PUBLIC DEBT CEILING

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 6009

AN ACT TO PROVIDE, FOR THE PERIODS ENDING JUNE 30, 1963, AND AUGUST 31, 1963, TEMPORARY INCREASES IN THE PUBLIC DEBT LIMIT SET FORTH IN SECTION 21 OF THE SECOND LIBERTY BOND ACT

MAY 23, 1963

Printed for the use of the Committee on Finance

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PUBLIC DEBT CEILING

THURSDAY, MAY 23, 1963

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

The committee met, pursuant to notice, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Long, Smathers, Anderson, Douglas, Gore, Talmadge, Hartke, Williams, Bennett, Curtis, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The hearing today is on the bill (H.R. 6009), to provide for the periods ending June 30, 1963, and August 31, 1963, temporary increases in the public debt limit set forth in section 21 of the Second Liberty Bond Act. The Chair places in the record a copy of the bill, as well as the report thereon by the Bureau of the Budget.

(The bill and the report of the Bureau of the Budget follow:)

[H.R. 6009, 88th Cong., 1st sess.]

AN ACT To provide, for the periods ending June 30, 1963, and August 31, 1963, temporary increases in the public debt limit set forth in section 21 of the Second Liberty Bond Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. 757b), shall be temporarily increased—

(1) during the period beginning on the date of the enactment of this Act and ending on June 30, 1963, to $307,000,000,000, and

(2) during the period beginning on July 1, 1963, and ending on August 31, 1963, to $309,000,000,000.

During the period ending on June 30, 1963, the limit provided by paragraph (1) shall be in lieu of the limits provided by the Act of July 1, 1962 (Public Law 87-512; 76 Stat. 124).

Passed the House of Representatives May 15, 1963.

Attest:

RALPH R. ROBERTS, *Clerk.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 22, 1963.

Hon. HARRY F. BYRD,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This report is in response to your request for the views of the Bureau of the Budget on H.R. 6009, which provides for temporary increases in the public debt limit to $307 billion until June 30, 1963, and to $309 billion from July 1, 1963, to August 31, 1963.

Under present law, a temporary debt limit of $305 billion is now in effect. This limit is scheduled to drop to $300 billion from June 25, 1963, to June 30, 1963, after which time the permanent debt ceiling of $285 billion becomes effective. As the President noted in his budget message of January 17, 1963:

"The present temporary debt limit was enacted last July on the assumption, clearly stated in the report of the House Committee on Ways and Means, that the expansion in the economy and in tax revenues would be sufficient to produce a balanced budget for fiscal year 1963. It is now evident that receipts will not reach the level hoped for at that time. As a consequence, the pending step reductions in the temporary limit on the public debt would render impossible the sound management of Government finances during the April-June quarter of 1963."

The President further indicated:

"To meet our financial requirements and to provide a margin of flexibility, I will request a further increase in the debt limit for fiscal 1964. The exact amount and nature of the increase required depends not only on the total amount of the deficit but also on the particular time pattern of receipts and expenditures. For this reason, the debt limit to be requested for fiscal year 1964 will be determined later this year when a more reliable estimate can be made of the requirements."

While the limits provided in H.R. 6009 allow only a very narrow margin for contingencies, the Treasury Department has informed us that in their view, the Government will be able to operate under these limits until late in August. Prior to that time, therefore, further adjustments in the debt limit will have to be requested. In view of the urgent need for providing a higher limit during the period immediately ahead, the Bureau of the Budget favors prompt enactment of H.R. 6009.

Sincerely yours,

PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

The CHAIRMAN. Inasmuch as the distinguished Senator from Massachusetts has another meeting which he must attend, we will hear him before the Secretary of the Treasury.

STATEMENT OF HON. LEVERETT SALTONSTALL, U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator SALTONSTALL. Mr. Chairman, if I may, I am going to put in front of each member of your committee my very brief statement, and a copy of the bill that you and I joined in sponsoring in the last session of Congress, and a statement on this legislation from the Comptroller General to Senator McClellan.

The CHAIRMAN. Without objection, it will go in the record.

(The statement of Senator Saltonstall, with attached supporting data, a copy of S. 3035, and a letter of the Comptroller General dated July 8, 1959, follow:)

STATEMENT OF HON. LEVERETT SALTONSTALL, A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS, ON THE REPORTING OF THE FEDERAL DEBT

I am very grateful to have the opportunity to testify briefly before you this morning. My testimony will be directed to the problem of ascertaining what the total consolidated Federal debt actually is, and the remedy I propose for this problem.

Last year I introduced S. 3035 with your chairman: "A bill to clarify the components of and to assist in the management of the national debt." This bill was preceded by S. 2122 in the 86th Congress. I suggest that this bill be attached as an amendment to the national debt legislation now before you. I have not reintroduced it this year, as I know that it is in your committee's files, and could be taken up by you when appropriate. I knew that you would have the debt limit before you this year, and felt it could be attached as an amendment to this year's revision.

The U.S. Government currently owes many different kinds of obligations. Some, such as the statutory debt now before you, are reported fully to the Congress and the public. Others, such as long-term leases and contracts, are not fully reported. There are also many contingent liabilities ranging from insured deposits under the Federal Deposit Insurance Corporation to ship mortgage insurance, and from VA home loan insurance to the support which the people expect will be given to the various trust funds. Guaranteed debentures of the FHA are also outstanding. All of these and others, such as the Veterans' and Social Security Administration's actuarial liabilities for insurance, are part of the consolidated liabilities of the Government.

I do not believe any Government corporation will be allowed to default on its obligations, and in this sense all their liabilities are contingent liabilities of the Government as a whole. Reports are available on all of these liabilities, but they are not published together as they would be in a private business annual report. There they would be part of the consolidated balance sheet or in its footnotes. Lease obligations are reported in a variety of places, but they are growing, too, and should be drawn together. In business no reputable auditor would sign his name without mentioning these obligations, and the Securities and Exchange Commission would reject the reports at once if they were omitted.

We owe a responsibility to the people and to the Congress to make clear, to the best of our ability, the true financial picture of the United States. It is now very difficult for someone outside the budgetary and accounting staffs of the Government to draw these figures together because they are contained in so many different source documents. Some of the figures are not available to the public at all.

This bill grew out of comments made to me by people who expressed concern that pressure on the administration to reduce the statutory debt would only result in increases in the nonstatutory debt. For example, policy might call for leasing buildings in some cases rather than the purchase of property, and in other cases contracts might be stretched out to defer payment. Trust funds might borrow without the full faith and credit of the United States being pledged in order to avoid increasing statutory debt. S. 3035 of the 87th Congress is not designed to stop this or to change any presently operative laws but merely to give a clearer picture of what is being done as public policy.

The aim is to represent to the Congress and to the people the liability side of the Federal balance sheet as completely as it would be in a business. Only with this available can we have an idea of what our debt policy really means.

S. 3035, which I now propose as an amendment to the legislation before you, applies to the Budget and Accounting Procedures Act of 1950. Section 102(1) of this act requires reports on "* * * all essential facts regarding the bonded and other indebtedness of the Government * * *" as part of the budgetary procedure. Section 112(a) of the act also states:

"The Comptroller General of the United States, after consulting the Secretary of the Treasury and the Director of the Bureau of the Budget concerning their accounting, financial reporting, and budgetary needs, and considering the needs of the other executive agencies, shall prescribe the principles, standards, and related requirements for accounting to be observed by each executive agency, including requirements for suitable integration between the accounting processes of each executive agency and the accounting of the Treasury Department."

My proposed amendment adds to these phrases an outline of the details of the Federal debt which should be supplied semiannually in brief, concise form. It is my hope that such a statement would be of real use to the Congress, to economists, and to the public in determining the condition of the Nation's economy.

Section 1 adds no new requirement. It asks for the present statutory debt and guaranteed obligations.

Section 2 asks for a report on the contingent liabilities of the Government together with a statement showing the collateral pledged as security. It also asks for a brief analysis of the risk in terms of past experience. This is intended to be somewhat like the report a bank examiner might make on the quality of a bank's loans, though it refers to liabilities not assets. A report more comparable to business practice would be made on an actuarial basis on trust fund liabilities such as the old age and survivors insurance. Presently these figures are available but can be drawn together only with difficulty.

Section 3 asks for the total obligation under long-term contracts and leases where the contract extends over 3 or more years. This is intended to reveal the accounts in which the Government has substituted a long-term lease or contract for a direct purchase which would increase the statutory debt. It also would give an idea of one of the built-in annual expenditures in the Federal budget.

Section 4 asks for a repeat of the unobligated contract authority granted the executive agencies. This figure is reported in the budget message, and gives an idea of the sepnding capability of the Government. It is an opportunity to create a liability which may eventually increase the public debt. For this reason it should be considered when the debt is under discussion, but, of course, it is in a different category.

The Comptroller General in his report on S. 2122 suggested several changes, some of which are incorporated in S. 3035. The principle remaining one is that the Treasury should make the report in a manner and with notes as suggested by the General Accounting Office. This would be consistent with section 112(a) of the basic act. Copies of the Comptroller's report are before you.

One further thought has come to me, that the Treasury should make clear its management of its accounts payable. At times in the past, it has deliberately adopted a slow payment policy. This has the effect of borrowing from the Government's suppliers. Over the long run I do not believe it to be a good policy, for it gives financially strong suppliers an advantage over weak ones, and generally disturbs the economy. The Congress has known when this was being done in the past, but it might be a good thing to include it in a report such as the one this bill calls for, either by including current accounts payable or a statement of policy. When redtape is used to slow down payments, we Members of Congress, especially the Small Business Committee of which I am a member, usually hear of it pretty quickly.

It is not my intention that the reports required by my amendment should be long and complicated. Quite the contrary. I hope that they will be simple and easily understood. I think this is what is intended by the sentence "Requirements prescribed by the Comptroller General shall be designed to permit the executive agencies to carry out their responsibilities under section 113 of this part, while providing a basis for integrated accounting for the Government, full disclosure fo the results of the financial operations of each executive and agency and the Government as a whole, and financial information and control necessary to enable the Congress and the President to discharge their respective responsibilities" in section 112 of the Budget and Accounting Procedure Act.

If the report is too complicated, it will not be understood, so that it should be as brief as possible and annotated for those who wish to know the supporting data.

I attach a few samples of the type of data which I believe would be helpful.

I thank your committee for having allowed me the time to put this before you.

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Liabilities of the U.S. Government

Type of liability	Reports issued by Treasury Department: Yes	Reports issued by Treasury Department: No	Frequency of report	Title of report
1. Actual liabilities:				
(a) Public debt, including obligations guaranteed by United States.	X		Daily Monthly Annually	Daily statement of the U.S. Treasury. Daily statement of the U.S. Treasury (month-end report). Combined statement of receipts, expenditures, and balances of the U.S. Government.
(b) Other (generally included in outstanding obligations for appropriated activities).	X		do	Do.
2. Undelivered orders and contracts (reported as a part of unpaid obligations).	X		do	Do.
3. Outstanding commitments and contingent liabilities:				
(a) Loans and mortgages guaranteed or insured by the Government.	X		Semiannually	Long-range commitments and contingencies of the U.S. Government (not issued generally to the Congress or the public).
(b) Other insurance in force	X		do	Do.
(c) Commitments to make, guarantee and insure loans, to purchase mortgages, etc.	X		do	Do.
(d) Obligations issued on the faith of the United States	X		do	Do.
(e) Unpaid subscriptions	X		do	Do.
(f) Other commitments and contingencies	X		do	Do.
4. Unused congressional authorizations:				
(a) Unobligated balances of appropriations not yet expired.	X		Annually	Combined statement of receipts, expenditures, and balances of the U.S. Government.
(b) Unused contract authority	X		do	Do.
(c) Unused borrowing authority	X		do	Do.

NOTE.—The above information does not include trust fund liabilities of the Government, which are unrecorded to a large extent. These items are not adequately reported in any statements on the financial condition of the Government of which we are aware.

[S. 3035, 87th Cong., 2d sess.]

A BILL To clarify the components of, and to assist in the management of, the national debt

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the reports required by law to be prepared by the Secretary of the Treasury for the information of the President, the Congress, and the public with respect to the financial operations of the Government shall include semiannual reports setting forth—

(1) a summary of the outstanding public debt and guaranteed obligations of the United States showing the amount thereof which is subject to statutory limitation;

(2) the aggregate amount of the contingent liabilities of the Government, together with a statement showing the collateral pledged or other assets available (or to be realized) as security therefor, and an analysis of their significance in terms of past experience and probable risk;

(3) the total amount of the Government's obligations under outstanding contracts and leases for the acquisition or use of property, goods, or services to be realized or delivered over a period of three or more years; and

(4) the total amount of the outstanding contract authorization which has been granted to, but not committed by, the executive agencies.

Such reports shall set forth the financial data required by clauses (2), (3) and (4) of this subsection in a concise form, with such explanatory material as the Secretary may determine to be necessary or desirable, and shall include total amounts for each category according to the executive agency involved and for all such agencies.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., July 8, 1959.

Hon. JOHN L. MCCLELLAN,
Chairman, Committee on Government Operations,
U.S. Senate.

DEAR MR. CHAIRMAN: Your letter of June 9, 1959, acknowledged June 10, requests our views regarding S. 2122.

The bill would amend section 114 of the Budget and Accounting Procedures Act of 1950, approved September 12, 1950, 64 Stat. 836, to require the Secretary of the Treasury to report semiannually to the Congress on specifically described classes of financial commitments and contingencies. The apparent purpose of this proposal is to assure a more complete and timely disclosure to the Congress of the amounts which the Government is, or may be, obligated to pay.

Full disclosure of the results of financial operations of the Government is a major objective and requirement of the Budget and Accounting Act of 1950. Our accounting responsibilities as defined in section 112(a) of the act make it abundantly clear that the principles, standards, and related requirements prescribed by us shall be designed to permit the executive agencies to develop and maintain systems which will provide full disclosure of the results of their financial operations individually and of the Government as a whole. The accounting principles and standards prescribed in title 2 of the GAO manual are specifically directed to the furtherance of this aim.

As is recognized in title 2, section 1225.40, GAO manual, the Secretary of the Treasury is required by the provisions of section 114 of the Budget and Accounting Procedures Act of 1950 to prepare such reports for the information of the President, the Congress, and the public as will present the results of the financial operations of the Government and is authorized to provide the facilities required for this purpose. Section 114(c) of the act requires that the system of central accounting and reporting shall be consistent with the principles, standards, and related requirements prescribed by the Comptroller General under section 112 of the act. These provisions of law, as implemented by our prescribed accounting principles and standards, have the effect of requiring the Secretary of the Treasury to furnish financial reports which will fully disclose the results of financial operations of the Government and which in form, content, and timing will serve the purposes of the President, the Congress, and the public.

Although recognition of the reporting needs of the Congress in the preparation of Government reports is required by the 1950 act, the introduction of S. 2122 seems to us to indicate that the reports presently being furnished by the Treasury Department may not be accomplishing their intended purpose. Consequently, we believe that a clear description in law of the kind of information needed and the frequency with which reports shall be made is desirable. We therefore favor enactment of S. 2122, with the following suggestions for amendment:

Subsection (d)(2).—The term "contingent liabilities" as used here has no single generally accepted meaning in the Federal Government. To avoid possible misunderstanding or differences of opinion, the term should be defined. This can be accomplished under the Comptroller General's authority to prescribe the principles and standards and related requirements for accounting and reporting under section 112 of the act. We therefore suggest that a comma be inserted after the word "liabilities" to be followed by "as defined in principles, standards, and related accounting requirements prescribed by the Comptroller General,".

Subsection (d)(3).—We believe that there is a need for clarification as to what is meant by "over a period of 3 or more years." It is suggested that the language be rewritten to clearly define the congressional intent.

Subsection (d)(5).—We suggest that the words "made available" be substituted for the word "appropriated" in line 18, page 2, of the bill to assure that all funds available to an agency will be reported.

Since it is difficult to foresee all circumstances which may develop in connection with the various programs being carried out by the departments and agencies, we suggest the desirability of adding an additional subsection to the bill to require the reporting of any other information necessary to assure full disclosure to the Congress of the results of the financial operations of the Government, such as uncommitted authorizations and uncommitted appropriations.

The subject covered by S. 2122 is one of considerable interest to the General Accounting Office and, if so desired, we will be glad to appear before the committee to amplify our views and to assist in further clarifying the areas in which information may be needed.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

Senator SALTONSTALL. My purpose in coming before you is to testify this year on the bill that you and I filed in the last session of Congress and in previous sessions of the Congress.

I did not file it this year because I know that you would have this debt ceiling adjustment bill before you and I thought that the bill that we filed in the last Congress could be used as an amendment to this debt ceiling extension, if you believe it is of value to do so.

The U.S. Government currently has many different kinds of obligations and some of them are not fully reported to the Congress or the American people. I have here a copy of a report of the real property leased to the United States throughout the world, and a copy of a report of the real property owned by the United States [exhibiting pamphlet].

Those two pamphlets, now published by GSA, were stimulated by the late Senator Maybank and myself and were initially furnished in the form of a report to the Appropriations Committee.

For instance, in the leases to the United States, we have an annual rental owed by the United States of $220,888,617.

I have brought these two pamphlets up here not to offer as exhibits for the record but only to show the various places where one has to go if one is going to find what the United States owes today.

It has taken us, in my office, several weeks in consultation with various authorities to find out exactly what is the total U.S. Government obligation. I simply bring up these marked pamphlets to show the difficulty of finding today what the U.S. Government owes directly and indirectly.

The purpose of the bill, S. 3035, in which you and I joined, Mr. Chairman, is to put in one concise report, either once or twice a year, all the obligations of the United States.

