# DEBT LIMIT OF THE UNITED STATES

# HEARING

BEFORE THE

## COMMITTEE ON WAYS AND MEANS
## HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

## H. R. 9955 and H. R. 9956

BILLS TO PROVIDE FOR A TEMPORARY INCREASE IN THE DEBT LIMIT OF THE UNITED STATES

JANUARY 17, 1958

Printed for the use of the Committee on Ways and Means

UNITED STATES
GOVERNMENT PRINTING OFFICE
20657 WASHINGTON : 1958

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

# CONTENTS


| | Page |
|---|---|
| H. R. 9955 | 1 |
| H. R. 9956 | 1 |
| Statement by— | |
| The Honorable Robert B. Anderson, Secretary of the Treasury, accompanied by Julian B. Baird, Under Secretary for Monetary Affairs; William T. Heffelfinger, Fiscal Assistant Secretary; Paul I. Wren, Assistant to the Secretary; Robert P. Mayo, Chief, Debt Analysis Staff; and John K. Carlock, Acting General Counsel, Department of the Treasury | 2 |
| The Honorable Percival F. Brundage, Director of the Bureau of the Budget, accompanied by Maurice H. Stans, Deputy Director of the Budget; Roger W. Jones, Assistant Director for Legislative Reference; and Robert Hubbell, fiscal economist | 36 |
| The Honorable Wright Patman, a Representative in Congress from the State of Texas | 50 |
| Exhibits submitted by— | |
| Hon. Robert B. Anderson, Secretary of the Treasury: | |
| Chart 1 | 10 |
| Chart 2 | 10 |
| Chart 3 | 11 |
| Chart 4 | 11 |
| Chart 5 | 12 |
| Chart 6 | 12 |
| Chart 7 | 13 |
| Table 1 | 7 |
| Table 2 | 9 |
| Table 3 | 9 |
| Table on cash balances (excluding gold) and debt subject to limit | 26 |
| Hon. Percival F. Brundage, Director of the Bureau of the Budget: | |
| Memorandum on general policies on treatment of fees and charges | 47 |
| Table of user charges fees | 45 |
| Table of collections | 46 |
| Congressman Curtis of Missouri, table on growth in mail volume and employment, fiscal years 1955–57 | 49 |




Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

# DEBT LIMIT OF THE UNITED STATES

**FRIDAY, JANUARY 17, 1958**

House of Representatives,
Committee on Ways and Means,
*Washington, D. C.*

The committee met at 10 a. m., pursuant to call, in the hearing room of the Committee on Ways and Means, New House Office Building, Hon. Wilbur D. Mills (chairman) presiding.

The Chairman. The committee will please come to order.

This morning we meet to conduct public hearings on the bills introduced by Mr. Reed and myself at the administration's request, to provide a temporary increase in the public debt limit. Without objection, copies of those bills will be included in the record at this point.

(H. R. 9955 and H. R. 9956 follow:)

[H. R. 9955, 85th Cong., 2d sess.]

A BILL To provide for a temporary increase in the public debt limit

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That, during the period beginning on the date of the enactment of this Act and ending on June 30, 1959, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended, shall be temporarily increased by $5,000,000,000.

[H. R. 9956, 85th Cong., 2d sess.]

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

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That, during the period beginning on the date of the enactment of this Act and ending on June 30, 1959, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as amended, shall be temporarily increased by $5,000,000,000.

The Chairman. Our first witness this morning is the Secretary of the Treasury, the Honorable Robert B. Anderson.

We appreciate very much, Mr. Anderson, your being with the committee this morning. You are recognized to proceed in your own way, but first, for purposes of the record, will you identify those associated with you at the witness table?



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

## STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE TREASURY, ACCOMPANIED BY JULIAN B. BAIRD, UNDER SECRETARY FOR MONETARY AFFAIRS; WILLIAM T. HEFFELFINGER, FISCAL ASSISTANT SECRETARY; PAUL I. WREN, ASSISTANT TO THE SECRETARY; ROBERT P. MAYO, CHIEF, DEBT ANALYSIS STAFF; AND JOHN K. CARLOCK, ACTING GENERAL COUNSEL, DEPARTMENT OF THE TREASURY

Secretary ANDERSON. Mr. Chairman, may I first inquire whether members of the committee have been given copies of my prepared statement?

The CHAIRMAN. It is our understanding that messengers have not yet arrived with your statement, but go right ahead.

Secretary ANDERSON. I should like to introduce to the committee the gentlemen on my right, the Under Secretary of the Treasury, Mr. Julian Baird; and Mr. William T. Heffelfinger, the Fiscal Assistant Secretary of the Treasury, sitting behind.

On my left is Mr. Paul I. Wren, Assistant to the Secretary. On the far right is Mr. Robert Mayo, the Chief Debt Analyst, and somewhere in the room is Mr. John Carlock, who is the Acting General Counsel of the Treasury.

I think, Mr. Chairman, before I begin to read this statement it would be desirable if we could inquire as to when the statements would be given to the committee, because there are some charts which I am sure the committee would want to look at which are attached to the statements.

The CHAIRMAN. They will be made available, Mr. Secretary, immediately upon arrival in the room here. If you care to have me do so, I will alert you at the time that they are made available to us by your staff. Would that facilitate your situation?

Secretary ANDERSON. I simply wanted to make it as convenient as I could for the committee. I will go right ahead and reexplain the charts if they come a little bit later.

I am glad to have this opportunity to review with the committee the status of the statutory limitation on the public debt. The present limitation of $275 billion is contained in the Second Liberty Bond Act, as amended, which is the current authority of the Treasury to issue public debt obligations. H. R. 9955 and H. R. 9956, now before the committee for its consideration, would provide a temporary increase of $5 billion in this limit until June 30, 1959.

I want to make clear at the outset that the need for a debt limit increase is based on:

1. The fact that cash balances have been running distressingly low, as I will show in detail later.
2. There is need for more flexibility, for more efficient and economical management of the debt.
3. Even with a balanced budget there will still be large seasonal fluctuations in receipts which make operations under the $275 billion limitation most difficult.

This request, made within the framework of our 1959 budget estimates for revenue and expenditures, emphasizes not only much-needed flexibility as outlined above, but takes into account contingencies which might develop in a world filled with uncertainties.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

After I assumed my responsibilities as Secretary of the Treasury last summer, we reviewed the situation confronting the Treasury and became concerned with the small margin, then indicated, which would exist between the forecasts of our financial requirements during this fiscal year and the statutory debt limitation. We notified this committee and the Senate Finance Committee that we would do all in our power to operate under the $275 billion limitation. At that time, the budget for the fiscal year 1958 still projected a surplus of more than $1.5 billion. Since then, as you know, increased defense expenditures, coupled with a less favorable outlook for revenues, have caused us to project a budget deficit of $400 million, or a net decline of approximately $2 billion from our position last summer.

We have been able to discharge our obligations within the debt limit during the intervening period only by maintaining cash balances which have been distressingly low at times. We have had little or no margin for contingencies. We believe that with some flexibility we would have been better able to manage the public debt to a better advantage for the public interest.

The combined cash inflow and outflow of the Treasury on all accounts during fiscal year 1957 amounted to over $400 billion. We disburse approximately $1.5 billion in an average 5-day week for budget expenditures. Our cash balance has been approximately at that level on several occasions.

Here, Mr. Chairman, I should like to call your attention to chart 1, which is attached to the statements. The bars on the left-hand side of chart 1 show average monthly budget expenditures over the past 10 years together with our estimates for 1958. The dotted line shows the average Treasury cash balances during those same periods. Cash balances during the period 1948 to 1951, as appear on the chart, were appreciably larger than the monthly budget expenditures, as shown on the left-hand side.

In recent years, however, Treasury cash balances have been declining while budget expenditures have been increasing. Therefore, in the fiscal year 1958 we estimate that the average Treasury cash balance is sufficient to cover only about 74 percent of the average month's budget expenditures, and this compares, of course, with about 140 percent in the years prior to 1952.

Under our Constitution, the Congress has the power to borrow money on the credit of the United States and this power has traditionally been delegated to the Secretary of the Treasury. The Congress has adopted various means of exercising control over the power which it delegates. The power to borrow money cannot be exercised without regard to the powers of Congress to lay and collect taxes and to appropriate moneys from the Treasury.

Prior to World War I the public debt amounted to about $1¼ billion. Up to that time it was customary for the Congress to enact specific laws each time the Treasury was authorized to borrow money, which was at infrequent intervals. This procedure became outmoded in meeting requirements for borrowing due to heavy expenditures in World War I. In 1917 the Treasury had general authority to issue bonds subject to a limitation based upon the total amounts of issues without regard to interim retirements. We had another authority to issue certificates of indebtedness based upon the amount outstanding. During the period from 1918 to 1921 the Treasury's

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

borrowing authority was increased and extended to include authority to issue Treasury notes, as well as bonds and certificates of indebtedness.

In 1929 the authority was further extended to permit the issuance of Treasury bills. In 1935, after further increases in amounts of borrowing authority in 1931 and 1934, the limitation applicable to Treasury bonds was changed from one based upon the amount of bonds issued to one based upon the amount of bonds outstanding.

In 1938, the separate authorities applicable to different classes of public debt obligations were consolidated under one limitation applicable to all public-debt obligations outstanding under the Second Liberty Bond Act, as amended. The limitation established at that time was $45 billion, when our public debt amounted to about $37 billion. This limit was later raised to $49 billion.

Early in 1941, before this Nation had become actively involved in World War II, the debt limitation was increased to $65 billion and the public debt was about $46 billion. During the period from 1942 until 1945 the debt limitation was increased each year by substantial amounts until it reached $300 billion on April 3, 1945, when our public debt amounted to about $234 billion.

After the close of World War II, the limitation was reduced from $300 billion to $275 billion in June 1946. At that time our total debt amounted to about $268 billion, and the balance in the general fund of the Treasury amounted to more than $14 billion.

Changes during these periods consistently provided larger margins between the outstanding debt and the successive limits than now exist or which would result from the temporary increase under consideration.

Primarily to take care of the uneven flow of corporate tax collections, it was necessary to increase temporarily the $275 billion debt limitation to $281 billion for the year ending June 30, 1955. This limit was continued until June 30, 1956, when the temporary increase was reduced to $278 billion for the year ending June 30, 1957. Since June 30, 1957, we have been operating under a limitation again of $275 billion.

The committee may refer to table 1, which outlines these changes and to chart 2, which compares the debt outstanding in recent years with the debt limit. I should like here, Mr. Chairman, to particularly call your attention to chart 2. The Treasury operated very close, as you will see, to the $275 billion debt limit during the fiscal year 1954. There was somewhat more leeway under the temporary increase in the debt limit to $281 billion during fiscal 1955, but in fiscal 1956 the debt was close to the limit during substantial parts of the winter. There was a little greater margin under the limit a year ago, but, if you will notice, during the past months the Treasury has again been extremely close to the statutory debt limit. I think it is significant that you see from the chart that we normally have sufficient margin under the debt limit on June 30 of each year and that it is during the winter when the limit is the tightest.

Total cash balances in Federal Reserve banks and commercial banks (tax and loan accounts) were down to $1.6 billion in mid-January, and are estimated to be about $1.5 billion in mid-February. Here I would like to explain that in order to have cash in the Federal Reserve banks with which to pay what we anticipate in drawings against the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Treasury, we are required to draw out of our accounts in the commercial banks (known as tax and loan accounts) sufficient amounts of money in advance to insure that there will be adequate cash on hand to meet our expected obligations. While the deposits carried in commercial banks are on demand, there are approximately 11,000 banks involved, and the physical problem of handling the transfer of deposits from the commercial banking system to the Federal Reserve banks involves a lag of several days.

As an example of our tight position, during early February our balances in commercial banks, less withdrawal notices, which will have been sent out, may be as low as $250 million—or less than an average day's disbursements.

It is too early to make precise day-to-day projections of our cash balances through March, but at present it appears it may be necessary to resort to substantial direct borrowing from the Federal Reserve (if there is authority under the debt limitation) in view of heavy payments, including interest, and maturing securities due on March 15.

Here I might state for the committee, as I am sure most of you realize, we have an authority granted by the Congress of $5 billion borrowing authority from the Federal Reserve bank. Proceeds from corporate tax collections do not become available in large volume to meet expenditures until March 18 and thereafter.

One of the most serious difficulties encountered by the Treasury in operating under the present limitation is the problem of carrying out our financing in an orderly and economical manner. A large portion of our public debt is made up of securities with relatively short maturity. More than $25 billion of Treasury bills come due within the next 90 days and more than $50 billion of Treasury certificates, notes, and bonds are coming due in the calendar year 1958.

I should like here to call your attention particularly to charts 3 and 4, Mr. Chairman. Chart 3 shows that our first maturity in calendar 1958 is on February 14 and we have some further maturities almost every month during the rest of the year. Maturities on the chart 3 total $50.2 billion, of which $21.3 billion is held by Federal Reserve banks and Government investment accounts.

I should also like to point out that the figures on this chart do not include $3 billion of tax-anticipation bills which we expect to pay off in March, nor do they include $22 billion of regular 90-day Treasury bills which we normally turn over 4 times a year.

