, we must have flexibility to finance the war and manage the Nation's fiscal affairs prudently. That means having adequate room under the debt limit to cover the wide range of contingencies present at this time, and having greater flexibility to borrow outside the short-term area, in the interest of sound debt management.

A year ago, I asked the Congress to approve a temporary rise in the debt limit to $332 billion, to extend through fiscal year 1967. I pointed out then that the budget figures were uncertain, and I reemphasized this point when the Ways and Means Committee provided an increase only to $330 billion. I noted then that it might be necessary to return before the end of fiscal 1967 to provide additional leeway for the debt.

It was indeed necessary to return for an interim increase. The debt ran higher by the middle of fiscal 1967 largely because of the bigger than expected rise in expenditures for Vietnam, and the impact of tight money markets in impeding financial asset sales, raising interest costs, and adding to loan disbursements in areas particularly hurt by tight money markets.

The Congress responded promptly, early this year in raising the temporary debt ceiling to $336 billion. This provided sufficient leeway to resume policies of careful and prudent cash management—after a period of some weeks when we operated hand-to-mouth in our cash management.

The higher limit, while it provided elbow room, was not taken as a license to spend or incur debt freely. Indeed, the highest point of debt actually reached after the limit was raised was $333,227 million on March 14 of this year, well within the $336 billion ceiling.

By June 30, 1967, next week, we project that debt will be down to about $327 billion.

Our latest estimate of the administrative budget for fiscal year 1967, as I have already noted, yields a deficit of around $11 billion. This is up $1.3 billion from the estimates submitted last January. Receipts are estimated to be down $0.5 billion, reflecting a number of minor revisions, including the early restoration of the investment tax credit. Expenditures are working out to be approximately $500 million to $750 million higher than estimated in January.

The budget submitted last January for fiscal year 1968 estimated expenditures of $135 billion, revenues of $126.9 billion, yielding an administrative budget deficit of $8.1 billion. We do not yet have a firm basis for making a thoroughgoing revision of these estimates. A rough interim revision, which as I indicated earlier was provided to the Ways and Means Committee last month, placed the deficit about $3 billion higher—or around $11 billion. The $3 billion difference reflected, about equally, higher spending and lower revenue.

The $11 billion deficit figure for fiscal year 1968 remains our planning base in projecting debt figures ahead, although I must say that there are a number of uncertainties and contingencies bearing on this figure and tending if anything to raise rather than to lower it. These uncertainties and contingencies are of a scope that calls for a far different approach to the debt limit than has been followed in recent years.

On the revenue side, one element of uncertainty is the tax surcharge which the President recommended early this year. The deficit figure of $11 billion assumes a July 1 effective date for the recommended surcharge. Enactment by that particular date is no longer feasible. Let me underscore again, however, that there is no wavering in the administration's intentions about the surcharge. It has been, and still is, a definite part of the fiscal program. But since it has yet to be enacted, I must consider it as a contingent item.

Also on the revenue side, I must regard the expected yield of existing tax rates as uncertain in some degree. The report of the Ways and Means Committee refers to revenue estimates for fiscal year 1968 by the staff of the Joint Committee on Internal Revenue Taxation. Those estimates, after allowing for the effect of proposed legislation, are about $4 billion below the January budget estimates, and also about $2½ billion under the rough interim estimate that we presented to the Ways and Means Committee in mid-May. Based on our latest information on individual income tax revenues and corporate revenues, while much uncertainty remains, I think it would be fair to say that the Joint Committee staff estimates could very well approach the revenue picture for fiscal year 1968 more closely than did our prior estimates. Consequently, the total receipts figures they use for the forthcoming fiscal year may be regarded for the purposes of these hearings as a reasonable quantification of our revenue prospects.

On the spending side, which the Director of the Budget will discuss, I can only repeat that wars are by their very nature uncertain and so are the expenditures needed to carry them out. Our estimates of Vietnam spending are not subject to the particular source of underestimate that occurred this current fiscal year, when the initial estimates rested on the assumption that the conflict would end by June 30, 1967. Still I must say that a margin of underestimate, or overestimate—but more likely the first—is always a possibility. These are contingencies that must be given due regard.

In the hearings before the other body, a further area of contingency was also brought out—namely, the possibility that not all of the projected participation sales of financial assets would be carried out, leading to a larger deficit in the administrative budget and larger rise in Treasury debt than would otherwise be the case.

The practice in recent years, in estimating debt limit needs, has been to project a level of debt only for the year ahead on the basis of a constant $4 billion cash balance, and then to request a $3 billion allowance for contingencies. I believe this practice is not suited to present circumstances for two reasons:

First, the contingencies just outlined are of a number and scope that render the $3 billion allowance inadequate. It is worth noting that quite apart from the special uncertainties affecting fiscal 1968, the standard $3 billion allowance dates back to 1958, when the Federal budget and the national economy were only a little over half the size in prospect for the year just ahead.

Second, I think it is timely to change the permanent debt ceiling, which has remained at $285 billion since 1959—and if that is done the ceiling should be revised to a level that stands a reasonably good chance of lasting far longer than the 1-year interval that has typified changes in the temporary limit.

As I need not remind members of this committee, in light of your initial action on the debt limit bill last February, the present $285 billion permanent ceiling hangs as "sword of Damocles" over the Congress—and over the Secretary of the Treasury—requiring legislative action on the debt ceiling by June 30 each year lest the limit drop down to an obviously unrealistic level. Thus it makes good sense to revise this ceiling. But in so doing there would seem to be little gained in moving to a ceiling that did not offer some reasonably good prospect for durability.

Accordingly, rather than ask for another rise in the temporary ceiling that would last only through fiscal year 1968, I recommend a significant increase in the permanent debt ceiling—to a level that, hopefully, will provide ample margin for Federal debt operations and cash management at least through fiscal year 1969, and hopefully beyond.

There is ample precedent, from the World War II period, for providing large debt limit increases that made sure the limit would not be a constraint on necessary wartime finance. From 1941 to 1945, annual increases in the debt limit ranged from $40 billion to $85 billion. At the end of the war there was a substantial margin of extra leeway and the debt limit was cut back by $25 billion.

Based on that experience, I believe it would have been entirely appropriate to increase the permanent ceiling to $375 billion. At the same time, I can well understand a desire on the part of Congress to set a limit that, while not inhibiting the financing needed for Vietnam, stayed closer to near-term foreseeable contingencies than would a $375 billion permanent ceiling at this time.

It is as a result of considering these more or less foreseeable contingencies that the permanent debt limit figure of $358 billion emerged from the deliberations of the other body. That is the level of the permanent debt limit incorporated in H.R. 10867.

Let me review with you the background for that determination. The starting point is the table of projected debt levels appended to this statement, based on a prospective budget deficit of $11 billion in fiscal year 1968, and a constant cash balance of $4 billion. The highest point of debt projected in that table is $345.2 billion, reached on March 15, 1968. But that is without any allowance at all for contingencies. Now add the following for contingencies: (Table appears at p. 13.)

(1) Normal contingency allowance—$3 billion, as I indicated, that was established when the volume of cash turnover was at a much lower level than currently. That practice began in 1958.

(2) The possible delay in effective date of tax surcharge. That was an assumption of a January 1 effective date, and the shortfall is $2.2 billion from the July 1 estimate.

(3) A possible shortfall in revenues at current tax rates, based on estimates of the joint committee staff, to which I have made reference. The cumulative effect of that possible shortfall by the peak date period, March 15, 1968, would be $1.1 billion.

(4) A possible shortfall in sales of participation certificates or, alternatively, provision for including participation certificates issued in fiscal 1968 under the debt limit. Cumulative effect by March 15, 1968, $3.5 billion.

(5) Hypothetical addition to defense costs, $3 billion.

Totaling contingencies of about $12.8 billion.

Adding the $12.8 billion allowance for contingencies to the projected peak debt of $345.2 billion, one arrives at $358 billion as an appropriate debt limit level for fiscal year 1968. Let me stress that these are contingencies, not certainties. To guess what the impact might be of a delay in the proposed tax surcharge is the sheerest speculation. So is the figure plugged in for hypothetical additional defense costs.

Looking beyond fiscal year 1968—as we should if we are seeking to set a revised permanent debt ceiling that will have some qualities of durability—the uncertainties and contingencies cover an even wider range than those that are dimly foreseeable for the next year. Based on past experience, however, a major determinant of the debt limit need applicable in fiscal year 1969 will be the seasonal rise in debt from the start of the fiscal year to the high point reached in the late winter or spring months. That is the basis of the rough rule of thumb which relates next year's debt limit need to this year's peak debt level plus this year's deficit.

It is this seasonal need that has been incorporated into H.R. 10867 and applied not to fiscal 1968, for which we have taken the seasonal need into account, but to fiscal years 1969 and beyond.

We do not know the basic budget position that may apply in fiscal year 1969, but we can estimate that whether that position is one of surplus, deficit, or balance, there will be a seasonal upswing in debt during the first 8 or 9 months of the year which will be a major factor in determining the peak debt for the period.

The experience of recent years suggests that the seasonal upswing in debt would be about an average of $7 billion, and that is the figure you are provided in H.R. 10867. The seasonal variation arises because of the uneven pattern of tax receipts over the year, with a more than proportionate share concentrated in the last 3½ months of the fiscal year. That means that in the first 8½ months, with receipts running seasonally light, there must be some extra borrowing until the heavy tax months roll around.

The seasonal nature of the $7 billion addition to the debt limit provided in H.R. 10867 is unmistakably clear. The addition applies to the period from July 1 through June 29 of each fiscal year, beginning July 1, 1968, but each June 30 the debt limit drops back to the permanent level of $358 billion. We believe this arrangement provides reasonable operating flexibility while maintaining the principle that the permanent debt ceiling should be held in reasonably close check.

Coverage of the debt limit. A further provision of H.R. 10867 is that participation certificates in pools of federally owned financial assets issued by the Federal National Mortgage Association during fiscal year 1968 shall be counted under the debt limit for as long as those participation certificates remain outstanding. We did not seek the inclusion of this provison. It reduces our leeway under any given ceiling, and it takes a step—even though it is a temporary step—along a path, the end of which we cannot clearly foresee. However, we can live with the provision embodied in H.H. 10867, and we recommend that in the interest of speedy passage of this vital legislation the entire bill be approved.

Our own preference, as I informed the Ways and Means Committee, would have been to make no change in the coverage of the debt limit at this time. This was our conclusion after devoting some considerable staff study to this question following the debt limit hearings at the beginning of this year. This was not because we regarded the existing arrangements as incapable of improvement, but because the proposals that have been advanced did not appear to us to offer the prospect of significant improvement.

A particular reason for delay is that further light on this whole question of debt limit coverage may emerge from the studies of the President's Commission on Budget Concepts. While the Ways and Means Committee took note of the Commission's possible contribution in this area, they nevertheless chose to incorporate the provision described for including participation certificates under the debt ceiling. But, as I have noted, in light of the present time factor, the provisions of H.R. 10867 on this matter are workable and acceptable to us, even if not especially welcome.

The 4¼-percent ceiling. Let me turn now to the 4¼-percent interest rate ceiling and the modification of the ceiling provided in H.R. 10867. Because of the 4¼-percent interest rate ceiling on Treasury bonds, the Treasury has been unable to sell marketable debt issues maturing in over 5 years since May 1965—just before events in Vietnam led to an escalation, not just in our military effort, but also in our economy, credit demands, and interest rates.

As I mentioned earlier, the intensified savings bonds campaign has made a contribution to an improved debt structure, and it will continue to do so with the introduction of the freedom share this year. But savings bonds and freedom shares cannot do the whole job. Good maturity balance must be achieved and maintained in the marketable debt, too.

In the early 1960's, with long-term interest rates holding relatively steady, at much lower levels, the Treasury made big strides in improving the maturity structure of the marketable debt—relieving the under-5-year area of heavy maturities and issuing instead a large volume of intermediate and longer term debt.

Chiefly through the use of advance refundings—inducing holders of relatively short term issues to exchange into relatively long term issues—the average maturity of the marketable debt was raised from 4 years 2 months in September 1960 to 5 years 5 months in January 1965. The proportion of the marketable debt maturing within 5 years was reduced from 78 percent in September 1960 to 67 percent in January 1965.

The wisdom of these efforts to lengthen the debt was demonstrated last year, when very high rates had to be paid on refundings. Fortunately, the magnitude of the refunding job had been substantially reduced because of previous advance refundings.

Since early 1965, the trend has been toward a shorter average maturity and a heavier concentration of debt within the 5-year area. From an average maturity of 5 years 5 months in January 1965, the marketable debt shortened to 4 years 6 months at the end of May 1967. The proportion of the marketable debt maturing within 5 years has grown from 67 to 77 percent over this period. At the end of June 1967 the average maturity of the marketable debt will be about 4 years 6 months, or 5 months shorter than a year earlier.

What might happen to the debt structure over, say, the next year and a half, if the Treasury issued no debt maturing in over 5 years? Assuming that new borrowings and refundings are handled about in line with patterns during the past 2 years, we would estimate the average maturity of the marketable debt by the end of December 1968 at 3 years 8 months—well under the 1960 low point. Some 85 percent of the marketable debt would mature within 5 years, including nearly 50 percent maturing within 1 year.

This shortening tendency is unwelcome. It presents a problem that should be dealt with in an orderly and systematic way, so that we do not face an excessive pileup of maturing debt. Such a pileup, if it came at a time of tight money and high rates, would mean that the Treasury had to compete for investment funds on most unfavorable terms—bidding against itself and against other borrowers for the favor of investors. This kind of frantic competition could send short-term rates up sharply and push long-term rates higher, too, with disruptive effects throughout the capital markets.

Further, the heavy pileup of relatively short debt could make it more difficult for economic stabilization policies to operate smoothly in the economy. Heavy amounts of short-term debt represent potentially excessive liquidity in the hands of the holders. This could mean that the monetary authorities would have to take more drastic restraining action than otherwise—in terms of interest rate effects—in order to restrain total demand.

These are not imminent dangers, but they are potential problems that can be avoided or minimized if we would make a careful, orderly effort to stretch out some short-term debt into a longer area.

Certainly I would much prefer to be able to accomplish the needed improvements in the debt structure at low rates of interest—low enough to come within the present 4¼-percent statutory ceiling. But while rates have come down since last summer's high point they are not at a level that would permit long-term financing under the 4¼-percent ceiling, and I would like to be able to take some steps—even if they are small-sized steps—on the debt structure problem while aiming toward further progress in reducing the overall level of interest rates.

In appearing before the Ways and Means Committee several weeks ago, I requested two modifications of the 4¼-percent ceiling: first, that the maximum maturity on Treasury notes—to which no rate ceiling applies—be extended from the present 5 year law to 10 years, and second, that the Treasury have authority to sell up to $2 billion of longer bonds without being subject to the 4¼-percent ceiling.

I did not ask for repeal of the 4¼-percent ceiling, just as I did not ask for repeal of the debt limit. Both of these are useful concepts and worth preserving, provided they are not so rigidly bound as to interfere with sound debt and cash management.

The House committee went only partway in meeting my request on the 4¼-percent ceiling. They rejected the request for authority to sell $2 billion of bonds outside of the ceiling, but they agreed to extend the maximum maturity of Treasury notes to 7 years. That provision is incorporated in H.R. 10867.

We believe that this modification will be helpful, although it is less than we asked for. It does at least demonstrate a concern with the problem of debt structure, and that is an important step forward. Through a widened flexibiliy in this area it should be possible to mitigate the shortening tendency of the debt observable in recent years.

I have no hesitation whatever in recommending strongly that you give approval to this feature of H.R. 10867. Even if we did not face an urgent timing problem, requiring the completion of congressional action on the debt ceiling within the next few days, I do not believe there would be anything to be gained by pressing at this time for still greater flexibility in our debt management.

In conclusion, Mr. Chairman and members of the committee, I believe that H.R. 10867 provides for a responsible approach to the problems of providing adequate flexibility for needed Government borrowing and sound debt and cash management. It revises the unrealistic $285 billion permanent debt ceiling, and puts the debt ceiling legislation on a basis that should remove the "Hairbreadth Harry" scenario that has been enacted in the closing days of June in each of the past several years. It also makes some worthwhile headway on the matter of modifying the 4¼-percent interest rate ceiling, to permit greater flexibility of debt management.