The Treasury Department reports on this legislation did not pose objection to enactment, but were slightly critical because it was stated the Department already had such authority and I assume it would require considerable additional work in the first instance. However, once the statistics were gathered and the form of the report worked out, I think it would be a very simple thing to put this out every 6 months or every year.

Now, I say that because today we read a lot in the papers about managed news. We hear about the citizens of the United States not being fully informed as to what is going on, and not knowing how much the Government owes and what is the state of the Government's finances. The purpose of this bill, which I would hope that this committee would see fit to add as an amendment to the debt ceiling legislation in some form or other, because as you will note the GAO makes several suggested changes, is to provide periodically a complete report of the Government's total obligations, direct and indirect, long-term leases, contract authorizations outstanding, and so on.

Mr. Chairman, the bill that you and I have sponsored twice was carefully prepared by legislative counsel and taken up at the time, as I remember, with the Treasury Department and with the General Accounting Office. The General Accounting Office, in its letter to Senator McClellan which you have before you, offers one or two suggested amendments.

My thought is to have a small pamphlet or something of that character that would be issued by the Treasury Department twice a year. This GSA pamphlet, which I have mentioned before, is an inventory report of the property leased by the Government throughout the world; and this other GSA pamphlet is an inventory of the real property owned by the United States throughout the world.

Senator Maybank and I found it was utterly impossible in going through the independent offices account to know what the situation was on owned and leased property, so we requested that this type of report be furnished the Senate Appropriations Committee.

For instance, today, inside the United States, the United States owns 14,899 pieces of property with a total acreage of 770,796,843 acres.

It owns 421,000 buildings and has building floor areas of over 2 million feet, and so it goes.

I have submitted on the back of the prepared statement a list of the liabilities of the U.S. Government. That little appendix was recently prepared for us by the General Accounting Office. You will see that it shows the frequencies of the reports, but the problem is that while those reports are made here are the pamphlets [indicating] they are made in. If you and I are going to have to wade through all of those, we will probably just give up. But if you have it in one little pamphlets then we will all read it because we are not, Mr. Chairman, all statisticians and diggers for information like the gentleman who is sitting on your left.

I think that this amendment could be properly added to the debt ceiling limit legislation, because Congress and U.S. citizens are mighty interested in the status of our debt, in our economy, in the budget figures, and in the expenditures of the Federal Government today.

I believe I have summarized my prepared statement. I know that you want to hear the Secretary of the Treasury. I do not want to take more of your time because this is a very simple matter. It is either yes or a no in one form or another.

The CHAIRMAN. Thank you, Mr. Saltonstall.

Are there any questions?

(There was no response.)

The CHAIRMAN. Thank you, sir.

Senator SALTONSTALL. Thank you very much, sir; and my thanks to the members of the committee.

The CHAIRMAN. We are glad to have had you before us.

Senator SALTONSTALL. I will leave the exhibits with you, if you have any need for them, although I do not think Mrs. Springer would want to complicate her files to that extent.

The CHAIRMAN. Thank you, sir.

The committee will now hear the Secretary of the Treasury, Mr. Dillon.

Won't you take a seat, Mr. Secretary, and proceed?

STATEMENT OF HON. C. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Thank you, Mr. Chairman.

Under existing law, the temporary debt limit dropped from $308 billion to $305 billion on April 1, 1963, and is scheduled to decline to $300 billion on June 25, 1963. Should the existing temporary legislation be allowed to expire without further action, the debt ceiling would revert to the permanent level of $285 billion on July 1 of this year.

The graduated reductions established in the debt limit legislation for fiscal 1963 were specifically designed to take care of the seasonal borrowing requirements of the Government under the assumption of a balanced budget. This was clearly indicated in the hearings before the Senate Finance Committee on June 26, 1962, when I stated:

> This graduated debt limit is acceptable to the Treasury, provided that it is understood that the debt ceilings in the House bill were carefully tailored to meet the Treasury's seasonal financial requirements under the assumption of a balanced budget. The graduated reductions established in the House bill would not be adequate if we were to run a deficit of any substantial size in fiscal 1963.

While the prospect of a balanced budget in fiscal year 1963 was admittedly dubious at the time of last year's legislation, it did not appear practical to legislate on any other basis. This was specifically recognized in the report of the Senate Finance Committee, which stated:

> Your committee concluded, however, that, in any case, it was desirable to base the statutory debt limitation for 1963 upon the assumption that the budget would be balanced in that year. Should this eventuality not occur, it concluded it would be desirable for Congress to have a further opportunity to review the statutory debt limitation when it is apparent that conditions have changed.

Unfortunately, a balanced budget has not eventuated. As you are aware, the administrative budget deficit for fiscal 1963 was estimated in the January budget message at $8.8 billion. While the budget outlook for fiscal 1963 has improved somewhat since the January estimate, we still face a deficit in the neighborhood of $8 billion.

As a consequence of the substantial fiscal 1963 deficit, the graduated reductions in the debt limit cannot be permitted to run their course. Our present projections show that the debt will rise from the present level of $304 billion to $305.6 billion on May 31, a figure $600 million in excess of the present debt limit. From the May 31 level of $305.6 billion, the debt is projected to rise to $306.8 billion in the second week of June, a level $1.8 billion in excess of the present debt limit. On June 25, when the present temporary debt ceiling is scheduled to fall to $300 billion, our projections indicate that the debt will be $304.2 billion, $4.2 billion in excess of the limit. This would place the Treasury and the country in an impossible situation. On July 1, when the debt ceiling reverts to the permanent level of $285 billion, the debt is estimated at $305.3 billion, $20.3 billion in excess of the limit.

The present debt limit legislation was based on a premise which has not been realized. It is not consistent with the financial facts of life which the Treasury must face. It is, therefore, imperative that the debt limit be raised if the financial obligations of the United States, at home and abroad, are to be met.

I am here today to urge the approval of H.R. 6009, which would provide a $307 billion temporary debt limit through the end of the current fiscal year and a $309 billion debt limit for the period July 1 through August 31, the first 2 months of fiscal year 1964.

For the past few years the Congress has, prior to the end of each fiscal year, authorized temporary debt ceilings for the entire ensuing fiscal year. H.R. 6009 departs from this custom by providing a limit that will expire on August 31, after which the debt limit would, in the absence of further congressional action, return to its permanent level of $285 billion. The reason for this action is that estimates for the fiscal year 1964 must take account of the tax programs presently before the Congress. The House of Representatives felt that the prospects for the tax program would be clearer by August. And, by then, the overall outline of fiscal year 1964 appropriations will also be clearer. For these reasons it was felt that a decision on the level of next year's debt limit should be postponed until August.

The temporary debt limits provided by H.R. 6009 are at the absolute minimum levels needed by the Treasury for the proper management of the debt and the Treasury's cash balance between now and the end of August. These proposed limits are tight, so tight that they provide little or no room for meeting unforeseen contingencies. The $307 billion debt limit provides only a $200 million leeway over our mid-June projected debt level of $306.8 billion. Our projections show the debt will actually exceed the $309 billion level during the last 2 days of August.

The limits in the House bill are lower than those we requested. Our request to the Ways and Means Committee was for $308 billion ceiling through June 30 and $310 billion thereafter. The committee reduced these figures by $1 billion each. We told the committee that, while we could not recommend the adoption of such tight figures, we would do our best to live with them.

Because of the short period of time involved in the debt limit extension provided by H.R. 6009, the Ways and Means Committee requested the Treasury to supply figures showing the estimated debt and cash balance for each day up through August 31. These daily projections are the best estimates we can produce, but they cannot be considered highly reliable. Long experience has shown that actual daily receipts and expenditures can, and often do, vary from estimates by as much as several hundred million dollars in either direction. This is true of estimates looking ahead 30 days or less and, of course, would be far more likely in the case of daily estimates looking over 3 months into the future. For periods longer than 30 days, the type of semimonthly estimates we have furnished the Congress in the past would seem to be the most appropriate basis for assessing debt limit requirements. The daily estimates furnished to the House committee at its request do, of course, indicate the general trend of the debt and the cash balance. Since the House action was based upon daily cash and debt figures through the end of August, I am including our latest daily estimates for this period as an attachment to this statement.

In undertaking to operate within the very tight limits set forth in H.R. 6009, the Treasury is making three assumptions: (1) That we can have a reasonable degree of confidence in our expenditure estimates, since they cover a period of only 3½ months into the future; (2) that the likelihood is relatively small that our revenues will fall below the estimated levels; and (3) that, since Congress will be in session throughout the period covered by the legislation, it would be possible to obtain new debt limit legislation promptly, if it should be required, without the necessity of calling a special session of the Congress. For longer periods of time a more adequate allowance for contingencies would be required, and debt limits as tight as those provided in H.R. 6009 would not be acceptable.

The preservation of the financial integrity of the United States is the primary mission and responsibility of the Treasury. It is for this very reason that we cannot willingly accept a debt limit which is so restrictive as to make it impossible to handle the finances of the U.S. Government in a prudent and responsible manner.

No one is more conscious than I of the necessity of keeping the expenditures of the Federal Government under firm control. This objective cannot be attained, however, by exerting controls at the tag end of the expenditures process, when the bills which must be paid are coming in. The debt limit is not, and cannot be made, a substitute for control of expenditures at the decisive stage of the expenditures process—in the decisions on appropriations. A debt limit of $307 billion through June 30, 1963, and $309 billion from that date through August 31, 1963, will provide the absolute minimum degree of flexibility needed by the Treasury in handling the financial affairs of the Government. More restrictive debt limits than these would force the Treasury to resort to an array of unsound financial procedures of the sort which had to be used in 1957–58, procedures which, in the end, only add to the burdens of the taxpayers of this country. But apart from cost considerations, it is not in keeping with the status of the United States as banker to the free world to be placed in such a position. The financial community, both here and abroad, would be utterly dismayed should they find that the U.S. Treasury is no longer permitted to cope in a responsible manner with the routine requirements of fiscal affairs. The consequences of such a situation are fraught with danger for the safety and stability of the dollar.

It is for these reasons, which I believe are compelling, that I urge your prompt approval of H.R. 6009.

Thank you, Mr. Chairman.

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

Estimated cash balance and debt subject to limit day-by-day for period May 1 to Aug. 31, 1963

[In billions of dollars]

Day	May 1963		June 1963		July 1963		August 1963	
	Cash balance (excluding gold)	Debt subject to limit	Cash balance (excluding gold)	Debt subject to limit	Cash balance (excluding gold)	Debt subject to limit	Cash balance (excluding gold)	Debt subject to limit
Apr. 30	[1] 5.3	[1] 303.4	...	...	...	...	...	...
1	[1] 5.9	[1] 303.4	...	...	8.1	305.3	4.9	306.4
2	[1] 6.6	[1] 303.5	...	...	7.8	305.3	5.0	303.4
3	[1] 7.1	[1] 303.4	5.7	305.6	7.5	305.3	...	...
4	...	...	5.2	305.6	([2])	([2])	...	...
5	...	...	4.8	305.6	7.0	305.2	5.0	306.4
6	[1] 6.7	[1] 303.4	4.3	305.6	...	...	4.5	306.3
7	[1] 6.2	[1] 303.4	4.0	305.6	...	...	4.2	306.3
8	[1] 6.2	[1] 303.4	...	...	6.3	305.2	4.2	306.3
9	[1] 6.4	[1] 303.5	...	...	5.8	305.2	4.2	306.3
10	[1] 6.4	[1] 303.5	3.6	305.6	5.5	305.2	...	...
11	...	...	3.4	305.6	5.3	305.2	...	...
12	...	...	4.5	306.8	5.2	305.2	4.2	306.3
13	[1] 6.5	[1] 303.5	4.5	306.8	...	...	4.2	306.3
14	[1] 6.6	[1] 303.4	4.6	306.8	...	...	4.5	306.3
15	[1] 5.8	[1] 303.0	...	...	5.4	305.7	4.7	306.8
16	[1] 6.2	[1] 303.1	...	...	5.2	305.5	5.1	306.8
17	[1] 6.7	[1] 303.1	4.7	306.8	5.1	305.4	...	...
18	...	...	5.1	306.7	5.0	305.4	...	...
19	...	...	5.8	306.3	6.7	307.2	5.3	306.8
20	[1] 7.1	[1] 303.1	6.9	305.7	...	...	5.7	306.8
21	7.4	303.1	8.0	305.4	...	...	6.0	306.8
22	7.5	303.0	...	...	6.5	307.2	6.2	306.7
23	7.5	304.0	...	...	6.2	307.2	6.3	306.7
24	7.4	304.0	7.7	304.3	6.0	307.3	...	...
25	...	...	7.8	304.2	5.8	307.3	...	...
26	...	...	8.1	304.1	5.7	307.3	6.2	307.7
27	7.0	304.0	8.3	304.0	...	...	6.0	307.7
28	6.6	304.0	8.2	305.3	...	...	5.8	308.6
29	6.4	305.2	...	...	5.5	307.3	5.7	309.4
30	6.4	305.2	...	...	5.4	307.5	7.1	310.0
31	6.2	305.6	...	...	5.4	306.4	...	...

[1] Actual.
[2] Holiday.

The CHAIRMAN. Thank you, Mr. Secretary.

Senator Dirksen is compelled to leave to attend another meeting. Therefore, he is recognized first for questioning.

Senator DIRKSEN. Mr. Chairman, there may not be time for him to amplify the answers to these questions, but I will state them anyway, and then the Secretary can comment.

First, considering that as of March 31 the limit was $308 billion, the next day it dropped to $305 billion, on the 28th of the next month it dropped to $300 billion and in the absence of any affirmative action, it would go to $285 billion.

Now, it is requested that it go to $307 billion on the 30th of June, and then to $309 billion until the last day of August, which is a kind of fragmentation of our debt policy.

Would it not be far more desirable to establish one figure and let that figure ride and give it a terminal point, say for 1 year, which could be $305 billion, $306 billion, or $307 billion, whatever was absolutely necessary for the Treasury's flexibility?

Secretary DILLON. I think that is easily answered.

The U.S. revenues do not come into the Treasury in equal amounts during the course of the year. We get just about 44 percent of our revenue in the first half of the fiscal year, between July and January, and about 56 percent in the second half of the fiscal year. This means that even in a year of balanced budgets, or even in a year of surplus, the debt will increase in the period between the end of June and the end of December. Then in the following 6 months when more revenues come in, that increase could be paid off.

Now, we will need a minimum of $307 billion to get us through June properly, and that is simply not enough to last for a whole year because of this seasonal thing—irrespective of what decisions are made on expenditures, or what expenditure decisions are made by the Congress. Therefore, we will have to come back in August again for a debt ceiling which will be considerably higher than the $309 billion ceiling to take care of at least this seasonal fall-off in revenues. This is due to the way our tax laws operate, particularly corporate revenues which are paid about 40 percent in September and December and 60 percent in March and June. Therefore, the figure would have to be considerably higher.

Consideration was given in the House, in the Ways and Means Committee, at some length, as to whether it would be better to do all this at once. It would simplify it, and we would have just one vote.

However, as I pointed out, and as the House committee report pointed out, this year we have this tax bill on the floor for consideration, and it involves a tax reduction. There have been all sorts of suggestions, some of which have said that the tax reduction should take effect more rapidly than the administration had recommended. This has come from all sorts of sources, from business sources, labor sources, political sources in both parties, and I do not know whether that is what Congress will decide or not, but that will have a profound effect on what our debt limit has to be for next year. So the House committee felt that since they themselves did not know what form the legislation would take, what they would approve even initially, it would be better to extend this customary fiscal year timing for a couple of months. Then when they make this decision, which they will have to make anyway—they cannot make it in a vacuum, which would be the case if they were trying to do it now—they would for conservative reasons have to give a higher debt ceiling than might otherwise be necessary. Because otherwise it will be necessary to come back and do it all over, if the tax bill is something different than what they suggested. That was their reasoning and I think it was sound reasoning.

Senator DIRKSEN. I think the House cut you a billion on the first step, and a billion on the second step. Shall we continue to play a kind of game with the public debt? I think the committee ought to ascertain what your outside needs would be and set a figure that we can ride on until you come back, if you have to come back at a later period for a revision of the debt limit.

Secretary DILLON. I can see your point, Senator. There is very little practical effect in saying that the debt should be $307 billion until June 30, and $309 billion until August 31. The difference between that and saying that it would be $309 billion from now until August 31 is not going to have any effect on spending. It would give us somewhat greater flexibility in financing our debt because we would probably like to raise some of the money we will need in July during June, because we can do it more effectively then. The $307 billion ceiling cuts down our ability to do that to some extent.

So, if there was one $309 billion ceiling until August that certainly would be just as good for us to operate under. I think that the House—I'm not sure why they did this, perhaps because the past law went until June 30—wanted to do something until June 30 and they conceived of it in this way. But it has no great substance as far as operations of the Government are concerned.

Senator DIRKSEN. Mr. Secretary, how much cash reserve does this include; that is, your working balance?

Secretary DILLON. That you can see by the daily figures, and this is something that I think ought to be well understood. Our cash reserve varies up and down as we have receipts, and also as we pay.

For instance, our cash reserve will be rather low soon. It will be down on the 11th of June to $3.4 billion, which is less than we really need. The reason it goes up on the 12th of June is that we had scheduled a borrowing to increase our funds at that time. You see, both the cash and debt go up at that time, with a borrowing of $1,200 million. And then after the 15th of June we suddenly begin to get the very big taxpayments that are due on the 15th of June and our cash goes up and our debt goes down a little bit because some of those taxes are paid in tax anticipation bills, which can be handed in and thus reduce the debt.

Then we see that in July, when we get in very little income, our cash runs steadily down, no change in the debt from a high of $8 billion at the start of the month to $5 billion in the middle of the month at which time, because it was a convenient time, we again scheduled a raising of additional funds which puts the cash balance back up.