On chart 4 there is illustrated the total volume of Treasury financing that has taken place in recent years, which again excludes the $22 billion of regular Treasury bills that we roll over quarterly. The total, for example, in 1957 was $65 billion, of which we were able to extend $8.8 million beyond 1 year in 1- to 5-year notes, and $1.3 billion in 12- and 17-year bonds.

Some part of this short-term indebtedness is coming due each month, so that at all times the Treasury is faced with substantial refunding problems. An objective of sound fiscal policy is to extend the maturity of new issues whenever opportunities are available, so as to avoid concentrating too large a portion of the public debt in the area of short maturities.

20657—58——2

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In recent years, due to market conditions or the restrictions of the debt limit, opportunities to accomplish this objective have not been very frequent. We should be able to take advantage of opportunities in the period ahead of us. Under the present debt limit, we would not be able to take full advantage of such opportunities. During the past several months, we have been able to issue only relatively small amounts of longer maturities on two occasions.

Those are the 12- and 17-year bonds referred to.

The practice of the Government going frequently to the market disturbs not only the market for Government securities but also the market for corporate, State, and municipal securities, and for businesses of all kinds.

We should be able to conduct our operations on a scale commensurate with our needs and in accordance with the conditions which prevail. We should as far as possible leave the markets freer to absorb new financing by State and local governments and private businesses.

The circumstances which I have outlined, in our judgment, require a prompt temporary increase in the present statutory debt limitation. We will still experience in fiscal year 1959 a continuation of seasonal peaks in the collection of corporate income taxes. These collections of corporate taxes are gradually being leveled off, but there are still large seasonal fluctuations. Under these circumstances, it is necessary for the Treasury to borrow large sums in the July-December period to meet expenditures, and to pay off such borrowings in the January-June period, even in years when we have balanced budgets.

Here I should like to direct your attention to charts 5, 6, and 7. Chart 5 I think shows quite vividly the seasonal peaks and valleys of the Federal budget which indicates the extent of which heavy Treasury borrowing is required during each July through December period in anticipation of a budget surplus in the following spring.

Chart No. 6 is illustrative of the fact that there is no marked seasonal movement in budget expenditures, but if you look at chart 7 in relationship to chart 6 you see the big seasonal swing in the Government's deficit or surplus position. It grows out of the way in which taxes flow into the Treasury.

As I have said, some of this unevenness is being ironed out slowly as a result of the corporate tax collection change under the Revenue Code of 1954, but still it has a way to go.

It is difficult to make precise month-to-month forecasts which reflect all operations of the Government, including collection of a great many types of revenues, the rates of expenditures under the programs of each agency, the issue and retirement of our public-debt obligations, and all of the multitude of operations reflected in the total inflow and outflow of the Treasury. We have, however, made estimates of the public debt and cash balances which are based upon our best judgment as of the moment, and I am submitting for your information these figures in the attached table 3. These figures assume maintaining midmonth and end-of-month cash balances of $3.5 billion and for an allowance of $3 billion for flexibility in financing and for contingencies.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

We want to reemphasize that we are now at the period of the year when the Treasury finds itself in a most difficult position and at a time when we are facing major financing operations. We respectfully urge, therefore, that the Congress give prompt consideration to this matter.

I would like most strongly, Mr. Chairman, to say that we of the Treasury assure you and the members of this committee and the Congress that we will exert all of our abilities to achieve the utmost economy in governmental operations and to manage the public debt as best we can in the national interest.

(The charts and tables referred to by the Secretary follow:)

TABLE 1.—*Debt limitation under sec. 21 of the Second Liberty Bond Act, as amended—History of legislation*

| | |
|---|---|
| Act of— | |
| Sept. 24, 1917: | |
| Sec. 1 (40 Stat. 288), authorized bonds in the amount of | [1] $7,538,945,400 |
| Sec. 5. (40 Stat. 290), authorized certificates of indebtedness outstanding (revolving authority) | [2] 4,000,000,000 |
| Apr. 4, 1918: | |
| Amending sec. 1 (40 Stat. 502), increased bond authority to | [1] 12,000,000,000 |
| Amending sec. 5 (40 Stat. 504), increased authority for certificates outstanding to | [2] 8,000,000,000 |
| July 9, 1918: | |
| Amending sec. 1 (40 Stat. 844), increased bond authority to | [1] 20,000,000,000 |
| Mar. 3, 1919: | |
| Amending sec. 5 (40 Stat. 1311), increased authority for certificates outstanding to | [2] 10,000,000,000 |
| New sec. 18 added (40 Stat. 1309), authorized notes in the amount of | [1] 7,000,000,000 |
| Nov. 23, 1921: | |
| Amending sec. 18 (42 Stat. 321), increased note authority to outstanding (establishing revolving authority) | [2] 7,500,000,000 |
| June 17, 1929: | |
| Amending sec. 5 (46 Stat. 19), authorized Treasury bills in lieu of certificates of indebtedness, no change in limitation for the outstanding | [2] 10,000,000,000 |
| Mar. 3, 1931: Amending sec. 1 (46 Stat. 1506), increased bond authority to | [1] 28,000,000,000 |
| Jan. 30, 1934: Amending sec. 18 (48 Stat. 343), increased authority for notes outstanding to | [2] 10,000,000,000 |
| Feb. 4, 1935: Amending sec. 1 (49 Stat. 20), limited bonds outstanding (establishing revolving authority) to | [2] 25,000,000,000 |
| New sec. 21 added (49 Stat. 21) consolidated authority for certificates and bills (sec. 5) and authority for notes (sec. 18). Same aggregate amount outstanding | [2] 20,000,000,000 |
| (New sec. 22 added (49 Stat. 21) authorized United States savings bonds within authority of sec. 1.) | |
| May 26, 1938: Amending secs. 1 and 21 (52 Stat. 447), consolidated in sec. 21, authority for bonds, certificates of indebtedness, Treasury bills and notes (outstanding bonds limited to $30,000,000,000). Same aggregate total outstanding | [2] 45,000,000,000 |

See footnotes at end of table.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

TABLE 1.—*Debt limitation under sec. 21 of the Second Liberty Bond Act, as amended—History of legislation*—Continued

| | |
|---|---|
| Act of—Continued | |
| July 20, 1939 (53 Stat. 1071): Amending sec. 21, removed limitation on bonds without change total authorized outstanding of bonds, certificates of indebtedness, Treasury bills and notes | [2] $45,000,000,000 |
| June 25, 1940 (54 Stat. 526): Sec. 302, sec. 21 of the Second Liberty Bond Act, as amended, is hereby further amended by inserting "(a)" after "21." and by adding at the end of such section a new paragraph as follows: "(b) In addition to the amount authorized by the preceding paragraph of this section, any obligations authorized by sections 5 and 18 of this Act, as amended, not to exceed in the aggregate $4,000,000,000 outstanding at any one time, less any retirements made from the special fund made available under section 301 of the Revenue Act of 1940, may be issued under said sections to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the national defense, or to reimburse the general fund of the Treasury therefor, any such obligations so issued shall be designated 'National Defense Series'." | [3] 4,000,000,000 |
| Feb. 19, 1941 (55 Stat. 7): Amending sec. 21, to read "*Provided*, That the face amount of obligations issued under the authority of this Act shall not exceed in the aggregate $65,000,000,000 outstanding at any one time." Eliminates separate authority for $4,000,000,000 of national defense series obligations | [2] 65,000,000,000 |
| Mar. 28, 1942, (56 Stat. 189): Amending sec. 21, increasing limitation to $125,000,000,000 | [2] 125,000,000,000 |
| Apr. 10, 1943, (57 Stat. 63): Amending sec. 21, increasing limitation to $210,000,000,000 | [2] 210,000,000,000 |
| June 9, 1944 (58 Stat. 272): Amending sec. 21, increasing limitation to $260,000,000,000 | [2] 260,000,000,000 |
| Apr. 3, 1945 (59 Stat. 47): Amending sec. 21 to read: "The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $300,000,000,000 outstanding at any one time." | [2] 300,000,000,000 |
| June 26, 1946 (60 Stat. 316): Amending sec. 21, decreasing limitation to $275,000,000,000 and adding, "the current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section to be the face amount of such obligation." | [2] 275,000,000,000 |
| Aug. 28, 1954 (68 Stat. 895): Amending sec. 21, effective August 28, 1954, and ending June 30, 1955, temporarily increasing limitation by $6,000,000,000 | [2] 281,000,000,000 |
| June 30, 1955 (69 Stat. 241): Amending Aug. 28, 1954 act, by extending until June 30, 1956, increase in limitation to | [2] 281,000,000,000 |
| July 9, 1956 (70 Stat. 519): Amending act of Aug. 28, 1954, temporarily increasing limitation by $3,000,000,000 for period beginning on July 1, 1956, and ending on June 30, 1957, to | [2] 278,000,000,000 |
| 1957: Effective July 1, 1957, temporary increase terminates and limitation reverts, under act of June 26, 1946, to | [2] 275,000,000,000 |

[1] Limitation on issue.
[2] Limitation on outstanding.
[3] Limitation on issues less retirements.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

**TABLE 2.—*Marketable maturities, January 1958 through December 1958*** [2]

[In millions]

| Maturity date, 1958 | Security (issue date) | Total amount outstanding, Dec. 31, 1957 |
|---|---|---|
| Feb. 14 | 3⅝-percent certificate (Feb. 15, 1957) | $10,851 |
| Mar. 15 | 2½-percent bond (June 2, 1941) | 1,449 |
| Apr. 1 | 1½-percent exchange note (Apr. 1, 1953) | 383 |
| 15 | Special bill (Aug. 21, 1957) | 1,751 |
| 15 | 3½-percent certificate (May 1, 1957) | 2,351 |
| June 15 | 2⅞-percent note (Dec. 1, 1955) | 4,392 |
| 15 | 2⅜-percent bond (July 1, 1952) | 4,245 |
| 15 | 2¾-percent bond of 1958–63 (June 15, 1938) [1] | 919 |
| Aug. 1 | 4-percent certificate (Aug. 1, 1957) | 11,519 |
| Oct. 1 | 1½-percent exchange note (Oct. 1, 1953) | 121 |
| Dec. 1 | 3¾-percent certificate (Dec. 1, 1957) | 9,830 |
| 15 | 2½-percent bond (Feb. 15, 1953) | 2,368 |
| | Total | 50,179 |

[1] Partially tax exempt; callable June 15, 1958.
[2] Excludes $22,100,000,000 of regular weekly Treasury bills and $3,000,000,000 tax-anticipation bills due Mar. 24, 1958.

**TABLE 3.—*Forecast of cash balance and debt, fiscal year 1959, based on constant operating cash balance of $3,500,000,000 (excluding free gold)***

[In billions]

| | Operating balance, Federal Reserve banks and depositaries (excluding free gold) | Public debt subject to limitation | Allowance to provide flexibility in financing and for contingencies | Total public-debt limitation required |
|---|---|---|---|---|
| 1958—July 15 | $3.5 | $271.6 | $3 | $274.6 |
| July 31 | 3.5 | 272.6 | 3 | 275.6 |
| Aug. 15 | 3.5 | 273.5 | 3 | 276.5 |
| Aug. 31 | 3.5 | 273.6 | 3 | 276.6 |
| Sept. 15 | 3.5 | 275.2 | 3 | 278.2 |
| Sept. 30 | 3.5 | 271.3 | 3 | 274.3 |
| Oct. 15 | 3.5 | 273.4 | 3 | 276.4 |
| Oct. 31 | 3.5 | 274.7 | 3 | 277.7 |
| Nov. 15 | 3.5 | 275.3 | 3 | 278.3 |
| Nov. 30 | 3.5 | 275.0 | 3 | 278.0 |
| Dec. 15 | 3.5 | 277.1 | 3 | 280.1 |
| Dec. 31 | 3.5 | 275.3 | 3 | 278.3 |
| 1959—Jan. 15 | 3.5 | 276.9 | 3 | 279.9 |
| Jan. 31 | 3.5 | 276.1 | 3 | 279.1 |
| Feb. 15 | 3.5 | 276.8 | 3 | 279.8 |
| Feb. 28 | 3.5 | 275.4 | 3 | 278.4 |
| Mar. 15 | 3.5 | 276.6 | 3 | 279.6 |
| Mar. 31 | 3.5 | 271.3 | 3 | 274.3 |
| Apr. 15 | 3.5 | 272.8 | 3 | 275.8 |
| Apr. 30 | 3.5 | 273.1 | 3 | 276.1 |
| May 15 | 3.5 | 273.4 | 3 | 276.4 |
| May 31 | 3.5 | 273.1 | 3 | 276.1 |
| June 15 | 3.5 | 274.9 | 3 | 277.9 |
| June 30 | 3.5 | 269.3 | 3 | 272.3 |