I urge most strongly, therefore, that you approve H.R. 10867 without further modification, and clear the way for speedy passage of this urgently needed legislation. As I need not remind you again, it is imperative that the Congress act by the end of June because the debt ceiling drops on July 1 to $285 billion—a level that would be some $42 billion below the actual level of debt now expected on that date. At that point the Treasury would be able to issue no new debt, including debt needed to refund maturing issues and including the U.S. savings bonds now being purchased by over 9 million persons on payroll savings plans, and by other buyers over the counter. Without new borrowing, we expect to have cash on hand at the end of June sufficient to last only through about July 12. After that, our cash would be inadequate either to redeem maturing debt issues or meet current bills.

Our national commitment must be met in the financial area, as they are being met on the battlefield. It is not conceivable that the Congress would shirk its responsibilities by leaving the Government financially unable to carry out the programs authorized and approved by the Congress, particularly in wartime, and when the financing of the war effort is the occasion for a larger call on the private market.

Thank you, Mr. Chairman.

(The table referred to on p. 8 follows:)

Estimated public debt subject to limitation in fiscal year 1968, assuming budget deficit of $11,000,000,000, and no allowance for contingencies (based on constant minimum operating cash balance of $4,000,000,000)

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation		Operating cash balance (excluding free gold)	Public debt subject to limitation
1967			*1968*		
June 30	$4	$324.3	Jan. 15	$4	$339.3
July 15	4	326.4	Jan. 31	4	338.5
July 31	4	327.2	Feb. 15	4	339.4
Aug. 15	4	329.7	Feb. 29	4	341.1
Aug. 31	4	331.8	Mar. 15	4	345.2
Sept. 15	4	335.0	Mar. 31	4	342.9
Sept. 30	4	330.9	Apr. 15	4	344.9
Oct. 15	4	334.7	Apr. 30	4	337.3
Oct. 31	4	334.8	May 15	4	337.4
Nov. 15	4	337.3	May 31	4	340.2
Nov. 30	4	338.3	June 15	4	342.7
Dec. 15	4	341.9	June 30	4	335.3
Dec. 31	4	337.2			

Senator SMATHERS (presiding). All right, thank you very much, Mr. Secretary. It is my understanding that the chairman stated we would have the statements of the Secretary of the Treasury and the Director of the Bureau of the Budget before questioning. So, Mr. Schultze, you may proceed.

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

Mr. SCHULTZE. Thank you, Mr. Chairman and members of the committee. I appreciate this opportunity to assist in your consideration of H.R. 10867, the pending legislation to raise the statutory limit on the public debt. Secretary Fowler has outlined the nature of that legislation and the reasons for adopting it. I need not repeat the points he has made. I support him in requesting the speedy passage of the debt limit legislation now before the committee.

I believe I can be of most assistance to the committee in its deliberations by reviewing the outlook for Federal expenditures and revenues in fiscal 1967 and 1968 based on the latest facts available to us. But before I get to that, I would like to address several separate, but closely related, points which I believe to be of major importance. They have to do with the nature and role of the debt limit during a period in which we are fighting a war and with the trend in Federal expenditures during recent years.

The first and most obvious fact we must face is that the financial requirements of a war are impossible to predict with any degree of accuracy. The history of the Second World War, Korea, and Vietnam is replete with records of defense supplementals and budget amendments—seven during Korea, totaling $45 billion, and four to date in the case of Vietnam.

The second fact is that no Member of either body of the Congress has to date or would want in the future to deny our forces in Vietnam the finances necessary to do their job effectively. Whatever disagree-

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ments there may be about the origin, continuance, or conduct of the war, the needed finances have been available and surely will continue to be provided.

The third fact is that the debt limit increases of the past 2 years have been directly associated with the costs of our military operations in Vietnam. From mid-1965 through 1968, as now planned, expenditures for the Vietnam war will amount to some $49 billion. The additional tax measures enacted or proposed during this period to finance the war—including the 6-percent surcharge—would amount to some $11 billion in revenues. The difference between these two figures, $38 billion, is a measure, albeit a rough one, of the net financial impact of the war on the budget. This amount exceeds the increases in the debt limit over the same period.

Of course, no one can say with any certainty precisely what would have happened had there been no Vietnam war. But I think it is obvious that in the absence of the war, we would have been here with you discussing the disposition of a sizable fiscal dividend.

The fourth fact is that Members of the Congress have become increasingly concerned about the continuation of a "permanent" debt limit at an unrealistic level. Your committee and the Senate recognized this problem earlier this year when they took action—with which the House did not at that time concur—to increase the permanent, rather than the temporary, limit. The inexorable approach of June 30 each year—when the limit reverts to its $285 billion "permanent" level—puts both the Congress and the administration under the kind of pressure and deadlines which would be unnecessary if that permanent limit were raised to a more realistic figure.

The fifth fact is that the debt limit has not been a controlling factor in the level of non-Vietnam expenditures. Those expenditures have risen far less than revenues, even after deducting from revenues the $11 billion of special tax measures enacted or proposed to help finance the war. Moreover, time after time, the peak debt outstanding has remained below the debt limit. This spring, for example, the peak debt was $333.2 billion compared to a $336 billion limit.

This leads me to another major point to which I would like to call your attention. This has to do with the growth of Federal expenditures in recent years. In 1964 the President proposed, and the Congress enacted, a major tax reduction, aimed at restoring the economy to the full use of its manpower and capital resources. The sense of Congress, as expressed at that time, was that prosperity and economic growth could—and should—be attained by the tax-reduction route, rather than by an increase in the ratio of Federal expenditures to national economic activity. The course foreseen by that expression of congressional intent has been carried out.

In fiscal 1964, the year of the tax cut, Federal administrative budget expenditures amounted to 16 percent of the gross national product. If we exclude the costs of Vietnam, that ratio will fall to 14 percent in fiscal years 1967 and 1968. This 14 percent compares to an average of 16.3 percent from 1955 to 1960, the years following the Korean war.

The ratio of total administrative budget expenditures to GNP—even including the costs of Vietnam, which are over $20 billion annually—will be 16.8 percent in both fiscal years 1967 and 1968. This is lower than in 1955 and 1959, years in which there were no war expenditures, and is far below the 21 percent reached during the Korean war. For the 4 full fiscal years of the Johnson administration combined, 1965 through 1968, Federal expenditures including Vietnam costs will average about 15.8 percent of GNP compared to the 16.3 percent average during the last 6 years of the 1950's.

In terms of absolute amounts, non-Vietnam expenditures will have risen by about $9½ billion between fiscal years 1964 and 1967. This comes to only 3¼ percent per year—compared to increases in the national economy averaging about 7½ percent a year and in State and local expenditures averaging 8 percent a year. If we add 1968, the growth in non-Vietnam expenditures over the past 4 years comes to about $15½ billion, still under 4 percent per year.

A breakdown of this $15½ billion rise shows that $6 billion of it is for civilian pay raises, interest on the public debt, and veterans' benefits. Expenditures for all other Government programs will have risen by only $9½ billion in 4 years—less than 3 percent per year.

In the past 4 years sound fiscal and economic policies have produced an unparalled economic growth. At the same time we have been able to launch an attack on some of the Nation's most urgent social problems without enlarging the share of the Federal Government in the Nation's economy. In fiscal 1968 our gross national product will be $190 billion to $200 billion higher than in 1964. The expansion of the Federal Government's major social programs will have taken some 6 percent of this increase. Put another way, the major advances being made to meet pressing national needs—in education, health, welfare, regional economic development, pollution control, housing and community development, and the war on poverty—all of these together will absorb only one-sixteenth of the increase in our national output.

On any measure, non-Vietnam expenditures have risen less rapidly than the national economy. They account for a smaller—not a larger—share of our national income. We have kept to the path chosen at the time the 1964 tax reduction was adopted.

As I have noted on previous occasions, I do not believe the debt limit is a useful means of controlling Federal expenditures. Hearings on the debt limit do provide an important opportunity for administration officials to review the Government's fiscal affairs with the Congress. But these reviews can surely be held in situations other than an annual or semiannual temporary debt limit extension. The desirability of such reviews, therefore, is no reason to deny the provision of a debt limit sufficiently large to meet the inevitable uncertainties of a war situation.

All the facts that I have noted thus far point, I believe, to one conclusion—the desirability of providing a new permanent debt limit, large enough to allow for the financial necessities and uncertainties of a war, and designed to permit the Federal Government to operate for more than a year without requesting a change.

Let me turn now, if I may, to a brief examination of Federal expenditures and receipts and indicate the areas in which events since last January have modified the outlook presented in the budget document.

Starting with fiscal year 1967, in the budget last January, the deficit for 1967, in the administrative budget was estimated at $9.7

billion. At that time we anticipated revenues of $117 billion and expenditures of $126.7 billion.

Last month, during the hearings before the House Ways and Means Committee, Secretary Fowler and I updated those figures as best we could at that time. Our best estimate in mid-May was that revenues would end up about one-half billion dollars below the January estimate and that expenditures would be perhaps one-half to three-quarters of a billion dollars greater than expected in January. The resulting deficit for the year was put at about $11 billion. Those estimates still hold in total, based on the information currently available to us.

As the Secretary of the Treasury has pointed out, we believe that there will be a shortfall of about $500 million in 1967 administrative budget receipts compared with the estimate of last January. The main factor is that corporate income taxes are now expected to be down $500 million from the January estimate. Other categories of receipts now appear to be above and below the January estimate by offsetting amounts.

On expenditures. The total of 1967 administrative budget expenditures is not expected to be far from our January estimate. Current indications are that expenditures will be roughly one-half to three-quarters of a billion dollars greater than estimated last January. Several revisions, both up and down, are indicated:

Military functions of the Department of Defense and the closely related military assistance program should end up close to the January estimate. The latest available data indicate an overrun of something in the neighborhood of one-half billion dollars. The monthly figures are very volatile, and we won't know the precise outcome until we have the Treasury statement for June in hand.

Nondefense expenditures, on balance, could range from the January estimate to an increase of $200 million over that estimate. The following increases and decreases appear likely in individual programs:

Uncontrollable public assistance grants to the States are running about $300 million above the January estimate of $3.9 billion, mainly for medical assistance payments.

Revolving fund legislation for the REA, Federal power marketing agencies, and the mint has not been enacted, resulting in an increase of $300 million in [illegible] expenditures. This increase is balanced off by a corresponding increase in miscellaneous receipts and does not affect the deficit.

Release of funds for programs previously deferred in accordance with the President's anti-inflation message of last September 8 will add about $100 million to expenditures in 1967, mostly for agriculture loan programs and for the civil functions of the Corps of Engineers.

Export-Import Bank expenditures are now expected to be down by about $400 million for a number of reasons, including lower loan disbursements and unexpected sales of participation certificates to foreign buyers.

Various other revisions, up and down, including uncontrollable claims and judgments, the Public Health Service, the Federal Home Loan Bank Board, the Veterans' Administration, the Small Business Administration, and international financial institutions come to a net decrease of $100 million.

In summary, our current estimate—on the basis of our latest calculations—is that administrative budget receipts will total $116.5 billion and expenditures will be in the neighborhood of $127.5 billion. The resulting deficit would be about $11 billion, compared to the $9.7 billion estimated in January. I want to stress that this estimate results from forecasts of changes in revenues and expenditures amounting to less than one-half of 1 percent. Clearly, therefore, even at this late date, the resulting estimate could be off in either direction.

Turning now to fiscal year 1968. The budget outlook for 1968 is more normally clouded with uncertainty, for several reasons. Secretary Fowler has mentioned the revenue situation, in particular the effect of the current economic outlook and the factors surrounding the President's proposal for a tax surcharge.

The course of military expenditures in 1968 is also a highly uncertain element, as is inevitable in the case of a war situation.

As I explained to this committee last February, the 1968 defense budget is based upon a different set of assumptions than the 1967 budget.

There are two basic factors which affect the defense budget insofar as Vietnam is concerned. Assumptions have to be made about each of those two factors in planning a budget:

First, to what extent does the budget contain funds to purchase the leadtime items necessary to continue the war beyond the end of the fiscal year? Most military equipment must, of course, be ordered in advance of delivery. If the budget contains funds for such items, then an extension of the war beyond the end of the fiscal year will not, in and of itself, require a supplemental appropriation.

Second, what is the level of troop strength and intensity of combat operations which will have to be financed? Since the budget, when submitted, covers a fiscal year ending 18 months later, some assumptions obviously have to be made about the future level of combat operations.

With respect to the first factor—leadtime purchases—the fiscal 1968 budget request, unlike the 1967 request, incorporates all the funds needed to procure the items which would be required if the war continued at the assumed levels beyond the end of the fiscal year. Defense appropriations and expenditures, therefore, should not have to be increased simply in order to make possible an extension of the war beyond June 30, 1968.

With respect to the second factor—the level of military operations—they simply cannot be accurately predicted in a war situation. Conditions change and, if military requirements dictate a significant increase in the troop strength or level of combat operations assumed in the budget, additional appropriations will clearly be required and 1968 defense expenditures will exceed the January budget estimate.

No decisions have yet been made which would significantly change the assumptions upon which the defense budget was planned. At the present time, in the absence of such decisions, the best that can be said is that defense expenditures in 1968 should be in the general range predicted in the budget—with an estimating leeway of perhaps 1 percent, or three-quarters of a billion dollars.

As you know, the President has indicated that he may receive recommendations from Secretary McNamara and the Joint Chiefs with respect to troop strength in Vietnam and other related matters. Should this result in decisions which have significant budgetary consequences, the Congress will be advised of those consequences as soon as they are known.

With respect to nondefense expenditures for 1968, the major change stems from the release of certain funds which had been deferred by the President's actions last fall. The effect of these releases is to add about $600 million to 1968 administrative budget expenditures.

Aside from these increases, we see no reason at this time to change the overall estimate for nondefense expenditures. There will, of course, be increases and decreases in individual programs. For example, grants for medicaid and payments to the medicare trust funds may be $400 million higher than estimated last January. On the other hand, various smaller reductions appear possible in other programs. On balance, these minuses should offset most of the pluses, as we now see the situation.

Congressional action on the regular 1968 appropriations is still far from complete. Action on many items of substantive legislation is also underway. Changes in some of this legislation—such as the civilian and military pay proposals and veterans' pensions—could, of course, have a significant effect on 1968 expenditures. But there is no way to forecast the results of congressional action at this point.

Taking into account the factors mentioned above, budget expenditures in 1968 could run $1 to $1½ billion higher than estimated in the January budget. This outlook—as I indicated earlier, however—is subject to the very great uncertainties of a war. It is not meant to be an attempt to forecast the military situation.

At the House Ways and Means Committee hearing last month, I pointed out that allowing for the effect of the early restoration of the investment credit and simply extending to 1968 the one-half billion revenue shortfall estimated for 1967 would result in a $1½ billion reduction in revenues below the January budget estimates. Setting that figure against the roughly estimated expenditure increase placed the 1968 budget deficit in the neighborhood of $11 billion.

In his discussion today of the revenue outlook for fiscal 1968, Secretary Fowler again stressed the particular difficulty of estimating the course of revenues, which depend both upon the level of private income and the revenue yield of that income. It is indeed possible that revenues for fiscal 1968 could be further below our estimates than is implied in the $11 billion deficit calculation. The congressional Joint Committee on International Revenue Taxation, for example, has estimated a revenue shortfall of approximately $2½ billion, over and above the $1½ billion shortfall mentioned above. Uncertainties also exist with respect to the prospects for enactment of a tax surcharge and its timing—although the recognition of this uncertainty should not be taken to indicate any weakening of the administration's intentions with respect to the surcharge. It seems clear that the revised deficit estimate for 1968 worked out last month is subject to considerable change with the weight of contingencies tending to increase rather than reduce it.

In conclusion, Mr. Chairman, I would like to associate myself with Secretary Fowler's comments upon two additional elements of the House-passed bill.

H.R. 10867 includes, under the coverage, of the debt limit FNMA participation certificates issued in fiscal 1968. We would have preferred that this not be done. The President's Commission on Budget Concepts is now considering this question. Moreover, there appears to be no logical reason for singling out one form of contingent liabilities for special treatment. Nevertheless, we can live with the decision and see no reason to request a change at this time.