However, with no change in the debt, the cash balance then runs down, and in the middle of August we again get to about as low a level as we can get by on for a week, approximately a $4 billion level—we estimate $4.2 billion—but as I pointed out estimates that far ahead are very inexact and, in fact, the figure regularly varies by at least one or two hundred million dollars, one way or another. So this is a minimum figure.

Then our cash builds up again in a little bit as we raise money again by selling new issues, borrowing money, and if we continued these estimates on in September you would see that in the first 2 weeks of September we run right back down again to $4 billion. It is impossible to keep a level cash balance, because it is governed by taxpayment dates that come at certain times when sizable revenues comes in, whereas expenditures are going out at about the same amount all the time.

So, therefore, I would say that this gives us an adequate cash balance, and no more than an adequate one, at periods when the cash balance gets down to the lower levels, but there are certain times when it is higher.

Senator DIRKSEN. Assuming that finally the Congress took a figure, let us say $305 or $306 or $307 billion for a 1-year period and you found yourself in a squeeze. What would the Treasury do in order to keep itself going with that kind of a ceiling?

Secretary DILLON. There are a number of things the Treasury can do in that sort of a situation, depending on how tight the squeeze becomes.

We could invest some of the trust funds in marketable issues rather than in special issues; in other words, in issues that are already outstanding rather than giving them a new issue. This would hold the debt down, but you would draw down on your cash balance. We couldn't go very far with that.

You could do that to get over a hump of a week or 2 weeks, but if you are running for a long period there would be only two things that could be done if the debt ceiling was inadequate, and one is not to invest the trust funds.

Now, the Secretary of the Treasury is trustee of those trust funds. He is supposed to invest them, but is not told when. The Secretary of the Treasury is also charged, and I think it is his main duty under the Constitution, with preserving the fiscal integrity of the United States and there would then be a conflict between those two duties. It might be that we would not invest the trust funds for a period, until new money is coming in. The trust funds would then lose the interest on those moneys and that would hurt them actuarially. I think later on that would have to be fixed up by an appropriation to replenish the trust funds.

The second area is to do what has been done in the past, which is to delay the payments on bills, salaries, and anything else, grants to States, all the various expenditures.

One thing I think we cannot do is to default on our obligations and, as you see, we have coming up every week $2,100 million worth of Treasury bills. These are obligations that have to be refunded, so you have to be able to issue that much new debt every week. So, I would say that the only two alternatives are to just cease paying Government bills for as long as necessary or to cease investing the trust funds, which would be certainly contrary to the spirit of the trustee function and I think very unsound financial practice, but it might be forced upon us by too great a debt.

Senator DIRKSEN. Thank you, sir.

The CHAIRMAN. Mr. Secretary, I have a few questions I would like to ask you.

You have indicated that you will ask for another increase in the debt limit. When will that come?

Secretary DILLON. Since this legislation, if it is approved, would expire on the 31st of August, the new legislation would have to be enacted prior to that, or the permanent debt ceiling of $285 billion would be in effect, under which we couldn't operate. So I would expect that this would be heard during the early days of August, at which time as is pointed out in the House committee bill, they would hope that the appropriations process would be further along. Particularly, we might have the Defense Department appropriations out of the way so that Congress would more clearly know the obligations to be met. Also, hopefully, by that time there would be a tax bill by the House, which would have been discussed before this committee, so there would be some idea of at least the bounds of the areas within which tax legislation might fall as it affected revenues.

So, I think it would be early in August we would start.

The CHAIRMAN. Assume, for the sake of argument, that no tax bill will be enacted, will you ask for another increase in debt limit this year?

Secretary DILLON. An increase is necessary, Senator, for the reasons which I explained to Senator Dirksen, and which were spelled out in the committee reports of both this committee and the House committee last year. The seasonal character of our revenues means that the debt always rises inevitably from whatever level it is at at the end of the fiscal year for the first 6 months, and we would have to have an increase which would be substantially higher than the $309 billion level to take care of that, whether or not there was going to be a tax bill.

A tax bill would only be taken into account as to its exact effect, but we will have to come back for an additional higher debt ceiling anyway.

The CHAIRMAN. In other words, if we have a tax decrease you would ask for an increase in the debt limit equivalent to the amount of a tax decrease?

Secretary DILLON. It might not befully equivalent. What we were talking about, what the President's program indicated, as submitted in January, was a decrease in revenues due to the tax program of about $2.7 billion, something on that order; and whether we would ask for a debt limit exactly that much more or not I don't know, but it would be somewhere in that region, but might not be exactly; it might be $2 or $1.5 billion, because we might feel we could get by with a debt limit of less, but the tax cut would have an effect on the debt; yes.

The CHAIRMAN. Then, the next increase that you expect to ask in the debt limitation will be a combination of expense and tax reduction, in the event that the tax reduction bill passes?

Secretary DILLON. That is right. It would have to take into account our best estimate, made in August, of what the revenues and expenditures of the Government are likely to be in the rest of the fiscal year, and to do that we have to take into account the appropriations that have been passed, and also the revenue estimates, which would depend on the tax cut.

The CHAIRMAN. Well, the main reason for a second debt increase would be a reduction of taxes; would it not?

Secretary DILLON. No; I don't think so at all. I think the fundamental reason, Mr. Chairman, is that we do have to take care of this seasonal increase in the debt that always occurs in the first 6 months of the fiscal year, the last 6 months of the calendar year; that is, because of the fact that our revenues come in on a seasonal basis and we get less revenue during that period than we do in the second 6 months of the fiscal year. That is primarily the reason.

The tax bill problem is a secondary one which would govern the size of the increase but there would have to be a sizable increase anyway, and as I say the bulk of the increase would be on the basis——

The CHAIRMAN. The House bill does not take care of the increased spending, I mean assuming that the House bill is enacted. Then you are going to ask for another debt increase in August?

Secretary DILLON. That is right.

The CHAIRMAN. And you say that will be a combination of a reduction of taxes and an increase in expenditures, or what will it be?

Secretary DILLON. Not an increase in expenditures in this fiscal year. It is the fact that we have had a deficit in the fiscal year 1963, and that our debt limit or debt is at the level it is now at this time of year, or on June 30. That means that even if we had a balanced budget in the ensuing year, which we will not have, but even if we did, we would still have to have a substantial increase in the debt limit just to take care of this seasonal deficiency in our revenues in the first 6 months of the fiscal year.

Now, the House bill, going from $307 to $309 billion, does take care of $2 billion of that seasonal deficiency. That is the reason for the $309 billion, because the months of July and August are small months for revenues but the expenditures go on, so that is why there would be a debt increase.

The CHAIRMAN. Well, in any event, whether we reduce taxes or do not reduce taxes, you would ask for an additional debt increase in August?

Secretary DILLON. We have to do that whether the taxes are reduced or not reduced, and irrespective of any cuts that might be made in the appropriations that are before the Congress.

The CHAIRMAN. But would not the main justification for a debt increase in August be a tax reduction bill passed or to be passed by the Congress?

Secretary DILLON. No. I think there would be a justification for, say, the difference between asking for a figure, to use an example, because we have not worked out the right figures, to use an example between asking for a $315 billion ceiling or a $317 billion ceiling. That would be where the tax cut wouldl come into effect; it would be that sort of a difference.

The CHAIRMAN. I notice that at points you have as much as $8 billion cash on hand, by your table.

Secretary DILLON. That happens at times when we get our very heavy cash receipts. The cash receipts which we receive in June are the heaviest of the year and they lead to a very rapid buildup, as you can see, as the tax receipts come in, and an almost equally rapid falloff in the first part of July when we have substantial bills to pay and do not have any revenues.

The CHAIRMAN. Well, let us take June. On the 27th of June, by your table, you had $8,300 million cash on hand, exclusive of the gold.

Secretary DILLON. That is right.

The CHAIRMAN. Then, what is the minimum that you can operate on? We have been through that in these hearings.

Secretary DILLON. Ordinarily, we have used about $4 billion, but it is impractical. You see, the problem here is, we are back down within a week or 10 days after that to $5 billion, and just 10 days before that we were at $5 billion.

Now, it is impractical in the money market for the Treasury to reduce the debt outstanding and then increase it every 2 weeks as these flows come in and out. That wouldl require retiring debt that is held by banks and institutions all over the country in billion of dollars, and turning right around a week later and asking them to pick up billions of dollars of extra debt, and the result would be chaos in the money market. So the debt has to stay more or less level, and we do have to have these ups and downs, particularly ups at the times we get these very substantial tax payments. The June 15 date is the biggest, but we have similar dates in September, December, and March. Those are the big tax dates and we have similar results there, but less extreme than the June one.

The CHAIRMAN. In the event the taxes are reduced and you ask for another increase in the debt ceiling, I assume that you would be able to separate and tell the Congress how much of the debt increase is due to reduction in taxes, and how much is due to increased spending, or the irregularity of income?

Secretary DILLON. Absolutely. I think that is quite correct, and we would be able to identify that very clearly.

The CHAIRMAN. I would like to establish, Mr. Secretary, as best we can, the deficits over a 3-year period. As you know, the administration, the President in his message for this fiscal year predicted a surplus of $500 million, and then a year ago you said that surplus had been consumed by increased spending, but you still predicted a balanced budget.

Then, in October, I think the estimate was for $6 billion of deficit, and now you estimate the deficit for this year of approximately $8 billion. Is that correct?

Secretary DILLON. Yes. In the present budget estimate that the President submitted in January, the estimate was $8.8 billion, which was the last official estimate.

What I have said in my statement is that the budgetary outlook, or the outlook for the deficit, is somewhat improved since January, and we are looking for a deficit now on the order of $8 billion. I think I stated last year——

The CHAIRMAN. How could your estimates for this fiscal year be so erroneous? You went from a balanced budget to a deficit of $8 billion. Now, what brought that about?

Secretary DILLON. Well, the last time when I was before the committee we pointed out quite clearly that the possibility of a balanced budget was dubious, but that we were not yet in any position to make a new estimate of what the results were likely to be. We did not claim at that time that we were of any firm opinion that we were going to have a balanced budget. We made that very clear, and as it turned out, we didn't have one. We were able to make an estimate in the fall, because by that time the appropriations also had been enacted, and the tax bill had been enacted. We had a much better chance to see what the results were on the economy, also of the stock market crash, which had just occurred in May. We made an estimate of revenues in November, which will turn out by the end of this year to be one of the most accurate forecasts that has ever been made at that time of year. We are going to come out——

The CHAIRMAN. It certainly was not an accurate forecast to say, when you submit a budget, that you are going to have a $500 million surplus——

Secretary DILLON. No, no.

The CHAIRMAN. And we actually have a difference in deficit between $8 billion and $9 billion.

Secretary DILLON. We were very inaccurate in the first estimate.

The CHAIRMAN. I would not call that accurate at all.

Secretary DILLON. No.

The CHAIRMAN. It is very inaccurate.

Secretary DILLON. I was talking about the——

The CHAIRMAN. Let me say this: All this happened within a brief period of time, and I have not fully understood yet exactly what changed the budget from a surplus of $500 million to a deficit of around $8 billion in such a few months.

Secretary DILLON. What did that was very clear. It was a bad error. But what happened was that in the fall of 1961 our economy was moving ahead very rapidly. We had a $16 billion increase in gross national product in the fourth quarter, and all the economists, the regular career people in the Government as well as the Council of Economic Advisers, felt that this was going to continue and they forecast a very prosperous 1962.

What happened was that almost instantly, even in December, there was a slowdown, and very much smaller increases in the gross national product than had been expected, and therefore very much smaller revenues. So that the fault of this budget submission made in January 1962 was due to the fact that we overestimated our revenues, we thought business was going to be much better and we were way off. That has happened before. It was no more of an overestimate than was made in the budget that was submitted in January of 1958 for the fiscal year 1959. The result turned out to be the same.

That can happen to the Treasury Department; it has happened in the past, but since then we have done very well.

The CHAIRMAN. You were referring to the Eisenhower deficit, were you not?

Secretary DILLON. Referring to that one big deficit.

The CHAIRMAN. Look at that figure. The next year the Eisenhower administration had a surplus.

Secretary DILLON. That is right.

The CHAIRMAN. You are proposing a long string of deficits. That is what deeply concerns me and other people that feel that this debt has got to reach a limit some time.

Secretary DILLON. I was——

The CHAIRMAN. Wait just a minute.

Let me explain what I mean.

You have got an $8 billion deficit this year. You estimate $11 billion deficit next year, and then the third year—that would be the second year of the tax reduction, with two-thirds of the tax reduction in effect——

Secretary DILLON. Yes.

The CHAIRMAN. You are certain to have another deficit of $10 to $15 billion. I predict that in the year beginning July 1 the deficit will be more than $11 billion; so I estimate, and I want to ask you whether you agree with it, in 3 years we are going to have deficits adding up to $25 billion.

Secretary DILLON. Which 3 years is that?

The CHAIRMAN. This fiscal year, the next fiscal year, the third fiscal year, I am assuming a reduction of taxes.

Secretary DILLON. That would be perfectly possible, because we have this year about $8 billion, and next year the estimate was just under $12 billion, but business is better, revenues should be better, so I think your estimate of $11 billion might be accurate. But $8 billion and $11 billion make $19 billion and that would allow a $6 billion deficit for the following year, which I think, as you point out, allowing for the tax reductions to take effect, is a perfectly possible and reasonable figure.

The CHAIRMAN. It could run up to $30 or $35 billion for 3 years.

Secretary DILLON. $35 billion would be too much.

The CHAIRMAN. If you make such errors in your predictions from now on as you made this present year, it would run very much higher than that.

Secretary DILLON. I think our predictions, except for this one mistake, which was a very big one, in January of 1962, have been very good. I think that we can stack them up against the record of the Treasury Department in other years, and they come out very well.

The CHAIRMAN. A deficit in one year, and I don't defend the Eisenhower deficit—it could have been avoided and I think it was one of the worst things that happened in that administration—but to have that defiict in 1 year, is a lot different from deficits in a number of years in succession. Do you agree with that?

Secretary DILLON. Oh, very much.

The CHAIRMAN. As I understand it, you do not predict a balanced budget now, even with a tax reduction, until 1967?

Secretary DILLON. That is about right. That is when the tax reduction should take full effect. The purpose of the tax reduction, of course, is to free the domestic economy so that it will do better, and as a result of doing better we will have more income for the Government from a lower tax rate than we have from our present high rates, that has been the record in all the other countries which have cut taxes since the war. It was reported that that was the record of the 1954 tax cut here.

The CHAIRMAN. The President, and the Treasury I assume, favored a balanced budget when they presented the budget for this year because when he addressed the Congress the President proudly said, "I present to you a budget with a $500 million surplus."

Now, you have gone to the other extreme, not only increasing expenditures but reducing taxes. Has the administration changed on the idea of having a balanced budget; has it abandoned it completely, with the idea of just adding and adding to the public debt?

Secretary DILLON. Not at all. The President made a very firm commitment in the budget message that as the economy improved as a result of the tax reduction, and as revenues improve, a substantial part of that increased revenue will be used to reduce the current deficit until such time as it was eliminated.

He has repeated that a number of times, and that is our goal, and we think the only way you can reach a more or less permanent balance in our budget is to have our economy operated at relatively full capacity, and the only way we can get that is through a tax reduction. That is the reason we are suggesting that.

The CHAIRMAN. But you do admit that for 4 years in succession there will be very large deficits.

Secretary DILLON. Yes.

Senator SMATHERS. Not debt.

The CHAIRMAN. Increase in the debt.

Secretary DILLON. Yes.

The CHAIRMAN. Which may approximate an average of $10 billion a year, which would run up to $40 billion.

Secretary DILLON. No; I would hope it would be considerably less than that.

The CHAIRMAN. You hoped that you had a balanced budget, but you did not have it. All of these things are speculative and we will have plenty of time to go into your theory that you can reduce taxes and add substantially to the revenue——

Secretary DILLON. Yes.

The CHAIRMAN (continuing). By stimulating production.

I respectfully submit that you cannot foretell, nobody can tell what an individual who gets about $200 a year under your plan in tax reductions, is going to do with that money. Who knows whether he will pay his debts off, whether he will put it in a bank, buy stock with it, or buy goods like refrigerators or something else?

You are predicating this entire plan on planned deficits, and no other President in history has ever proposed that we reduce taxes on a planned deficit basis.

You propose a 5-percent reduction in the corporation tax, and assume that these corporations will use that money to go out and expand, and one thing and another.

I have been in business all my life, and a man does not control his business on considerations of that kind. It is whether he has a market, whether he can produce at a profit, and so forth.

So, it seems to me an extremely serious thing that we are deliberately going into 4 years of deficits to an amount that has never before occurred except in time of war. Am I right about that? Can you point out any 4 years, peacetime years, where we had such a deficit as you plan to have now?

Secretary DILLON. No. I think these are larger than we ever had before in peacetime.

The CHAIRMAN. The other members of the committee will want to ask some questions. I do think you should give us a little further information as to whether this increase in the debt is to cover expenditures, and whether, if a tax bill is passed, you will expect us to enact another increase in the debt limit to cover that. Make it very clear what part of the increase is due to reducing taxes and what part is due to increased spending.

Secretary DILLON. I think that is entirely proper, Mr. Chairman; and when we do ask for a further debt increase in August, we will certainly make that clear.

The CHAIRMAN. That will be something.

You are injecting a new feature in this, cutting taxes and adding the borrowing of money to do so.

I think it is a very dangerous combination.

Senator Long?

Senator LONG. Mr. Secretary, what I cannot understand is why we do some of these things.

The best I can make out of it, you are making about $20 million a year, we ask you come down here and take a job for about $25,000. I think it was $20,000 when you started.

You are running your business all right, getting by, making a nice profit. Then we proceed to appropriate about $100 billion and give you $90 billion to pay the bills with.

Why do we do those things? That I cannot understand. From my point of view, I don't see how we can do anything but give you money to pay the bills. If we don't give you the money, what are you going to do?