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Chart 1

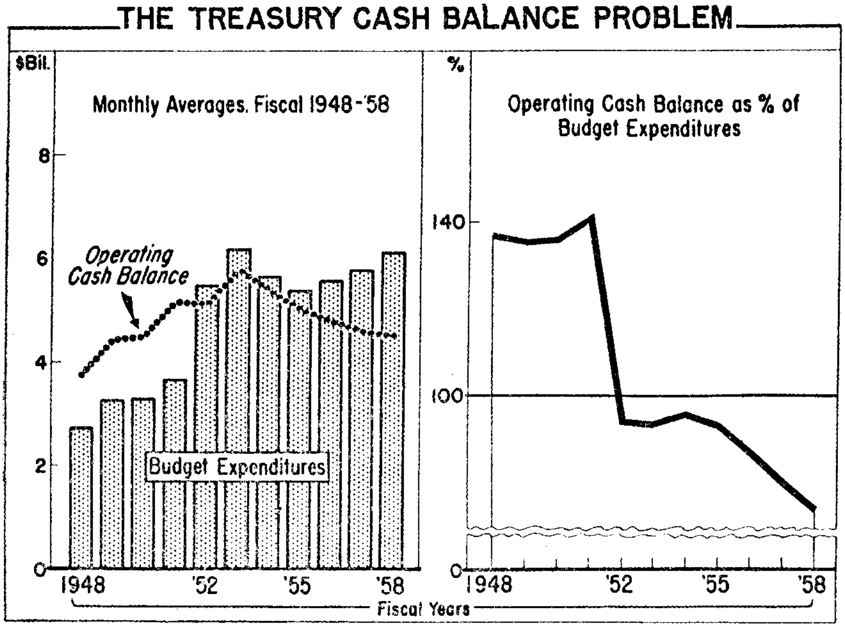
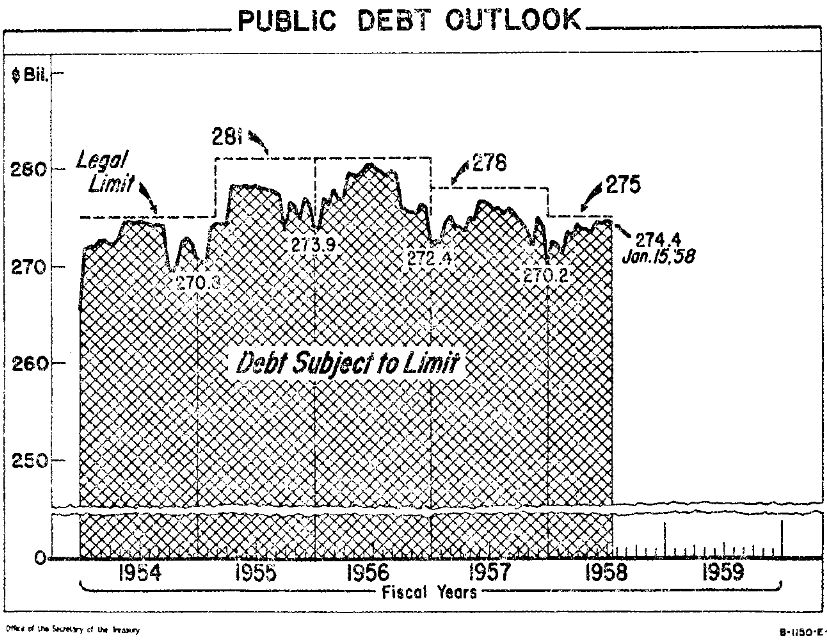
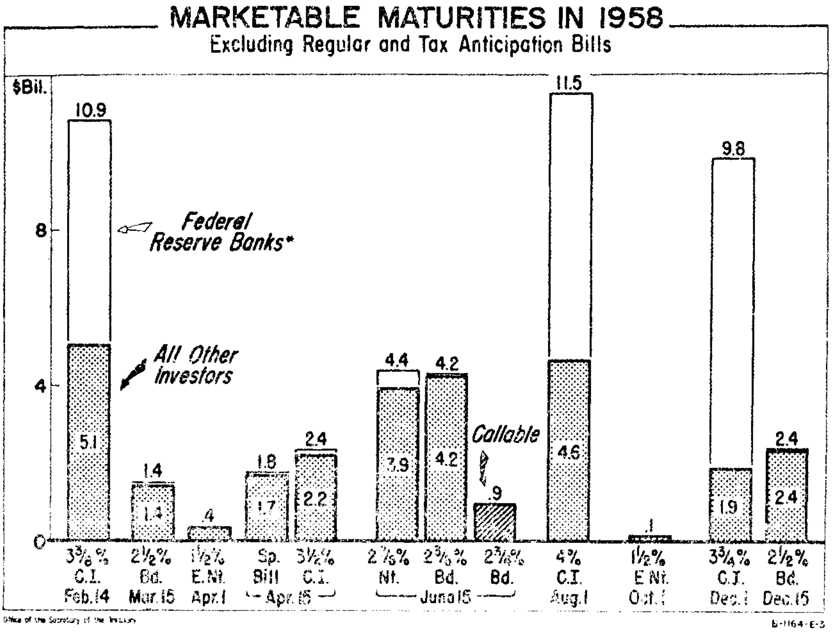



Chart 2



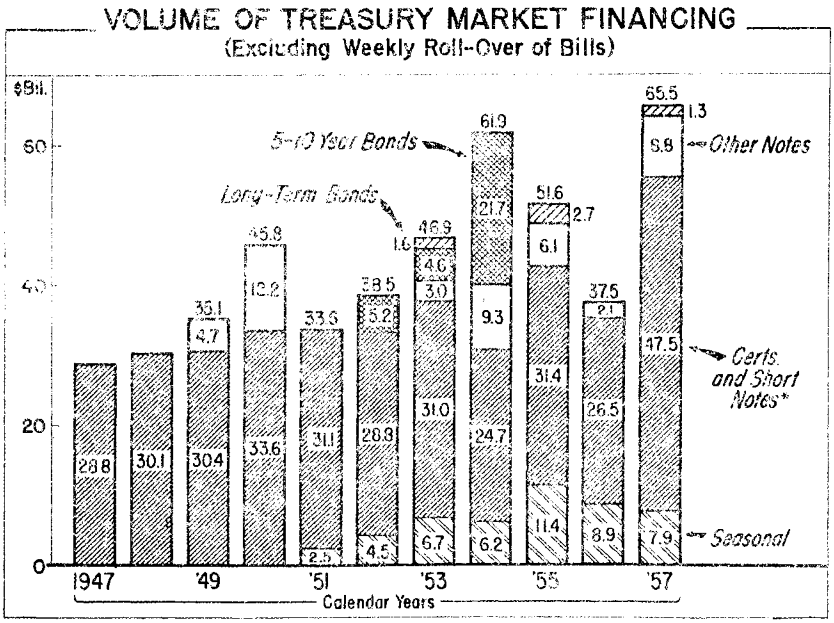

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Chart 3




*Including Government Investment Accounts.

Chart 4




*Notes originally 20 months or less to maturity.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Chart 5

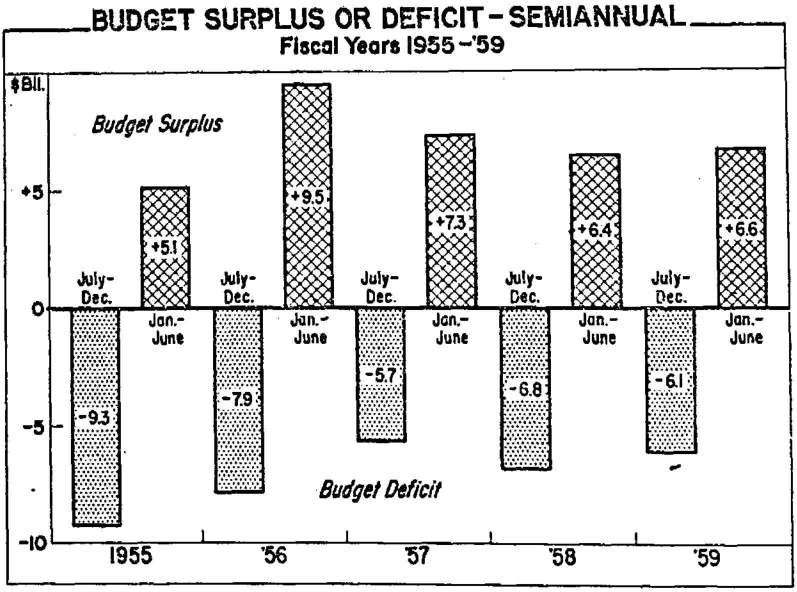
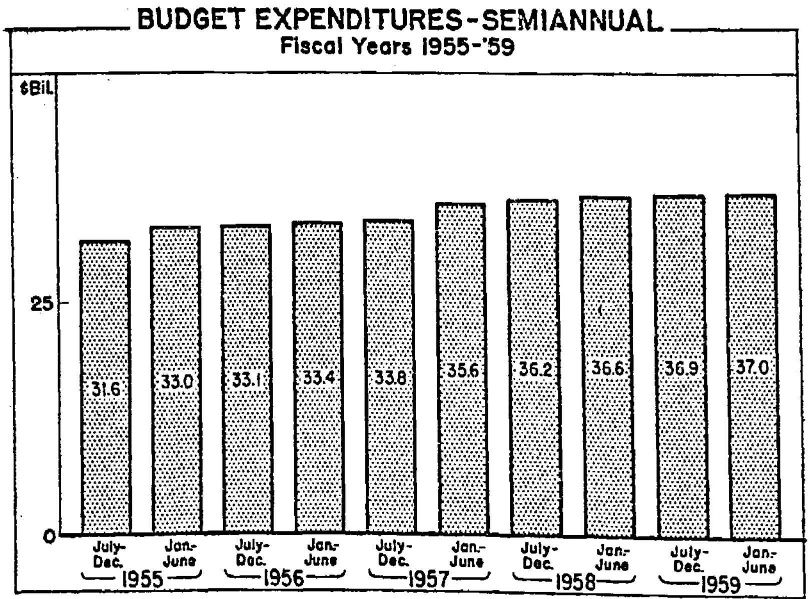
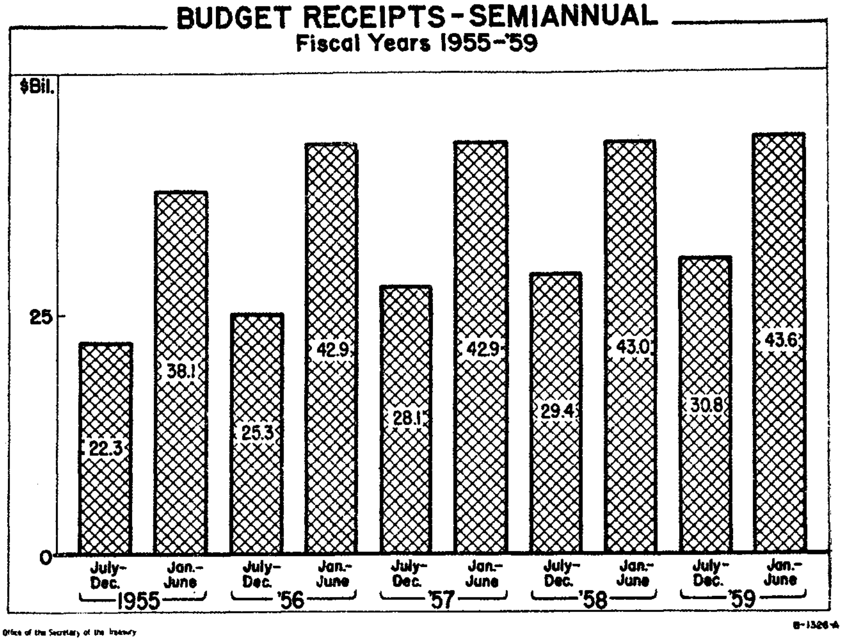



Chart 6




Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Chart 7




The Chairman. Mr. Secretary, we thank you for your statement. It was a very fine statement of the present situation and the need that exists for prompt consideration of the proposal before the committee this morning.

Without objection, the tables and charts appended to the Secretary's statement will be made a part of the record immediately following his statement.

Are there any questions?

Mr. Reed will inquire, Mr. Secretary.

Mr. Reed. I would like to compliment you on your very fine statement. From what I understand, the reason you want now a $5-billion extension of the debt is so that you will not be held down to too close a margin when you go into the financial market. Isn't that true?

Secretary Anderson. There are three reasons, Mr. Reed. One, we believe that we should, for practical purposes, have larger margins for operating purposes between the debt requirements and the requirements that are imposed on the Treasury, and then we believe that there should be increased flexibility for our financing operations, as I have outlined. Finally, we think there should be some room for contingencies, living in the kind of world that we do, that we simply can't foresee.

Mr. Reed. Is it not true that if you do not have the flexibility you request when you go into the financial market, you are at a disadvantage?

Secretary Anderson. We do not believe that we can do as good a job in the management of the debt under these circumstances. Let me illustrate.



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

For example, if we go into the market to refund an outstanding issue, regardless of the terms of the new issue, we have to take into consideration the fact that just in the normal course of business certain holders of these securities will need cash and that therefore there will be attrition. So long as the debt margin is very narrow we have to carefully consider what the attrition will be so as to not take too great a risk, and then we have to be prepared if the attrition is substantially large to go back into the market in a very short time, and before there has been a complete distribution of the securities previously offered, in order to raise cash for the Treasury.

This, of course, simply means that we are back into the market shortly after a large refunding issue with some additional requirements of shorter-term securities in order to provide cash and this imposes, as I pointed out, difficulties not only so far as market operations of the Treasury are concerned, but it imposes additional difficulties for businesses, States, and municipalities.

Mr. REED. Thank you very much.

The CHAIRMAN. Mr. Forand will inquire, Mr. Secretary.