The House bill also extends the maximum maturity of Treasury notes to 7 years. It did not provide the extension to 10 years or the flexibility to sell $2 billion of bonds outside the 4¼ percent ceiling that the Secretary had requested. Nevertheless, the extension to 7 years does represent important progress in providing greater flexibility for Treasury debt management. This feature of the bill is indeed welcome, and nothing would be won by attempting to go beyond it at the present time.

I strongly request speedy enactment of H.R. 10867 without change. It provides a permanent debt limit with a reasonable seasonal financing feature. It recognizes the inevitable contingencies of a wartime situation. Its passage is urgent if the Government of the United States is to continue to meet its responsibilities.

Thank you, Mr. Chairman.

Senator SMATHERS. All right, sir. Thank you very much, Mr. Schultze. We are going to follow the 10-minute rule on the first round of questioning and start with Senator Hartke of Indiana.

Are you ready?

Senator HARTKE. Yes, I am ready.

Senator SMATHERS. All right. Ten minutes for Senator Hartke of Indiana.

Senator HARTKE. Last year in appearing before this committee, according to the hearings on page 40 of the public debt limit bill, H.R. 15202, Mr. Schultze, you said that you anticipated that the expenditures for the war in Vietnam would be $10.3 billion in fiscal 1967. Is that right?

Mr. SCHULTZE. Correct.

Senator HARTKE. At that time, do you recall a colloquy in which we were involved, and in which I referred to some nonclassified material? I said at that time:

> The only thing I am trying to show is that in spite of the fact you have come up with $10.3 billion, a more nearly correct figure would probably be in the neighborhood of about $20 billion.

Do you recall that?

Mr. SCHULTZE. Yes, sir; I recall.

Senator HARTKE. After the session, members of the administration indicated that this was an attempt by me to seek publicity.

As I understand your testimony today, the cost of the war in fiscal 1967 now is estimated by the Budget Bureau at $20 billion.

Mr. SCHULTZE. Approximately $20 billion; that is correct.

Senator HARTKE. So what I am asking you now is: Do you know what the war in Vietnam is going to cost in 1968, fiscal 1968?

Mr. SCHULTZE. As I indicated in my testimony, Senator, on the basis of the present assumptions with respect to the intensity of military operations, the January budget figure is a good figure.

As I also indicated, of course, there can be changes in that. If there are changes then, of course, that could go up.

Senator HARTKE. All right.

Now, what is it estimated at, $22.4 billion?

Mr. SCHULTZE. That is correct, sir.

Senator HARTKE. $22.4 billion.

Mr. SCHULTZE. Well, it is $22.4 billion, and I said for the defense expenditure estimates we should have a 1-percent leeway, which is about $700 million. For purposes of conservatism I have added the $700 million, so it brings the estimate to about $23 billion.

Senator HARTKE. All right; $23 billion is your estimate of the cost in Vietnam. Is this based on information you have received from the Defense Department?

Mr. SCHULTZE. The result of information received from the Defense Department and incorporated in the budget with respect to the specific military assumptions on which that budget was based; yes, sir.

Senator HARTKE. Does that assume the increase of troops in any amount or is it based upon continuation of the present troop levels?

Mr. SCHULTZE. It did include some allowance for an increased troop strength.

Senator HARTKE. All right. Without revealing any classified material, is that figure available to be given in this testimony?

Mr. SCHULTZE. It is not, sir.

Senator HARTKE. What is the increase in cost, increase in the debt, due to the increase of the cost of interest for fiscal 1968?

Mr. SCHULTZE. For fiscal 1968, interest costs rise from an estimated—and I will have that in just a second for you, Senator—from an estimated $13.4 billion to $14.1 billion or $700 million increase between fiscal 1967 and fiscal 1968.

Senator HARTKE. All right.

What was the increase from fiscal 1966 to fiscal 1967?

Mr. SCHULTZE. $1.4 billion.

Senator HARTKE. All right.

Mr. SCHULTZE. For the 2 years together, the increase would be $2.1 billion.

Senator HARTKE. All right.

In view of the time limit here, do your figures on the expected deficit for 1968 take into account the tax increase?

Mr. SCHULTZE. Yes, sir; we do.

Senator HARTKE. And that tax increase expectation is for a 6-percent surtax?

Mr. SCHULTZE. That is correct, sir. You know, in arriving at the $11 billion from which we started to add contingencies, the proposed 6-percent surcharge was counted; yes, sir.

Senator HARTKE. Do you include the participation certificates?

Mr. SCHULTZE. Yes, sir; at $5 billion.

Senator HARTKE. At $5 billion.

Mr. SCHULTZE. $5 billion; that is correct.

Senator HARTKE. All right.

In your tax increase, what is your estimate of the revenue that will be produced by the 6-percent increase in surtax?

Mr. SCHULTZE. In fiscal 1968, $4.7 billion.

Senator HARTKE. $4.7 billion?

Mr. SCHULTZE. Correct, sir.

Senator HARTKE. All right.

Now, if it should turn out that the deficit is larger than that, is it your opinion that a higher percentage increase will produce an equivalent per dollar revenue on a percentage basis? Or will it not, in fact, reduce amounts of revenue in spite of the increase in tax rates?

Mr. SCHULTZE. Well, the Secretary may want to supplement this, but the first point, of course, is that when you increase taxes you have two things to take into account.

First, what I will call the gross yield which is estimated by simply applying the tax rate increase to the estimated level of income. That gives you a gross yield.

You then have to reduce that because one of the whole points of the tax increase is to reduce the rate of growth in income, in this case the inflationary rate of growth that would otherwise prevail. Hence, the net rate will be less than simply applying the increase to income.

Senator HARTKE. So if you increase to 10 percent instead of 6 percent, you would not receive, according to your own deductions, a 4-percent increase in revenue. If you increased the tax rate——

Mr. SCHULTZE. In the sense that you have to adjust for the impact on the economy; yes, sir.

Senator HARTKE. All right.

Will you tell me of any time within recent history of the United States since World War II that an increase in taxes, an increase in tax rates, has resulted in an increase in tax revenue?

Mr. SCHULTZE. Yes, sir; during the Korean period.

Senator HARTKE. During the Korean period. What was the increase at that time?

(An answer to the preceding question may be found in subsequent colloquy between Senator Metcalf and Mr. Schultze, and Senator Hartke and Mr. Schultze.)

Mr. SCHULTZE. If you will give me just a moment, Senator, I cannot give you the increase specifically attributable to the tax, but I can give you the change in total revenues.

Senator HARTKE. All right. Now if I may ask one other question of the Secretary of the Treasury, then I will quit, Mr. Secretary. I would like to say to the chairman that I wish to make an official request to the Treasury on another matter which involves a time element. In view of the fact that the antidumping measure which was adopted at Geneva has not been made available to the members of the Senate Finance Committee, although it is intended to promulgate this antidumping procedure on June 30, and since no Member of the Senate has had an opportunity to investigate or to even review this matter—in spite of the fact that I have made repeated attempts to obtain a copy of it—I am respectfully requesting that the committee and the Treasury provide for an opportunity after the July 4 recess for us to at least have a chance to review it and see whether any implementing legislation is necessary.

Senator SMATHERS. I am advised by our counsel that Ambassador Roth, who heads up as you know, our delegation, and who led it in its activities in Geneva, has wanted to come down to the Finance Committee and explain what they did, particularly with respect to antidumping. But because of the schedule of the Senate we just have not had an opportunity to hear him.

Senator HARTKE. I understand that, and I am not passing judgment on the measure at all. But it is pretty difficult for anybody here to say whether you agree with it or whether you do not agree with it, whether you think any legislation is or is not necessary, if you have not had a chance to look at it.

Senator MORTON. Do you want me to send you my copy?

Senator HARTKE. I have asked for it. If he has given you something he has not given to me, it is rather peculiar.

Senator SMATHERS. I will tell you what we will do. I do not know whether the Secretary—he is involved in this, of course, but it is a somewhat unrelated matter.

Senator HARTKE. I know that. But the Treasury is involved in it because it is a participating agency.

Senator SMATHERS. I will ask the Secretary, to ask him to take it up with Mr. Roth and see if he can provide it for us, and if he can provide it we obviously would like to see it.

Secretary FOWLER. Mr. Chairman, I will do my best.

Senator SMATHERS. In the meantime we will get hold of Mr. Roth and see if he will send to the Senator from Indiana a copy of this antidumping provision. He would like to have it and see it.

Senator HARTKE. You understand it has not been made public. The chairman understands that?

Senator SMATHERS. I do.

OK, all right. Are you through for your first 10 minutes?

Senator HARTKE. Yes.

Senator SMATHERS. All right. Senator Williams, you may start on your 10 minutes.

Senator WILLIAMS. Mr. Secretary, I welcome you here again this week. You are getting to be more or less one of our favorite witnesses, and I want to say that I appreciate very much that at long last you have agreed with some of us that this temporary ceiling is a farce, and have agreed to putting it on a permanent basis. I only wish you had supported our committee amendments last February, and you would not be siting here now with a 7-day deadline. But we are here, and it looks as if we are making some progress.

Now, I noticed that the House Ways and Means Committee, has taken a step in another direction that, in my opinion, is long overdue. That is to deal with this 4¼-percent ceiling on Government bonds of in excess of 5 years maturity. Unfortunately, while they may have taken a step, they do not even now approach a solution to the problem.

I notice that in your testimony you said that as of May 1967 the average maturity on Government bonds outstanding has been dropped to 4 years and 6 months, and that approximately 85 percent of our outstanding obligations mature, in less than 5 years, with 50 percent at 1 year. With no change at all, as I understand it, in this ceiling of 4¼ percent, by the end of 1968 you estimate that maturity will drop to as low as 3 years and 8 months.

I think we are in agreement that is, in effect, monetizing our debt; is that not correct?

Secretary FOWLER. Well, I won't characterize it, Senator. But it is a shortening of the maturity of the debt structure to a point that, in my judgment, is undesirable, and entails the potential difficulties that my testimony tried to indicate.

Senator WILLIAMS. Now, I think you will agree that to a certain extent money is a commodity, and interest is the price of that commodity. If you, as Secretary of the Treasury, have to finance the debt and go out in the money market and borrow $1 or $5 billion, you either have to pay the prevailing rate or we do not borrow it; isn't that pretty well true?

Secretary FOWLER. That is correct.

Senator WILLIAMS. You have no control over the interest rates except as they are governed in the free market, is that not correct?

Secretary FOWLER. That is correct.

Senator WILLIAMS. Now, my question is, will you support an amendment to this proposal which will repeal this 4¼-percent ceiling in its entirety?

Secretary FOWLER. No, sir.

Senator WILLIAMS. That is what I understood to be your answer, and so I wanted to get it correct.

Senator SMATHERS. What was the answer?

Senator WILLIAMS. He said, "No" and, therefore, I want the record to show that contrary to the editorials that have appeared in some of the financial magazines criticizing Congress for this, that the responsibility for this fictitious ceiling which, in my opinion, is a complete farce, rests equally with the Treasury Department, because it has been upon your insistence as Secretary of the Treasury that this farce has been perpetuated; is that not true?

Secretary FOWLER. Senator Williams, I did not ask for the repeal of the 4¼-percent ceiling. I did not ask for the repeal of the debt limit. I think both of these are useful concepts and are worth preserving, provided they are not so rigidly bound as to interfere with sound debt and cash management.

I do not believe that complete repeal of either of the measures is in the national interest.

Senator WILLIAMS. Well, I appreciate that position, and I am just trying to get it straight. But there are some who argue that maintaining this 4¼-percent ceiling has something to do with preventing our interest rates from advancing I think we have established in our previous colloquy that it has no effect whatsoever.

Is it not true that notwithstanding the fact that we have this ceiling in effect today, with no changes, that interest rates today are practically around a 40-year high?

I noticed that two or three utility issues have been sold in the last couple of days paying a 40-year high in their interest. So it has had no effect whatever in controlling interest except as it handicaps the Federal Government from sound management of the public debt.

Secretary FOWLER. It embodies the sentiment of the Congress that the national policy of favoring a low cost of money whenever that can be achieved through a combination of fiscal and monetary policies is a desirable national objective.

We have a number of statutory provisions on the books which embody and express a policy attitude of Congress.

I have never felt the debt ceiling, as such, in fact, did curtail Federal expenditures. But the debt ceiling does embody the concept of calling for periodic reviews of what is happening to the debt.

I believe the form in which our recommendations are addressed, and in which the House bill has moved, will make the penetration of the debt ceiling a much more serious matter than it has been in the past when we have just done it each year automatically.

Senator WILLIAMS. Well, I do not see that there is any connection. The ceiling on interest rates, I think, is a complete farce. I know that the historical background of the debt is that years ago Congress would authorize each bond issue in a similar manner to that which is now done in most of our State legislatures.

To get around that we gave you blanket authority to issue these bonds at your discretion within a certain range. I can see some benefit to a ceiling as long as it is at a reasonable, workable level on the debt. But——

Secretary FOWLER. Senator Williams, you can provide the editorials you say about the 4¼ ceiling is a farce and ought to be repealed. There are also editorials in outstanding journals which use the same words about the debt ceiling. I just do not happen to agree with the editorial writers on either score. I think the preservation of these concepts is a useful policy element in our economic and financial affairs, and I do not support the repeal of either of them.

I only ask that they be provided by the Congress in such a way as not to interfere with sound debt management policies.

Senator WILLIAMS. Well, I only raised the question of editorials, not that you have to agree with them, or either one of us, on the basis that they were expressing great sympathy for you in your position of having to manage the debt, and that you were in this box with this ceiling on long-term bonds, as they put it, largely because of the narrowmindedness and shortsightedness of the Congress. I just wanted you to know it is not Congress but it is you, too, who are in that category because you have just stated that you, too, would oppose it.

I will say this, there is going to be an effort made to remove this ceiling, because I think it is a farce. I have had conservative estimates that shortening this debt over the past 10 or 15 years, selling short-term securities in the past 5 or 6 years, particularly when you could have been stretching the debt out, is costing us a minimum, I have been told, of $1 to $2 billion extra interest now because of your having to be out in the high-money market on a short-term basis to refinance bonds which are maturing which, at the time you would have told them, they would have been maturing 5 or 10 years from now.

But that is a hypothetical question and answer. I do know this, and I think you will agree that it has not had any effect at all on controlling interest because you are today paying the highest rates of interest in the history of our Government over the past 40 years.

Secretary FOWLER. Senator Williams, let me modify what you have said and what I have said in one respect.

You have characterized my attitude as opposing the repeal.

I think I would take a very relaxed point of view while the Congress debated this particular issue. I want to make it clear that I am not up here asking for the repeal of that ceiling. I have a number of other things——

Senator WILLIAMS. That is right.

Secretary FOWLER (continuing). That I think I could devote my time and energy to rather than trying to obtain complete repeal.

Senator WILLIAMS. I am not asking you to try to obtain it. The proposal is going to be made. I asked you if you supported it, and you said "No." Would you change it and would you support it, because there is still time?

Secretary FOWLER. I would want to follow the normal process of consulting with my colleagues in Government as to what the position of the administration would be on such a proposal.

There is regularly established machinery for that.

The point I want to make is that I am not here asking for the repeal of the 4¼-percent ceiling, and that, as a personal matter, I do believe that both of these provisions in the law embody concepts which are of value.

Senator WILLIAMS. Yes. Well, my 10 minutes are up.

Senator SMATHERS. All right. Thank you, Senator Williams.

Senator Metcalf, Judge Metcalf, you have 10 minutes.

Senator METCALF. I have no particular questions.

I want to compliment the Treasury Department for coming up here in support of both the debt-limit concept and the long-term policy of attempting to keep interest rates as low as possible.

I am one of those narrowminded Congressmen who want to support a low-interest policy. I think that matter is subject to debate.

I would like to go forward with this bill in view of the urgency that we have, and to extend the debt limit so that we can give the Treasury some latitude before the 12th of July in paying the debts that are to be met, and to debate this other matter at greater length at another time when we have more time and more opportunity to debate it.

I see that my friend from Indiana has left. He did not have an opportunity to complete the record on the response from Mr. Schultze as to how much money was brought by the Korean war, and I would like to have the record completed.