Secretary DILLON. The only answer is not pay the bills, and that I cannot conceive of.

That had to be done literally in 1957 when the debt limit was too low. They simply postponed the bills, and asked defense contractors to carry the bills for from 3 to 6 months rather than accept payment. That was done. It was very difficult to owe a lot of people, and finally when the money was available, that was brought up to date and they were paid. We didn't save any money on it.

Senator LONG. Some time ago we pulled the strings so tight that Bob Anderson had to call all his money into a single bank. He couldn't leave the money in the various banks, he had to call it all into a single bank and pay it from that one bank. I believe he also had to do various things that cost the Government money, did he not?

Secretary DILLON. Yes. He had to use a device which raises money for the Government outside the debt limits by putting out some Government agency obligations that are not counted as part of the debt. Some may sell their own bonds and raise a considerable amount of money, and then pay off some money that they owe to the Government.

So, in that way, he raised money indirectly rather than by selling his own bonds, but he had to pay a half percent more on the interest, so it cost the U.S. Government considerable money. It was very severely criticized by the Comptroller General, and Anderson criticized the procedure of being forced to do this because he had no other alternative.

Senator LONG. Would you give us a memorandum on how much that and other things of that sort which try to meet the debt limit problem cost?

Secretary DILLON. Yes, indeed, I would be glad to.

(The information referred to follows:)

USE OF AGENCY BORROWINGS BY TREASURY TO STAY WITHIN STATUTORY DEBT LIMIT OR TO RESTORE LOW CASH BALANCES

During the fiscal years 1954, 1955, and 1958, the Treasury found it necessary to have Government agencies borrow funds in the market to repay their indebtedness to the Treasury, thus making such funds borrowed by the agencies available to the Treasury to meet its obligations; $2.3 billion was borrowed by Commodity Credit Corporation through issuance of certificates of interest in a pool of loans during the fiscal years 1954 and 1955. Also in the fiscal year 1955 Federal National Mortgage Association issued $570 million of management and liquidation program notes and then again in the fiscal year 1958 Federal National Mortgage Association issued $1,599 million ($570 million was a refunding of the 1955 issue) of management and liquidation program notes. These borrowing operations were in good part related to low cash balances and the debt ceiling.

Because Treasury can borrow money directly at rates of interest lower than those needed to sell obligations of other Government agencies, the cost of borrowing these funds was increased. An estimate of this additional cost was prepared by the Treasury in January of 1958 and is shown in the attached table. Of this estimated increase in cost of $32.5 million, $7 million is the estimated additional cost of the CCC operations and $25.5 million is the estimated additional cost of the FNMA operations.

The Comptroller General, in his report to Congress dated January 29, 1960, referred to the issue by FNMA on January 20, 1958 of $797 million of 3⅝-percent notes to private investors. The Comptroller General pointed out that the interest rate was about seven-eighths of 1 percent higher than on a similar Treasury obligation resulting in an additional interest cost to the Government of about $7 million a year or about $18 million additional over the life of the issue. This estimated additional cost is somewhat higher than the Treasury's and gives added support to the contention that such borrowing operations add to overall governmental costs.

Estimated additional cost of agency borrowing compared with Treasury borrowing

	Agency	Description of issues		Term	Amount	Approximate Treasury borrowing rate	Spread	Estimated additional cost
		Percent			*Millions*	*Percent*	*Percent*	*Million*
Oct. 28, 1953	CCC	2½	Aug. 2, 1954	9 months	$357	1⅞	⅝	$1.7
Dec. 17, 1953	CCC	2¼	do	7½ months	449	1¾	½	1.4
Feb. 2, 1954	CCC	2⅛	do	6 months	351	1⅝	½	.8
Nov. 12, 1954	CCC	1⅝	Aug. 1, 1955	8½ months	1,169	1¼	⅜	3.1
Jan. 20, 1955	FNMA [1]	2½	Jan. 20, 1958	3 years	570	2	½	8.6
Oct. 29, 1957	FNMA [1]	4⅞	June 26, 1958	8 months	802	4⅛	¾	4.0
Jan. 20, 1958	FNMA [1]	3⅝	Aug. 23, 1960	2 years, 7 months.	797	3	⅝	12.9
Total								32.5

[1] Management and liquidation functions.

Source: Office of the Secretary of the Treasury, debt analysis staff, Jan. 16, 1958.

Senator LONG. One other thing. You have had some experience as an international banker. Do you think it would in any respect increase the confidence in the American dollar or in the American capitalistic system for this Nation to default on some of these payments?

Secretary DILLON. No. I think that would be one of the very worst effects of inadequate debt limit action. I feel that if the financial community, both here and abroad, felt that the Treasury was not able to handle its debt in the best and most effective manner, and was hobbled by restrictive law, even that would have a bad effect. They just would not know what to think of what we were trying to do, or what our capacity was to handle our financial affairs. It would be very serious for the dollar in the international market, and the consequences one cannot envisage.

Senator LONG. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. Mr. Secretary, directing your attention for just a moment to your statement on page 5, where you say—

> Our projection showed the debt will actually exceed the $309 billion level during the last 2 days of August—

and, of course, that is exclusive of the tax cut, is it not?

Secretary DILLON. Oh, yes, that is so. There would not be any tax cut by then.

Senator SMATHERS. Then you go on to say—

> Our request to the Ways and Means Committee was for $308 billion through June 30, and $310 billion thereafter.

Do you intend to recommend to us that we accept the House bill as it has come to us, or are you suggesting to us that we accept your original recommendations that we raise the debt ceiling through June 30 to $308 billion and thereafter to $310 billion?

Secretary DILLON. No. We would have liked to have seen that, I think it would have been better. A $307 billion ceiling will have some effect on the timing with which we can raise funds which we need. But we can, as I told the House, without any very serious difficulty live with the limit set by the House, except for the fact that the last 2 days of August we cannot. All that means that new legislation would have to be enacted before the 31st of August. It would have to be enacted before, say, the 25th or 26th of August so that we didn't feel it was a serious matter.

There is one question I would like to—excuse me.

Senator SMATHERS. All right.

Secretary DILLON. That is, you will note that beginning here on the 29th of May, and to a greater extent on the 31st of May, our debt exceeds the debt limit of $305 billion that we are presently operating under. The reason for that is the month of May is one of four months during the year in which we get substantial wage withholding payments. Part of them belong to the old-age insurance-fund, and part are tax funds. The portion which belongs to the trust fund has to be invested so we are investing them. That is the reason, if we look here again, you will see that the debt went up today a billion dollars. It went from $303 billion on the 22d, and today it is $304 billion. There is no change in cash, that is just investment of trust funds.

There is a further substantial amount, over a billion dollars, of trust funds that have to be invested before the end of the month. That is the reason why we are going up over the $305 billion level. So we think it is very important that this legislation be enacted and signed by the President early next week. We might be able by just holding back on these trust fund investments to hold them until the 31st and avoid this $200 million we have for 2 days, but by the 31st there is nothing we can do if we don't have a law on the books by then, signed. We would just have to not invest these trust funds and they will lose interest that they otherwise would have accumulated.

Senator SMATHERS. If we are going to raise the debt ceiling, and if we are going to do it because we want to give to the Government the right to operate its fiscal program without losing money, why do you not ask us, and why do we not give to you the debt ceiling which permits you to do that which you say needs to be done? And, to do so without loss to the Government.

This is what I don't understand.

Secretary DILLON. Well, I would say that we face the practical situation now that to get an extra billion dollars until the end of June, and an extra billion dollars at the end of August would involve a conference. I don't know what the result would be, but it would delay us cetainly beyond the 31st of May. We would then have to delay the investing of the trust funds, and as I pointed out earlier, I think that is a very unsound procedure. It is one that I would not like to be forced into, as trustee of the trust funds.

Senator SMATHERS. And it would cost the Government money.

Secretary DILLON. Yes. We would have to appropriate money for the trust funds to make it good.

Senator SMATHERS. The theory of the people who keep a tight debt ceiling is to bring about economy, but what you are saying, rather than binging about an economy in the Govenment, it causes the Government to lose money if the debt ceiling is too low.

Secretary DILLON. That is correct.

Senator SMATHERS. If the people who want economy can be made to understand, and I think they are reasonable, that rather than bringing about economy, it cost the Government money by not giving you that debt ceiling which you say is an absolute minimum you have to have, it seems to me and apparently concurred in by economists, and demonstrated here by you, that failure to give you what you need will thereby force you to delay investing the trust funds, and cost the Government money.

It is not your jundgment that the men in the other body would want to raise the debt ceiling under such circumstances.

Secretary DILLON. I think there is a very confused situation, as the debate shows. There was a strong feeling on the part of some that they could, by means of the debt ceiling, give an indication of their belief in economy, whether or not it actually worked. Therefore there was quite an intense debate over in the other body before this bill was finally approved. I think that in that debate it was recognized by the leaders of those who were in favor of economy, and of a lower limit because of that, that this would possibly cost the Government extra money, and would not be sound financial practice. Nevertheless, they thought the psychological impact of that might be of some help to them in later appropriation actions or something of that nature, but I think those who really understand the matter agree thoroughly with you that there isn't any other possibility, or any other possible position. It certainly does cost the Government money to have too tight a debt limit and a tight debt limit is not the way to control expenditures. Appropriations is the way to do that.

Senator SMATHERS. In other words, you say the only practical way to reduce the cost to the Government is to not limit the debt ceiling, but to either reduce appropriations or, if they want to have a balanced budget to raise taxes?

Secretary DILLON. Yes.

Senator GORE. Raise taxes?

Senator SMATHERS. I'm talking about an immediate raise, if you want a balanced budget.

You are suggesting a long-range balancing of the budget.

Senator ANDERSON. He is following the New Frontier.

Senator SMATHERS. I am sure everybody would agree that the way to immediately balance the budget, would be to turn around and raise taxes and cut appropriations. That is what I meant. It is hard to get away from that.

Senator GORE. But the Treasury has gotten away from that.

Senator LONG. Where you made a mistake there was when you started letting Senator Gore answer your questions.

Senator GORE. I apologize.

Senator SMATHERS. No. I am accustomed to the Senator answering for me and him.

You are stating then that it is your political judgment, that we accept the bill the House sent to us because time is of the essence. Is that what you are saying?

Secretary DILLON. That is right. It was a close judgment there. We can, as I say, operate under those ceilings except for the last 2 days in August, without any difficulty which would actually cost the Government money. I think we can get along all right.

Senator SMATHERS. Mr. Secretary, I am going to ask you if you would, in pursuance with a conversation which the Senator from Louisiana and I had the other day on this matter, submit for us a list or table which would show the ratio of the indebtedness to our national income over the last 20 years.

Secretary DILLON. I would be glad to do that, of course.

Now, the ratio of indebtedness both to gross national product and to national income has declined practically every year. They are lower this year than last year, and would be lower next year than this year.

Senator SMATHERS. So the conclusion could well be that while indebtedness of course is large and each year it seems to be larger than it has ever been previously, nevertheless in relation to our gross national product the ratio, percentage ratio, of the indebtedness is going down?

Secretary DILLON. That is correct.

Senator SMATHERS. All right, sir, we will appreciate it if you will submit that data.

Secretary DILLON. I will be glad to.

Senator SMATHERS. Thank you very much.

The CHAIRMAN. May I add a suggestion: When you do that, will you include the cost of the interest that has steadily gone up?

Secretary DILLON. Yes.

The CHAIRMAN. This is on the other side.

Secretary DILLON. The cost of interest as a proportion of the gross national product stayed about level. Interest rates have gone up and the ratio of the debt has gone down so that it stayed about level.

(The information referred to is as follows:)

Public debt related to gross national product and other measures of economic growth

End of fiscal year	Gross public debt and guaranteed obligations	Gross national product [1]	Personal income [1]	Ratio of debt to GNP	Ratio of debt to personal income	PPer capita debt	Real per capita debt [2]
	Billions	*Billions*	*Billions*	*Percent*	*Percent*		
1929	$16.9	$104.4	$86.4	16.2	19.6	$139	$232
1933	22.5	56.0	48.8	40.2	46.1	179	398
1939	45.9	9 .8	72.0	50.6	63.8	351	729
1941	55.3	126.0	97.2	43.9	56.9	415	811
1945	259.1	218.0	175.0	118.9	148.1	1,852	2,935
1946	269.9	211.7	180.8	127.5	149.3	1,909	2,849
1947	258.4	232.8	188.2	111.0	137.3	1,793	2,326
1948	252.4	260.8	213.1	96.8	118.4	1,721	2,037
1949	252.8	257.6	206.4	98.1	122.5	1,695	2,046
1950	257.4	283.8	224.6	90.7	114.6	1,697	2,034
1951	255.3	330.1	256.8	77.3	99.4	1,654	1,831
1952	259.2	344.2	271.0	75.3	95.6	1,651	1,781
1953	266.1	368.0	290.2	72.3	91.7	1,668	1,786
1954	271.3	360.4	288.3	75.3	94.1	1,671	1,781
1955	274.4	398.2	311.1	68.9	88.2	1,660	1,778
1956	272.8	418.0	332.6	65.3	82.0	1,622	1,706
1957	270.6	445.2	354.6	60.8	76.3	1,581	1,609
1958	276.4	442.1	361.2	62.5	76.5	1,587	1,573
1959	284.8	485.2	387.2	58.7	73.6	1,607	1,581
1960	286.5	504.2	402.4	56.8	71.2	1,586	1,538
1961	289.2	517.7	418.2	55.9	69.2	1,574	1,511
1962	298.6	553.6	441.3	53.9	67.7	1,601	1,519
1963	[3] 305.7	[3] 582.	[3] 460.5	52.5	66.4	1,614	1,514

[1] Approximate annual rate as of the end of the fiscal year.
[2] Public debt divided by Consumer Price Index (1957-59=100) and then divided by total population.
[3] Estimated.

Public debt interest expenditures as a percent of gross national product [1]

[Dollars in billions]

Fiscal year	Public debt, interest expenditures	Gross national product	Interest as a percent of GNP	Fiscal year	Public debt, interest expenditures	Gross national product	Interest as a percent of GNP
1929	$0.7	$101.3	0.7	1953	$6.5	$359.7	1.8
1933	.7	57.2	1.2	1954	6.4	362.0	1.8
1939	.9	88.2	1.0	1955	6.4	377.0	1.7
1941	1.1	110.5	1.0	1956	6.8	408.5	1.7
1945	3.6	218.3	1.6	1957	7.2	433.0	1.7
1946	4.7	202.8	2.3	1958	7.6	440.2	1.7
1947	5.0	223.3	2.2	1959	7.6	466.7	1.6
1948	5.2	246.6	2.1	1960	9.2	494.8	1.9
1949	5.3	261.6	2.0	1961	9.0	505.2	1.8
1950	5.7	263.8	2.2	1962	9.1	539.5	1.7
1951	5.6	310.8	1.8	1963	[3] 9.9	[2] 567.5	1.7
1952	5.9	338.8	1.8				

[1] Fiscal year interest expenditure as a ratio of fiscal year gross national product. (For fiscal years 1941-62 GNP based on sum of actual quarterly GNP totals; for fiscal years 1929, 1933, and 1939, estimated by averaging GNP for the calendar years within which the fiscal year fell.)
[2] Revised estimate April 1963.
[3] Estimated.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, May 23, 1963.

The CHAIRMAN. It is an actual fact that at times we pay compound interest, we borrow money to pay interest—in other words, $10 billion is going for interest.

Secretary DILLON. I see what you mean.

The CHAIRMAN. If you didn't have any interest to pay, the $10 billion could be used in some different way.

Secretary DILLON. On something else; that is correct.

The CHAIRMAN. Actually, we are borrowing money and paying the interest on that money to pay interest; isn't that correct?

Secretary DILLON. I think one could say that; yes.

Senator SMATHERS. I wonder if we could get one further elucidation from the Secretary. You said, in the course of your answer to some questions that Senator Byrd asked, I think, that on this point as to whether or not reducing taxes finally will bring about greater income, you mentioned several countries that had done so since World War II. In each instance you suggested that this tax reduction in the individual country had finally resulted in partly a stabilization to the economy and greater revenue to the government. I wonder if you could get a list of those countries and show actually what did happen, in figures, and make that a part of the record for us?

Secretary DILLON. You want that in the record? This would be easy. It applies to Canada, the United Kingdom, West Germany, and Japan in particular. We have those figures available.

The CHAIRMAN. One more question. When you make that report up, I wish you would bring out the effect of the 1958 tax reduction.

Secretary DILLON. Fine. We will be glad to do that. It is the same thing.

(The information referred to is as follows:)

The attached memorandum and table trace the tax reductions and revenues of selected industrial countries since the end of World War II. The figures for Canada, the United Kingdom, Germany, and Japan appear in the table, and some additional information for Austria is brought out in the text.

The figures show that each of the countries studied reduced its taxes substantially on at least several occasions. The average reduction amounted to approximately 5 percent of the revenues in the year preceding the tax reduction. The largest single reduction was 32.5 percent of the previous year's revenue.

During this same period, while taxes were being reduced, total tax revenues of the countries in question showed a marked increase, by as much as 250 percent in two cases. Revenue increases were frequently recorded for the same year in which tax reductions occurred. In those cases in which a revenue reduction and a tax cut occurred in the same year, the revenue reduction was generally of a smaller relative magnitude than the tax reduction.

The memorandum concludes with the statements that in many cases large increases in revenue followed closely on the heels of tax reductions, and that these revenue increases may, in some measure at least, be attributed to the stimulative effect on the national economy of the tax reduction.