Mr. FORAND. Mr. Secretary, you have been operating, according to information given this morning, very close to the ceiling of the public debt and apparently it has been necessary for you to use short-term issues. If the debt limit is raised as suggested here would that enable you to get away from a lot of short-term issues?

Secretary ANDERSON. Mr. Forand, the extent to which we would be able to extend maturities would depend in part upon market conditions. We believe, however, that there should be a sufficient latitude between our requirements in the debt limitation so that when those opportunities present themselves and we believe that there is an opportunity of extending the debt, we are able to take as full an advantage of that opportunity as possible. We would hope that such opportunities would present themselves and that we would be able by the extension to secure some better balance.

Mr. FORAND. If you did that wouldn't that save a lot of money on interest? You pay a higher rate of interest on your 90-day bills than you have to on the longer maturity issues?

Secretary ANDERSON. No; I would not think normally that you would pay higher interest on short-term than longer term securities.

Mr. FORAND. I want to clear that point up because it has been raised with me.

Secretary ANDERSON. Interest charges frequently have a relationship to the time for which the money is borrowed. This is not universally true, as you will see from the Treasury financing of last September.

We had a level rate of interest for money that was borrowed for 1 year, for 5 years, and for 12 years, but this was due to the fact, in our judgment, that you have different kinds of markets which absorb different kinds of securities, and while it was a rather unusual circumstance, it did point up the fact that interest was not the sole governing situation of the willingness of investors to absorb some of the securities.

Mr. FORAND. In other words, much depends on the market condition at the time you have to go into the market?

Secretary ANDERSON. Yes; that is certainly the primary consideration, the condition of the market.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. FORAND. Thank you very much.

The CHAIRMAN. Mr. Simpson will inquire.

Mr. SIMPSON. Mr. Secretary, I have never been able to understand why there is such a tremendous concern about the debt limit, inasmuch as all you use the money for is to pay bills and the bills are the result of appropriations which are made by the Congress. Why is there a hesitancy in requesting authority to increase?

Secretary ANDERSON. Mr. Simpson, of course what we do in the Treasury is to pay the checks for the bills which are drawn against us for operations of the Government, or for investment, or for purchases by all of the agencies of the Government, as you have indicated. I am sure that the existence of the debt limitation results from the fact that the Constitution gives the Congress the power to borrow money.

The Congress has traditionally delegated that responsibility to the Secretary of the Treasury. They have over the years utilized various means of controlling the powers which they have delegated. For my part I think it is entirely healthy that from time to time the Congress review the debt limitation because implicit in that review is a review of the way in which we are managing the debt and the way in which expenditures are being made and how we are meeting the expenditures of the budget.

Mr. SIMPSON. However, of course that could be done without respect to the question of increasing the debt limitation.

Secretary ANDERSON. It could; yes.

Mr. SIMPSON. So the question in my mind remains, Is there a real relationship between the authority to borrow additional money and the administration's policy with respect to spending?

Secretary ANDERSON. I am quite sure that the Treasury will always pay all of the obligations against it under the authority of the appropriations of the Congress and, as you indicate, whether or not there is a debt limit of one size or another. If it were necessary in order for us to discharge that responsibility to call the attention of the Congress to the debt limitation under unusual circumstances we would certainly do so.

Mr. SIMPSON. That is the reason you are here now.

Secretary ANDERSON. That is correct, sir.

Mr. SIMPSON. I suppose it is unnecessary to ask, but I will ask it anyway for the record. Do you believe that the requested increase here is sufficient in the light of all your knowledge to permit efficient management of the debt for the foreseeable future?

Secretary ANDERSON. We have, Mr. Simpson, very diligently studied the problem with the idea of making our request of the Congress adequate, yet not excessive, and trying to be as prudent as possible in asking that the limitation be increased.

Mr. SIMPSON. And the granting of the authority for the increase to you, as I understand it, is not in any sense an invitation to unwise borrowing or unwise spending?

Secretary ANDERSON. We would hope that we would be able to achieve better balance in the debt structure which would be in the public interest so far as the management of the debt is concerned.

On the expenditure side, I would certainly regard this as no invitation for any agency of the Government to spend money except in the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

most economical manner, and to the extent to which the Treasury can be influential in that respect we would certainly want to exercise and exert our influence to insure the economical expenditure of funds.

Mr. SIMPSON. Thank you.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Boggs?

Mr. Boggs will inquire, Mr. Secretary.

Mr. BOGGS. Mr. Secretary, I was interested in the brief history you have given us relative to the various actions taken by the Congress in establishing the debt limit and then raising it from time to time. At the beginning of World War II the limit was $65 billion, approximately or what was it? You have it there somewhere.

Secretary ANDERSON. The debt limitation in early 1941 was $65 billion and the public debt then outstanding was $46 billion.

Mr. BOGGS. And at the end of World War II the limitation was $300 billion and the debt outstanding was how much?

Secretary ANDERSON. At the close of World War II the debt limitation was $300 billion, on April 3, 1945, and our public debt on the same day was $234 billion. Therefore this would be the difference between April and August.

Mr. BOGGS. So that even if we increase the limit to $280 billion it is substantially less than the limitation existing at the end of World War II, is that not correct?

Secretary ANDERSON. Yes. It would be $20 billion less than the high.

Mr. BOGGS. What was the national debt at the beginning of the Korean conflict?

Secretary ANDERSON. The debt limitation was $275 billion and the public debt outstanding was approximately $257 billion in June of 1950.

Mr. BOGGS. $257 billion?

Secretary ANDERSON. Yes.

Mr. BOGGS. And what were the figures at the conclusion of the Korean conflict?

Secretary ANDERSON. The limitation was the same, $275 billion. The debt outstanding was approximately $266 billion.

Mr. BOGGS. Therefore, there was only a net increase of about $9 billion in the debt during the period of that conflict?

Secretary ANDERSON. In the amount outstanding subject to debt limitation, yes, sir.

Mr. BOGGS. Which indicates that most of that additional expenditure was financed by current revenues.

Secretary ANDERSON. Yes.

Mr. BOGGS. Since Korea we have raised the debt limitation 3 times temporarily and it is now back to $275 billion; is that correct?

Secretary ANDERSON. Yes, it is $275 billion.

Mr. BOGGS. Therefore, there has been no actual increase since Korea in the total amount of $275 billion?

Secretary ANDERSON. There has been the fluctuation from year to year.

Mr. BOGGS. Yes, I understand, but the limitation today is still $275 billion.

Secretary ANDERSON. Yes.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. BOGGS. Of course if we run into a deficit situation the question now arises as to whether or not we will pursue an economic course of reducing taxes to stimulate business activity, which was discussed here at some length yesterday, or whether or not the deficit will have such an inflationary tendency that there will be such a large increase in activity dollarwise that it will be almost essential that this deficit be financed by increased taxation. Would you care to express a preference on which one of those probabilities you prefer?

Secretary ANDERSON. Mr. Boggs, I would not like to express opinions on what are hypothetical situations. As I indicated yesterday, it seems to me that the wisest course for this country to pursue is to exercise every ability to pay for its expenditures out of its current operations and not add to its outstanding debt.

I think, on the other hand, that we can not foreclose the possibility of the Government taking whatever action under conceivable circumstances would be required. I do believe confidently that if our projections of budget expenditures are reasonably close to actual figures there will be a sufficient revenue to meet those responsibilities in the belief again that we will have the return of expansion and growth to our economy. I think all of us in Government and private businesses owe a responsibility to try to bring this about. We will simply have to look the facts in the eye as they unfold before us.

Mr. BOGGS. In that connection, Mr. Secretary, my recollection is that the President's budget request for fiscal 1958 was about $72 billion. Is that approximately correct for last year?

Secretary ANDERSON. Approximately so, yes, sir.

Mr. BOGGS. The Congress in the first session of this Congress voted I believe about $67 billion of new authorizations. Is that approximately correct?

Mr. MASON. $67 billion.

The CHAIRMAN. The actual reductions, as I recall, voted by the Congress and estimates were about $4.9 billion under the President's estimates.

Mr. BOGGS. Yesterday we voted a half billion dollar supplemental, which would take up a half billion dollars of that. This question probably should be directed to Mr. Brundage.

What are the estimated supplementals and deficiencies now for 1958?

Secretary ANDERSON. I don't have them before me,

Mr. BOGGS. I could get them for you.

(The amount is $6.6 billion. See statement by the Director of the Budget, p. 38.)

Mr. BOGGS. In any event, I think it indicates a substantial increase over the $67 billion which we voted.

Secretary ANDERSON. Yes, it does.

Mr. BOGGS. And it will probably end up being approximately what the President requested early last year, which brings me to my final question.

Do you feel that you need this increase for fiscal 1959 as well as fiscal 1958?

Secretary ANDERSON. Yes, Congressman Boggs. Let me point out that we very frankly are asking for an amount of increase which is larger than an amount which we would deem essential to simply pay

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

our bills if our projected expenditures and projected receipts were reasonably close. We believe that in the management of a debt of this size, having as it does an effect upon the ability of the cities, towns, school districts, States, business, and everybody else to borrow in the same market, we ought to have sufficient flexibility so as to achieve the best balance that is possible under market conditions and leave the market as free as it can be to provide funds for business purposes. Then we recognize that in a country like ours and in a world like ours there are just always the possibilities of contingencies that we can't spell out—we don't know them—but that there ought to be some reasonable level that those contingencies would be provided for as well as the flexibility.

Mr. BOGGS. Thank you, Mr. Secretary.

As a matter of fact, I think we would probably be better off if we had voted it this last summer, but of course you did not request that action. I think you would have more flexibility in the fall. I imagine it has been rather difficult.

Thank you very much.

The CHAIRMAN. Mr. Kean will inquire, Mr. Secretary.

Mr. KEAN. Mr. Secretary, what you were just saying to Mr. Boggs in effect is that as the Government is the largest borrower in the money market, what rates the Government is able to establish through flexibility would affect the cost to every other borrower in the United States. That is the reason, because the Government is the biggest borrower in the entire money market.

Secretary ANDERSON. The Government is of course the biggest borrower. On the other hand, we do not try to fix interest rates, but to secure for the benefit of the country as we borrow the best rate that is available in the market.

Mr. KEAN. And you feel that being able to take the opportunity when the market happens to be favorable by this flexibility you will be able to secure the best rate for the Government and thereby as that affects all the rest of the borrowing it will aid other borrowers in getting the best rate?

Secretary ANDERSON. We are concerned not only with taking advantage of the most favorable rates that the market may produce, but we are concerned also with achieving as best we can some balance between long-term and short-term securities so that we would at least have as an objective going to the market with less frequency.

Mr. KEAN. Which disturbs the market less.

Secretary ANDERSON. If, for example, the business community knows that we are going to the market frequently with large issues, then they have more difficulty in securing a part of the investment capital of the United States in advancing their own business.

Mr. KEAN. I have been looking at your table 3. That is the table giving the amount of borrowings you have every month.

Am I not correct in saying that if Congress at this session spends considerably more money than the budget provides or if the income in the 1959 fiscal year is considerably less than the somewhat optimistic statement which was made in the budget, you are going to be in trouble again in the fall of 1959?

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Secretary ANDERSON. The extent to which expenditures are increased over our forecast and the extent to which budget receipts are less, our problem is just that much accentuated.

Mr. KEAN. They won't affect very much the present situation on account of the fact that less revenues and the less spending probably will be affected more a year from now than immediately, so that the time that you would get probably in trouble, if you get in trouble, would be in the autumn of 1959.

Secretary ANDERSON. Certainly we can have more confidence in the kinds of projections which we make in the next 6 months than we would make 17 or 18 months ahead.

Mr. KEAN. The showing up of less revenue, if it was less than that estimated by the President, would not come in there until the tax receipts of a year from now, and if we voted money for various things in the Congress, probably the spending would not be immediate. It would be 6 months to a year from now.

Secretary ANDERSON. Yes, sir.

Mr. KEAN. So 1959 would be the period.

Thank you.

The CHAIRMAN. Mr. Harrison will inquire.

Mr. HARRISON. Mr. Secretary, yesterday we were discussing the budget estimates for 1959 and you told me those estimates were higher than the current fiscal year revenue or receipts figures. How much higher are they? Can you tell me that, sir?

Secretary ANDERSON. $2 billion dollars.

Mr. HARRISON. If those estimates prove to be correct would it be necessary to increase the limitation by $5 billion?

Secretary ANDERSON. If the estimates of revenue prove to be correct and if the estimates of expenditures prove to be correct, then we would not require the total of $5 billion just in order to meet the payment of our bills. We very honestly are asking for an amount of money above what we think would be required to meet our bills under those projections in order to provide some flexibility in the debt management situation and to provide against contingencies.

Mr. HARRISON. This request, then, am I correct in my understanding, is based on the assumption that the estimated revenue and expenditures for 1959 will be as they are estimated in the budget?

Secretary ANDERSON. Yes. We assume that the projections which we have made will be carried out and we then ask for an amount to meet not only our expenditures but also to provide a margin for flexibility in debt management and for contingencies.

Mr. HARRISON. If your estimates are inaccurate in that either the revenue is not as large as anticipated or the expenditures are larger than anticipated, in either event will it be necessary for you to ask for an additional increase in the debt limitation?

Secretary ANDERSON. It would depend upon the size of the increase in expenditures and the fall-off in revenues.