Mr. SCHULTZE. Yes, sir. What I can do is give you the figures on budget receipts in the year immediately before Korea and then through the Korean period during which we had, I believe, two or three tax increases.

In fiscal 1949, budget receipts were $39.5 billion; the next year, 1950, also $39.5 billion. Now, that is the fiscal year that ended just as Korea started.

The next year, $44 billion, a jump of $5 billion; the next year, $65 billion, a jump of $22 billion; the next year $74 billion.

So, in other words, if you take the year before Korea started, and you start with the $39.5 billion in that year, you have a combination of two or three tax increases and an increase in the national economy, giving you $74 billion. I am sorry, excuse me, that is my mistake. That should be $64 billion. I read that wrong.

I was reading the wrong column, excuse me. The increase in receipts was from $36 billion in fiscal 1950 to $64 billion in 1953.

Senator METCALF. I am delighted to know that once in a while the Bureau of the Budget reads a wrong column. It happens in Congress very frequently.

Mr. Chairman, will this response be put in response to the question of the Senator from Indiana at the appropriate place in the record?

Senator SMATHERS. Without objection.

Mr. SCHULTZE. We will do that in reviewing the transcript.

Senator METCALF. I have no more questions. I feel we should get on with this bill and do what is necessary at this time of emergency to increase the debt limit, and then probably at some future time get all of you up here and discuss some longer term policy, both on interest rates and debt limitations.

Secretary FOWLER. Thank you, Senator.

Senator SMATHERS. That is all right, sir.

Senator Carlson.

Senator CARLSON. Mr. Schultze, I want to ask a few questions of you in regard to the budget.

I believe you stated that the deficit, based on your present receipts and expenditures on June 30, 1968, would be about $11 billion?

Mr. SCHULTZE. We started with that, $11 billion. I think the key thing to add to that is the point that both the Secretary and I made that, frankly, the revenue estimates used in that $11 billion are somewhat on the optimistic side to the tune of $2 or $2.5 billion.

Senator CARLSON. What do you estimate the deficit to be on June 30, 1967?

Mr. SCHULTZE. Again approximately $11 billion.

Senator CARLSON. This year?

Mr. SCHULTZE. The deficit this year, which will end a week from now, would be about $11 billion; yes, sir.

Senator CARLSON. In other words, the $11 billion deficit on June 30, 1967, would be based on receipts and expenditures which are just about concluded. I mean we should know fairly well about the $11 billion?

Mr. SCHULTZ. Yes, sir.

I still need some leeway because, of course, as you know, from month to month both revenues and expenditures fluctuate. But it should be in the neighborhood of $11 billion.

Senator CARLSON. Do you remember what you stated to this committee over a year ago that you estimated the budget to be on June 30, 1967—the deficit, I mean?

Mr. SCHULTZE. This was a year ago?

Senator CARLSON. Yes. Maybe in January of 1966.

Mr. SCHULTZE. In January of 1966 we said $1.8 billion, I believe.

Senator CARLSON. If I remember correctly you did state at that time when you were up here before this committee that the deficit would be $1.8 billion.

Mr. SCHULTZE. Senator, I believe that at the same time we also stressed very heavily, both the Secretary and I, that defense expenditures, if the war continued, would undoubtedly be substantially higher, but we did not have an estimate of it.

Senator CARLSON. I am not here to criticize your estimate in any way. But I think that was an accurate statement.

Now you come here today and tell us on June 30, 1968, you are anticipating a $11 billion deficit. Of course, as I gathered from your own statement, that is tied in with receipts that you must expect.

Mr. SCHULTZE. Yes, sir.

Senator CARLSON. And probably some additional costs in the war. I notice you requested a leeway of $1 billion and $1.5 billion, or was it three-quarters——

Mr. SCHULTZE. Three-quarters of a billion dollars.

May I repeat this just to be sure I am clear.

There are two kinds of things involved in making an estimate of defense expenditures. First, if we assume that the level of military operations is carried on at the level planned in the budget—if we make that assumption—then I say we need about a 1-percent leeway just in estimating the cost of doing that.

Secondly, I then said that clearly you need additional leeway—maybe that is not quite the right word to use—but it is clearly possible that if you increase troop strength or increase the level of combat beyond the plans then your expenditures could change significantly.

Then I went on to say as of now no decisions have been made to do that. If such decisions are made the defense expenditures could go above the figures I am talking about.

Senator CARLSON. That brings me to my next question.

I assume you anticipate all these things. If that should happen, how much additional cost would there be to the Defense budget it General Westmoreland's request, and President Ky's request for 100,000 additional troops were implemented?

Mr. SCHULTZE. At this stage I cannot give you such an answer because the increased cost would depend not solely, perhaps not even primarily on just the number of troops, but on the nature of the combat operations that went with it and, quite frankly, I do not yet have any numbers like this. In other words, it is not just the number of men that creates costs. That is my point.

Senator CARLSON. That is a good point.

Secretary FOWLER. Senator Carlson, the House Committee on Appropriations just reported the Department of Defense appropriation bill on June 9, and on page 3 of that report they made some interesting comments after apparently a very thoroughgoing examination of their figures which reflect the figures, I think, that Mr. Schultze is talking about. They said:

> The Committee is, however, of the opinion that funds over and beyond those carried over from previous years and those included in the pending bill, will probably be required for fiscal year 1968. The tempo and cost of the war in Southeast Asia are in an upward trend. The cost of wars can never be projected precisely. The actions of the opponent weigh heavily on such matters. No decision has been made to increase military manpower above the strengths provided for in the estimates. Rates of consumption of ammunition, aircraft loss rates, and so forth, are based on the latest data at the time of the President's submission. If additional amounts are subsequently requested * * *.

That is something of the same flavor, I think, that Mr. Schultze is trying to reflect.

Senator CARLSON. But it would be admitted if we increased the troop strength 100,000, with all the components that go with it, with housing and docking facilities and transportation, that it would be substantial?

Mr. SCHULTZE. It would be substantial.

Senator CARLSON. It would be a substantial amount.

Mr. SCHULTZE. Yes; it would be substantial.

Senator CARLSON. I want that in the record because I think maybe you are coming back here next year, and that may have occurred, and I want the record to show that we did at least talk about it at this particular hearing. I think it will be a sizable item.

I shall not get into the item of foreign aid in the entire program in our Nation, but we do have substantial outlays, large demands are being made upon us by other countries.

Yesterday the Senate Foreign Relations Committee considered an authorization of an appropriation for $900 million for the Inter-American Bank.

We delayed action on it for the reason, I think, that the committee wants to consider it at the same time that we look at the foreign aid bill. But there are items such as that that also can have some effect on the budget or did you include that in your program?

Mr. SCHULTZE. I will want to check this to be sure I am 100 percent correct, but I believe the expenditure impact of that would not be in fiscal 1968. The expenditure impact will come later because the commitments are made a long time before the actual disbursements.

Senator CARLSON. Three years.

Secretary FOWLER. Senator Carlson, let me also say that that is a request for an authorization to provide $300 million a year over a 3-year period.

Senator CARLSON. Correct.

Secretary FOWLER. Mr. Schultze is right. I have some familiarity with the way the Bank operates.

Those moneys will not be advanced to the Bank in any coming fiscal year in the total amount of $300 million. Only a portion of that amount would be drawn down, according to our forecast of the way the Bank actually carries on its operations.

Senator CARLSON. That is absolutely correct, Mr. Secretary. It will be drawn down based on the amounts used.

Secretary FOWLER. That is right.

Senator CARLSON. That is correct. We discussed it yesterday.

The reason I mention this, I am going to go to Vietnam tomorrow morning and do a little checking on foreign aid, and when I come back, I will give you a report.

That is all, Mr. Chairman.

Senator SMATHERS. All right, Senator Carlson. Thank you very much.

Senator Harris.

Senator HARRIS. Thank you, Mr. Chairman.

Mr. Secretary and Mr. Director, I want to say, first, I think you have been very fair and candid with us in discussing the estimates on revenue and expenditures, and in sharing with us your problems in making precise predictions on both, and taking into account the estimates of others, including the Joint Committee on Internal Revenue Taxation, who estimate an additional $2½ billion shortfall beyond the estimate that you have made.

Now, in the permanent debt limit which, in this bill, is $358 billion——

Secretary FOWLER. No; $285 billion.

Senator HARRIS. I mean $358 billion.

Secretary FOWLER. No; $285 billion.

Senator HARRIS. $285 billion, I am sorry. The original recommendation you made was for $365 billion; is that correct?

Secretary FOWLER. $365 billion.

Senator HARRIS. What was in the original bill which was defeated in the House?

Secretary FOWLER. That was for $365 billion, including against the limit the participation certificates issued by FNMA.

Senator HARRIS. Was there in that bill which was defeated in the House any seasonal temporary amount?

Secretary FOWLER. No.

Senator HARRIS. It was just $365 billion?

Secretary FOWLER. That is right.

Senator HARRIS. And they covered in the FNMA participation certificates within the limit?

Secretary FOWLER. That is correct.

Senator HARRIS. What recommendation did you make originally on the interest limit? You asked that it be extended from 5 to 10 years on the Treasury notes?

Secretary FOWLER. That is correct.

Senator HARRIS. Did you ask for anything above that?

Secretary FOWLER. I asked for authority to issue long-term bonds; that is, above 5 years without——

Senator HARRIS. That is the $2 billion?

Secretary FOWLER. Yes, up to $2 billion, without the interest ceiling.

Senator HARRIS. Was there anything in the House bill which was defeated originally, on that?

Secretary FOWLER. No, sir. The House Ways and Means Committee rejected that recommendation of the $2 billion and scaled down the request for the redefinition of the notes from my 10-year recommendation to 7 years.

Senator HARRIS. So this comes to us now though above the permanent limit with $7 billion as an annual——

Secretary FOWLER. Seasonal lag coverage.

Senator HARRIS. Which will drop back on June 30 of each year.

Secretary FOWLER. That is correct, sir.

Senator HARRIS. Under your testimony that should take us to what point fairly safely without additional action by the Congress?

Secretary FOWLER. Chairman Mills asked me a similar question and I have been reluctant to give assurances because future events very frequently disregard such assurances.

My own judgment is that this should take us through fiscal year 1968, and I would hope that it would take us through fiscal year 1969. But there the contingencies that enter in are much more vague and unascertainable at this time and, therefore, I would express the hope but could not give assurances, that the ceiling would go indefinitely under this pattern.

Of course, when the war in Vietnam is over, Senator Harris, and there is some expectation of a declining level of defense expenditures, if the economy continues to pick up the slack of the resources that are released, and we have the same pattern that preceded July 1965, we could reasonably hope that with the declining level of defense expenditures and increasing revenue as the economy increases, that each year there would be an opportunity for the Congress and the executive working together, to allocate that fiscal dividend, so to speak, between tax reduction, debt reduction, and increasing domestic programs where it was desirable.

Whether the permanent limit that is proposed in this bill will endure until that particular point is, as I say, fraught with all the indefiniteness and contingencies that would be readily apparent to you.

Of course, at that time, when the hostilities are over it is quite likely that the Congress could consider again whether this $358 billion was the appropriate permanent ceiling or whether some other permanent ceiling was desirable.

I have felt that it has been very clearly demonstrated that during recent years, where we operate with a temporary ceiling being extended each year, this really has proved to have no real effect on either the actions of the Congress or the action of the executive in the spending field.

Senator HARRIS. Well, I agree with you that the debt limit is not a proper way by which you can control——

Secretary FOWLER. Current expenditures.

Senator HARRIS (continuing). Federal expenditures.

But I do think, and both of you recognize in your testimony, that it is a wise idea to continue to have some limit to give—if for no other reason—Congress a periodic review of the debt and how it has been managed, and so forth.

But it seems to me it is terribly unbecoming of the most important Nation in the world to come each year near the deadline, and then make frantic request for change in our debt limit.

So I like the reasonableness and flexibility in this $358 billion amount. As a matter of fact, I would have supported the permanent amount if you asked for $375 billion, but with this seasonal change that you have allowed in here, I think that will give us the flexibility so we do not have to look so frantically once a year and go through a rather——

Secretary FOWLER. Sometimes three times a year.

Senator HARRIS. Yes—go through a kind of ritual dance in order to be able to pay our bills.

Now, where did the interest rate change, the maturity date change, come from? Did that come after the House had failed to pass the debt limit bill, and then you made the recommendation?

Secretary FOWLER. No. In the original statement made on May 15 and May 16 to the House Ways and Means Committee, I set forth my recommendations, and the committee, in its first consideration, and in bringing out the first bill or the one that was defeated, incorporated the same provision that is in the bill that was passed. So the disposition of the interest rate ceiling problem preceded the first report and the first action of the House.

Senator HARRIS. Do you feel that changing this 5 to 7 years, despite the fact that you did not get the $2 billion you asked for outside the limit, will allow you to hold up or, at least, reverse the disturbing trend of the shorter and shorter maturity dates of the Government's marketable obligations?

Secretary FOWLER. I would hope, Senator Harris, that it would enable us to retard and, perhaps, hold the shortening of the debt. I do not want to indicate that it is going to, in my judgment, be sufficient to enable us to lengthen the maturity structure. That may be the case. But I certainly, looking at it at this point, could not give any assurances to that effect.

Senator HARRIS. Well, I think you understand how Members of the Senate necessarily feel about the time limit involved here. But I do not think that is your fault letting you come to this situation.

The situation in the House has caused us to be faced with a very short period within which to decide this and, naturally, that is a distasteful thing.

Secretary FOWLER. Well, as I put it in my statement, and I would like to reiterate, I think, in a sense, that the delays in the House were in some part responsive to the desire of the House to incorporate this time the permanent ceiling feature in response to what the Senate committee and the Senate had insisted on in February.

Indeed, the House referred quite pointedly to the fact that in the conference of the debt limit bill in February the Senate conferees agreed to the House version. But the following statement appears in the statement of the managers on the part of the House:

> The conferees on the part of the House stated that they will recommend that an increase in the permanent debt limitation be considered by the Committee on Ways and Means in connection with the Committee's next review of the debt limtation which must occur prior to July 1, 1967.

So it was shifting from that temporary concept to the permanent concept which entailed much of the deliberation and debate, and, you might say, the defeat of the first attempt.

Also, the House did consider the modification of the 4¼ ceiling which had been a matter of some concern and expressions of interest and desire on the part of Senator Williams and others in these February hearings.

So a part of the reason you are getting it late in the Senate is because the House was being responsive to earlier expressions of policy on the part of this committee's members.

Senator HARRIS. I think they are certainly to be commended for responding to our suggestions.

Secretary Fowler. I think it is sufficiently outstanding to make that comment.

Senator HARRIS. Now, FNMA participating certificates—does this bill affect the reporting on them?

Secretary FOWLER. No, sir.

Mr. SCHULTZE. No sir; it does not.

Senator HARRIS. If the Senate voted to take that provision out of this bill we would have to—as I am inclined to think they should—we would have to, go back to conference, and it is your testimony, I take it, that that might run us very dangerously close to our June 30 ultimate date?

Secretary FOWLER. It certainly would, and I would be very fearful of becoming embroiled in a very difficult situation.

I am trying to take this all into account in making my recommendations here, and in urging the committee to at this time accept the

House bill which is not something that normally I would urge as strongly as I do now. But in view of the time and the attendant difficulties, I feel it is a wise thing to do.

Senator HARRIS. That is all I have, Mr. Chairman.

Secretary FOWLER. Particularly since they have been responsive to your earlier——

Senator HARRIS. On the $358 billion permanent.

Senator SMATHERS. Senator Morton of Kentucky.

Senator MORTON. Mr. Secretary, I should know the answer to this question, but I gladly admit my ignorance. When did your tour of duty start?

Secretary FOWLER. April 1, 1965, as Secretary.

Senator MORTON. Can you recall how many times have you appeared before the Congress on this particular matter of the debt ceiling specifically?

Secretary FOWLER. At some considerable length in May of 1965, looking to a ceiling for 1966; again in May of 1966, again in February of 1967; and now this is the fourth round, as I recall it.

Senator MORTON. Well, I have been in Washington in one capacity or another and served in the Congress under four Presidents, and I think during that time we have had only five Secretaries of the Treasury, which speaks well of the judgment that our Presidents have made in selecting them—men who could undertake this great responsibility.