TAX REDUCTIONS AND REVENUES IN SELECTED INDUSTRIAL COUNTRIES SINCE WORLD WAR II

Since the end of World War II a number of major industrial nations have reduced taxes substantially on several occasions. The accompanying table shows total tax revenues and the revenue effects of tax legislation since 1946 in four of these countries: Canada, the United Kingdom, Germany, and Japan. The estimated revenue effects of the tax legislation assume a continuation of the economic conditions which prevailed at the time of enactment. The largest tax reduction amounted to 32.5 percent of the previous year's revenues. The average decline was somewhere near 5 percent of the level of revenues in the year preceding the tax reduction.

Canada, in the period from 1946 to 1960, reduced its taxes on 10 occasions. The largest reduction, occurring in 1950, amounted to 15.14 percent of revenues in 1949, and the average of the 10 reductions was approximately 8 percent of the previous year's revenues. The tax increases during the period were few, and only one, a 20.74-percent increase in 1952, was of significant magnitude. During this period of substantial tax reductions Canadian Government tax revenues generally showed a marked increase. During the entire period revenues increased by more than 100 percent. The year-to-year changes in revenue were positive during 8 of the years and negative in 6, but the revenue increases on the average considerably outweighed the decreases. In a number of cases revenues increased in years during which taxes underwent major reductions, and even when there was a decline in revenue it was generally small relative to the size of the tax reduction. In 1946, 1947, and 1948, for example, there were three tax reductions all in excess of 10 percent, while revenues increased from 1946 to 1947 by 8 percent and decreased by less than 1 percent in the 2 following years. In 1956 a tax reduction was enacted which amounted to 5.5 percent of 1955 revenues, while during the same year revenues increased by almost 6 percent and in the following year an increase of over 16 percent was recorded.

The tax reduction record of the United Kingdom during the period is somewhat less imposing than that of Canada. Since 1953, however, there have been five major tax reductions averaging over 4 percent. During the same period tax revenues increased in each year but one, 1954, when there was a decrease of about 2.5 percent. This was the year following the first major tax reduction and the year in which the second reduction occurred. By 1955, however, revenues were already increasing, showing a rise of 7.5 percent in that year. Subsequent tax reductions caused no decline in tax revenues, but rather each was followed by an increase in revenues. From 1953 to 1960, during which time tax reductions were enacted totaling over £900 million, British tax revenues increased by 26.4 percent.

West Germany has also enacted a series of tax reductions since the end of World War II. The first two, in 1948 and 1950, are reported as being substantial in size, but the exact amounts are not available. Since 1954 there have been five additional tax reductions ranging in size from 1.75 to 8.65 percent of the previous year's revenue. In each case the tax reduction was accompanied by an increase in Federal tax revenues. In 1956, when the largest of the last five tax reductions occurred, tax revenue increased by almost 11 percent. This was followed in 1957 by a 9.5-percent increase. From 1951, the first year for which revenue figures are available, through 1961 tax revenues of the German Government increased by more than 250 percent.

Of the countries included in this study, Japan, since 1950, has had the most complete and consistent record of tax reductions. Japan reduced its taxes in every year from 1950 to 1962 with the single exception of a small increase in 1960. The largest single reduction, amounting to 32.5 percent, took place in 1950. The average of the 12 reductions during the 13-year period was slightly in excess of 9 percent. While Japanese tax rates were undergoing substantial reduction, tax revenues were rising. Between 1949 and 1962 revenues increased by more than 250 percent. Three of the year-to-year revenues changes were negative, but only in 1950, the year of the 32.5-percent tax cut, was the revenue decline significant, amounting to just over 10 percent. In most cases, Japanese revenues increased while taxes were being reduced.

A fifth country, not represented in the table because of a lack of data, is Austria. During the years from 1954 to 1958 Austria reduced its taxes three times, in 1954, 1955, and 1958. A fourth reduction, amounting to about $48 million, occurred in 1962. Each of the first three tax reductions was accompanied by increased governmental revenues. Revenues increased in 1954 by 3.1 percent, in 1955 by 6.7 percent, and in 1958 by 5.1 percent. It is too early yet to see the full effect of the 1962 tax cut.

One may observe from these case histories that substantial reduction in tax rates has not generally left in its wake a commensurate decline in government revenues. The fact is that in many cases large increases in revenue followed closely on the heels of tax reductions. These increases may, in some measure at least, be attributed to the stimulative effect on the national economy of the tax reduction.

Tax reductions and revenues of four major industrial countries since the end of World War II

	1946	1947	1948	1949	1950	1951	1952	1953
Canada:								
Total tax revenue (millions of dollars)	2,275	2,458	2,452	2,437	2,333	2,786	3,710	3,997
Change from preceding year (percent)		8.04	−0.25	−0.62	−4.27	19.41	33.16	7.73
Revenue effect of legislation [1] (millions of dollars)	−300	−254	−265	−56	−369		578	−146
Percent of preceding years revenues (percent)	−13.10	−11.16	−10.78	−2.28	−15.14		20.74	−3.93
United Kingdom:								
Total tax revenue (millions of pounds)	3,195	3,010	3,268	3,666	3,687	3,729	4,014	4,281
Change from preceding year (percent)		−5.80	8.57	12.17	0.57	1.13	7.64	6.65
Revenue effect of legislation [1] (millions of pounds)			53			140		−185
Percent of preceding years revenues (percent)			1.76			3.79		−4.60
Germany: [2]								
Total tax revenue (billions of deutsche marks)						10.2	16.1	18.5
Change from preceding year (percent)							57.84	14.9
Revenue effect of legislation [1] (billions of deutsche marks)			(3)		(3)	.3		
Percent of preceding years revenues (percent)								
Japan: [4]								
Total tax revenue (billions of yen)				636	571	723	843	943
Change from preceding year (percent)					−10.23	26.61	16.59	11.86
Revenue effect of legislation [1] (billions of yen)					−206.8	−113.3	−89.5	−124.4
Percent of preceding years revenues (percent)					−32.51	−19.84	−12.37	−14.75

See footnotes at end of table.

Tax reductions and revenues of four major industrial countries since the end of World War II—Continued

	1954	1955	1956	1957	1958	1959	1960	1961	1962
Canada:									
Total tax revenue (millions of dollars)	4,003	3,773	3,995	4,648	4,622	4,247	4,750	—	—
Change from preceding year (percent)	0.15	−5.75	5.88	16.34	−0.56	−8.12	11.84	—	—
Revenue effect of legislation [1] (millions of dollars)	−361	—	−207	—	−128	−204	156	—	—
Percent of preceding years revenues (percent)	−9.03	—	−5.48	—	−2.75	−4.41	3.67	—	—
United Kingdom:									
Total tax revenue (millions of pounds)	4,177	4,492	4,641	4,896	5,106	5,314	5,410	—	—
Change from preceding year (percent)	−2.43	7.54	3.31	5.49	4.28	4.07	1.80	—	—
Revenue effect of legislation [1] (millions of pounds)	−170	—	−155	—	−130	—	−295	—	—
Percent of preceding years revenues (percent)	−3.97	—	−3.45	—	−2.65	—	−5.55	—	—
Germany: [2]									
Total tax revenue (billions of deutsche marks)	19.4	20.8	23.1	25.3	26.5	28.8	32.4	36.0	—
Change from preceding year (percent)	4.92	7.27	10.96	9.53	4.61	8.74	12.57	10.92	—
Revenue effect of legislation [1] (billions of deutsche marks)	−.6	−.9	−1.8	−.63	—	—	—	−.57	—
Percent of preceding years revenues (percent)	−3.24	−4.63	−8.65	−2.72	—	—	—	−1.75	—
Japan: [4]									
Total tax revenue (billions of yen)	934	937	1,087	12.02	11.91	13.72	18.01	2,012	2,233
Change from preceding year (percent)	−0.96	0.32	16.00	10.57	−0.92	14.14	31.26	11.71	10.98
Revenue effect of legislation [1] (billions of yen)	−16.9	−66.1	−1.5	−61.7	−37.3	−9.5	6.6	−74.4	−136.2
Percent of preceding years revenues (percent)	−1.79	−7.07	−0.16	−5.67	−3.10	−6.79	0.48	−4.13	−6.76

[1] Estimated revenue effect of tax legislation assuming continuation of the economic conditions prevailing at the time of enactment.

[2] Figures refer only to Federal share of income tax revenues. Figures not available prior to 1951.

[3] Substantial tax reductions occurred in 1948 and 1950, exact figures not available.

[4] Figures not available prior to 1949.

Source: United Nations, Statistical Yearbook, 1960, International Monetary Fund, International Financial News Survey, Japanese Ministry of Finance, An Outline of Japanese Tax, 1962, and dispatches from U.S. embassies abroad.

UNITED STATES 1954 TAX REDUCTIONS AND REVENUES

The table attached shows the breakdown of the 1954 tax cuts.

Budget receipts and underlying income levels before and after the 1954 cuts were:

[In billions of dollars]

Fiscal year	Receipts		Calendar year	Underlying income levels		
	Including miscellaneous receipts	Excluding miscellaneous receipts		Gross national product	Personal income	Corporate profits
1953	64.7	63.0	1952	347.0	273.1	36.7
1954	64.4	62.3	1953	365.4	288.3	38.3
1955	60.2	57.8	1954	363.1	289.8	34.1
1956	67.9	65.2	1955	397.5	310.2	44.9

A comparison of actual receipts in 1956 with 1953 understates the rise in tax liabilities in the period. Receipts in 1953 were enlarged by about $1.5 billion by the original Mills acceleration of corporate tax payments. The fiscal year 1956 was the first since 1950 in which the Mills acceleration was not significant.

Reductions under the 1954 tax program

[Dollars in billions]

	Total	Corporation	Individual		
			Total	Below $5,000 income	Above $5,000 income
Reduction in the individual income tax, Jan. 1, 1954	$3.0		$3.0	$1.0	$2.0
Elimination of the excess profits tax, Jan. 1, 1954	2.0	$2.0			
Reduction of excise taxes, Apr. 1, 1954	1.0	.2	.8	.4	.4
Tax revision bill	1.4	.6	.8	.3	.5
Total	7.4	2.8	4.6	1.7	2.9
Percentage of total reduction	100	38	62	23	39
Percentage of reduction to individuals			100	37	63

Source: Office of the Secretary of the Treasury, analysis staff, Tax Division.

Senator ANDERSON. Mr. Secretary, last year when this debt limit came up, I proposed that the bill be amended to establish a permanent ceiling of $306 billion and that motion was voted down 13 to 3—just Senator Douglas, Senator Williams, and I voted for it.

Would you examine your figures and tell me whether or not $306 billion is closer to the debt limit now than $285 billion is?

Secretary DILLON. It is very much closer.

Senator ANDERSON. Would you be in favor of amending that bill, to putting it where it is, instead of where it isn't?

Secretary DILLON. We have never opposed having a debt limit that is closer to the real amount. We would not oppose that now, if Congress wanted it. That was mentioned in the Ways and Means Committee but the other body seems to prefer to continue on the present course. Why, I do not know.

Senator ANDERSON. It sounds nice, a debt of $285 billion.

Secretary DILLON. I do not believe anybody believes that.

Senator ANDERSON. I don't either.

As the chairman pointed out, it is going to grow and grow in these next few years.

I pointed out to another group a while ago that during the Eisenhower administration of 8 years, it increased $23 billion. It is going to increase that in a very few years now, 3 years and more. That will be within the next 3 years.

I see no reason to carry a figure of $285 billion.

Secretary DILLON. It becomes more anachronistic every year.

Senator ANDERSON. When I was a small boy we used to go out and put whitewash on the chickenhouse roosts. I think that is all this is, the $285 billion. I do not believe it is only whitewash. I would hope that we could deal with this realistically.

Secretary DILLON. My only comment would be the same comment I made on one of the earlier things. In view of this time problem we are faced with next week, these trust funds and their investment, it might be better to try and have this attached to the longer debt bill, the one that will come up in August that we are trying to put forth for the next year.

Senator ANDERSON. Someone once said, "Let us raise a standard to which the wise and prudent can repair."

Some of us want to put it where it is regardless of whether we don't get along very well now with the standard.

Have you any question on the days they have put in here? Is there any reason not to take action that last for more than 30 or 60 days at a time?

Secretary DILLON. The reason they did this was that they wished to put off consideration of the debt limit for the next fiscal year, fiscal 1964, until such time as they had a better feeling of what the appropriations would be, and a better feeling of what the tax program was likely to be. That was essentially a decision on timing as to when they thought the Congress would pass the appropriation bills, complete action on them, and when they thought something would be clear about the tax bills. If they had gone through September instead of August, there would have been that much more time, but they felt that August was an adequate period for that, and it suits us. We are ready to come up in August with a new recommendation.

Senator ANDERSON. Do you think by August 31, 1963, the size of the appropriation and amount of tax reduction, if any, will be known?

Secretary DILLON. Well, judging by past experience I would hope that, with the exception possibly of the foreign aid appropriation, most of the appropriations would be known by then. I think the tax bill would have been passed by the House and this committee so the committee would have its own ideas of what it wanted. But certainly we would not know the final result because it certainly will not be passed by this committee by that time.

Senator ANDERSON. Therefore would it not be well to put the bill through so we do not have to tinker with it again before August 31?

Secretary DILLON. There is a difference in judgment as to when you can do this well, and if you prefer a later date it would be more conservative to have a later date.

Senator ANDERSON. Review the legislation thus far going through the Congress and make up your mind whether the appropriations bills would be finished by August 31, as it was last year when they finally finished.

Secretary DILLON. Last year it was considerably later because, as I remember, there was some sort of altercation and the two Appropriations Committees didn't meet for some months.

Senator ANDERSON. The speed has not yet accelerated, if it is ever going to accelerate.

Secretary DILLON. I am hopeful we will have some appropriations bills finally enacted very shortly.

Senator ANDERSON. I was hopeful to get you to put a day on this that is realistic instead of unrealistic. Look at the balance, the amount is unrealistic. You doubt if we are going to finish hearings on the tax bill by such time as to give this any consideration. There are members of the committee that are not very friendly to the idea of the tax cut at all under the present circumstances.

Now, you quote in part from the Senate committee, saying:

> Your committee concluded, however, that, in any case, it was desirable to base the statutory debt limitation for 1963 upon the assumption that the budget would be balanced in that year.

I do not believe the committee assumed that the budget was going to be balanced. The chairman had strong opinions on that.

Secretary DILLON. That is the truth.

Senator ANDERSON. You quoted as if you think he believed it.

Secretary DILLON. No.

Senator ANDERSON. This is more of the $285 billion stuff.

Secretary DILLON. I was not quoting it to say that it was believed it would happen, but after discussing other possible alternatives there was not any other way to set it, so this seemed the best way so they set it on the assumption that it was a desire that it be reconsidered in the light of whatever difficulty there was at the time.

Senator ANDERSON. I express the view of the chairman this morning that the report does not carry out any false assumptions. He is expecting a large deficit and so am I. I don't know which has a bigger figure, but they are both substantial, I assure you.

Now, you say:

> The present debt limit legislation was based on a premise which has not been realized. It is not consistent with the financial facts of life which the Treasury must face.

That also applies to the $285 billion permanent debt limit?

Secretary DILLON. Very much so.

Senator ANDERSON. I have asked about the date. You say it then will return to its permanent level of $285 billion after August 31. It will return to that.

In view of the fact that we are going to be in legislative trouble, had we not better take some step to protect against that happening? You don't want to return to $285 billion—you couldn't possibly do it.

Secretary DILLON. No, certainly not, no.

Senator ANDERSON. If we know we are not going to be in shape to answer all the questions, why could we not deal with it now?

Secretary DILLON. It could be dealt with by picking a different figure and going as far as possible——

Senator ANDERSON. October 15?

Secretary DILLON. October 15, or something like that.

Senator ANDERSON. That is what I had in mind. I don't know what the Senate committee will do with a different date. I only cast one vote. As I said a moment ago, we only got three votes before, when we tried to make the ceiling realistic. I don't think there is any sense in waiting until we know what action Congress will take.

You say the House committee reduced these figures by a billion dollars each. As Senator Long pointed out, that does not save any money, does it?

Secretary DILLON. No.

Senator ANDERSON. And it might put you in a bind when you would not want to be there, is that correct? It could, at least.

Secretary DILLON. It could, but after carefully considering it, we decided we could get by, that it would be satisfactory. Indeed, during the discussions it was not even quite that much, because during the discussions the committee got down to very detailed figures, and I did tell the committee, and they so reported it, that a figure of $307.5 billion would be perfectly satisfactory through the month of June. They asked me that question and I answered that it would be perfectly satisfactory, so it actually cut off a billion below what we asked, and was only a half a billion below what I felt would be satisfactory, so that was the reason it was easier to accept.

Senator ANDERSON. Would we not be wiser to put it at $307.5 billion?

Secretary DILLON. That then would be everything we asked for and we would be happy. But our problem then would be to delay the enactment of the bill and we would have this problem which I consider very serious, of not investing the trust funds if this is delayed, because this is a very bad principle.

Senator ANDERSON. What you were saying is if the Senate doesn't take the House figure, there will be a delay.

Secretary DILLON. That is correct.

Senator ANDERSON. You have two bodies.

Secretary DILLON. Correct.

Senator ANDERSON. The Senate and the House.

Secretary DILLON. Yes.

Senator ANDERSON. And the Senate has its rights.

Secretary DILLON. Absolutely, absolutely.

Senator ANDERSON. I believe the Senate should deal with the matter. I have been on the Ways and Means Committee of the House and thought it was a pretty sensible group. I think that $308.5 billion might be a right figure if the Senate would take that figure and then go to conference. It might be that the chairman is trying to raise the debt ceiling as high as he can. If he isn't, maybe some of the rest of us might. I don't see any point in putting in a figure which you cannot live with, which you have to worry about the last 3 days in May when it doesn't really——

Senator LONG. Cost money.

Senator ANDERSON. Cost money in financing the program. I would hope we might take that into consideration.