Mr. HARRISON. Assuming the revenue is no larger than this year, will it then be necessary?

Secretary ANDERSON. There are two things I would like to point out to you. One is, regardless of the size of the total collections over the year, we would still have difficulties on account of the way in which the taxes flow into the Treasury and the expenditures flow out.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

As you will notice on this chart 5, you could over the year have debt problems regardless of whether your revenues were up or down, but if I gather from your question that if you did not have the $2 billion increase as to whether or not you would require the whole $5 billion in debt limitation again it would be difficult to know what the swing would be. However, I would say that generally we would not need the total $5 billion simply to get by and pay our bills. We would still need it in order to adjust the swings and provide for the debt management problems and contingencies.

Mr. HARRISON. Do I understand then if the revenues for 1959 are no larger than 1958, you do not anticipate the necessity of asking for a further increase later in this calendar year?

Secretary ANDERSON. I would not say that necessarily it would follow because it would depend on the adjustments made in the budget by the Congress during its hearings and would depend also on what we would anticipate the seasonal fluctuations would be.

Mr. HARRISON. In other words, then, you do not think you could get by on a $3 billion increase now with the understanding that you come back later for an additional increase if you need it?

Secretary ANDERSON. If by getting by you mean, sir, could we pay our bills, I think for a while we could get by. I do not think that it gives us the kind of flexibility that we would need in the debt management, and I think that it would not provide any adequate margin or reasonable margin for any contingencies or things which we would not be able to expect.

Mr. HARRISON. Yet, though, Mr. Secretary, you say that your revenue is $2 billion off, that wouldn't require you to come back and ask for a further $2 billion increase at that time.

Secretary ANDERSON. Above the $5 billion.

Mr. HARRISON. I don't understand why if that is true it is necessary for you to have more than $3 billion. If you can get by a $2 billion drop in your revenue estimate without increasing the proposed $5 billion, then why doesn't it follow that if your estimates do prove to be right you could manage with a $3 billion increase now?

Secretary ANDERSON. I want to point out that what we are trying to provide in the $5 billion increase is the ability to pay our bills under this projection and to provide for both flexibility and contingencies. I don't think that I could, and I would not intend to, be entirely categorical and say that if the $2 billion did not come into the Treasury we would not have to ask for some increase because again it would depend on what the swing would be in the seasonal operation. I simply wanted to point out that in asking for the $5 billion we are not asking for it simply on the ground that we need this full amount under our projection for purposes of paying bills.

Mr. HARRISON. Pursuant to Mr. Simpson's thought, it is important to keep this debt limitation as low as possible to prevent deficit financing, isn't it?

There can be no deficit financing beyond the debt limitation, can there?

Secretary ANDERSON. We cannot issue obligations of the Government subject to the debt limitation without permission of the Congress to raise it.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. HARRISON. Therefore, if we keep the debt limitation as low as possible and the Congress goes on notice, when it enters into a period of deficit financing it has to raise the debt limitation to do so, isn't that correct?

Secretary ANDERSON. Whether or not you are in a deficit financing position would depend on whether you spend more in the current year than you take in in revenues in the current year.

Mr. HARRISON. If you don't have it you can't borrow it.

Secretary ANDERSON. But you cannot issue the obligations of the Government subject to the debt limitation beyond the amount that Congress authorizes.

Mr. HARRISON. Isn't it also true that under existing law debt limitation is about the one way that this Congress can retain some control over its managers?

Secretary ANDERSON. The Congress I think of course has a control over expenditures by the provisions which you write into the appropriations bills and by the amounts that are appropriated for various purposes. On the other hand, as I indicated, I certainly believe it is a wise thing for the Congress from time to time to review with us the debt limitation.

Mr. HARRISON. Congress, you know, last year, as Mr. Boggs pointed out, undertook to reduce Government expenditures by reducing appropriations some $5 billion. However, instead of having any reduction in expenditures the expenditures exceeded the original recommendation by about a billion dollars, making a difference between the congressional appropriations and expenditures of about $6 billion.

Secretary ANDERSON. The appropriations which are being referred to of course are the new obligational authorities which were granted by the Congress. Expenditures, while affected by those, are not always controlled by them because of the amounts which are carried over, as the Congressman knows.

Mr. HARRISON. We found that out very sadly.

Getting down to cases, for instance, do you know what the expenditures this year will be on the mutual security program?

Secretary ANDERSON. I do not have those figures before me, Congressman. I would be glad to supply them.

(This item is included in the President's budget in the amount of $3,749 million, including military assistance.)

Mr. HARRISON. Congress reduced the present amount considerably, but the expenditures went right on, isn't that correct?

What I am leading up to is that this is one method of keeping pretty tight control on the amount of the authorized Government debt. This is one method open to the Congress to exercise its power over the purse.

Secretary ANDERSON. It is the power of Congress and, as I said in my statement, traditionally the delegation of authority which has been given to the Secretary of the Treasury by the Congress has been controlled by various means and this is one of them.

Mr. HARRISON. And if the debt limit is held rigidly down it would perhaps be somewhat of a brake on Congress itself as to the amount of appropriations this year, with the knowledge that the debt limitation would have to be increased.



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Secretary ANDERSON. I am sure in making judgments as to amounts of appropriations the Congress always bears in mind the amount of debt limitations.

Mr. HARRISON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Mason will inquire.

Mr. MASON. I ask unanimous consent to read into the record a telegram I just received from New York which expresses my opinion in this matter more effectively than I could do it myself.

The CHAIRMAN. The gentleman doesn't have to have unanimous consent to do that, but he can have it if he wants it.

Mr. MASON. All right.

Mr. SIMPSON. I would like to say that the gentleman can express himself very clearly without the telegram.

Mr. MASON (reading):

> The National Economic Council completely opposes the raising of the debt limit by so much as a dollar. Federal debt and taxes have produced the present recession, now rapidly generating into a depression. Evidence submitted by many witnesses last Monday when I testified on tax reduction indicated that for many corporations taxes are so high it is impossible to make enough money after taxes even to replace equipment wearing out.
>
> We may expect the depression to deepen until a substantial plan of tax reduction is adopted. Recent reduction of margin requirements on the New York Stock Exchange from 70 to 50 percent was a trivial palliative, as market trends yesterday showed. Two things are necessary for an American survival; first the necessary weapons, and secondly, the restoration of the American economy. As a Nation we will not be safe without both. Hence, we urge the committee and the Congress to take immediate steps to cut out unnecessary spending and to reduce taxes as a stimulus to the whole economy. That is the way to get the necessary cash.

It is signed Merwin K. Hart, president of the National Economic Council.

The CHAIRMAN. Does that conclude your statement?

Mr. MASON. Yes, sir.

The CHAIRMAN. Mr. Karsten will inquire, Mr. Secretary.

Mr. KARSTEN. Mr. Chairman, I would like to commend the Secretary for his statement. It is one of the finest historical presentations of the national debt I have heard. It demonstrates to me, however, that this Nation's debt ceiling over the past decade or so has simply been fiction. We change it as we go along.

I wondered, Mr. Secretary, if you really feel that the limit has been beneficial from the standpoint of stopping deficit financing.

Secretary ANDERSON. Mr. Karsten, I think as you look at the history of the debt ceiling it has traditionally been raised when the country has faced periods of large expenditures, whether those expenditures were for domestic purposes or for the conduct of its own defense, that sort of thing.

Mr. KARSTEN. What was the national debt when this administration took over?

Secretary ANDERSON. The gross public debt on January 30, 1953, was approximately $269 billion.

Mr. KARSTEN. And what is it today?

Secretary ANDERSON. Approximately $274.4 billion on January 15.

Mr. KARSTEN. Actually we are going deeper in the red each year with this national debt ceiling. Is that the picture?

Secretary ANDERSON. The debt has increased by this amount.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. KARSTEN. It has increased despite the ceiling and it has not acted as a brake on deficit financing.

You referred in your statement to the serious difficulties that you encounter in refunding and financing this debt. It is quite apparent that you have great difficulties there. I was wondering if the close proximity of the national debt to its ceiling over the past 6 months has had any restrictive effect on other operations of our Government in the various governmental departments.

Secretary ANDERSON. Do you mean, sir, as to whether or not there has been additional difficulties encountered because of the financings that have been done by other agencies of the Government?

Mr. KARSTEN. Not necessarily that. I am talking about programs. Take, for instance, the defense program. Is there any relationship between the cutbacks in the defense program over the last 6 months and the close proximity of the national debt to the ceiling during that period?

Secretary ANDERSON. All of the agencies of the Government are of course advised, just as the public is advised, of the amount of debt outstanding at any one time and I am sure that in the calculations of the expenditure rates of each of the Government agencies there has been and will continue to be some judgments taken in the light of the debt ceilings.

Mr. KARSTEN. Have any directives been issued over the last 6 months in this connection, governmental departments?

Secretary ANDERSON. As far as the Treasury is concerned we have issued no directives. We have simply called the matter from time to time to the attention of everyone, including the public.

Mr. KARSTEN. Have the directives that have been sent to the departments resulted in any reductions in any programs that our Government operates?

Secretary ANDERSON. We have not sent any directives, sir.

Mr. KARSTEN. Or notices that you have sent out.

Secretary ANDERSON. By notices I simply mean of course that we publish on a daily basis the amount of outstanding debt so that everybody in the country is fully aware of it.

Mr. KARSTEN. Have these notices had any effect on programs in other governmental agencies?

Secretary ANDERSON. I would not be able to say the extent to which they have had effect, but I would be confident that they have from time to time exercised an influence on the rate at which expenditures or programs would be made.

Mr. KARSTEN. You are talking about influence. You would classify that as a restrictive influence, would you?

Secretary ANDERSON. Yes.

Mr. KARSTEN. It would be a restrictive influence?

Secretary ANDERSON. Yes.

Mr. KARSTEN. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Byrnes will inquire, Mr. Secretary.

Mr. BYRNES. Mr. Secretary, although there may be conflicts over whether the debt ceiling actually has acted as a brake of restraint, I think we can agree, can we not, that it has that potential to act as a brake or restraint on spending both on the legislative side and on the executive side?

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Secretary ANDERSON. It has not only a potential, but it is an evidence that the Congress from time to time wants to review the delegation of authority which it has given for the right to borrow money against the credit of the United States.

Mr. BYRNES. When we do come around to the situation where we find ourselves approaching the debt limit and you have outstanding obligations, Congress has the alternative of increasing the debt limit or of cutting back some of the obligational authority that might become potential obligations but still have the capacity to be canceled?

Secretary ANDERSON. All of us must take into account that the credit of this country is dependent upon its ability to pay its bills when the bills are presented to us, and those bills originate from appropriations that are made currently or have been made in the past.

Mr. BYRNES. This Congress, or the administration as far as that is concerned, does even at this point have an alternative situation with which it is faced. It depends upon how the budget balances, but since we are approaching this point of the debt limit, instead of raising it, you might say the thing to do is to reduce our expenditure prospects and cutback in that area to avoid the difficulty that would come in.

Secretary ANDERSON. If you assume that the revenue estimates, the receipt estimates, are reasonably accurate and the Congress wanted to insure a greater margin between the expenditures and the debt limit, then it would of course review not only its rate of appropriations, but it would review the rate of expenditures under those appropriations.

Mr. BYRNES. I think, too, any people—and I think that has been one of our faults in the past—look upon this debt ceiling as just something that when we approach it we have to increase it rather than recognition of the fact that there are some other alternatives as far as fiscal management and fiscal responsibility is concerned.

As I understand it, your case here is that you have to have some elbow room within which to work as far as debt management is concerned which the present limit of $275 billion doesn't give you; is that right?

Secretary ANDERSON. That is a part of the problem, yes.

Mr. BYRNES. I note your table on page 3, which I think is very useful.

Secretary ANDERSON. Is it table 3 or chart 3?

Mr. BYRNES. Table. I notice you set up here a standard of desirability as far as bank balances are concerned of $3.5 billion and then a balance of an additional $3 billion to provide flexibility in financing and for contingencies, so that you really are saying that what is essential is that you always have at a low point a $6.5 billion area of either cash or borrowing capacity to provide the elbow room, so to speak.

Secretary ANDERSON. These are assumed figures which are put up for illustrative purposes of showing what we believe would be a reasonable operating balance and the allowance which is set out for flexibility and financing contingencies, would be the kind of temporary ups and downs that you would go through in your cash position. It would be the amount of money that you would need to cover that cash position temporarily over financing operations.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. BYRNES. This is the balance of cash at hand at any low point, isn't it, $3.5 billion; and the $3 billion over in the third column is an unused borrowing capacity, so that it is a reserve that you have to work with?

Secretary ANDERSON. You will notice that the amounts are put up at middle point and the end of each month. Now, there will be fluctuations and again this will never come out precisely, but the fluctuations would run at whatever circumstances required in between those amounts during say, the 1st to July 15 and the 15th to the 31st of July.

Mr. BYRNES. As I understand, what you are suggesting is that you need a range of $6.5 billion; is that correct? Is that what this statement purports to show, and that that is how you arrive at the need for a $280 billion ceiling? On December 15 of 1958 you anticipate that the public debt limitation requirement would be $280 billion; is that correct, or am I misreading this table?