I agree with the Senator from Delaware that this business of a debt ceiling is really unrealistic, and the limitation on your interest is unrealistic.

Perhaps I should address this question to the Director of the Bureau of the Budget.

Any money that is spent by the Government is the result either of direct appropriations of the Congress or the result of a trust fund which has been set up legally by the Congress; is that not correct?

Mr. SCHULTZE. Or a so-called back-door authorization; one of the three.

Senator MORTON. Yes.

Mr. SCHULTZE. That is correct. The authority to spend is from the Congress in any event.

Senator MORTON. We are in the act.

Mr. SCHULTZE. That is correct.

Senator MORTON. Now, any money that you have to spend, any money that you take in—this, perhaps, should be directed to the Secretary—results from taxes that are passed by the Congress.

Secretary FOWLER. That is correct.

Senator MORTON. I admit that a President, especially when his own party controls the Congress, has terrific influence in the amount that is spelled out in the budget and what the Congress votes. But ultimately it is really our problem.

I know you are a good soldier, Mr. Secretary, and I appreciate that. But I honestly believe if you had maximum flexibility you could probably run this thing a little bit better.

I remember in 1933—that was a long time ago—in 1933 I went to New York and I borrowed a couple of million dollars and I borrowed it at 2 percent. I repaid the Louisville banks, Louisville gave them more than we paid for in New York. I thought I was a pretty smart guy to get this money at 2 percent. I was getting commercial paper at one, and some broker was making a commercial rate on—I was really compensated for this, I was a vice president of the company. I was a big shot. My salary was $300 a month.

My point is this, I have lived better with interest high, frankly, than I did when it was low. I do not know whether that is true of everybody, but it is certainly true in my case, because they paid me $300 a month to go get money in New York for 2 percent.

Now, if you or the Honorable Mr. Dillon, Mr. Anderson, Mr. Humphrey, your predecessors, you are all men of knowledge in this field, and I think if you did not have—in the first place, it takes a lot of your time coming up here. You say you have been up here four times now since 1965. You are so familiar with this that this does not require a long briefing, I am sure.

Secretary FOWLER. Well, you are wrong there, Senator. It really does.

Senator MORTON. I guess it does.

Secretary FOWLER. It takes a long—a lot of work.

Senator MORTON. But you have come up here with a statement that a lot of people put a lot of work into and you, of course, approved every word in it, and it does take a lot of time.

I can remember when I served in the Department of State, my boss, the late John Foster Dulles, used to have to come to Congress often. He would go to the Foreign Relations Committee and he did not need much briefing on that. He was at home in this area.

But when he would come to this committee—well, take the Trade Agreements Act, the so-called reciprocal trade business when it was up for renewal, I think three times while he was Secretary, we had to go through that.

I told him one morning, I said, we are going to win a motion to recommit in the House by one vote, and we did.

In fact, if I could read a form sheet so well, I would have had Proud Clarion.

[Laughter.]

But the point is that he did not like economic business, he did not like coming before this committee, because he did not feel at home in it, and the time that we took—hours and hours—to brief him on the purpose for which he was testifying before a great committee of Congress.

Our late colleague on this committee, I remember, the Senator from Nevada, kept him under cross-examination for 6½ hours without a break, because I was sitting there myself, and I got a little uncomfortable.

So you spend an awful lot of time, it seems to me, on this debt ceiling.

On interest rates, I think the country owes a little thanks to you and to your predecessors. You could have done probably a better job of debt management if you did not have the restrictions that we put on you by law, and that we, as Members of Congress, are responsible for.

Secretary FOWLER. Thank you, Senator.

Senator SMATHERS. Thank you, Senator Morton.

Senator Hartke, it is your second round, and we hope this is an amateur fight that doesn't go beyond three rounds.

Senator HARTKE. Mr. Schultze, I was out of the room, I apologize when Senator Metcalf asked you for an answer to the question which I previously asked about, the increase in taxes which was adopted during the Korean war and the resulting effects of that.

Can I either get it from the record, or can you give it back to me?

Mr. SCHULTZE. Yes, sir. I read this to Senator Metcalf from the wrong column, and this time I will read it from the right column.

In fiscal 1950, which is the year that ended just as Korea started, receipts, Federal receipts, were $36.4 billion.

In fiscal 1953, 3 years later, with two or three tax increases in between, revenues were $64.7 billion—an increase, in other words, of some $28 billion.

Senator HARTKE. $28 billion.

Mr. SCHULTZE. Or 70 to 80 percent, I think it would be—close to 80 percent in 3 years.

Senator HARTKE. All right.

Mr. SCHULTZE. You have a combination of tax increases and buoyant economy.

Senator HARTKE. All right.

But that was during a war period, right?

Mr. SCHULTZE. Correct.

Senator HARTKE. And now you are in a war period again.

Mr. SCHULTZE. That is correct.

Senator HARTKE. And your anticipation would be, first, that during a period of war that there would certainly be an increase to a high level of governmental expenditures; is that correct?

Mr. SCHULTZE. That is correct, sir.

Senator HARTKE. And if the degree of correctness of your estimate is the same as the cost of the war in Vietnam for fiscal 1968 as it was in 1967, the cost of the war in Vietnam would approximate $45 billion instead of your estimated $23 billion. Is that correct?

Mr. SCHULTZE. If you make that assumption, yes, sir. I do not choose to make that assumption.

Senator HARTKE. I understand you do not.

Mr. SCHULTZE. Of course, I do want to point out and I have mentioned before in my testimony, there is, as you are aware, one major difference between last year's budget and this year's budget in terms of a reason for an increase.

Last year the increase came about from two basic sources: one, an increased level of combat intensity and troop strength; but, two, a very large part of it arose from the fact that the 1967 budget was based on the assumption of the war coming to a close by the end of the fiscal year. The 1968 budget is not based on that kind of assumption.

Senator HARTKE. Yes. This is a point of difference which, I think, is very important because it also reveals a difference of psychology inside the Government itself, and I am not saying this is your problem. You have to deal with it just as Senator Morton indicated a few moments ago, you have to deal with this problem. But this assumption, as I understand, is based on a continuation of the war through all of fiscal 1968.

Mr. SCHULTZE. Well, the key point, Senator, is that in the fiscal 1968 budget funds are provided to buy the leadtime equipment no matter how long the leadtime is. By that I mean for example, that for aircraft, it provides for attrition to 1969.

Senator HARTKE. Yes. But the point I am making is that this is based on the assumption that the administration believes that this war is going to continue.

Mr. SCHULTZE. No, sir; no, sir.

Senator HARTKE. It is either based upon that assumption or else—

Mr. SCHULTZE. I want to be very careful.

Senator HARTKE. Let me reverse it for you. Where is it now estimated, where is this secret estimate of the end of the war?

Mr. SCHULTZE. There is none.

Senator HARTKE. There is none, right.

Mr. SCHULTZE. Right. I am not so much in disagreement with you, but I just want to make crystal clear what is involved.

The reason for making the assumption about the end of the war as it was originally made in the 1967 budget was not a particular assumption with respect to a political or diplomatic assumption. Essentially it was a budgetary control assumption because we were at the very early phases of a rapid buildup.

Senator HARTKE. Yes.

Let me ask you, was that made by you independent of the administration?

Mr. SCHULTZE. No, sir.

Senator HARTKE. Wasn't that assumption made upon the basis of information which was submitted to you by the Defense Department?

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. And now what you are saying is in the same category, right?

Mr. SCHULTZE. Yes, sir.

Senator HARTKE. All right.

All I am saying to you, quite honestly and factually, is that on the basis of the same situation this budget is based upon assumptions and information submitted by the Defense Department, right?

Mr. SCHULTZE. Correct, that is right.

Senator HARTKE. Which estimates this war on a continued level——

Mr. SCHULTZE. Which provides——

Senator HARTKE. Which provides—all right—for a continued level for the war all the way to June of 1968.

Mr. SCHULTZE. Yes, correct.

So if the war continues——

Senator HARTKE. It is not based on any if; it is based on the assumption that the war is going to continue.

Mr. SCHULTZE. Senator——

Senator HARTKE. I am advised dollarwise it is, sir.

Mr. SCHULTZE. Dollarwise that is quite correct, sir.

Senator HARTKE. We are not in the military end of it.

Mr. SCHULTZE. Quite correct.

Senator HARTKE. But dollarwise.

So now I want to come back with this: You indicated previously to me that the cost of the war in Vietnam was not based upon any substantial increase in personnel.

Now, in answering Senator Carlson's question, I believe, it was stated that this is based upon the present level of personnel.

Mr. SCHULTZE. It was. To put it another way, last January it was based upon a modest increase in the number of troops—a modest increase.

Senator HARTKE. But based upon the number of people there at the present time.

Mr. SCHULTZE. Well, it allows some flexibility.

Senator HARTKE. But it certainly is not based upon an increase of 130,000 troops.

Mr. SCHULTZE. That is correct.

Senator HARTKE. As requested by General Ky.

Mr. SCHULTZE. That is correct.

Senator HARTKE. My own opinion is if General Ky wants to be his country's George Washington, let him lead the troops as George Washington did; let him lead them up Hill 877, and maybe we will think twice about that. But I am not going to ask you to pass judgment on that.

Has this taken into consideration any increased costs which may be resulting to the United States because of the Middle East situation, and the requirements that will probably be necessitated, to provide for additional aid to the Arabs?

Mr. SCHULTZE. There are, of course, no such assumptions in this budget.

Senator HARTKE. So if there is any decision made in that field this also is going to add to the deficit; isn't that correct?

Mr. SCHULTZ. If so, yes, sir.

Senator HARTKE. Now, to come back to the tax increase again, if you do not receive the tax increase, there will be no possible delaying effective date in an additional deficit amount of $2.2 billion. Isn't it true that your own estimate is that the 6-percent surtax was to bring an annual increase for fiscal 1968 of about $5 billion?

Mr. SCHULTZE. Yes, sir; $4.7 billion for that, plus $800 million for an associated acceleration in corporation tax collections. The estimate is $5.5 billion for the total package.

Senator HARTKE. $5.5 billion for the total package, and if you do not receive that, that additional amount, according to your estimate, has to be added; is that correct?

Mr. SCHULTZE. That is correct.

Senator HARTKE. All right.

Secretary FOWLER. It would be $5.5 billion minus the $2.2 billion we have taken into account, or a net additional shortfall of $3.3 billion.

Senator HARTKE. Yes; all right. Now, let me take one other factor, the participation certificates. According to this legislation, as I understand it, we are going to include in the budget the participation certificates for 1968; is that correct?

Mr. SCHULTZE. Not quite. The legislation provides the FNMA participation be included, and that means the $4 billion of the $5 billion which would be issued by FNMA.

Senator HARTKE. And the other $1 billion?

Mr. SCHULTZE. Is Export-Import Bank.

Senator HARTKE. And those are not to be included; is that correct?

Mr. SCHULTZE. That is correct.

Senator HARTKE. Also, you are not going to revert back to include the $7 billion in participations which have previously been issued; is that correct?

Mr. SCHULTZE. That is correct.

Senator HARTKE. In other words, those will still be left outside——

Mr. SCHULTZE. The debt limit.

Senator HARTKE. Outside the debt limit.

Mr. SCHULTZE. That is correct.

Senator HARTKE. And it does not include some $1 billion-plus in participations estimated for fiscal 1969; is that correct?

Mr. SCHULTZ. Well, no fiscal 1969 number has been put together.

Senator HARTKE. I understand.

Mr. SCHULTZE. It applies to those issued in 1968.

Senator HARTKE. That is exactly right.

What you are saying is that you are going to include $4 billion out of $5 billion in 1968; you are not going to include any in 1967 and you are not going to include any in 1969.

Mr. SCHULTZE. That is about correct.

Senator HARTKE. It is about like the on again, off again tax credit.

Mr. SCHULTZE. Well, obviously, this is something we did not ask for, but I think the reasoning of the committee was that, as you know, there is a Budget Concepts Commission now considering these matters, and—I really should not try to get behind the motives of the House Ways and Means Committee—I think essentially they were doing this on a temporary basis. In any event it is something we did not propose, but was added by the committee.

Senator HARTKE. All right.

Now to come back to this question of tax increases, since you have been in the Budget Bureau, how many tax decreases have there been? Perhaps the Secretary of the Treasury will want to answer.

Mr. SCHULTZ. Two or three.

Senator HARTKE. Since the Korean war—I do not really care who answers it, and if Fred wants to answer it, that is all right, too—since the Korean war, how many tax decreases have there been?

Secretary FOWLER. There was a substantial one in 1954.

Senator HARTKE. Right.

Secretary FOWLER. There was something later in the fifties but of a relatively minor consequence, if any at all. Changes were made in the Revenue Code. How they added up I do not recall, but it did not amount to a substantial change.

Then there was the Revenue Act of 1962, and a significant change in the revenue that was a consequence of the liberalization of the depreciation procedures administratively taken in 1962.

Senator HARTKE. Right.

Secretary FOWLER. And there was the Revenue Act of 1964, the big bill, and, finally, the Excise Tax Reduction Act of 1965.

Senator HARTKE. For the record now, I would like to have put in the record the figures for increase in revenue which occurred to the Treasury following each one of those tax decreases.

There was an increase in revenue in each case, there is no denying that, is there?

Secretary FOWLER. In the use of the 1962–65 actions; yes.

(The Department of the Treasury subsequently supplied the following information:)

There have been two major tax reductions since 1951. The first was the series of tax actions taken in 1954 which reduced taxes by $7.4 billion (as estimated at time of legislation). Most of the reduction affected income taxes effective January 1, 1954. Excise taxes were reduced $1.0 billion effective July 1, 1954. Administrative budget revenues and expenditures before and immediately after the tax reductions were:

[In billions of dollars]

	Fiscal year			
	1953	1954	1955	1956
Individual income tax	30.1	29.5	28.7	32.2
Corporation income tax	21.2	21.1	17.9	20.9
Excise taxes	9.9	9.9	9.1	9.9
All other	3.5	3.9	4.5	4.8
Total receipts	64.7	64.4	60.2	67.8
Expenditures	74.1	67.5	64.4	66.2
Surplus or deficit (−)	−9.4	−3.1	−4.2	1.6

During this period expenditures were also reduced. Administrative budget expenditures declined from $74.1 billion in fiscal 1953 to $67.5 billion in 1954 and further to $64.4 billion in fiscal 1955. They increased to $66.2 billion in 1956.

As a result of these actions the 1953 deficit of $9.4 billion was reduced to $4.2 billion in 1955 despite the $4.5 billion decline in revenues.

On a national income budget basis which is more comprehensive than the administrative budget and eliminates some of the collections lag, receipts and expenditures for the period before and after the tax reduction were:

[In billions of dollars]

	Calendar year		
	1953	1954	1955
Receipts:			
Personal tax and nontax payments	32.2	29.0	31.4
Corporate profits tax accruals	19.5	17.0	20.6
Indirect business tax and nontax accruals	10.9	9.7	10.7
Contributions for social insurance	7.4	8.1	9.3
Total receipts	70.0	63.8	72.1
Expenditures	77.0	69.7	68.1
Surplus or deficit (−)	−7.0	−5.9	4.0

Thus, administrative budget receipts declined for two fiscal years after the 1954 tax reductions. The NIA receipts declined sharply in calendar 1954 but rose in 1955.

The second major tax reduction program was commenced in 1962. The most important part was the 1964 Act which, in two steps effective in 1964 and 1965, reduced income tax liabilities by $11.5 billion. The program included the Revenue Act of 1962 which provided for the investment credit with structural revenue raising provisions offsetting most of the cost of the investment credit. Further actions were the liberalized depreciation guidelines by administrative regulation (tax reduction of $1.3 billion) and the Excise Tax Reduction Act of 1965 effective for the most part on July 1, 1965. It was estimated that excise taxes would be reduced by $2.2 billion in fiscal 1966. Administrative budget receipts and expenditures before and after the tax actions were:

[In billions of dollars]

	Fiscal year				
	1962	1963	1964	1965	1966
Receipts:					
Individual income tax	45.6	47.6	48.7	48.8	55.4
Corporation income tax	20.5	21.6	[1] 23.5	[1] 25.5	[1] 30.1
Excise taxes	9.6	9.9	10.2	10.9	9.1
All other	5.7	7.3	7.1	7.9	10.1
Total receipts	81.4	86.4	89.5	93.1	104.7
Expenditures	87.8	92.6	97.7	96.5	107.0
Surplus or deficit (−)	−6.4	−6.3	−8.2	−3.4	−2.3

[1] Corporation income tax receipts were increased substantially by the acceleration of corporation tax payments under the 1964 and 1966 tax legislation.