Thank you.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Secretary, in line with what Senator Anderson has said, do you feel that when you come back in August or after the House and Senate have acted on the tax bill you would be in a better position, knowing what that tax bill was going to be, to recommend the additional increase that would be needed at that time?

Secretary DILLON. Well, obviously, Senator, if we know what the tax bill is going to be, our estimate will have a great deal more validity than an estimate based on what we think the tax bill is going to be, even if it is passed by one body. To that extent, that is correct.

Senator WILLIAMS. The point is, you need that information to intelligently make your final determination.

Secretary DILLON. To make a valid estimate, and generally the estimates over the past vary 2, 3, or 4 percent from a so-called midyear review made in the fall. The estimates of revenue don't vary much more than that when all the facts are known. But with this unknown it could vary a great deal because, as you know, there have been suggestions to go much faster. There have been all sorts and shades of arguments and political opinion that we ought to do the whole thing at once, do a big part at once, and that would have a big effect on next year's deficit.

Senator WILLIAMS. In line with that, would it not be wiser for us to put a realistic figure, as has been suggested, on this debt limit now and make it for 1 year, taking into consideration that there would be no tax cut, and then when you determine the amount of the tax cut you will know the additional amount you will need to raise the debt limit, and then you can borrow the money for this tax cut? We could put it all in one package, could we not?

Secretary DILLON. Any cut in taxes will have rather small effect, no matter what we do, in the first 6 months of this new fiscal year. So the real effect there will be that we would have to devise a debt limit now that would carry us through December, which is usually the low point on the seasonal basis as I have explained. We will get through then, and then we would have to come back, presumably in the early days of the session next year, for an additional increase in the debt limit to take care of the taxes that had been voted right at the end of the preceding session.

Senator WILLIAMS. It is easy to make it a part of the tax bill. Put it in an amendment, a new section to the tax bill, raise the debt limit, so that you can pay for the tax reduction.

Secretary DILLON. You can do that.

Senator WILLIAMS. Would you not prefer that?

Secretary DILLON. My own preference is simply to get a debt ceiling that I can operate under. I defer to the Congress in the various ways in which they want to achieve that end.

Senator WILLIAMS. Would you have any objection to our doing that?

Secretary DILLON. No, as long as I get an adequate ceiling.

Senator WILLIAMS. You have no objection to tying the future increase in the debt limit, whatever it is, to the tax bill and make it a part of it?

Secretary DILLON. I think there is nothing wrong with putting that portion that has to do with taxes as part of the tax bill, because nobody is trying to hide that.

Senator WILLIAMS. Now, the suggestion was made, or it was pointed out that the national debt on a per capita basis was gradually declining even though the total debt is increasing. Does that not result from the fact that each year there are 4 million babies that arrive and we are assigning to them a part of the national debt, and they are taking over part of our own per capita debt. Isn't that the way you are arriving at that computation?

Secretary DILLON. I do not have that information. We were talking about the national debt in relation to national income, and to gross national product, which doesn't bear directly on population.

Senator WILLIAMS. To put it on the population basis, it is on the theory you are assigning a portion of our debt today to each child the day it is born.

Secretary DILLON. Yes.

Senator WILLIAMS. And by doing that, that would transfer part of say my assigned portion of the national debt to the baby when it was born.

Secretary DILLON. I haven't used such a figure.

Senator WILLIAMS. Does our national debt not constitute part of the gross national product? In other words do not our expenditures constitute a part of that figure?

Secretary DILLON. The gross national product is the value of the total goods and services produced in the United States in 1 year, as best the Department of Commerce can estimate it.

Senator WILLIAMS. But the servicing of the national debt is a part of it?

Secretary DILLON. No, I would not say so because that is neither a service that is rendered nor goods that are produced.

Senator WILLIAMS. But, it is goods and services purchased by the deficits.

Secretary DILLON. That may be; that may be.

Senator WILLIAMS. Now, if the debt limit is too tight, I think you said you have no alternative other than just to stop paying bills of the U.S. Government, is that correct?

Secretary DILLON. Yes. This is a thing that passes from white to gray to black. If it is too tight by $100 million, we can use devices such as those that Secretary Anderson used which cost the Government more money; but if you have a thing that is too tight by several billions of dollars, then you get into a position where there is nothing you can do except stop paying or postpone paying bills until the Congress rectifies the situation.

Senator WILLIAMS. Would there not be another alternative? Could you not stop creating some of this debt, postpone obligations, stop initiating some programs or holding them up, or just postponing incurring of some of this debt? If your debt ceiling seems a little lower for the projected next 12 months then you would like to see, are there not some programs you could postpone?

Secretary DILLON. When you look 12 months ahead, there is some relevance there, if that is what the Congress wants. It is not possible in a 3- or 4-month period because the bills are already coming in.

Senator WILLIAMS. I appreciate that, but it would be possible, if your debt ceiling for the next 12 months were fixed at a figure at which you do not think you could keep on spending as you would like, that you could curtail some of your obligations before you made them; could you not do that?

Secretary DILLON. That would, I suppose, be a possibility. It would raise the difficulty of providing something that Congress has not wanted to provide before, although I think they should have before, and that is providing the President of the United States with an item veto. In fact, that is what you would be doing.

Senator WILLIAMS. He has done it.

Secretary DILLON. They have been very loath to do it. It has sometimes been postponed and picked up later on. They have done it readily in the national defense area because they feel that the Commander in Chief has a special prerogative. But I discussed it with both President Eisenhower and President Kennedy and they were loath to do this in the civilian areas because the Congress has not given the clear right.

Senator WILLIAMS. President Truman during the Korean war postponed several domestic projects and very wisely did so. The President does has the authority to do it, and you could stop recommending some of these expenditures.

Secretary DILLON. That he has, he has stopped recommending, but Congress could much more readily take care of that than by using the debt ceiling, by just not approving recommendations.

Senator WILLIAMS. We could take care of it if we could get a little support from the administration. Your recommendations have been in the opposite direction.

Secretary DILLON. I think the record, except for defense and space expenditures for the last 3 years has been pretty good.

Senator WILLIAMS. You are too easily satisfied.

Secretary DILLON. It is $500 million better than it was in the 3 preceding years, 1958 to 1961.

Senator WILLIAMS. I disagree. I don't know of a single agency which is cutting expenditures below this year's. Do you know of a single department?

Secretary DILLON. It is very difficult. I don't know of any since Congress voted quite a substantial pay raise last year, and it would be quite a job to cut expenses.

Senator WILLIAMS. The administration recommended that pay raise and said you were going to absorb it, so don't blame Congress.

Secretary DILLON. We were asked to absorb it, nobody said they could. It is being absorbed as much as they could, but you can't absorb it entirely.

Senator WILLIAMS. In connection with expenditures, your projections or requests for appropriations this year for the domestic divisions of our Government are all asking for increases over and above last year's appropriations, don't they?

Secretary DILLON. That is correct, since the Government grows; but the increases are relatively modest. The total expenditures are actually less than estimated. I think the total increases in appropriations that were recommended in many places were less than they were last year, though the total of Government new obligation authority was some $4.7 billion higher than it was the year before, and of that the bulk of it, if not all of it, was in defense and space.

Senator WILLIAMS. That is in line with what the President told the Congress in his joint message last January but in examining the budget submitted a couple of weeks later I wish you would point out to me just what department of the Government is asking for less money to be appropriated this year than was asked for last year.

Secretary DILLON. I would be glad to give you a memorandum on it. We have the figures but I know there were a number of them.

Senator WILLIAMS. The Interior Department is asking for $111 million more than last year. Your own Department asked for $421 million increase.

Secretary DILLON. Yes, we were very pleased in our Department when the chamber of commerce made their recommendations of cutting expenditures, where they could be cut and they found 117 places. One of the few departments of the Government that they didn't recommend any cuts in was the Treasury Department. They decided we were operating efficiently, and as tightly as we could.

Senator WILLIAMS. You are still asking for $421 million, which is an increase over the preceding year.

Secretary DILLON. I think that probably includes an increase in the cost of debt, $421 million, I don't believe we asked for that. We had a substantial increase, but it was pay raises.

Senator WILLIAMS. Commerce, $150 million; HEW, $694 million; Labor, $194 million increase; the Post Office is asking for an increase; General Services is asking for $62 million increase; Housing and Home Finance, $393 million increase. I have gone through that budget; they all want more money.

Secretary DILLON. How about the Agriculture Department?

Senator WILLIAMS. Agriculture claims a $928 million reduction, but that is a false claim. They are not asking Congress to appropriate for a $2 billion loss incurred; that is being carried over until next year, and in reality this is a billion dollar increase. This is not a $928 million reduction at all. You will agree with that. They sustained a loss and eventually the note which you hold in the Treasury will not be worth the paper on which it is written; we will either have to appropriate the money to pay them off or cancel them. Actually Agriculture has over a billion dollar increase instead of a $900 million reduction. I repeat my statement that there is not a single department in the Government this year that is not asking for more money than last year.

Secretary DILLON. I will pass that on to the Budget Director.

(The information referred to follows:)

New obligational authority requested for fiscal 1964 in the January budget is less than that for 1963 for the following agencies:

[In thousands of dollars]

	1963	1964	Difference
Legislative branch	160,698	149,148	−11,550
Executive Office of the President: National Aeronautics and Space Council	530	525	−5
Funds appropriated to the President:			
Disaster relief	25,000	20,000	−5,000
Expenses of management improvement	200	100	−100
International financial institutions	2,121,656	111,656	−2,010,000
Public works acceleration	900,000		−900,000
Post Office Department	806,461	564,964	−241,497
State Department	426,679	373,785	−52,894
Independent offices:			
Atomic Energy Commission	3,134,738	2,893,000	−241,738
Veterans' Administration	5,594,743	5,580,262	−14,481
Other independent agencies:			
Civil Aeronautics Board	94,911	93,993	−918
Civil Service Commission	73,426	49,128	−24,298
Export-Import Bank	2,000,000		−2,000,000
Foreign Claims Settlement Commission	73,759	2,320	−71,439
National Capital Parks Commission	762	717	−45
National Capital Transportation Agency	3,293	2,200	−1,093
Small Business Administration	308,902	215,350	−93,552
U.S. Study Commission, Southeast River Basins	552		−552
U.S. Study Commission, Texas	237		−237
Total reduction in NOA			−5,669,402

Administrative budget expenditures in fiscal 1964 were estimated to be less than in 1963 for the following agencies:

[In thousands of dollars]

	1963	1964	Difference
Legislative branch	158,217	154,930	−3,287
Executive Office of the President:			
Council of Economic Advisers	674	620	−54
Miscellaneous: Federal Radiation Council	12		−12
Funds appropriated to the President:			
Disaster relief	35,000	30,000	−5,000
Emergency Fund for the President	1,354	1,000	−354
Expenses of management improvement	280	200	−80
Foreign assistance	3,850,000	3,750,000	−100,000
International financial institutions	121,656	111,656	−10,000
Special foreign currency programs	2,962		−2,962
Agriculture	7,493,496	6,565,353	−928,143
Post Office	802,461	553,524	−248,937
State	456,620	360,904	−95,716
Independent offices:			
Atomic Energy Commission	2,870,000	2,850,000	−20,000
Housing and Home Finance Agency	1,088,396	695,337	−393,059
Veterans' Administration	5,532,182	5,470,072	−62,110
Other independent agencies:			
Advisory Commission on Intergovernmental Relations	475	376	−99
Alaska International Rail and Highway Commission	1		−1
American Battle Monuments Commission	2,000	1,900	−100
Central Intelligence Agency	2,563	81	−2,482
Civil Service Commission	74,560	50,345	−24,215
Export-Import Bank of Washington	−224,253	−647,000	−422,747
Federal Home Loan Bank Board	−277,775	−292,448	−14,673
Historical and memorial commissions	118	107	−11
National Capital Planning Commission	2,477	2,344	−133
National Capital Transportation Agency	3,161	3,065	−96
Outdoor Recreation Resources Review Commission	93		−93
St. Lawrence Seaway Development Corporation	3,000	1,800	−1,200
Smithsonian Institution	26,459	24,684	−1,775
Tennessee Valley Authority	70,000	59,200	−10,800
U.S. Study Commission, Southeast River Basins	1,006	32	−974
U.S. Study Commission, Texas	128		−128
Total reduction in expenditures			−2,349,261

Senator WILLIAMS. I wish you would, and I wish that they would either stop talking about the reduction or else reduce expenditures. At the rate they are going if you are not careful you are going to reduce us right into bankruptcy.

Speaking of spending, I notice in the testimony, you were here last year, appearing on page 10 of your report, you estimated this year's expenditure for fiscal 1963 at $93 billion.

Secretary DILLON. That's right.

Senator WILLIAMS. Now, this March 31 quarterly report which I have before me here states that you are spending for the first 9 months of this year $94 billion.

Secretary DILLON. That must include the trust fund.

Senator WILLIAMS. How much of that was trust fund?

Secretary DILLON. I don't have that in front of me.

Senator WILLIAMS. I wish you would furnish for the record at this point just what your expenditures have been up to this point as compared with the projected expenditures at that time, and then also furnish the statistics on the revenue up to this point as compared with your estimated revenue. What I would like to establish is how much of this $8 billion deficit results from increased spending and how much from a reduction in revenue. Do you have those figures there, or do you want to furnish them for the record?

Secretary DILLON. I will have to furnish those. I have just been told by my staff here who checked the figures on the Treasury, they say it is $421 million increase, which included $320 million interest costs.

(The information referred to follows:)

The following table shows estimates for fiscal year 1963 budget receipts expenditures, and surplus or deficit, beginning with the estimates provided in the January 1962 budget document and ending with the estimates furnished the House Committee on Ways and Means in the April–May 1963 hearings on the debt limit. Although no later formal estimates have been made, budget receipts and expenditures through April 30, aggregating $67.4 billion and $77.5 billion, respectively, appear to indicate that actual fiscal year 1963 receipts will be somewhat higher and expenditures somewhat lower than the April estimates and that, consequently, the deficit will be reduced to the neighborhood of $8 billion.

As the successive estimates indicate, the deficit expected in fiscal year 1963 is largely the result of lower revenues than initially anticipated because of a lower level of economic activity in calendar 1962 than had been estimated at the time the January 1962 budget document was presented. According to the April estimates, budget receipts are expected to be $7.5 billion lower than estimated in the January 1962 budget document while expenditures are expected to be $1.4 billion higher.

Estimates of fiscal year 1963 budget receipts, expenditures, and surplus or deficit (—)

[Billions of dollars]

Estimate	Receipts	Expenditures	Surplus or deficit (—)
1962 budget document	93.0	92.5	+0.5
Midyear review	85.9	93.7	−7.8
1963 budget document	85.5	94.3	−8.8
April Ways and Means hearings	85.5	93.9	−8.4

Senator WILLIAMS. The $100 million was in extra personnel and operation expenses?

Secretary DILLON. Yes.

Senator WILLIAMS. Still, I wish you would furnish for the record, from the Budget a report of where some agency has cut its expenditures.

Secretary DILLON. I will be glad to supply that.

Senator ANDERSON. The Battle Monuments Commission has done that, I believe.

Senator WILLIAMS. When you were here last year you reduced your estimate of revenue, which was being projected on the basis of the decline in the stock market at that time, and I think in answer to a question you said you considered the stock market break a readjustment of the market and that it was a long overdue correction to put stocks in a more realistic relation to their earning power, is that correct?

Secretary DILLON. I did. I didn't think it would have a major effect on the economy and fortunately that thought turned out to be correct.

Senator WILLIAMS. In view of the fact the market has recovered practically all of its losses, do you view the present position of the market with alarm or do you think that earnings have increased to compensate?

Secretary DILLON. There has been a very substantial increase in earnings, particularly in the fourth quarter of last year, and certainly on the basis of earnings, stocks today should be worth more than they were a year ago on the basis of earnings that were in sight a year ago.

Now, whether any particular level is correct I hesitate to say, and do not want to say. I do feel that the stock market should not—the values should not be based on expectations of any immediate boom. There may be some expectations in there of a tax reduction bill which would increase earnings. I don't know how they will evaluate that. It is hard to say whether the market today is too high or not. If you pass a tax reduction bill there will be increased economic activity in this country, increased demands, increased consumption. Businesses will do better, make more money, stock will be worth more, so maybe these prices are all right. Certainly they are back up, and up to a high level.

Senator WILLIAMS. I do not necessarily mean to put you in a position of predicting the market, but the point is—there have been some increased earnings.

Secretary DILLON. Yes.

Senator WILLIAMS. And as a result of this increase you should have a reasonable expectation of increased revenue based on the increased earnings.

Secretary DILLON. That is right. I pointed out, I think the other day in talking to the chamber of commerce, that because of the earnings being higher than we had expected, and also the gross national product moving ahead a little faster this year than we had expected, it looked like the revenues that we would have available for next year, if the economy continued in this fashion, could be as much as a billion dollars higher than we had estimated in January.

Senator WILLIAMS. That is the point. If the Congress would support what the President said in his state of the Union message; that is, hold domestic expenditures at last year's level or lower; it would eliminate some of the need for increasing the debt; would it not?

Secretary DILLON. To the extent that Congress holds expenditures down, that would decrease some of the need but not all because we would still have the seasonal need.

Senator WILLIAMS. I appreciate that point.

Now, would you recommend that Congress hold these appropriations of these various agencies at last year's level or below?

Secretary DILLON. I do not think it is practicable.

Senator WILLIAMS. But both you and the President have said you were going to do it and you included that in part of your statement today. Yet the Budget Bureau is asking us to override you and the President, and I wonder——

Secretary DILLON. What the President wanted was a holding of all expenditures of the Government except for space, defense, and interest below the preceding years, and that is still the case. We would hope that the Congress would so act, and I am sure they will.