Secretary ANDERSON. No; you are reading it correctly. When we speak of flexibility we mean that there might be a number of times, particularly at the time of financing, and we might need to overlap to raise cash for a matter of a few days or weeks before the maturing debts which were then outstanding would be retired.

Mr. BYRNES. Do you mean to take care of the attrition aspect?

Secretary ANDERSON. Yes. You see, under the circumstances now, if we have no room and the attrition on that maturity is high, then because we need the money for cash purposes we go back very quickly into the market and ask for further financing.

Mr. BYRNES. Doesn't your cash reserve, your Federal Reserve bank deposits and other deposits in banks, provide you with certain flexibility there?

Secretary ANDERSON. I don't follow you.

Mr. BYRNES. Doesn't that provide you with certain flexibility, the fact that you have cash on hand in the various banks?

Secretary ANDERSON. Yes; if the amounts of cash on hand were large enough.

Mr. BYRNES. Yes. So the sum of your flexibility that you ask for in your column 3, $3 billion, is a continuation of the flexibility that you already have if you maintained the $3.5 billion in the bank. It is just an addition to it.

Secretary ANDERSON. There will be fluctuations underneath the $3.5 billion in banks and there will be fluctuations or overlaps in the total amounts outstanding.

Mr. BYRNES. Even though it won't be in time to have it when this committee acts, it may be in time to have it by the time the House acts, and I wonder if you could furnish us with a table showing your cash balance and unused debt, and showing us the lowest point you have had in the last 3 or 4 years.

Secretary ANDERSON. Yes; we could.

(The above-mentioned table follows:)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

*Cash balances (excluding gold) and debt subject to limit*

[In millions]

| Period | Description | Balance in Federal Reserve banks | Balance in tax and loan accounts (commercial banks) | Total balance in Federal Reserve and commercial banks | Debt subject to limitation | Margin under debt limitation | Balance in commercial banks less outstanding withdrawal notices |
|---|---|---|---|---|---|---|---|
| Fiscal year 1954: | | | | | | | |
| July 14, 1953 | Low point of balance in commercial banks (also low point of overall balance). | $535 | $1,649 | $2,184 | $265,863 | $9,137 | $1,201 |
| Jan. 19, 1954 | High point of debt outstanding | 6 | 2,409 | 2,415 | 274,775 | 225 | 2,409 |
| Jan. 20, 1954 | Low point of balance in Federal Reserve banks | 5 | 2,487 | 2,492 | 274,662 | 338 | 2,165 |
| Mar. 13, 1954 | Low point of balance in commercial banks less outstanding withdrawal notices. | 385 | 2,547 | 2,932 | 274,134 | 866 | 1,103 |
| Fiscal year 1955: | | | | | | | |
| July 31, 1954 | Low point of balance in commercial banks less outstanding withdrawal notices. | 727 | 2,538 | 3,265 | 270,466 | 4,534 | 704 |
| Oct. 4, 1954 | High point of debt outstanding | 658 | 7,299 | 7,957 | 278,439 | 2,561 | 5,915 |
| Jan. 17, 1955 | Low point of balance in commercial banks (also low point of overall balance). | 239 | 1,910 | 2,149 | 277,964 | 3,036 | 1,910 |
| May 16, 1955 | Low point of balance in Federal Reserve banks | 77 | 2,859 | 2,936 | 274,812 | 6,188 | 1,040 |
| Fiscal year 1956: | | | | | | | |
| Dec. 10, 1955 | Low point of balance in commercial banks less outstanding withdrawal notices. | 290 | 2,088 | 2,378 | 279,520 | 1,480 | 706 |
| Dec. 30, 1955 | High point of debt outstanding | 397 | 3,036 | 3,433 | 280,348 | 652 | 1,907 |
| Jan. 17, 1956 | Low point of balance in commercial banks (also low point of overall balance). | 349 | 1,103 | 1,452 | 279,726 | 1,274 | 1,103 |
| Mar. 16, 1956 | Low point of balance in Federal Reserve banks | 149 | 2,286 | 2,435 | 278,625 | 2,375 | 2,286 |
| Fiscal year 1957: | | | | | | | |
| Nov. 29, 1956 | High point of debt outstanding | 431 | 4,276 | 4,707 | 276,732 | 1,268 | 1,999 |
| Jan. 30, 1957 | Low point of balance in commercial banks less outstanding withdrawal notices. | 614 | 1,025 | 1,639 | 276,110 | 1,890 | 333 |
| Feb. 11, 1957 | Low point of balance in commercial banks | 380 | 813 | 1,193 | 275,562 | 2,438 | 478 |
| Feb. 15, 1957 | Low point of overall balance | 143 | 969 | 1,112 | 275,337 | 2,663 | 741 |
| Mar. 15, 1957 | Low point of balance in Federal Reserve banks | 52 | 1,117 | 1,169 | 275,391 | 2,609 | 1,112 |
| July 3, 1957 | High point of debt outstanding | 552 | 6,294 | 6,846 | 272,963 | 2,037 | 4,878 |
| July 9, 1957 | Low point of balance in Federal Reserve banks | 288 | 5,321 | 5,609 | 272,608 | 2,392 | 4,379 |
| July 31, 1957 | Low point of balance in commercial banks (also low point of overall balance, and low point of balance in commercial banks less outstanding withdrawal notices). | 504 | 2,833 | 3,337 | 272,131 | 2,869 | 486 |
| Aug. 7, 1957 | Low point of balance in Federal Reserve banks | 341 | 1,603 | 1,944 | 271,499 | 3,501 | 657 |
| Aug. 9, 1957 | Low point of balance in commercial banks less outstanding withdrawal notices. | 533 | 1,353 | 1,886 | 271,462 | 3,538 | 383 |

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Aug. 15, 1957 | Low point of balance in commercial banks (also low point of overall balance). | 366 | 1, 078 | 1, 444 | 271, 087 | 3, 913 | 770 |
| Aug. 29, 1957 | High point of debt outstanding | 511 | 3, 440 | 3, 951 | 273, 536 | 1, 464 | 1, 216 |
| Sept. 6, 1957 | Low point of balance in Federal Reserve banks (also low point of balance in commercial banks less outstanding withdrawal notices). | 405 | 2, 122 | 2, 527 | 273, 325 | 1, 675 | 677 |
| Sept. 16, 1957 | Low point of balance in commercial banks (also low point of overall balance). | 501 | 1, 353 | 1, 854 | 273, 014 | 1, 986 | 1, 164 |
| Sept. 27, 1957 | High point of debt outstanding | 494 | 5, 886 | 6, 380 | 274, 241 | 759 | 3, 614 |
| Oct. 3, 1957 | Low point of balance in Federal Reserve banks | 404 | 5, 424 | 5, 828 | 273, 860 | 1, 140 | 3, 683 |
| Oct. 25, 1957 | High point of debt outstanding (also low point of balance in commercial banks less outstanding withdrawal notices). | 542 | 2, 426 | 2, 968 | 274, 111 | 889 | 986 |
| Oct. 28, 1957 | Low point of balance in commercial banks (also low point of overall balance). | 484 | 2, 286 | 2, 770 | 274, 104 | 896 | 1. 010 |
| Nov. 13, 1957 | Low point of balance in commercial banks | 482 | 1, 633 | 2, 120 | 273, 313 | 1, 687 | 869 |
| Nov. 15, 1957 | Low point of overall balance | 462 | 1, 653 | 2, 115 | 273, 363 | 1, 637 | 1, 136 |
| Nov. 26, 1957 | Low point of balance in commercial banks less outstanding withdrawal notices. | 432 | 2, 597 | 3, 029 | 273, 419 | 1, 581 | 590 |
| Nov. 29, 1957 | Low point of balance in Federal Reserve banks (also high point of debt outstanding). | 243 | 3, 583 | 3, 826 | 274, 411 | 589 | 932 |
| Dec. 13, 1957 | Low point of balance in commercial banks | 442 | 1, 710 | 2, 152 | 274, 297 | 703 | 1, 526 |
| Dec. 16, 1957 | Low point of overall balance | 81 | 1, 767 | 1, 848 | 274, 271 | 729 | 1, 760 |
| Dec. 17, 1957 | Low point of balance in Federal Reserve banks | 35 | 2, 053 | 2, 088 | 274, 257 | 743 | 2, 049 |
| Dec. 30, 1957 | High point of debt outstanding | 482 | 3, 180 | 3, 662 | 274, 753 | 247 | 1, 838 |
| Dec. 31, 1957 | Low point of balance in commercial banks less outstanding withdrawal notices. | 481 | 3, 084 | 3, 565 | 274. 564 | 436 | 1, 011 |
| Jan. 6, 1958 | Low point of balance in Federal Reserve banks | 391 | 2, 578 | 2, 969 | 274, 274 | 726 | 1, 074 |
| Jan. 8, 1958 | Low point of balance in commercial banks less outstanding withdrawal notices. | 474 | 1, 866 | 2, 340 | 274, 189 | 811 | 804 |
| Jan. 16, 1958 | Low point of balance in commercial banks | 589 | 1, 103 | 1, 692 | 274, 440 | 560 | 1, 103 |
| Jan. 17, 1958 | Low point of overall balance | 473 | 1, 185 | 1, 658 | 274, 426 | 574 | 1, 185 |
| Jan. 24, 1958 | High point of debt outstanding | 528 | 1, 624 | 2, 152 | 274, 650 | 350 | 1, 435 |
| Feb. 1, 1958 | Low point of balance in commercial banks less outstanding withdrawal notices. | 526 | 1, 949 | 2, 475 | 274, 200 | 800 | 250 |
| Feb. 17, 1958 | Low point of balance in commercial banks (also low point of overall balance). | 480 | 1, 009 | 1, 489 | 274, 000 | 1, 000 | 780 |
| Feb. 20, 1958 | Low point of balance in Federal Reserve banks | 445 | 1, 900 | 2, 345 | 273, 900 | 1, 100 | 1, 635 |
| Feb. 24, 1958 | High point of debt outstanding | 470 | 2, 275 | 2, 745 | 274, 300 | 700 | 1, 700 |
| Mar. 1–17, 1958: | | | | | | | |
| Mar. 8, 1958 | Low point of balance in commercial banks less outstanding withdrawal notices. | 465 | 1, 260 | 1, 725 | 273, 900 | 1, 100 | 285 |
| Mar. 11, 1958 | Low point of balance in commercial banks | 460 | 930 | 1, 390 | 273, 900 | 1, 100 | 430 |
| Mar. 17, 1958 | Low point of balance in Federal Reserve banks (also low point of overall balance, and high point of debt outstanding). | 38 | 1, 099 | 1, 137 | 274, 000 | 1, 000 | 600 |



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. BYRNES. I think what our real concern here is, and what your concern must be, with what you have left unused in this debt-ceiling area and what you have in cash, and your contention is that you have to have flexibility. I would like to find out, if possible, how well you have gotten along and what you needed in the past in that area.

Secretary ANDERSON. We can show you the actual operating balances, the amounts subject to the debt limit, and the amounts on deposit in various banks which have been subject to call.

Mr. BYRNES. Mr. Secretary, frankly what concerns me is that whenever anybody needs elbowroom he normally likes to have a whole room rather than just enough to move around in satisfactorily. As far as I am concerned, I can recognize the problems that you have with respect to debt management and that you do need some elbowroom. Frankly, I am not going to give to any administration more elbowroom than I think it immediately needs, because I think this is still one of the areas that we have that can act as a brake or restraint on spending.

I happen to come from a State that has a constitutional limitation on the public debt. That limitation does act as a restraint on both the legislative and the executive branches in spending, and I think it is about time we used the debt limit here to a greater extent in that area. You talk about the need for contingencies, Mr. Secretary. You have other methods of meeting some kind of contingencies besides borrowing within the debt limit; do you not?

Let me just use an example. You used the Commodity Credit Corporation fund or an operation through the Commodity Credit Corporation in 1955; didn't you?

Secretary ANDERSON. Yes.

Mr. BYRNES. Didn't you use FNMA to get some cash?

Secretary ANDERSON. There have been financings under both CCC and FNMA.

Mr. BYRNES. Those were used to meet contingencies and to meet a temporary situation; weren't they?

Secretary ANDERSON. They were used in order to provide the money for those agencies through offerings to the public rather than drawing on the Treasury.

Mr. BYRNES. And it was for a temporary situation? The obligation could still eventually be an obligation of the Treasury if things didn't work out satisfactorily?

Secretary ANDERSON. Yes. In the area of FNMA operations the statute provides that we shall from time to time have a part of that obligation carried by the public, regardless of other things.

Mr. BYRNES. There are certain types of contingencies that you still can meet outside of reliance upon the borrowings done within the public debt?

Secretary ANDERSON. Yes, sir.

Mr. BYRNES. What kind of contingencies can you expect to provide for in what you have been talking to us about in the area of contingencies?

Secretary ANDERSON. The very fact that we use the term "contingencies" implies that these are sorts of things which we can not altogether foresee.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. BYRNES. Long-term or short-term propositions?

Secretary ANDERSON. I would say among them you would want to consider, for example, whether or not at some period we achieved in the scientific and technological communities very rapid acceleration of developments so that the Defense Department would want and would feel it was prudent to spend the moneys which had been appropriated over this and prior years at a much higher rate than we would anticipate.

Mr. BYRNES. Are you talking about spending or about obligations?

Secretary ANDERSON. I am talking about spending.