The national income accounts budget shows the following:

[In billions of dollars]

	Calendar year					
	1961	1962	1963	1964	1965	1966
Receipts:						
Personal tax and nontax payments	44.7	48.6	51.5	48.6	54.2	61.9
Corporate profits tax accruals	21.8	22.7	24.6	26.5	29.1	31.7
Indirect business tax and nontax accruals	13.6	14.6	15.3	16.2	16.8	15.9
Contributions for social insurance	18.2	20.5	23.1	23.9	24.8	33.0
Total receipts	98.3	106.5	114.5	115.1	124.9	142.5
Expenditures	102.1	110.3	113.9	118.1	123.4	142.2
Surplus or deficit (−)	−3.8	−3.8	.7	−3.0	1.6	.3

It will be noted that the changes in the Federal Government's net surplus or deficit appear similar in the two periods immediately affected by the tax reductions of 1954 and 1964. The fiscal 1953 deficit was reduced from $9.4 billion to $4.2 billion in 1955. A decrease of $4.1 billion occurred from 1963 to 1966. But the 1953–1955 reduction reflected decreases in both receipts and expenditures whereas the 1963–1966 change resulted from an increase in revenues larger than the increase in expenditures.

On an NIA basis the Federal Government deficit was $7.0 billion in calendar 1953. A surplus of $4.0 billion was realized in calendar 1955. In the period affected by the 1962–1965 tax actions the net budget result changed from a deficit of $3.8 billion in 1961 to a surplus of $0.3 billion in 1966.

Senator HARTKE. Yes.

Now, my own view is that if you increase these taxes there is no assurance under the present sluggishness of the economy that you are going to have any tax revenue increase whatsoever. That is why I wanted to bring all these figures back to see where they are going.

Let me ask another question related to that which Senator Williams raised. In 1958 the then majority leader, now President of the United States, resisted an effort by the Eisenhower administration to do what Senator Williams has suggested—I think he has said he is going to introduce an amendment to this bill to remove the interest ceiling on long-term bonds.

In 1958, the President resisted—the then majority leader, now President, resisted—an effort by President Eisenhower to do that.

As I understand, as Secretary of the Treasury, you feel that basic philosophy is still one to be adhered to; is that correct?

Secretary FOWLER. I would not recommend and have not recommended that the 4¼-percent ceiling be removed. I have only recommended, and feel that it should be modified, along the lines suggested by the House to give additional flexibility at this particular time in dealing with our debt management problems, and to enable us to avoid a deterioration in the maturity structure of the debt.

Senator HARTKE. Yes. But you still admit on page 24, and I quote:

> But while rates have come down since last summer's high point they are not at a level that would permit long-term financing under the 4¼ percent ceiling.

Secretary FOWLER. They are far away from that.

Senator HARTKE. They are not approaching that.

Secretary FOWLER. No, sir.

Senator HARTKE. You said you would like to take some steps "even if they are small-sized steps—on the debt structure problem while aiming toward further progress in reducing the overall level of interest rates."

When you go out to borrow this money you have to compete against private investors; isn't that correct?

Secretary FOWLER. Yes. You are in a large market.

Senator HARTKE. First, let us establish one other factor here.

On page 16 of the Secretary's statement you come back to the contingencies of $12.8 billion.

Secretary FOWLER. Yes.

Senator HARTKE. And if you eliminate the $3 billion of normal contingency there, we have these items left, including the latent real effect of a surtax, which is in effect, a failure to come up to the expected economic development contingency.

Secretary FOWLER. You mean item 2.

Senator HARTKE. Your shortfall in revenues.

Secretary FOWLER. Shortfall in revenues.

Senator HARTKE. Is this not in effect, an implicit statement that the economy will continue sluggish, is not that what it, in effect, means?

Secretary FOWLER. No. I think the biggest element in the estimate made by the joint committee staff is corporate income.

As I understand it, they had better speak to you directly on this, Senator, but I think they estimated considerably more of a fall off in corporate income.

Senator HARTKE. Corporate revenue. Yes, all right.

The next one is shortfall in the sales of participation certificates, and hypothetical addition to defense costs of $3 billion.

I do not think there is anyone seriously contending today that $23 billion is a realistic defense cost for fiscal 1968 if the war continues on anything like its present level or if it escalates, and I am not going to ask you to pass judgment on that because you are bound by the Defense Department's estimates.

But even assuming those figures are correct, you have an estimate of $11 billion in a deficit by your own admission; is that correct?

Secretary FOWLER. That is correct.

Senator HARTKE. And by these figures would add another $9 billion, if these contingencies would develop, is that correct?

Secretary FOWLER. That is correct.

Senator HARTKE. Then the so-called unthinkable——

Secretary FOWLER. Wait a minute, Senator, because while participation certificates count under the debt limit, the act as passed by the House does not require any changing in the accounting for participation certificates sold. That would not be in addition to the so-called deficit.

Senator HARTKE. Do that again for me.

Secretary FOWLER. The act dealing with the debt ceiling that places the participation certificates issued by FNMA under the debt ceiling does not call for or require a changing in the normal accounting, and change the treatment of sales of those certificates as revenues if they are, in fact, sold.

Senator HARTKE. All right. You are saying, in effect, I should reduce that $3.5 billion down—that $20 billion down by $3.5 billion to $16.5 billion.

Secretary FOWLER. That is correct.

Senator HARTKE. In other words, if these contingencies occur then this statement by your account would have a $16.5 billion deficit; is that correct?

Secretary FOWLER. I believe that is accurate, if those contingencies occur.

Senator HARTKE. All right. Which means again you are going to have to really go out in the marketplace for money.

Secretary FOWLER. That is correct.

Senator HARTKE. How soon do you anticipate that you will have to go to the marketplace for money now?

Secretary FOWLER. Well, I will defer this to Secretary Deming since he has the schedule in mind better than I do.

Mr. DEMING. We probably will be borrowing new money. As you know, Senator, we have bills maturing all the time. We would be going to the market in July.

Senator HARTKE. In July. About how much?

Mr. DEMING. We have not really come down hard on that yet. I cannot give you an answer.

Senator HARTKE. But it will be a substantial amount, will it not?

Mr. DEMING. Yes.

Senator HARTKE. If I estimated the amount at around $5 billion am I very substantially off?

Mr. DEMING. Yes, sir.

Senator HARTKE. High or low?

Mr. DEMING. High, I think.

Senator HARTKE. You think I am high. A hundred percent high?

Mr. DEMING. Don't pin me down, Senator. I really would prefer not to be pinned down.

Senator HARTKE. All right.

You have a difficult time with all of these things, with the tight money situation which did exist, and with the possibility of tight money coming again. But what I want to come back to is this. When this bill was passed by the House, the administration and the President announced that it was a demonstration of fiscal responsibility on the part of the House of Representatives. I thought that was a fine way to put it, it increased the debt limit by up to whatever it was, as a demonstration of fiscal responsibility.

Now, in my view, and I certainly do not ask you to accept this, we have had a mismanagement here, generally speaking, which, to some extent, is not due to the Secretary or the Director of the Bureau of the Budget.

But some people are not playing completely fair with Congress and the other departments of Government, which caused a great mismanagement of the debt. For this reason, as much as I would like to endorse the position of the President in regard to his opposition to removal of this interest rate, as he did in 1958 when President Eisenhower was President and he was majority leader, I feel that there will be near catastrophe for the Treasury unless this interest rate ceiling is removed, because in my opinion, you are not going to be able to compete with the better credit risks that are going to be in the marketplace.

You are going to compete with Standard Oil and Du Pont and municipals, and you already have indicated that the interest rate on long-term debt is not even approaching the 4¼-percent interest increase. Therefore, although I plant to leave this evening, I intend to join Senator Williams in his amendment to remove that limit, a move which I think will possibly make it easier for you people to do a better job, as Senator Morton has indicated.

I would like to come back, Mr. Chairman, to one item, and I am sorry Senator Morton is not here because he indicated that he had a copy of the agreement which Ambassador Roth has——

Senator WILLIAMS. I think he was getting it.

Senator HARTKE. I want to clear the record up. I just want to put it in the record that if such copies have been available to any Members of the Senate, they have been denied to the Senator from Indiana although I repeatedly requested them, and they have been denied to the Senate Finance Committee. So if they have been given to any other Member of the Senate, I think it is high time that we find out, and if they have not, I think the record should be corrected accordingly.

Again I want to renew my request and urgently request the Secretary of the Treasury not to implement, and to recommend against, the promulgation of this antidumping provision until such time as some people have had a chance to read it, review it, and possibly, approve it. But I do think it ought to be brought before this committee in view of the fact that this is the direct responsibility of the Finance Committee.

Senator SMATHERS. The Senator has repeated his questions, so I will repeat my answer, which was that the Ambassador, Ambassador Roth had stated that he would like to come before the committee and explain what they had done and achieved at Geneva, particularly to go into details of the antidumping legislation. But because of our calendar over here we had not been able to set a time for him to appear.

Senator HARTKE. I understand.

Senator SMATHERS. We will ask him again. I am certain he will be very happy to come and tell us what they have done.

Senator HARTKE. Then I will assume that the acting chairman is indicating that it will be the position of the Finance Committee that until such time as this has been fully explained to the Finance Committee, and we have had a chance to examine it, that the Finance Committee will be on record as opposing its promulgation.

Senator SMATHERS. No. I think the Senator has taken up entirely too much slack on that, coming to that conclusion.

The only statement that I made is that Ambassador Roth stated he wanted to come and explain it to us. He has been ready to come and explain it to us. We have not yet given him an opportunity to do that. He is standing by ready now, I assume—and when I say now, I have reference to Monday, Tuesday, Wednesday, sometime in that area. But it is certainly not the position of the acting chairman, I do not think it is the position of the committee, that we are going to oppose it, because we haven't seen it.

Senator HARTKE. I understand. But I hope it is not the position of the chairman that you are going to approve it without having seen it.

Senator SMATHERS. No. We expect to have the Ambassador over and give him an opportunity to tell us what has happened and just what the antidumping provisions actually, in fact, do provide.

All right. If the Senator is through, Senator Williams.

Senator WILLIAMS. Mr. Secretary, I just have a couple of questions and I think we can be very short.

The House bill has a provision which would include participation certificates sold in fiscal year 1968 as a part of the national debt.

If we extended that to include all certificates that were previously issued, it would be a difference of about, FNMA's would be approximately $5 billion, $4.8 billion additional; then, of course, if we put in the Export-Import Bank there is $2.1 billion, and it would be about $7 billion.

Now, some of us feel that rather than do it piecemeal, we ought to put all of them in. I realize it would have a $7 billion effect on the debt.

How would you feel about putting participation certificates which are outstanding as of this date or which may be issued after 1968, which would fill in the gap—how would you feel about doing away with the gap, recognizing if we do that we would have to make an automatic change of $7 billion in your figure, and we would have to be willing to take care of that, too?

Secretary FOWLER. Senator Williams, two observations. No. 1, I have urged in my statement, as clearly as I can, that the House bill be approved without modification in order to speed its way to enactment.

Senator WILLIAMS. I am not impressed with that because, despite the emergency, we are still going to get you the bill, so let us discuss it on its merits.

Secretary FOWLER. Apart from that I have discussed this at some length before the House Ways and Means Committee, and I will be glad to provide a copy of my statement to members of this committee. It is entitled "A Supplementary Statement of the Secretary of the Treasury" and it is on pages 12, 13, and 14 of the House hearings.

Senator WILLIAMS. I have read it.

Secretary FOWLER. June 30, it would drop back.

Senator WILLIAMS. It says ending on June 29.

Secretary FOWLER. Yes.

Senator WILLIAMS. But it drops back $7 billion.

Forty-eight hours later on July 1, you could go back $7 billion higher again, is that not correct? Each year you would have zigzag every year for 48 hours; is that correct?

Secretary FOWLER. I think you are outlining a——

Senator WILLIAMS. Possibility.

Secretary FOWLER (continuing). Technical possibility which is not practically feasible.

Senator WILLIAMS. I agree with you it is not practically feasible, and that is the reason I am talking about it.

But is this not the effect if we pass it as it is that we are making a $358 billion permanent debt ceiling which will be the ceiling until July 1, 1968, and beginning thereafter for 363 days in the year, we will say 364 days in the year—no, it is 363 days in the year, because it is June 29—you have got a dropback of $7 billion, say $7 billion on July 1, and later, 48 hours later, you can go up and you have this 48-hour dip in here for all time to come, assuming we do not change it.

My question is, Does that make sense? Why not make it $365 billion, and just shut up about it.

Secretary FOWLER. I asked for that originally, Senator Williams.

Senator WILLIAMS. Thank you. And you would be delighted to have it stricken out?

Secretary FOWLER. And the Republican minority opposed it and voted solidly on the floor against it.

Senator WILLIAMS. Well, I suppose they were disgusted with your opposition to some of their sound proposals.

Secretary FOWLER. No. That was the only matter we were in disagreement on. They applauded me on all other proposals.

Senator WILLIAMS. Then you will applaud me for offering this. I am a Republican and proud of it. I sometimes support you, because sometimes you are right. You may be right other times when I am wrong. But anyway, the point I am making is this: you would support a proposal to strike out section 3 and to put it off and be done about it.

Secretary FOWLER. No, not at this time. I would have, and I did make——

Senator WILLIAMS. You are opposing it now?

Secretary FOWLER. I would urge that the committee not amend H.R. 10867 even to embrace some of the recommendations previously made by the Secretary of the Treasury in the House.

Senator WILLIAMS. Well, Mr. Secretary, I want to tell you I get rather impatient with your coming over and asking us to take, sight unseen, a proposal from the House over a proposal that you made, and then on another occasion you come over and you ask us to rewrite the whole bill.

I think if we are only going to accept that we might just as well do away with the farce of the testimony on the hearings and the Senate action.

But I am asking you, and I think you have stated, if I understand correctly, you would rather have it that way, but you do not want Congress to give it to you; is that correct, in the Senate?

Secretary FOWLER. I would like to have the bill, H.R. 10867, speedily enacted to become effective. Then I would like to consider what other matters the Congress wishes to consider in terms of improving the other features covered in this area that are not adequately covered.

Senator WILLIAMS. Well, you can get this bill enacted much quicker if I can get an answer to the question I am asking. Would you support striking out this section 3, which I think is a farce, and putting it up to $365 billion over on the other side, give you the same answer and cut out this farce of a 48-hour zigzag, or we have got a yo-yo tax program, and we do not want a yo-yo debt ceiling?

Secretary FOWLER. Not, Senator, with the knowledge that there was a solid minority opposition in the House, and that such a proposal was defeated on the House floor by a vote of 210 to 197 just a few weeks ago.

Senator WLLIAMS. I will ask the committee to put in the report your great respect for the minority's position and how you tried to support it. I think you deserve it. They would appreciate your recognition of their position.

Now, I have just one more question, but I do not want to——

Senator SMATHERS. You go ahead, Senator, and we will get to Senator Fulbright.

Senator WILLIAMS. In connection with the ceiling on interest, and this has exactly nothing to do with it, but speaking of the long-term bond interest, is it not true that a part of the reason why the long-term bonds, certain issues, are selling at lower yields is that the Treasury has a policy where certain issues of low—they are low, most of them are low coupon rates—are acceptable at par in full payment of estate taxes?

I will cite particularly the 3s of 1995 which are selling around 80, yielding 4.23.

Now, all other bond issues maturing around 1985 are yielding 4.79 to 5 percent.

I realize part of that would result from the fact that by having a low coupon on these bonds, and selling below par their buyer, in effect, is looking at it as a part of his interest as being, in effect, converted to capital gains. We know that.

But are there not certain of these issues which are also acceptable at par in full payment of estate taxes?

Mr. DEMING. Yes, Senator; and that has some effect on their price, without any question.

Senator WILLIAMS. Yes; I realize that.