Senator WILLIAMS. The way to hold them at or below the preceding expenditure is to hold the appropriations down to or below the preceding year, is that not correct?

Secretary DILLON. To some extent; but there are other things that enter into Government expenditures and always have; that is, the sale of assets which provide funds which we otherwise would not need to raise by borrowing. We are pursuing a more aggressive course in that direction, as a result of a policy reviewed during the latter part of last year, and this enters substantially into the possibility of being able to hold expenditures next year as shown in the budget, lower than the preceding year for these civilian areas. If it were not for that we couldn't do it.

Senator WILLIAMS. You are not telling me that the appropriations of the Congress do not determine to a large extent next year's expenditures.

Secretary DILLON. Yes, they do.

Senator WILLIAMS. Some of us have made the effort and we are going to continue. Do you think it would be wise for the Congress to hold appropriations for various domestic agencies at or below last year's appropriations?

Secretary DILLON. I was going to say you have had a wage increase, which I think everybody felt was reasonable because it was designed to put the Government civilian employees on a comparable footing with civil employees that work for private industry. There were very careful studies made of wages of private industry and wages of the Government, and it was found that the Government was lagging behind; that is, Government workers were being treated unfairly as against private workers, so the wage increase was put into effect.

Now, there are 2½ million employees, roughly, civilian employees of the Government, and further, a two-step basis was made for a further increase in January and I just do not think it is possible to ignore that and hold costs at the same level as they were this year.

But, I think, they should be held as modestly as they can be. I am aware of that, because for instance there are several bureaus in my Department where we are going to have fewer employees on the payroll next year than we had this year. We are reducing, actually reducing Government employment where we find we can operate more effectively and do that. But still the cost of those departments are going up because of the higher wages being paid to other employees, and normal promotions and things of that nature.

Senator WILLIAMS. In the Treasury Department, you have added 4,129 more employees for the next year.

Secretary DILLON. We asked for them, because that had to do with the Internal Revenue Service. We are not going to get them so it's going to cost the Government $100 million which they can't collect.

Senator WILLIAMS. You got part of it.

Secretary DILLON. We got 200, and it's going to cost the Government $100 million. We are going to have $100 million less because Congress made inadequate appropriations for the Internal Revenue Service.

Senator WILLIAMS. I don't know what kind of an answer I got to my question except that you still want to keep on spending for the various domestic expenditures.

Secretary DILLON. Examine them very carefully and anything that is an unnecessary expenditure, don't allow it.

Senator WILLIAMS. You understand the statement of the President in his state of the Union message, that he was going to hold down this year's budgetary requests at about last year's?

Secretary DILLON. He has done so.

Senator WILLIAMS. No; your statement is just so much political propaganda. In reality you are asking Congress to pay no attention to it but vote you these extra——

Secretary DILLON. No; not at all. We disagree on that, sir.

Senator WILLIAMS. There are amendments which are going to be offered on the appropriations. As Secretary of the Treasury would you support amendments that would roll the appropriations back to or not to exceed last year's level of appropriations?

Secretary DILLON. If there are meat axes——

Senator WILLIAMS. No; no. To give to the Department the power to spend as much money as you got last year in the aggregate and to put it where you please, and if you use any meat ax it would be your own, but just hold down the total.

Secretary DILLON. I think there was a very carefully put together budget where they disallowed things in areas where they should be disallowed, and did allow things where the national interest required them. I think the budget should be looked on this way, rather than treat it by a flat formula, treating every type of activity in the Government the same, which is perfectly clear would not have the proper effect because some activities have greater priority to the Government than others. And certainly carrying the mail has been a big argument recently and if you want to hold the Post Office at the same level as last year, it is possible. But it just means that the service will have to suffer and it has suffered to a degree that possibly the public would not want, and which would not be desirable.

Senator WILLIAMS. I do not want to take any additional time of the committee. I disagree completely with the statement that you can spend more, tax less, and end up more prosperous than you were before. I don't think you or I or any private businessman ever tried to practice that in his own business.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Secretary, I understand our gold losses are running at the rate of about $3,300 million a year; is that correct?

Secretary DILLON. No. The figure of our gold loss to date is $150 million since the first of the year, which is a very good performance and smaller than I would have anticipated. I doubt if we can do as well for the rest of the year.

What you probably are referring to is the report of the Department of Commerce on the overall balance of payments deficit for the first quarter of a seasonally adjusted basis. On the seasonally adjusted basis their figure was some $818 million, and multiplying that by 4, that would come out to three billion, two hundred some odd million dollars. It is not our gold loss. That's the point I was making.

Senator TALMADGE. I was reading from the Wall Street Journal—actually it's a story from New York referring to your speech:

> Treasury Secretary Dillon asked the investment community's help in reducing the Nation's balance-of-payments deficit by selling more foreign security to foreigners. The United States incurs a payments deficit when it spends, lends, or gives away more dollars abroad than it takes in. In the first quarter of this year seasonally adjusted annual rate of deficit was $3,300 million, compared to a deficit of $2,200 million for all 1963. The dollars foreigners are thus accumulating could be used to buy U.S. gold dollars and undermine the value of the dollar.

Is that a correct statement relating to what you said in New York yesterday?

Secretary DILLON. Yes, it is; though I would like to say something more before answering that, regarding the $3.3 billion. The Department of Commerce, which put out these official figures, did state in their publicity release the other day that they did not think that this change in figures was any deterioration in the trend from last year, but that it was due to a number of special circumstances which they identified, which happened in the first quarter and which are not expected to happen again.

As to what I said, I did make an appeal to the financial community, particularly the investment banking community in New York, that when they lend money to foreigners, they do it on a basis of a public issue, because the record shows last year that over a third of all the issues that were offered publicly in New York were bought by foreigners themselves, and therefore did not affect our balance of payments.

Now, there is a tendency with a number of these issues, for a large proportion (about half of last year's), to be done on the basis of private placements, where they were offered directly and almost solely to American insurance companies and banks and were not available for foreigners to purchase. A particular problem which seems to be developing is that some industrial companies in Europe do not care to subject themselves, when they come to this market, to the disclosure requirements of the Securities and Exchange Commission and so therefore they say they do not want to have a public issue. If they had a public issue here, a lot of it would be bought back in their own country. They say, "we prefer not to do that, and we would like to have this placed privately with insurance companies where we don't have to disclose so many facts about our earnings and our financial situation."

What in effect I was doing was pointing out to the investment banking community that that sort of operation, with our present balance of payments situation, is not in the national interest, and expressing the hope that they would try to encourage these companies to register when they came to New York and offer those securities publicly so that the balance of payments drain would be lower.

Senator TALMADGE. I certainly agree with that and compliment you for it.

What I wanted to get at is to what degree has our balance of payments deteriorated this year, contrasted with last year?

Secretary DILLON. Well, the Department of Commerce's statement says it has not at all.

There are two items that could account for an apparent worsening. If you take the actual figures before seasonable adjustments, the balance of payments deficit this year in the first quarter was about $675 million compared to some $475 million in the first quarter of the year before.

There were two particular items in the first quarter of this year which were unlikely to be repeated in the following quarters, which would make up easily that $200 million difference.

Senator TALMADGE. Which items were they?

Secretary DILLON. The first was the purchase or investment abroad by the Chrysler Corp. of substantial additional amounts of stock of the Simca Co. in France which amounted to about a hundred million dollars. That took place in January. It was just a one-shot operation. They had been negotiating about this for many years, but it happened to come to fruition at that time. At an annual rate, this, of course, has an unrealistic $400 million impact.

Second was the fact that foreign issues, particularly Canadian issues in our market happened to be unusually heavy in the first quarter of this year. There were a number of large payments, including a payment on a Canadian Government issue which will not occur again. That one payment was $125 million, and there was another large issue in connection with the nationalization of electric power in Quebec involving a payment of $100 million during the quarter. The excess of the outflow on these portfolio increases, these borrowings in the United States by Canada alone in the first quarter over what could be expected for the rest of the year, or any other year, was well over $100 million, probably as much as $200 million or $800 million at an annual rate. So, if you take account of those two things, actually in the first quarter the balance of all of our payments on economic support, imports, goods and services, expenditures for military purposes abroad, expenditures for aid, everything of that nature, compared with our total receipts, is slightly improved this year over the year before. So that was the reason why the Department of Commerce said on a long-term basis they don't see any deterioration.

Senator TALMADGE. You view this continued deficit in balance of payments very seriously?

Secretary DILLON. I do.

Senator TALMADGE. What action does the administration or you propose to take and what action do you recommend the Congress take to bring it into balance? I think it is one of the most serious things that confronts America at the present time.

Secretary DILLON. Well, basically what we have been trying to do was to allow it to come into balance and have it come into balance through the operation of free market forces, rather than use artificial measures such as quota restrictions on the flow of capital, things of that nature. Certainly in the last year or two the fact that our wages and prices have gone up very little, and our prices not at all, while at the same time the Europeans', our competitors', wages and prices have risen quite dramatically, has put us in a much better competitive position.

Meanwhile we are also continuing and intensifying our reduction of governmental expenditures abroad and that includes expenditures for the military, expenditures for foreign aid, expenditures of all types that are controllable by the Government.

We are encouraging foreign countries to develop their own capital markets so they do not have to use our own market here so much.

They are doing that.

We have felt that our tax program, both last year and this year, is very important in this equation because it will, if enacted, make investment in this country far more attractive than it has been, and make it relatively more attractive than investment abroad, compared with the situation in the last few years when so much capital flowed out for investment abroad.

We think in this way we can bring our accounts into balance.

Now, there is one other element which is very important and very large and which has to be looked at, and that is—last year the outflow of short-term funds and an item called errors and omissions, which is often though of as largely short-term funds in character, amounted to $1.7 billion out of a $2.2 billion deficit. The year before the same items amounted to $2 billion out of $2.4 billion. So before we get into balance there has to be a substantial improvement in these two items, and these two items would be items that are responsive to differentials in short-term interest rates.

Now we have been trying to get Europeans and other countries to reduce their interest rates at short-term. We have had some success, the latest with the Canadians who just the other day reduced their bank rate from 4 percent to 3½ percent and we have at the same time, as you know, held our own short-term rates relatively high for the purpose of narrowing that differential, and less money has gone out in this way by far, many hundreds of millions of dollars less than would have otherwise, and it will be necessary if we are going to have a balance in our international payments to have further progress in this area, one way or another.

Senator TALMADGE. Has any consideration been given to reducing military and foreign aid overseas to aid in this matter?

Secretary DILLON. As I said, military expenditures overseas will be reduced, I think.

Senator TALMADGE. In the final analysis, isn't that the only way to control the situation, or the two principal ways that we can?

Secretary DILLON. That is one of the major ways. We have tried with some success to reduce the impact of our military expenditures overseas on our balance of payments by persuading some of our allies to make substantial purchases of military equipment in the United States so that would give us dollars enough to offset the cost of our keeping our forces overseas.

We have such an agreement with Germany and we have such an agreement with Italy now; and we are trying to expand this to the extent we can.

Senator TALMADGE. That depends on their action and not on ours, does it not?

Secretary DILLON. It depends on joint action. It is ours to the extent we can make the type of equipment available they want.

Senator TALMADGE. But the decision will be theirs, not ours?

Secretary DILLON. The decision as to that will be theirs, and not ours, yes.

Senator TALMADGE. No further questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Secretary, what debt ceiling would be necessary to carry the Government all through the fiscal year 1964, that would be to June 30, 1964, if taxes were not reduced?

Secretary DILLON. Well, again that depends on appropriations. Our estimate of the economy is that it would be somewhere between $315 billion and $320 billion, maybe about halfway in between.

Senator CURTIS. If there is no reduction in taxes, we will have to go somewhere between $315 billion and $320 billion?

Secretary DILLON. Yes. You can easily figure that one or two different ways, and see why. This year we have a deficit—we have a deficit this year of $8 billion, roughly, take that as the figure. Last year we had a ceiling that was necessary to cover the difficult part of the year on the basis of a balanced budget, it came down later on, but the early part of the year, it was $308 billion. Obviously, this year, starting with the deficit of $8 billion, we need $8 billion more than $308 billion, and that is $316 billion. That is one way of finding an answer.

Another way is to take the figure we had, the highest debt we had during November, December, and March periods, when we were tight, and each case it was something just over $305 billion, or $305.5 billion, add the $8 billion to that and you get something about $313.5 billion and then add provision which we have to have and always have had for some flexibility, which has been some $3 billion, and again you get $316 billion or $316.5 billion. So that is why I say it is somewhere in that area.

Now, it would depend somewhat on our appropriations, whether it might be slightly higher, but it would be under $320 billion and over $315 billion.

Senator CURTIS. Well then, what sort of a debt ceiling do you anticipate asking for at the expiration of that bill, if we pass the House bill?

Secretary DILLON. You mean in August?

Senator CURTIS. Yes.

Secretary DILLON. It would be at that same time somewhere in the same area, it would depend on what we thought the prospects were for the tax bill. Of course we would still be estimating. It would not have any great validity because we would not know what the Senate was going to do, but we would assume by then that the House would either have or not have a tax bill. In the latter case it would be easy, we would know there would not be any. But if they had, we would have to estimate on the basis of that bill—I do not see how we could estimate on any other basis—and make whatever adjustment was necessary for the amount revenues would actually be reduced as a result of whatever was produced, which would take effect in the fiscal year.

Senator CURTIS. What are the lean months, so far as revenues are concerned?

Secretary DILLON. Well, the whole of the first half of the year. What actually happens is, we have certain lean months that occur throughout the year, and the reason that we have the seasonal problem is that our good months are less good in the fall than they are in the spring. That is particularly because of the way our corporate taxes are collected, 40 percent of the corporate taxes are paid in September and December of each year. They pay 20 percent in September and 20 percent in December, and then they pay 30 percent in March and another 30 percent in June so that puts receipts well out of balance. So the whole first 6 months is out of balance because of that fact, and if you are in a balanced budget situation the debt would run up and would presumably be at its high on December 15, before the receipts come in. Thereafter it would get up to another peak about the same time in February and then begin to come down.

Senator CURTIS. What do you anticipate will be the debt on December 31, 1963?

Secretary DILLON. That is the end of this year. Well, the debt, if there is no tax cut——

Senator CURTIS. The tax cut will not be effective by then.

Secretary DILLON. No. Our debt might be around $315 billion, something of that nature if our estimates are right. As I have said, with our estimates and previous estimates, you cannot be accurate looking that far ahead. You do not know what is going to happen, and you have to have some flexibility. You have to have this flexibility I talk about for the debt limit that we always have had in the past, about $3 billion.

Senator CURTIS. At the end of this month, it is going to be about $305 billion?

Secretary DILLON. $305 billion; yes.

Senator CURTIS. Out of that $305.6 billion, how much are short-term obligations that will come due in the next fiscal year?

Secretary DILLON. We have in the next fiscal year I think about $38 billion of obligations that come due on a rotating basis. I do not mean a regular rotating basis. These are long-term issues that happen to come due during the fiscal year.

Then, in addition to that, we have, I think it is something like $47 billion roughly of regular bills of one kind or another, some are 90-day notes, these are bills, some are 6-month bills and some are 1-year bills that come due on a rotating basis and you have to add those two together.

Senator CURTIS. How does the ratio of long-term debt and short-term debt compare with what it was 3 or 4 years ago?

Secretary DILLON. Well, the average length of the debt has increased. We have an average length of the debt now, longer than it had been since 1955 or 1956—no 1958. Actually the amount of very short-term bills has increased. What we have done is increase the amount of debt at both ends. We have more debt placed way out, substantially more——

Senator CURTIS. And the intermediate has become short term?

Secretary DILLON. The intermediate has been reduced. We have increased the short-time debt quite substantially, also increased the long-term debt quite substantially, and intermediate is smaller.

Senator CURTIS. Now, the past years you have been selling bonds to foreign countries, foreigners, payable in foreign currencies; have you not?

Secretary DILLON. To some extent, yes.

Senator CURTIS. I put a tabulation in the Congressional Record some 2 or 3 weeks ago and it was not exactly current, but it indicated that you had sold over a half a billion dollars worth of bonds, I think $550 million in bonds up to that time. Has it increased any?

Secretary DILLON. I think the figures—they are announced every time they are done—the total was $630 million in bonds and certificates.

Senator CURTIS. $630 million?

Secretary DILLON. Yes.

Senator CURTIS. Those are payable, some of them in Italian currency?

Secretary DILLON. That's right.

Senator CURTIS. And West German currency?

Secretary DILLON. Yes. And Swiss.

Senator CURTIS. Swiss?

Secretary DILLON. Belgian and Austrian.

Senator CURTIS. French?

Secretary DILLON. No French.

Senator CURTIS. No French?

Secretary DILLON. No.

Senator CURTIS. Now, when was that started?

Secretary DILLON. Last year at some time, I think.

Senator CURTIS. About when last year?

Secretary DILLON. The first ones, we may have done some earlier but the ones that are now outstanding, the earliest one was in last October.

Senator CURTIS. Now, they can compel payments of those bonds in gold, can they not?

Secretary DILLON. No. We would pay them in their own currencies, not in gold.

Senator CURTIS. But it amounts to the same thing; does it not?

Secretary DILLON. No. It is quite a different thing, because currency guarantee is just a guarantee that you pay in their own currency, whereas a gold guarantee, will guarantee the value of their investment in gold, which is not the same thing.

Senator CURTIS. If our currency becomes cheaper and their currency holds steady, it will take more dollars to pay those bonds than if they were made payable in dollars, would it not?

Secretary DILLON. That is correct.

Senator CURTIS. And isn't that the reason the Europeans insisted upon having bonds issued in their own countries?

Secretary DILLON. No; I don't think so at all. It is totally different reasoning.