Mr. BYRNES. There is a lag there. There is a period of time that is always involved.

Secretary ANDERSON. That is the point that I am making. If, for example, you got a technological breakthrough of some kind which was sufficiently reassuring that people would want to put items into production for large sums of money more rapidly than we anticipated, then you would want to have the ability to make the contracts and pay for them.

Mr. BYRNES. Wouldn't that be a situation in the expenditure field where there is a lag between obligation and the letting of this contract, let's say, for this new development and the actual expenditure, which is the problem you face as far as your money management is concerned? It is when the expenditure comes along that you are going to be faced with the real problem. You do have a period of time, though, don't you?

Secretary ANDERSON. I would normally expect a period of time.

Mr. BYRNES. Congress is going to be around and available. If your contingencies, Mr. Secretary, that you have in mind are these very short-term ones, or very immediate, then I can see the advisability of Congress at this time, for instance, granting you even a broader area of flexibility but, frankly, unless we can see that some of these contingencies that you talk about are going to be contingencies that you are actually going to require the expenditure of money very promptly and are unforeseeable, then it would seem to me that that would present a situation where Congress should take another look at the problem if the need arises.

Secretary ANDERSON. All of these matters, Mr. Byrnes, very properly are matters of judgment. We are talking about the rate at which we expend money and the rate at which we collect it. If our expenditures for any reason go up in periods when our collections are the slowest, then our problems are accentuated. A government as big and as complex as ours ought, in my judgment, to have some reasonable latitude to take care of those things which none of us is just wise enough to foresee. Whether that involves one thing or the other in the domestic side of our economy, whether it involves a problem of willingness to purchase because of new discovery, whether it involves a decision to buy some of the more traditional things in larger volumes during those periods, whether it involves changes that come out of programs which are made and are chargeable to the Government, I am simply not wise enough to say. I do believe that in addition to the ability to meet its bills, in addition to the ability to adjust for these seasonal fluctuations and to have the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

overlap that comes at the end of financing operations, there ought to be some reasonable latitude in the Government system.

Mr. BYRNES. I understand your problem and I sympathize with you. The only thing that concerns me somewhat is that you may be having a little too much solicitude about bothering Congress. As far as I am concerned, I don't mind being bothered at all and I would rather take this sometimes maybe in smaller steps, but continuing it at a narrower margin as far as the general proposition is concerned. As far as I am concerned, I would prefer there not be a solicitude. I would much rather that you came back in 6 or 9 months if that was necessary, and we could still keep this mechanism as some kind of a restraint or some kind of a brake on the movement toward spending wherein if you can't spend by current taxes you spend it by interest-bearing-deferred taxes.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. McCarthy will inquire.

Mr. McCARTHY. When Mr. Humphrey appeared before this committee in 1955 on the same subject, on his record of those appearances I believe, he said that if he were asking for a permanent extension of the national debt ceiling he would ask for $290 billion, but since he was then asking for a temporary one he asked that we increase it to only $281 billion.

Is it your opinion that the ceiling should be set higher than the amount that you are asking for now and if you were asking for a permanent increase would you ask for more than you are?

Secretary ANDERSON. Mr. McCarthy, frankly I have not considered an amount in the context of a permanent request because we thought it prudent to ask for the increase only on a temporary basis. The amount which we have asked is an amount which in our judgment is a reasonable amount to accomplish the objective which I have outlined.

Mr. McCARTHY. Mr. Secretary, could you tell me what practices the Treasury has had to resort to, and the Government generally, in order to stay under the ceiling of $275 billion within the last year?

Secretary ANDERSON. I can tell you that in the last 6 or 7 months while I have been here the FNMA has gone to the market twice on behalf of its management and liquidation function to get money rather than borrow it from the Treasury.

As I indicated in my statement, we may be required to have direct borrowings from the Federal Reserve Bank under the authority which we have. We have not at this moment been required to exercise that authority. That is within the debt limit anyway.

Mr. McCARTHY. The principal areas are V-loans and the FNMA operations?

Secretary ANDERSON. The area of borrowings outside direct obligations subject to the debt limit in which we have engaged are two issues of securities issued by the Federal National Mortgage Association.

Mr. McCARTHY. What is the effect of that kind of borrowing? Is it more expensive to the Government than if you were to raise the money in the normal course?

Secretary ANDERSON. There is always some additional interest paid on obligations of that sort.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. McCarthy. Could you give me an estimate of what the additional cost of raising money through the devices you have had to use over and above what it would cost if the debt ceiling had not been set at $275 billion.

Secretary Anderson. I would say that the range of cost would be from a half of 1 percent to five-eighths of 1 percent.

Mr. McCarthy. On what amounts? What amounts have you borrowed with respect to FNMA and under the V loans indirectly as far as the money which increased the cost of the project to the Government?

Secretary Anderson. The FNMA 2 issues total $1.6 billion of which $570 million was to replace a maturing issue.

Mr. McCarthy. What is the term of those issues?

Secretary Anderson. The $802 million issue was an 8 months maturity. The $797 million matures in 2 years and 7 months.

Mr. McCarthy. Mr. Secretary, when the hearings were held before the Joint Committee on the 1955 Economic Report a number of economists testified and I think all but one of them agreed that there was no real justification for continuing the debt-ceiling limitation, that it was a cost to the Government, and that it had no significant effect in the way of controlling expenditures in any way.

Is that opinion shared generally in the Treasury or is it your opinion that they were right?

Secretary Anderson. I do not believe it is possible to take a categorical position as to the effect that the debt limit has had as a restraint on expenditures. I think that one look at the history of the country and you see an increase in the total debt over a number of years.

As to whether or not that total debt would have been larger if there had been no ceiling is a matter of judgment and about which there would be honest differences of opinion.

Mr. McCarthy. There is no question but that it has cost the Government more to finance under the debt ceiling than it would have cost if you had not had it?

Secretary Anderson. When you issue securities that are not the direct obligation of the United States you do pay a premium of interest and to that extent that they are more costly.

Mr. McCarthy. Would you agree with me that we should either increase the ceiling beyond the $5 billion which you are asking or, perhaps better than that, discontinue it altogether?

Secretary Anderson. I would not ask that it be discontinued altogether. I think it is quite proper and prudent for the Congress to review the matter from time to time, and this is a mechanism under which you review the powers which you have delegated. I believe that the amount of increase which we have asked is a reasonable and modest amount considering the problems both of meting our obligations and of economically and properly managing the debt.

Mr. McCarthy. Thank you, Mr. Secretary.

The Chairman. Mr. Secretary, in view of the lateness of the hour and the fact that we have two other witnesses, my questions will be brief. First let me say that you have, in private conversations with me, clearly demonstrated the necessity for a temporary increase in the debt limit. I understand that you believe that it is one that cannot

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

be dealt with in theory but one that involves facts and realities, which as of today, call for some increase, for a temporary period, in the debt ceiling.

Mr. Reed and I made a statement at the time we introduced bills to carry out the request which you made of us on this subject, and the tenor of those statements was that an increase in the debt limit is not something that we like to contemplate but something that facts and realities require.

Now, you have demonstrated to the satisfaction of Mr. Byrnes and others who have interrogated you that there is a need for an increase in the debt ceiling. Whether or not you have satisfied them that the $5 billion that you request is the minimum, or whether or not some lesser figure might be satisfactory, remains to be seen.

Now let us look closely at the facts and realities of the situation, Mr. Secretary, to see if you cannot make justification, as I think you have made in conversation with me, for the full $5 billion requested as being your minimum needs between now and June 30, 1959.

In order to do that, let me ask you, first, if you will state not what the debt is on January 15 but what it is today, on January 17?

Secretary ANDERSON. In that statement issued this morning the total debt, subject to limitation, is $274,125,058,236.02.

The CHAIRMAN. Indicating some degree of fluctuation downward since January 15; is that right?

Secretary ANDERSON. Yes.

The CHAIRMAN. What is the maximum that you contemplate on the basis of the projections in the budget over the period of time between now and June 30, 1958? During that period of time what would be the maximum figure for the public debt if estimated today?

Secretary ANDERSON. The various outstanding debt balances estimated are January 31, $274 billion; February 15, $274.2 billion; February 28, $274.8 billion; March 15, $274.4 billion; and then a gradual decrease so that on June 30, which is traditionally a time of greater spread, $271.4 billion.

The CHAIRMAN. Mr. Secretary, so far as the actual debt itself is concerned, if you were merely here proposing legislation effective between now and June 30, 1958, you would be perfectly satisfied to have an increase for that period of time of $3 billion.

Secretary ANDERSON. Even between now and June 30 we are going to have these positions of tightness and we are going to have substantial refinancing operations, as I pointed out, beginning in February, in addition to about $25 billion of short-term debt in bills.

If we want to provide an overlap, when we will be carrying some debt that would normally either have to be refinanced in order to have cash or to avoid attrition, to make a broader offering, we would still have to have the additional amounts in order to provide for what we believe to be the most economical and the best way in which to manage the debt.

The CHAIRMAN. Now, Mr. Secretary, that is very important. It is one of the points that was made to me in the conversation referred to. I think it ought to be thoroughly understood just exactly what you mean by a need for elbow room.

You are talking in terms, as I understand, of not being required, because of the debt ceiling, to have to refinance all obligations that

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

may come due on a particular day on that day in order to seek opportunity for smaller costs to the Government. Is that not the case?

Secretary ANDERSON. That is a part of the problem. Let me illustrate.

In February we go to the market for the financing of approximately $11 billion. Part of that debt is held by the Federal Reserve System and the investment funds of the Government, and part of it is held by the public.

When we make a decision as to the kind of offering that has to be made, we must take into account whether this offering will produce a large attrition, a medium attrition, a small attrition, or whatever it will produce.

When those amounts of securities have been sold, there is normally a period of time in which they have to be distributed among larger numbers of holders. This is what we normally refer to as a secondary market for the same securities. The extent to which that secondary market is a wide market, a better distribution is achieved.

During a period like that, if we have a substantial amount of reserve under the debt ceiling, we can carry, as an overlap, the amount of securities which we will have to redeem on the due date, and the amount of securities which we will issue and which will be going through redistribution.

If we do not have that reserve, then we either have to take into the calculations in making our offer something so much more attractive that we do not think we will get the attrition, or we have to be prepared to go back into the market later, normally asking for money through short-term bills. Then we are asking for new money in competition with the securities that we have just issued a few days prior.

Now, it would seem to us that in order to achieve the management of the debt to the best advantage possible, we ought to have a reasonable amount of room for overlap so that we can carry both the securities which are outstanding and the new securities, for such a period of time as to give room for the distribution.

The CHAIRMAN. Now, Mr. Secretary, I understood you to say in your earlier statement that at no time during the fiscal year 1958 do you anticipate the actual size of the debt to reach $275 billion or to exceed $275 billion. Is that your position?

Secretary ANDERSON. We are now under the circumstances where we have cash balances which represent an ability to meet our other requirements of only a few days, which we think is not a prudent circumstance in this country.

The CHAIRMAN. I had understood that there was a possibility that between now and the time of actual revenue collections from individuals and corporations in March and April, the debt itself might arise to a figure of some $278 billion if authority were supplied.

Secretary ANDERSON. You see, we cannot under this limitation go up to $278 billion.

The CHAIRMAN. But if we pass this legislation, you can, and the need for doing so is one of the justifications for passing it. I do not want to attribute this information to you or other Treasury sources, but it comes to me from a source that I believe very reliable, that your prospects are that bills will be coming to you at a time when

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

your revenues are not coming in that it will result in the debt going to $278 billion, if you pay those bills on time.

Secretary ANDERSON. Well, let me just illustrate by saying that on March 15 our total cash will be $1,137 million.

The CHAIRMAN. Do you mean if we give you this temporary increase?

Secretary ANDERSON. No; this is what we estimate today.

The CHAIRMAN. Without this temporary increase?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. Are you saying then, for the record——

Secretary ANDERSON. Let me ask if Mr. Baird can make this explanation, as he is handling these figures every day.

The CHAIRMAN. Yes. He has been identified for the record.

Mr. BAIRD. Mr. Mills, you asked if this increase were granted, whether in the near future the debt might be increased above $275 billion. Is that your question?

The CHAIRMAN. That is right. During this fiscal year, would the actual size of the debt be in excess of $275 billion?

Mr. BAIRD. The Secretary has shown you, as one of the main reasons why we are asking for this increase, that we were in a very cramped period and we were operating with cash balances which we think are entirely too low for any comfort or for prudent management.

Therefore, it is true that if we had a little latitude in the debt, instead of running at some periods with only about $1 billion in cash, which is an average 3 days' expenditure, and is a very rapid juggling operation, we would put out for cash some additional securities so that our cash balances would be nearer that minimum of $3½ billion which we indicated we thought was the figure which we should have at all times.

The CHAIRMAN. The point I am trying to bring out is this: Whatever cash you have may result from the issuance of new securities under this new authority. Would you think, if we pass this legislation, that the size of your actual debt might increase to $278 billion in order to give you the $3 billion in cash that you deem the Treasury should have on hand at all times. Answer, in view of the fact that $1 billion represents what is paid out of the Treasury every 3 days.

Mr. BAIRD. Mr. Mills, it would be up temporarily. By June 30 it would be down, and to the extent we issued over $275 billion——

The CHAIRMAN. I am not concerned with any political implication that may be involved. I am only concerned with the facts and realities of this situation.