Mr. DEMING. I cannot measure what that effect is precisely, but it does have some effect.

Senator WILLIAMS. It does have that effect.

Mr. DEMING. Yes, sir.

Senator WILLIAMS. Does that not have this effect that—well, take, for example, the 3s of 1995, is that not one of the issues that is acceptable, in full par in payment of estate taxes?

Mr. DEMING. That is one; yes.

Senator WILLIAMS. Yes; and it would mean that an elderly gentleman with a sizable estate can go out and buy these 3s at say 80 and, in effect, he has got automatically under the law—there is nothing wrong with it, I am not saying that—a 20-percent reduction in his estate taxes.

Would we not be better advised for the Treasury Department to come up with a realistic evaluation of your estate tax policies, your rates, if we are going to have reductions in the rates—and I think they should be seriously considered, perhaps favorably—why not do it in the rate formula, and let everybody have it? I do not think the general public realizes that—this is available to the general public, if they realize it but I do not think they do—a man age 75 or 80 can today put part of his estate into certain type bond issues, and in effect, get a 20-percent reduction in his estate taxes.

I am just wondering if we should—not in this bill, and I am not proposing it—but at a later date consider all of these factors? I am concerned about the manner of using the estate tax rates as a method of helping to reduce the interest rates on our Government bonds. They have no connection whatsoever, in my book, and I think they ought to be separated.

I have been concerned about this rollover, these rollover proposals, of the Treasury. I have discussed them with the Treasury Department, and I will cite a specific example.

Your 2½s of 1972, which was sold 30, 40 years ago, you gave—they were locked in as interest rates went—on that rollover where they could roll them over 2¾ percent with 8 years maturing 1980, you are familiar with the issue, instead of 1972, but you gave them an additional rollover provision where 24 hours later, after rolling them over 2¾ percent, they could rollover 1½s and thereby they could unlock themselves from a 30-year 2½-percent bond in 5 years by taking a 1-percent per year or five-point reduction.

The Secretary admits that costs a lot of money, and he said he could not figure it. I might say I submitted that one issue to the Library of Congress. They say that has cost the Treasury Department over $900 million extra money. That was my computation first, and I submitted it to the Library of Congress and asked them to check it.

But I think in the management of this debt, if we would do away with this farce of interest ceilings and watch these rollovers a little more carefully, I think we can save an awful lot of money.

Secretary FOWLER. For the record, Senator, the date of that issue you just last referred to was back in the late forties, was it not?

Senator WILLIAMS. The issue was in the 1940's, and the rollover was in 1950, 1951.

Secretary FOWLER. Yes.

Senator WILLIAMS. Yes, sir.

And in the rollover provisions because they were locked in until 1972 at a 2½-percent yield, but by giving them the rollover, which was interpreted in many quarters as stretching out the debt by 8 years, and paying an extra one-quarter of 1 percent, which I could say could have been perhaps justified, but the second clause in there, letting them unlock themselves, has cost the Treasury over $1 billion, and that was purely an administrative decision. It was before your administration, it was prior administrations. But I have never been able to understand it.

I would say this, at the time I did not understand it. I remember well Senator Byrd of Virginia seriously criticized the Secretary at that time for that proposal, and raising a question as to the unnecessary costs to the Government, and I will only say that his error was on the underside because it has cost us about between $900 million and $1 billion in unnecessary interest.

I think that, by the same token—and, by the way, to determine this, could you furnish to the committee the dollar amount of estate taxes that were paid in each of the past 5 years through this procedure of turning in these issues of Government bonds which could be accepted at maturity, not the names of the people but the dollar amount that was done, and in that way we could get an estimate as to the loss in revenue, if you want to put it that way, that derived from the Government taking these bonds in at par when, in reality, they are selling around 80. Could you furnish that to us later?

Mr. DEMING. Senator, we will do the best we can on that. I assume we have those numbers.

Senator WILLIAMS. All right, sir. Thank you.

(The Department of the Treasury subsequently supplied the following information:)

Readily available figures on the amounts of Treasury bonds accepted at par in payment of Federal estate taxes would indicate the following:

Fiscal year 1962	$185, 749, 600
Fiscal year 1963	208. 797, 100
Fiscal year 1964	220, 000, 000
Fiscal year 1965	279, 524, 000
Fiscal year 1966	289, 923, 000

These figures were put together as quickly as possible to complete the record for the Senate Finance Committee Hearing on the Public Debt Limit. The Treasury does not regularly keep figures on this basis, and more time would be required to verify the data, or to supply greater detail.

Senator SMATHERS. Senator Fulbright.

Senator FULBRIGHT. Mr. Chairman, I do not know that I have any searching questions. I am interested in the Secretary's observation of just what is the function of this debt ceiling.

Why do you go through this charade every year?

Secretary FOWLER. The main reason, as I have seen it and experienced it, Senator Fulbright, is that it provides a forum and an occasion for the Ways and Means Committee and, to some degree this committee, to take an overall look at the Government's financial requirements, of their increase and development, and the lines that they are taking, and give a kind of overall financial review.

We have in the last few years, Senator, also tried to provide such a review to the Senate Appropriations Committee sitting en banc, and the House Appropriations Committee just after the budget and, the President's economic program is submitted.

We follow pretty much the same process here in connection with the debt limit of a general overall review.

I myself have never understood why it is necessary for us to go through this legislative process of fixing a ceiling each year and, as my testimony indicates, I think the time has now come when it would represent a substantial improvement if we tried to fix a ceiling at a so-called permanent level which would be sufficiently far out to be adjusted with much lesser frequency.

Senator FULBRIGHT. I thought of this when the Senator from Delaware said you were misleading the public. It does create an impression that either this committee or even the Treasury has some control over the budget. But it really does not, does it?

Secretary FOWLER. No. sir. It does create that impression, and I find it constantly difficult to explain to people who write in, and editorial writers, that I am just spending money. All I am doing is trying to borrow the money to pay for the bills that have been created by congressional action through authorization, appropriation, and so-called back-door spending.

Senator FULBRIGHT. I thought that was about the situation.

I wonder if I might ask Mr. Schultze if he could estimate now how much the Defense Department is going to spend in this fiscal year.

Mr. SCHULTZE. Senator, combining military functions and military assistance, which we normally do for this purpose, the budget carried $73.1 billion.

I indicated last month in my testimony before the House Ways and Means Committee, and again here today, that barring major military decisions in Vietnam which would change the assumptions on which the budget was based, we may need three-quarters of a billion dollars of leeway in that estimate. For conservatism we added that three-quarters of a billion, so that I am up to $73.9 billion or $74 billion, barring major changes in military operations.

Senator FULBRIGHT. Is that for 1967?

Mr. SCHULTZE. For 1968.

Senator FULBRIGHT. 1968.

Mr. SCHULTZE. Yes, sir.

Senator FULBRIGHT. Have you made any comment on Chairman Mills' statement of some time back that he could see the possibility of a deficit of $29 billion over your estimates?

Mr. SCHULTZE. Well, what that $29 billion consists of is taking the $11 billion estimate which we presented to the House Ways and Means Committee and adding in a number of contingencies, each of which admittedly may be possible, but it is very unlikely that all of them would occur at once.

The $29 billion comes from taking the $11 billion that you start with: Assume no tax increase and you add $5½ billions; assume no sales of participation certificates and you add another $5 billion. That gets you up to $21½ billion.

Then you add another $2½ billion for a possible shortfall in revenues, because the economy might be more sluggish than we estimated, and that brings you up to $24 billion. Then he added another $5 billion as a possible add-on in defense expenditures, which got him to the $29 billion.

One has to say that each one of these contingencies is certainly a real contingency, but it is very unlikely they will all occur at once.

Senator FULBRIGHT. In the Defense Department's budget expenditures, does the Budget Bureau really have any control over that? Do you examine their budget the way you examine domestic budgets?

Mr. SCHULTZE. We do examine their budget, but in a different way than we examine other budgets in particular.

In the case of the civilian agency budgets, there is a formal submission to the President through the Budget Bureau, and the Budget Bureau then makes recommendations on the basis of that formal one-shot submission, if you will.

With respect to the Defense Department, however, we have followed the practice for the last, at least the last, 6 years—I am not sure how different it was under the Eisenhower administration—of jointly participating with the Secretary in his review of the services' budgets.

Senator FULBRIGHT. Dou you exercise or attempt to exercise any judgment as to the wisdom of any particular programs in the Defense Department?

Mr. SCHULTZE. We do, sir, and this obviously varies from situation to situation. Yes, sir; we do.

Senator FULBRIGHT. What I have in mind is, I have had some letters about social science research projects sponsored by the Defense Department. Are you aware of those programs?

Mr. SCHULTZE. Well, I know that the Defense Department sponsors such projects. I am not aware of the specific titles and subject matter.

Senator FULBRIGHT. They do not tell you what they have in mind when they go out and institute a Camelot program in South America, do they?

Mr. SCHULTZE. In that particular case, no, sir. I think I would have——

Senator FULBRIGHT. Not any. Aren't there a great many similar projects?

Mr. SCHULTZE. Oh, yes. There are a great many projects, sir; but not necessarily similar. What I was going to explain on this was that in reviewing the Defense budget one of the items that is reviewed is the research budget.

Senator FULBRIGHT. Yes.

Mr. SCHULTZE. We do review it.

Senator FULBRIGHT. You review it?

Mr. SCHULTZE. We do, sir.

Now, this does not mean, however, in a $7 to $7.5 billion research budget, we examine every one of the thousands of individual items that are involved in it.

Senator FULBRIGHT. You do not attempt to analyze them and say that this is entirely unrelated to defense matters, do you?

Mr. SCHULTZE. Well, let me put it in a more general way, Senator. We attempt, as well as we can, attempt to exercise our judgment in terms of discussing with the Secretary his research budget, and there are no restrictions on this.

In this particular case——

Senator FULBRIGHT. Did you approve the Camelot project or did you not?

Mr. SCHULTZE. To the best——

Senator FULBRIGHT. That is used as a sample, because there are many others similar to it.

Mr. SCHULTZE. To the best of my knowledge, we did not consider that particular item.

At the time when that was approved, I was not Director, and I do not exactly know what went on. But I would guess——

Senator FULBRIGHT. They still have projects similar to that which are going on and, frankly, I do not approve of them. I do not think it is any of their business to go out over the world and undertake social science research projects. They are usurping, I think, jurisdiction not theirs and if it is at all proper it ought to be under the State Department. But I do not understand this kind of proliferation of the Defense Department's activities at all.

Mr. SCHULTZE. Senator, if I might add something on this, it is my understanding that the State Department is now reviewing and does now review all such social science research projects.

Senator FULBRIGHT. They review them after they get a complaint from our Ambassador in the various countries, and then they disavow them. But I understand they are still carrying them on.

I wonder if you could tell us what the objective of this kind of research is? What is the purpose of that type of research into the possibilities of development of socialism within a country, or what the attitudes of the people of a given foreign country are toward reforms within their political and social structure? Why is the Defense Department doing it? If it is submitted to you, I wondered if you could give us any light as to why the Defense Department undertakes this kind of activity.

Mr. SCHULTZE. Senator, in order to do that intelligently, I sure would not want to do it off the top of my head, as would be the case if I attempted to answer you other than for the record.

I would be glad to furnish you with an answer. But to be quite honest with you, I would not be able to formulate a kind of honest, reasoned opinion from scratch right before this committee. But if you wanted I would be glad to look into it.

(The information referred to had not been received as press time.)

Senator FULBRIGHT. The truth of the matter is that they would think you would be presumptuous if you ever questioned it.

Mr. SCHULTZE. No, sir. I do not agree with that.

Senator FULBRIGHT. Have you ever questioned it?

Mr. SCHULTZE. On a question of that particular nature, since I have been Director I do not recall a specific instance But to generalize that, to say that questioning any of their projects would be considered presumptuous, is quite incorrect, Senator.

Senator FULBRIGHT. I ran into one program where the Air Force sponsored at considerable cost a research project about the progress of communism in Latin America.

What does that have to do with the Air Force? When I first asked General McConnell about it, General McConnell said that could not be so.

About 3 hours later he called up and said, "I was mistaken. I was not aware of it."

When he first heard of it he thought it was absurd. But after he consulted Mr. Brown he felt this was in accord with the Defense Department procedure. But to have the Air Force go out and making research projects about the progress of communism in Latin America seems silly to me.

Mr. SCHULTZE. Well, Senator, without attempting at this stage to get any kind of a definitive statement on it, I would say this. One has to be awfully careful about looking at the title, just the title of the research project, and making a judgment.

Every once in a while I pick up the Congressional Record and see a lot of fun made about weird-sounding titles for research projects, and I will admit in some cases fun ought to be made.

But in other cases, investigation does indicate there is a real connection which is not apparent from the title.

I have no knowledge of the particular Air Force project you are talking about. To the extent it relates——

Senator FULBRIGHT. I hoped you would. But it seemed to me somebody besides the Defense Department ought to know about it.

Mr. SCHULTZE. Well, the State Department does, Senator, under the procedure instituted after Camelot.

Senator FULBRIGHT. I do not believe they do. When it turned up in Chile, our Ambassador was taken by surprise, Mr. Dungan. It was all in the paper why he was so surprised. If the State Department had been apprised——

Mr. SCHULTZE. I say since Camelot the procedures have been established to do that.

Senator FULBRIGHT. I would like proof of it. I do not think they do. The Defense Department does as they please.

Mr. SCHULTZE. No, sir.

Senator, we obviously disagree. I just do not agree with that.

Senator FULBRIGHT. What about these, do you have anything to do at all or do you review, the program of education of the American people by the Defense Department, their program of sending out blue teams and red teams and white teams, to brainwash the American people? You do not have anything to do with that, do you? You do not pass upon it. If you did not approve of it, you would not have an opportunity to say, would you?

Mr. SCHULTZE. Senator, I may have to confess the fact of not having passed upon every item in the Defense budget. I clearly confess that.

But I will not accept the indication that the Secretary of Defense considers it an intrusion upon his prerogatives in any sense to have the Budget Bureau question these items. To the extent that we have not done so, that is a matter of, perhaps, fault and judgment, but it is not a reflection of the fact that the Secretary of Defense will not discuss these or submit them for review.

Senator FULBRIGHT. I was struck by the contrast of the meticulous care with which you go over some little program of some $100,000 in Arkansas for a sewer project, and how careless, how free the Defense Department has gone, how much money they have to go and investigate something which has nothing whatsoever to do with defense. It makes a great contrast, and it is not very encouraging to those of us who are interested in the development of our own country.

Mr. SCHULTZE. Well, Senator, far from wanting to claim any kind of perfection or infallibility with respect to reviewing the defense budget, we do get into these matters in some detail, although in some cases, clearly more than others. I mean I cannot say it is even across the board. It is not. It varies.

Senator FULBRIGHT. I have great sympathy for your position. I do not think they would allow you to interfere with their program of research.

Mr. SCHULTZE. Senator, I am sorry to keep coming back to this, but that is just not correct. It does not necessarily mean we are going to agree, don't get me wrong.

Senator FULBRIGHT. I do not believe you even know about it, but I do not think they would be very pleased if you tried to inform yourself about them.

Mr. SCHULTZE. Well, there are obviously situations in all departments where agency or bureau heads are not the happiest people in the world when the Bureau looks into them. But there is nothing peculiar about the Pentagon in that respect.

Senator FULBRIGHT. Well, it is peculiar in that you said $74 billion, and that is what percent of the total budget?

Mr. SCHULTZE. On an administrative budget basis about, not quite, 55 percent.

Senator FULBRIGHT. Fifty-five percent.

Ten years ago what percentage was the military of our total budget?

Mr. SCHULTZE. Ten years ago?

Senator FULBRIGHT. Roughly.

Mr. SCHULTZE. Probably 50.

Senator FULBRIGHT. Fifty.

Mr. SCHULTZE. Ten years ago, probably 50.

Senator FULBRIGHT. Total budget 10 years ago was not as much as the defense budget is this year, was it?

Mr. SCHULTZE. Maybe it was a larger proportion then. If I can have just a second I can give you that number.

Senator FULBRIGHT. What was the total budget of 10 years ago?

Mr. SCHULTZE. The total administrative budget——

Senator FULBRIGHT. It was less than $70 billion, was it not?