I don't think they foresee any such eventuality, for a number of reasons. In the first place, I don't think any of them have any idea, nor do we, that the U.S. dollar will be devalued. And, secondly, I think they believe that if the U.S. dollar devalued, they would devalue with it, for commercial competitive reasons. They have never thought there was a difference in valuation there.

Their reason for liking this is somewhat different. It is that all of them have traditions extending over a long period of time, financial traditions of keeping a certain part of their assets in their own currencies, a certain part of their assets in gold, and a certain part of their assets in foreign currency. They had gotten to the point where they had sufficient foreign currencies, and they preferred this sort of an arrangement where they had an obligation denominated in their own currencies to buying gold. Also, from our point of view this was a better thing for the international payments system. These are the reasons why it was done.

Senator CURTIS. What were your references to gold, I didn't quite recall that.

Secretary DILLON. In what connection, I don't recall it?

Senator CURTIS. Just a moment ago I thought you said something about payments in gold.

Secretary DILLON. No. I said the foreign countries over a long period of time, have developed traditions of keeping their assets in central banks. It usually is made up of one part in gold, one part in foreign currencies and another large part in their own currencies. As they gained assets, they began to gain more foreign currencies mostly or largely in dollars than they would ordinarily keep under their regular traditional standards, so they felt it was preferable and we felt it was preferable that they add to their assets in their own currencies, rather than buying gold. Therefore they felt as a cooperative thing, that it was helpful to the international payments system, helpful to their own situation, to make that sort of arrangement. In fact, in one case, one of the countries felt that it wished to dispose of some gold and the proceeds from one of these bonds were used to buy gold.

Senator CURTIS. Who holds the bonds that are payable in foreign currencies—government, individuals, corporations, or what?

Secretary DILLON. Usually they are central banks of the foreign countries.

Senator CURTIS. Central banks?

Secretary DILLON. Yes.

Senator CURTIS. But how much do the Swiss hold?

Secretary DILLON. I have that figure right here. The Swiss have $174 million of these; that is, roughly equivalent, because they are issued in Swiss francs, but it comes out roughly $174 million.

Senator CURTIS. Now, are these bonds like some other investments that are purchased by the Swiss, the identity of the owner is not known?

Secretary DILLON. No; no. These are not publicly distributed. These are owned by the Swiss National Bank, which is the Swiss central bank, for their own account or that of the Swiss Government, and they just hold it.

Senator CURTIS. Did we ever have any amount coming near to this amount of bonds outstanding payable in foreign currency, anything nearly as much as we have now?

Secretary DILLON. I think this larger. We had some operations in foreign currencies in the 1930's, and earlier, in the 1920's; but I don't think they were cooperative and a part of a program such as this. I don't think this has ever been the case before. It is a new development and a very useful development in the international payments mechanism.

Senator CURTIS. Actually that means the outflow of gold?

Secretary DILLON. Outflow?

Senator CURTIS. Who urged that this be done, foreign purchasers or us?

Secretary DILLON. This was worked out jointly between financial officials here and abroad. In many cases the foriegn governments were not involved as governments, but much was done through central bank channels, and it was done jointly. Who first thought of it, I don't know.

The central banks of Europe and the United States meet in Switzerland every month and discuss matters of mutual interest at the headquarters of the Bank of International Settlements. I think it all flowed out of what happened at the time in 1961 when sterling was under attack, and there were some cases where there were loans made to the British, and people began to think of international payment methods and several things came out of it. One was this type of security issue, the other was the strengthening of the International Monetary Fund which we enacted last year for extra borrowing.

Senator CURTIS. Was our Government a part of those discussions or negotiations with the central banks?

Secretary DILLON. Our Government was a party in a sense, since the Federal Reserve Bank of New York participated. The Federal Reserve is our central bank and the Federal Reserve Bank of New York was acting in its capacity as the fiscal agent for the U.S. Government.

Senator CURTIS. Well, the fact remains if the Swiss currency holds steady and the American currency should decline or show signs of weakness, the Swiss are better off to have bonds payable in Swiss currency are they not?

Secretary DILLON. Or vice versa.

Senator CURTIS. But we are not paying—their bonds are not payable in dollars are they?

Secretary DILLON. No. I mean if the Swiss currency should be weak, we are better off having bonds payable in Swiss currency.

Senator CURTIS. Is that likely to happen?

Secretary DILLON. It might not, it's just as likely as anything else. I have not predicted it, but the Swiss have run very substantial deficits on their current account for many years and their currency remains strong because of the inflow of capital for special reasons. If anything should disturb that inflow, basically on exports and imports, the Swiss are not particularly in a strong position.

Senator CURTIS. Now, if this roughly $630 million in bonds sold payable in foreign currency had not been made payable in foreign currencies, what would have been the effect upon the gold outflow in this country?

Secretary DILLON. It's hard to tell, but certainly it would have been larger, whether that whole amount would have been lost in gold or not, I don't know, but a substantial part of it would probably have had to be taken in gold.

Senator CURTIS. What is a substantial part of it?

Secretary DILLON. A substantial part of $630 million? I don't know.

Senator CURTIS. A half of it, 95 percent of it?

Secretary DILLON. No. I would not say 95 percent, I would certainly say anything above half is a substantial part.

Senator CURTIS. What are the expected revenues of trust funds in fiscal 1964?

The CHAIRMAN. Are you through?

Senator CURTIS. No, I am waiting for his answer.

(There was a brief pause.)

Secretary DILLON. The total estimated receipts in the trust fund in fiscal 1964?

of the budget document, the total estimated expenditures, $28.4 billion.

Senator CURTIS. So you have only got something over a billion dollars that you could delay investing, net?

Secretary DILLON. Well, no. If you did nothing, you are correct, Senator, absolutely. But what could be done is not invest the new funds that come in and finance expenditures by selling or redeeming securities which you have in the trust fund.

Senator CURTIS. By selling existing securities on the open market?

Secretary DILLON. No. Most of the trust funds are invested in special issues that are issued, nonmarketable, issued by the Treasury.

Senator CURTIS. Who would you sell to?

Secretary DILLON. Just cancel them, hand them back to the Treasury and we would give them a cash credit.

Senator CURTIS. Where would you get the cash?

Secretary DILLON. We would have the cash.

Senator CURTIS. The cash comes in from the receipts?

Secretary DILLON. Yes, whether the trust funds are invested in securities or not, it doesn't affect our cash balance. You see we have a billion dollars in receipts for the trust fund and then we decide to invest that. We invest that in the special issue for the trust fund, but the billion dollars stays in our overall cash because all that happens is, when it's invested, the debt goes up, and the cash doesn't change.

Senator CURTIS. The only thing you can invest is surplus of income over outgo.

Secretary DILLON. No. If you wanted to, I don't say you wanted to, it's a bad practice, but what you could do is disinvest from the trust fund just as much as you needed.

Senator CURTIS. I'm not sure I follow you. Disinvest?

Secretary DILLON. Trust funds have some $40 billion assets, most of which are in these U.S. Government special issues. You would reduce that all to a cash credit, and then they would have no income.

Senator CURTIS. Where would you get the cash?

Secretary DILLON. We have the cash.

Senator CURTIS. Where?

Secretary DILLON. We wouldn't get it from any place, you just simply have it. All you do is cancel bonds that the trust fund has, and a trust fund instead would have the right to draw cash from the U.S. Treasury.

Senator CURTIS. But if they drew in cash on the U.S. Treasury and issued checks for it, people would bring in the checks and they would want dollars.

Secretary DILLON. That is right, to the extent of the $29 billion that comes in, $28 billion goes out, but the $47 billion that is invested could be uninvested and they would then have no investment.

Senator CURTIS. Do you have any authority to do that?

Secretary DILLON. Certainly. It would be contrary to the intent of the act, and would be something that should not be done; I would oppose doing it. It should never be done but that might be a thing that Congress would force by having an inadequate debt ceiling because then you would have the problem to deal with of whether you were going to default.

Senator CURTIS. You mean just sort of destroy the bonds?

Secretary DILLON. That's right.

Senator CURTIS. Who would have the authority to do that?

Secretary DILLON. The Secretary of the Treasury.

Senator CURTIS. As Secretary of the Treasury or as trustee?

Secretary DILLON. As trustee of the trust fund, so I say that is a choice that would be a very bad choice. You would not want to have to do it or be put in that position, on the one hand of having your trustee obligation to the trust fund, and on the other hand having your obligation to maintain the fiscal integrity of the United States. I would say the latter has to be the higher, but it would be a very difficult decision.

Senator CURTIS. Maybe I don't understand this, but I am a bit intrigued by it.

The bonds that are sold to the trust fund are part of the overall debt.

Secretary DILLON. Right.

Senator CURTIS. And subject to the ceiling.

Secretary DILLON. That is right.

Senator CURTIS. Now, without an act of Congress you could cancel those bonds and just keep track of how much they had coming in, say, in a memorandum?

Secretary DILLON. I am supposed to increase the trust fund earnings as well as I can, and if Congress makes it impossible to invest trust funds, then they would have to be disinvested.

In the alternative, maybe you would not do that, the alternative might be to stop paying bills and default on bills, that would be the alternative if you didn't have the money under the debt limit. Something has to give.

Senator CURTIS. It is your contention that your authority to invest would carry with it the authority to cancel the bonds?

Secretary DILLON. So I am informed by my legal counsel.

Senator CURTIS. What interest rate do they draw?

Secretary DILLON. When they are invested, they are invested to yield a certain interest rate that is prescribed by law. If they are not invested, they won't yield any interest, so therefore whatever was lost would, as I pointed out earlier, have to be made up by a later appropriation by the Congress. Nobody is saving any money that way.

Senator CURTIS. But you contend, I am not suggesting that it be done——

Secretary DILLON. No, and neither am I.

Senator CURTIS. You could reduce the outstanding debt, bonded debt by $40 billion canceling out those bonds, and using, just writing a memorandum?

Secretary DILLON. That would theoretically be possible, and I am not suggesting it be done either, and I think it would be a terrible thing to do, but it could be done.

Senator CURTIS. I think it would be a very great emotional shock.

Secretary DILLON. So do I.

Senator CURTIS. When the Government has its own trust fund, it is kind of shadowboxing anyway, because when people retire or they draw other funds from a trust fund, they want dollars and when they want dollars there are about three ways to get them; tax people, sell more bonds, or print some money. So, as far as the beneficiaries of social security are concerned, they are either helped or injured by whether or not there is 1 warehouse of Government bonds or 10 warehouses of Government bonds, when they get their benefit, they have to have them.

I agree with you that it would be an emotional shock. You couldn't explain it to me in a casual way because the people have been led to believe they have some money in a trust fund, which has been my contention all along that they never have to have any, because no one can be trustee for themselves, especially a sovereign government which can tax and levy and issue money.

Now, when we talk about the debt ceiling, it is a ceiling on how many bonds there are.

Secretary DILLON. That is right.

Senator CURTIS. It has nothing to do with that?

Secretary DILLON. No, we can still have debts that we owe, and tell you how many bonds there are.

Senator CURTIS. It is how much you retain against the debt.

Secretary DILLON. Yes.

Senator CURTIS. With an individual it would be likened to a charge account or a credit card, expenditures of all kinds determine how much he owes.

Secretary DILLON. That is right.

Senator CURTIS. To put a limit on how much he could borrow at the bank to pay those bills, that does not per se stop his spending or hold down the debt.

Secretary DILLON. That is quite correct, absolutely correct.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. I should like to continue the comments of the Senator, Mr. Chairman, and to put in the record a table prepared by the Office of the Secretary of the Treasury, Office of Debt Analysis, and entitled "Public Debt Related to Gross National Product and Other Measures of Economic Growth."

(The information referred to follows:)

Public debt related to gross national product and other measures of economic growth

End of fiscal year	Gross public debt and guaranteed obligations	Gross national product [1]	Personal income [1]	Ratio of debt to GNP	Ratio of debt to personal income	Per capita debt	Real per capita debt [2]
	Billions of dollars	*Billions of dollars*	*Billions of dollars*	*Percent*	*Percent*	*Dollars*	*Dollars*
1929	16.9	104.4	86.4	16.2	19.6	139	232
1933	22.5	56.0	48.8	40.2	46.1	179	898
1939	45.9	90.8	72.0	50.6	63.8	351	729
1941	55.3	126.0	97.2	43.9	56.9	415	811
1945	259.1	218.0	175.0	118.9	148.1	1,852	2,935
1946	269.9	211.7	180.8	127.5	149.3	1,909	2,849
1947	258.4	232.8	188.2	111.0	137.3	1,793	2,326
1948	252.4	260.8	213.1	96.8	118.4	1,721	2,037
1949	252.8	257.6	206.4	98.1	122.5	1,696	2,046
1950	257.4	283.8	224.6	90.7	114.6	1,697	2,034
1951	255.3	330.1	256.8	77.3	99.4	1,651	1,831
1952	259.2	344.2	271.0	75.3	95.6	1,651	1,781
1953	266.1	368.0	290.2	72.3	91.7	1,668	1,786
1954	271.3	360.4	288.3	73.5	94.1	1,671	1,781
1955	274.4	398.2	311.1	68.9	88.2	1,660	1,778
1956	272.8	418.0	332.6	65.3	82.0	1,622	1,706
1957	270.6	445.2	351.6	60.8	76.3	1,581	1,609
1958	276.4	442.1	361.2	62.5	76.5	1,587	1,573
1959	284.8	485.2	387.2	58.7	73.6	1,607	1,581
1960	286.5	504.2	402.4	56.8	71.2	1,586	1,538
1961	289.2	517.7	418.2	55.9	69.2	1,574	1,511
1962	298.6	553.6	441.3	53.9	67.7	1,601	1,519
1963	[3] 305.7	[3] 582.0	[3] 460.5	52.5	66.4	1,614	1,514

[1] Approximate annual rate as of the end of the fiscal year.
[2] Public debt divided by consumer price index (1957-59=100) and then divided by total population.
[3] Estimated.

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

Senator HARTKE. Mr. Secretary, in relation to this chart, is it not true that the public debt today as related to all of the items of economic growth is really less than it was, much less than it was, say, in 1946?

Secretary DILLON. Very much less.

Senator HARTKE. And has constantly and really been going down over the years?

Secretary DILLON. Correct.

Senator HARTKE. In relation to the gross national product it has gone down?

Secretary DILLON. Yes.

Senator HARTKE. In relation to personal income it has gone down?

Secretary DILLON. Yes.

Senator HARTKE. In relation to the per capita debt, it is down?

Secretary DILLON. That is right.

Senator HARTKE. All are down?

Secretary DILLON. Yes.

Senator HARTKE. As far as being a burden on the people, the debt itself is really not the burden that it was 10 years ago, or say in 1946?

Secretary DILLON. That is correct I think, yes.

Senator HARTKE. As a matter of fact the debt limit was set at $300 billion in 1946, isn't that true?

Secretary DILLON. That is right.

Senator HARTKE. And the permanent level now is $285 billion, but the total is a little bit more than that?

Secretary DILLON. $305 billion.

Senator HARTKE. So what we are saying, in substance, is we like to hold the line on spending and we like to hold the line on public debt, but it is just not really accurate to think in terms of 1963 and 1964 as we would in 1954 or 1946?

Secretary DILLON. That is right.

Senator HARTKE. The fact of the matter is, the amount you as an individual and I as an individual and every other individual today owes, if you divide all the debt by the number of people, is $308 less than it was in 1946?

Secretary DILLON. I have made that computation.

Senator HARTKE. I'm taking it from the chart as $1,909 for each person in 1946, and it is $1,601 for 1963. This doesn't count any pennies, maybe there are some pennies, too, and even if we go back 10 years to 1953, it was $1,668 in 1953 and is $1,601 now, which means that it is $67 less now. These people who are crying about us going bankrupt; if you owe, as each person owes, less, it doesn't appear to me that we are heading for any great financial crisis and to talk about this in terms of people overseas becoming afraid of what is going to happen here, they can read these pictures as well as we can.

Secretary DILLON. I'm sure they can.

Senator HARTKE. They have no fear about us going into bankruptcy.

Secretary DILLON. I don't think they do, as far as Federal debt is concerned.

Senator HARTKE. I wish we would be a little more realistic in our approach and not have to come back here in 3 or 4 months.

Thank you, Mr. Secretary.

Senator LONG. Mr. Secretary, I want to say to you that it is a pleasure for you to bring your wife here today, is I think she is getting more votes than you are getting yourself while testifying.

May I say as a Member of the Senate I have voted to adjust this debt limit about eight different times and it has been pushed up and pushed down and had temporary adjustments and everything of that sort. I don't know why we keep giving the Secretary of the Treasury a beating for it.

The Secretary of Defense says—"I'm going to save this country, even if it doesn't want it," and he comes in with a bill we'll say of about $55 billion for national defense.

Jim Webb says he's going to get ahead of the Russians, come hell or high water. Somebody wants more atomic submarines and someone this and someone else that, we vote the money and direct that it be spent whether it is wanted or not, but then when we next get the poor Secretary of the Treasury back here, we'll ask him—or tell him—"You find some way to handle this which we have appropriated, this $100 million; however, we are going to give you only $900 million." Now, how are you going to do that?

Did you ever see somebody run a business that way?

Secretary DILLON. No, I have not. I am in a difficult position.

The CHAIRMAN. Are there any further questions?

Senator HARTKE. This is a different matter.

Is there any chance at all that we can get the interest rate for the people down?

Secretary DILLON. Well, we are very happy to note that in the most important area, which is mortgage interest rates, they have declined steadily month by month and are still declining. Since January 1961, the latest figures of FHA mortgages average more than a full half percent lower than it was 2 years ago.

Senator HARTKE. Thank you.

The CHAIRMAN. Thank you very much, Mr. Secretary. Be certain to bring your wife whenever you come back.

Secretary DILLON. Thank you.

The CHAIRMAN. The committee will go into executive session.

(Thereupon, at 1 p.m., the committee went into executive session.)

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