Mr. SCHULTZE. In fiscal 1967——

Senator FULBRIGHT. 1957.

Mr. SCHULTZE. In 1957 rather, the total administrative budget was $69 billion.

Senator FULBRIGHT. Less than defense is this year, is it not?

Mr. SCHULTZE. That is correct.

Of that $69 billion, defense was $38 billion; in fact, nearer $41 billion out of $69 billion, including military assistance, so it was a higher proportion then than it is now.

Senator FULBRIGHT. But absolutely it is——

Mr. SCHULTZE. Of course, we understand.

Senator FULBRIGHT. And you would not want to prophesy that it would not be $100 billion in another 2 years, would you?

Mr. SCHULTZE. I would not want to prophesy.

Senator FULBRIGHT. You would not want to guess at that?

Mr. SCHULTZE. No.

Senator FULBRIGHT. It just seems a shame that we are becoming the greatest military power in the world, the greatest military power the world has ever seen, and going down and deteriorating domestically very rapidly. It seems a terrible way for us to be moving, a great peace-loving country.

Mr. SCHULTZE. Senator, I do not know how long to prolong this. I think I take exception to the point that we are deteriorating domestically.

Senator FULBRIGHT. The only point I am making is that really the defense budget is completely out of control, and that neither you nor the Secretary of the Treasury nor the Congress is doing anything about it.

Secretary FOWLER. Senator, as far as the deterioration of the country is concerned, economically, all of the information and impression that I have is that there has never been a period of greater, healthier, and better balanced growth than the one we have enjoyed in the last 6, 7 years.

Senator FULBRIGHT. That only shows how superficial economics are, at least our lacking in fundamentals, because I have never seen a period in which crime, alienation, disaffection, riots—last week, the week before last, in three States they had to call out the National Guard to preserve order. I do not remember this being true at any time.

Mr. SCHULTZE. Senator, I think you might, just as an aside, find a little book by Ray Vernon, very helpful, called Myth and Mythology with respect to this whole urban and social area where he points out we do have rising crime rates, and we do have other problems like this. But go back to the 1870's, and you will find large sections of American cities in which the police never dared to go. They were policed by vigilantes.

Senator FULBRIGHT. You mean during the period of Reconstruction, well, during the Civil War.

I do not think the period of the Civil War was a period of greater disorder than now. That is about the only period.

Mr. SCHULTZE. I am talking about the last half of the 19th century.

Senator FULBRIGHT. During the period following the Civil War. But I thought we had gone a little further than that in the establishment of law and order in this country.

I had a letter this morning from a man who was supposed to come to see me, and he wrote a letter, from my State, and he said, "I am sorry to report I didn't get there. I was held up and robbed and I was unable to get to Washington."

This is happening all the time.

Mr. SCHULTZE. Senator, there are indeed serious problems.

Senator FULBRIGHT. Mr. J. Edgar Hoover is a good authority, is he not, that the crime rate in Washington, D.C., last month was up 59 percent over the year before. I think it was in the paper a few weeks ago. Does not this disturb you?

Mr. SCHULTZE. Yes, sir. There are serious problems, and nothing I meant to say would indicate to the contrary.

The main thrust I was trying to get at is that in the last 4 years, the Federal Government has, I believe, moved vigorously in this area of improving education, and health, and in antipoverty activities. This does not mean we are perfect, that all of these programs are perfect, that they have licked the problem. They clearly have not. But if you compare the last 4 years, you can see the recognition of the Federal Government about the social problems which need to be licked. Look at both the expenditures which have been devoted to this, and look at the statistics with respect to the number of hard core disadvantaged who have been trained; look at the number of poor kids who have been aided; look at the number of children who have gotten the advantages of health care as compared to any prior 4-year period in our history, and I think the social ferment in terms of recognizing these problems and moving to meet them cannot be beaten in any time of history that I know of.

All of which is not to say that we have answered the problems, that they are licked, and that we do not have a lot more to do. But I do want to make it clear—certainly in my own view—that this has been a period, Vietnam or no Vietnam, in which there has been unprecedented moving in the right direction.

Senator FULBRIGHT. Well, 2 years ago the move was made, but now it is being cut back. They are cutting back programs I am familiar with in my State.

Mr. SCHULTZE. Well, Senator, when you look at these statistics on the expenditures and programs in these social areas, they have continued to move ahead.

Now, this is again not to say that they have been moving ahead as rapidly as a lot of people might wish, that is clearly true. They are not. But they have continued to move ahead. They have not been cut back.

Senator FULBRIGHT. But at least we ought to move ahead fast enough to keep peace in the country. I mean it is a disgrace to this country when they are being afflicted with the kind of disorders they are.

Mr. SCHULTZE. I would suggest one of the major things on that, Senator, is passage of the President's crime control bill which will help. It won't entirely solve the problem but it will certainly help it. This is now up for consideration in the House, and I certainly hope it passes.

Senator FULBRIGHT. I am through.

Senator SMATHERS. Senator Harris has three questions.

Senator HARRIS. I want to submit them, and you can answer them in writing.

One, of course, I agree fully with Senator Fulbright that the great amount of social research we are doing in foreign countries ought to be under the aegis of a civilian and not a military agency.

We have been holding hearings in the Subcommittee on Government Research which I head on this very subject, and you might take a look at those hearings, but not for this particular bill.

You ought to submit to a memo of what review procedures there are, central procedures, within the Bureau of the Budget to determine what agency ought to be doing social science research in foreign countries with Federal money. Very little, if any, is being done by the State Department or by AID or by USIA.

The tremendous bulk of it is being done by the Department of Defense which just, in spite of the very good procedures instituted at Camelot, under the jurisdiction of Tom Hughes over in the State Department, still furthers the militaristic image of this country. So I think you ought to give us some word about the procedures that are in effect or might be put in effect to determine what agency will have responsibility for Federal social science research in foreign countries.

(The information referred to had not been received at press time.)

Senator HARRIS. Now, on this bill, to clear up the record, we need two things: one, the practical way that you would use this $7 billion seasonal temporary addition to the $358 billion permanent ceiling, Mr. Secretary. That was raised about how could you practically use that with each June 30, where it would go back to the permanent limit of $358 billion and I think you could say to us in writing how you will use that $7 billion.

Secretary FOWLER. Yes, we have figures that show the inflow of taxes that begin on March 15, and April 15, that——

Senator SMATHERS. Why don't you put it in a letter to us?

Secretary FOWLER. Yes.

(The Department of the Treasury subsequently supplied the following answer to the question raised by Senator Harris:)

Q. How would the seasonal $7 billion addition to borrowing authority provided in H.R. 10867 be used in actual practice?

A. Section 3 of H.R. 10867 provides that the permanent debt ceiling of $358 billion, set in the first section of the bill, would be enlarged, starting in fiscal year 1968, by $7 billion during the portion of each fiscal year beginning in July 1 and ending June 29.

Technically, this would mean that the following debt limit prevailed, beginning July 1, 1967:

	Billion
July 1, 1967 through June 30, 1968	$358
July 1, 1968 through June 29, 1969	365
June 30, 1969	358
July 1, 1969 through June 29, 1970	365
June 30, 1970	358

And so on, with the limit returning to the $358 billion permanent level on each June 30.

In practice, of course, the Treasury would not expect to issue $7 billion of additional debt each July 1 and repay that net amount each June 30. Rather, the $7 billion leeway would be uesd to accommodate the typical rise in debt that must occur within each fiscal year for purely seasonal reasons. This seasonal pattern follows from the fact that the Treasury collects 41 to 45% of its revenues in the July-December half of the fiscal year. Because of the seasonal dearth of revenues, the Treasury generally makes additional temporary borrowings in the first 6 to 9 months of the fiscal year and repays these borrowings in the last few months of the fiscal year, when taxes come in heavily.

In arriving at a $7 billion figure for seasonal upswing within the fiscal year, several different approaches could be used. Averaging out the past 10 or 15 years, and working with the seasonal upswing or seasonal decline, one arrives at a set of figures that cluster around $7 billion.

Quite typically, the Treasury's seasonal borrowing takes the form of tax anticipation bills which mature several days after the major corporate tax dates on March 15, April 15 and June 15, and which corporations may use in payment of their taxes due in those months.

During fiscal year 1967, for example, tax anticipation bills were used as follows:

[In billions of dollars]

Tax anticipation bills issued		Maturity date		
Date	Amount	Mar. 22, 1967	Apr. 21, 1967	June 22, 1967
Aug. 26, 1966	3.0	2.0	1.0	
Oct. 18, 1966	3.5		1.5	2.0
Dec. 12, 1966	.8			.8
Mar. 13, 1967	2.7			2.7
Total	10.0	2.0	2.5	5.5

Thus tax anticipation bills were issued from August through early March, in the total amount of $10 billion, and then gradually repaid from mid-March through late June. All of these bills have now been repaid.

This is not to say that seasonal borrowing would necessarily take the form of tax anticipation bills, but certainly that is a typical form that it might well take. Nor would the $7 billion seasonal debt increase necessarily be an upper limit on the volume of tax anticipation bills outstanding. For instance, one could imagine hypothetical circumstances in some future fiscal year where March 14 there was a total debt subject to limit of $363 billion, including $10 billion of tax anticipation bills. By June 30, in that same hypothetical year, the $10 billion of tax anticipation bills might have all matured, but the Treasury might in the meantime have borrowed $2 billion in some other form such as Savings Bonds or special issues held by trust funds—leaving the June 30 debt subject to limit at $355 billion.

Senator HARRIS. The last thing is to spell out a little more than you do, your answer to the several ways in which this bill might be amended. We ought to strike that portion having to do with the FNMA participation certificates; we ought to strike section 3, and we ought to raise the debt limit to $365 billion. But I think you ought to spell out the practical effects of going past the deadline were we to amend it here, go back to the House, what the practical effects would be if we go past the deadline on the existing temporary limit on the debt ceiling.

I think you can do that in writing and you can complete this record.

Secretary FOWLER. Senator, I think it is important to complete the record on that, and I have limited my comments in the statement, in the interest of time, to just a generalized statement, that we could not meet the debt that actually matures. First, we would have to stop selling savings bonds as of July 1. There are 9 million people who are on regular payroll deduction plans, and there are many, many other oulets, and this would be a major dislocation of this very excellent program.

Secondly, we would be unable to meet the debt that matures or to pay the bills after July 12.

Now, the House committee report on H.R. 10867 spells this out in some detail on page 7, but I would be glad to submit an analysis of this.

(The Department of the Treasury subsequently supplied the following material:)

Q. What happens if the debt limit is not raised by July 1?

A. If the debt limit is not raised by July 1, the limit drops back to the permanent level of $285 billion, compared with an actual debt that is expected to be about $327 billion on that date. The Treasury will then be able to issue *no new debt*, either to raise net additional funds or even to refund maturing issues as they come due.

An immediate casualty—starting July 1—would be the national savings bonds program. There are more than 9 million persons who regularly buy savings bonds on payroll savings plans, and no new bonds could be issued to them. This program is a major national asset, not only to the individual savers but also to the Government in its efforts to promote sound financing of the debt. There is now $50.7 billion outstanding in savings bonds—or nearly one-quarter of the debt in the hands of the public. It would be most unfortunate if this on-going program were to be disrupted in any way.

Current projections of the Treasury cash position suggest that the Treasury, on June 30, will have close to $7 billion in its depositaries—commercial banks and Federal Reserve Banks. That supply of cash would not last long if the Treasury were unable to borrow after July. Merely to repay maturing Treasury bills during July would use up $10.7 billion: $2.3 billion on July 6, $2.3 billion on July 13, $2.3 billion on July 20, $2.3 billion on July 27, and $1.5 billion on July 31.

In the normal course of events, those bills would be replaced with new issues of Treasury bills as they came due. But if the Treasury cannot issue new debt, then the issue of new bills would not be possible, and that would drain the limited cash supply very quickly.

Repayment of one or more bill issues would be a disruptive influence in the financial markets, disturbing the smooth cycle of bill refundings that has been developed over the years. Customers who cannot buy bills may make other investments and it could be costly to win them back. If $2.3 billion of bills were repaid out of cash held at the Federal Reserve this could flood the money market with reserves, creating difficulties for the Federal Reserve. But the more difficult problem would be to restore weekly bill issues that had been skipped. once the debt limit permitted this. To restore these bills while at the same time borrowing seasonally large cash needs could be a very costly process.

In addition, July is a month when expenditures typically exceed tax receipts. The net outpayment would be expected to be about $4 billion in July 1967.

A day-by-day projection of the net cash outflow, reflecting both the repayment of maturing debt and the excess of current expenditures over receipts, would run as follows during July: (The figures are cumulative, in billions of dollars).

July:		July—Continued	
3	$0.432	18	$8.357
5	1.256	19	8.247
6	4.230	20	10.236
7	4.654	21	9.741
10	4.728	24	9.698
11	4.746	25	9.842
12	4.739	26	10.051
13	7.290	27	12.558
14	7.665	28	12.929
17	8.071	31	14.850

Under these projections, a starting cash balance of under $7 billion, would last only through July 12. On July 13, the Treasury would not have enough money to pay all the maturing Treasury bills or to meet current expenditures. On subsequent days, as tax payments came in they could be used to make partial payments on maturing Treasury issues or to meet a fraction of the current Government outlays, but it could be only a small fraction. And by that time the disruptive effects on the economy might be such that tax monies were no longer flowing in on schedule.

The expenditures that could be affected by the exhaustion of Treasury cash run the full gamut of Government outlays.

For example, the list would include—

Paying for defense supplies;
Paying for our Armed Forces;
Paying Government civilian employees;
Federal payments to states;
Payments to farmers;
Pension payments for veterans, Social Security recipients, civil service retirees;
Medicare payments;
Unemployment benefits.

It may be asked how trust funds such as Social Security or Unemployment could be affected by cash depletion, since these payments are made out of trust funds. But if the Treasury had no money to redeem the special issues held by the trust funds then money would not be available for beneficiaries. Some of the trust funds also hold marketable Treasury securities, but it is not certain that other buyers would be willing to purchase these securities if there was a question about the Treasury being able to repay its obligations at maturity.

In short, it is fair to say that financial and economic chaos could be the result of failure to take timely action on the debt limit.

Let me say that this is the overriding reason that I have taken the liberty of urging the Senate in this case not to work its will in minor amendments even though I might prefer some of them to the present bill. I would much prefer that this bill be signed and become law before next Friday, in the interests of orderly financing and management of the debt and handling of the financial affairs of the Government and avoiding dislocations in the markets, that would be served by prompt enactment of this bill.

Senator HARRIS. I quite agree. But I just wanted to complete the record, since there are amendments that we would like to offer.

For example, the amendment having to do with aid to dependent children of unemployed parents. That law is going to expire—the one passed in 1962. It affects my State, and it affects a good many other States. This would be, all other things being equal, a very good vehicle to attach to that.

Secretary FOWLER. Senator, with all due respect, let me just plead with you that you forego at this time on this bill adding nongermane amendments, or even germane amendments, because the time is awfully short to go to conference if you make any changes at all, and to go back with a conference report to the two Houses. I have just come through an experience in which a bill that even Senator Williams would seem to support, has been rejected by 210 to 197 not more than 3 weeks ago. Don't put us back through that meat grinder again or else we will be beyond a reasonable date, and I know the Congress wants to go home for a vacation.

When it comes back on July 12, I will have a sign out on the Treasury Department "Out of Business," if the bill is not passed.

Senator HARRIS. I think that is correct.

The time limit is, but I quite agree with you—we need to complete this record.

Senator FULBRIGHT. Mr. Schultze, can't you give us a list, a breakdown, of the Defense Department's social science research programs?

Mr. SCHULTZE. I will see what I can do, Senator.

Senator FULBRIGHT. Who can do it if you cannot do it? They are supposed to submit it to you.

Mr. SCHULTZE. I will try to do it.

Senator SMATHERS. The answer is he will do it to the best of his ability.

Senator FULBRIGHT. I think it would be very interesting to let us see what they are doing all around in areas particularly abroad.

(The information referred to had not been received at press time.)

Senator SMATHERS. All right. The comimttee will stand in recess. We will have an executive session at 9:30 Monday morning next.

(Whereupon, at 12:10 p.m., the committee adjourned.)

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