As I understand the situation, you think because of the lowness of your cash reserves that it would be prudent for you to issue securities and maintain a debt, sometime between now and June 30 of 1958, at a level of $278 billion in order for the Treasury to have cash reserves large enough to meet its obligations.

Mr. BAIRD. The only thing I would say is that it might not be $278 billion and it might be $277 billion or it might be $276 billion. To the extent it went above $275 billion, it would be offset by larger cash balances in the Treasury which make for more comfortable operation.

The CHAIRMAN. Very frankly now, and I am being brutally frank, what I am trying to do is to help you this morning and I do with

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the welfare of the United States in mind. But if you are not going to help yourself, you raise some questions about how much you ought to have.

What I am trying to point out is this: If there is the possibility or probability that you are going to have to go to $278 billion in this fiscal year in order to maintain the cash balance needed in order to properly conduct the business of the Treasury, then to safeguard against some additional amount having to be paid out on any particular day, which would leave you unable to meet any contingency that might arise, you need some $2 billion of additional borrowing capacity.

Secretary ANDERSON. That is correct, Mr. Mills.

The CHAIRMAN. If that is the case, I would think that it would be the part of wisdom for the Congress to not so restrict you that you are constantly at a ceiling of $278 billion, but to give you some additional leeway, relatively speaking, $2 billion in order to face any contingencies that might arise.

I think that reasons that have not been discussed here for believing that occasion may arise to fully utilize an additional $2 billion sometime during the period between now and June 30, 1959.

Secretary ANDERSON. You are correct, Mr. Chairman. If we have this authority, in order to have what we believe to be prudent and reasonable cash balances, we will go above the $275 billion and in the range of $278 billion. We will, at the same time, have the problem of requiring whatever overlap seems be prudent in order to do the financing of these new issues during the same period.

The CHAIRMAN. Well, Mr. Secretary, it is not the fact that you now contemplate, on the basis of the budget that you will need $5 billion in additional authority to take care of deficits that are going to be built up.

Secretary ANDERSON. That is correct.

The CHAIRMAN. If we could legislate in such a way that we look only to the debt ceiling as of June 30 of each year, you would not be here asking for this additional authority at all.

It is because of the fluctuations that occur within the period between June 30 of each year that cause you to be here. We can do one of two things. We can go along with a temporary suspension in the debt ceiling or let the debt ceiling apply only at the end of the fiscal year. Either way would satisfy your demands?

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. And you are thoroughly convinced, as you view your own situation, that any figure less than $5 billion will not be sufficient in order to enable you to transact the business of the Department of the Treasury?

Secretary ANDERSON. That is correct. We do not believe it would be prudent and wise and in the best interests of the country.

The CHAIRMAN. Are there any further questions?

If not, Mr. Secretary, we thank you very much for your appearance and the information you have given the committee.

The next witness is the Director of the Bureau of the Budget, the Honorable Percival F. Brundage.

We are glad to have you with us here this morning, as we will be on all other occasions, Mr. Brundage.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

For purposes of the record, would you identify those associated with you at the witness table?

## STATEMENT OF HON. PERCIVAL F. BRUNDAGE, DIRECTOR OF THE BUREAU OF THE BUDGET, ACCOMPANIED BY MAURICE H. STANS, DEPUTY DIRECTOR OF THE BUDGET; ROGER W. JONES, ASSISTANT DIRECTOR FOR LEGISLATIVE REFERENCE; AND ROBERT HUBBELL, FISCAL ECONOMIST

Mr. BRUNDAGE. Mr. Chairman, I have with me the Deputy Director on my right, Maurice H. Stans; and Roger W. Jones, the Assistant Director for Legislative Reference; and on my left is Mr. Robert Hubbell, fiscal economist.

The CHAIRMAN. Mr. Brundage, may I make this short statement of explanation?

You were originally asked by the committee to appear today with respect to tax revision. In view of the letter from the Secretary of the Treasury and the urgency of the consideration of the legislation which Mr. Reed and I introduced, we altered our schedule to take up the matter of the temporary increase in the debt ceiling.

We would appreciate it if you would direct your statement first to the issue of the debt ceiling, from the point of view of the Director of the Bureau of the Budget and what the needs are and why this legislation is recommended by the administration.

Mr. BRUNDAGE. I am very happy to have this opportunity to appear before you. Last year when the question of raising the debt ceiling came up, I was rather reluctant to take a position because while I recognized the desirability of more flexibility, I did feel the advantage of the limitation on spending. But the experience of the last 6 months has convinced me that we do need an increase in the temporary debt ceiling, and in my prepared statement therefore, Mr. Chairman, I said I agreed with the recommendation of the Secretary of the Treasury that he should have more latitude in managing the debt than is afforded by the present statutory ceiling of $275 billion.

In the budget message, and in the budget in brief which I think most of you have, and which was distributed to each Member of the Congress, the President stated that this revision is necessary because the debt varies considerably during the year as a result of the seasonal pattern of tax collections. The present limit is restrictive particularly in view of rising defense expenditures, and of the need for more flexibility to permit efficient and economical debt management.

In addition to the possible emergencies to which the President referred in asking for flexibility in transferring obligational authority up to $2 billion, there is the possibility of considerable opportunity to the Treasury to finance in advance of its maturities. When you have the very tight situation that has existed during the past few months you do not have any leeway. I think from the point of view of sound budgetary policy as well as debt management, that leeway is desirable.

Furthermore, as the Secretary undoubtedly has pointed out, there are possibilities of delays in the mails and storms and hazards of all kinds. The cash balances have been running too low. If anything

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

should happen which would delay receipts on critical days, or critical periods, by even a few days, there would be trouble.

Also there is the desirability of being able to pay our bills promptly. We don't want to get in a position of holding back payments when they are due on deliveries. I think all of those factors have persuaded me that this increase recommended is desirable.

The CHAIRMAN. Mr. Director proceed with your testimony on taxation and then we can interrogate you after you have concluded.

Mr. BRUNDAGE. The budget for the fiscal year 1959 recommends several revisions in the tax system. These recommendations were discussed with you in detail by Secretary of the Treasury Anderson, and I will only summarize them.

To help achieve a balanced budget in the fiscal year 1959, it is essential that tax rates on corporation income and certain excises, which under existing law are scheduled for reduction next July 1, be extended for another year. This action should provide the revenues necessary to cover increased defense needs and enable us adequately to meet the basic requirements of our domestic programs.

No one should be able to avoid paying his fair share of the country's high tax burden. The budget recommends that pending legislation, H. R. 8381, which was developed jointly by this committee and the Treasury Department to remove unintended tax benefits and hardships, be enacted with a few modifications. The Treasury Department will continue to review the operation of the tax law and may make recommendations for such additional changes as may be developed to close loopholes.

There are certain technical revisions which would give substantial benefits to small business, with a minimum loss of revenue and with no change in tax rates. These recommended revisions are based on the work of the Cabinet Committee on Small Business, and were also covered by the Secretary of the Treasury.

Would your committee be interested in a brief review of the general budget picture?

The CHAIRMAN. We would be.

Mr. BRUNDAGE. As a result of the decrease in business activity during the last quarter of the calendar year 1957 the estimate of fiscal 1958 receipts of $73.6 billion last January and $73.5 in September—it was issued in October—has now been reduced to $72.4 billion. This is a decrease of $1.2 billion from January. At the same time, increased defense spending to accelerate missile procurement, for research, basic and applied, for increased SAC dispersal, and for atomic ships has added $0.9 billion to our expenditures. There are other changes up and down but either of these two principal changes alone would not have thrown us into the red. However, both together have changed our estimate of a $1.6 billion surplus into a $0.4 billion budget deficit. The consolidated cash statement still shows a slight surplus for this year.

For 1959 our experts in the Treasury, Council of Economic Advisers and others consulted have agreed on an estimated income figure of $74.4 billion in the firm belief that the expansion of our economy will soon be resumed.

Total new obligational authority recommended for the fiscal year 1959 amounts to $72.5 billion. This is $4.7 billion more than has been

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

enacted for 1958 to date, and $2.3 billion more than for 1957. In addition, $6.6 billion of supplemental authorizations are estimated for the current year, primarily for the Department of Defense, $1.3 the Commodity Credit Corporation, $2.3 billion, and the Export-Import Bank, $2.0 billion.

Estimated budget expenditures for the fiscal year 1959 are $73.9 billion. This amount is $4.5 billion more than was spent in the fiscal year 1957 and is $1.1 billion more than the revised total of $72.8 billion estimated for the current fiscal year.

Included with the estimated 1959 expenditures is $1.1 billion as an allowance for proposed legislation and contingencies, $500 million of this is specifically for defense contingencies, $339 million is estimated for proposed pay adjustments for postal and other civilian employees not in the Department of Defense, and $300 million for other contingencies. The cost of the proposed pay adjustments for military and civilian personnel of the Department of Defense is included in the estimates for that Department. Including the Department of Defense, the budget provides $1.1 billion of estimated 1959 expenditures for proposed pay adjustments for both military and civilian personnel.

Your committee will be interested in and I would urge you to support a number of proposals to increase revenues and reduce, transfer or hold expenditures for the future which are set forth in the President's budget message this year.

## PROPOSALS TO INCREASE RECEIPTS

### *User charges*

In the budget message, the President indicated his belief that when the Government provides a service conferring a special quasi-commercial benefit on identifiable individuals or groups above and beyond the benefits to the public generally, it should charge the beneficiaries for the special service, rather than place the full burden of the cost on the general taxpayer. Accordingly, he made several proposals in the field of "user charges."

### *1. Postal service*

In every year since the close of World War II the postal service has incurred large deficits which have placed heavy and unfair burdens on taxpayers to the advantage of large users of the mails.

In view of present and prospective postal deficits, legislation to authorize adequate postal rates has become one of the most urgent items of unfinished business before the Congress. To provide revenues which will more adequately meet present needs, the President proposes that the postal legislation now pending before the Congress be amended, primarily by establishing a 5-cent letter rate on all except local letters.

This increase over last year's recommendation is needed to cover part of the cost of the pay increase and other rising cost. The recommended increase should result in an addition of $700 million to postal revenues in the fiscal year 1959. With the postal pay adjustment we are recommending there will still be a postal deficit of approximately $144 million.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

*2. Aviation*

The Federal Government provides a wide range of special services benefiting private users of the airspace. It is increasingly appropriate that these users pay their fair share of the costs. The cost of new facilities alone will total $1 billion over the next few years and annual operating costs to the Federal Government of around $200 million at present are likely to be doubled in 5 years. As first steps toward this end, it is proposed that a tax of 3½ cents a gallon be levied on jet fuels and that taxes on aviation gasoline be increased to 3½ cents a gallon from the present 2 cents, with increases of three-fourths cent per year for 4 years in both taxes up to 6½ cents a gallon. The receipts from taxes on aviation gasoline, which now go into the highway trust fund (3 cents per gallon of which 1 cent is later refunded), should be kept in the general revenues to help finance the operations of the airways.

*3. Other*

The budget message also recommended that legislation be enacted to raise patent fees, and to charge employers of longshoremen for the costs of administering disability compensation

In addition, all Government agencies have recently been instructed, at the President's direction, to prepare legislative proposals generally designed to remove present restrictions or limitations on their authority (1) to recover full cost to the Government of services that provide special benefits to individuals or groups, and (2) to obtain a fair market value for the use or sale of federally owned resources or property. These proposals will cover all areas in which existing legislation prohibits charges or fees, and areas in which existing legislation is silent on the subject of charges but where the agency considers an expression of congressional policy desirable prior to initiating charges.

Examples of areas of Government activity which are being considered are licensing; use of water-navigation aids and facilities; publications; maps and navigation charts; recreation and tourist facilities; grazing; oil, gas, and mineral leasing; and mining claims.

By enactment of the President's recommendations in the 1959 budget and of additional proposals which I expect will be made to the Congress, we can move closer to a more equitable system of fees and charges throughout the Government.

*Interest rates*

Another important change which is part of the general user charge considerations, is the need for adjusting interest rates in Federal credit programs.

All of these proposals, I think, are particularly interesting to this committee just now when the question of the debt limit comes up, and when we have the close margin between a balanced and unbalanced budget and the request for extension of the taxes.

The President is recommending the enactment of legislation which would permit greater flexibility for the Government in setting interest rates on loans it makes in the future, and which would require that, insofar as consistent with the purposes of each program, all of the costs involved be paid by the borrowers. Such legislation, by removing or reducing hidden subsidies, would make a significant contribu-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tion toward better fiscal management. It would also produce some added income.

Moreover, for loan-guaranty programs, the Government should be authorized to permit interest rates high enough to attract private lenders. The President is suggesting that all statutory limitations or ceilings placed on interest rates be reviewed, and that authority be provided to vary the rates for guaranteed or insured loans in line with market conditions and under proper safeguards.

Programs affected by the recommendations on interest rates include the following:

*1. College housing loans*

This program was authorized in 1950; to June 30, 1957, $668 million has been committed. Private financing of college housing should be encouraged by (1) replacing the subsidized interest rates required by the present statutes with rates no less than the Government's cost, (2) authorizing Federal guaranties of college housing obligations which do not have Federal tax exemption, and (3) prohibiting direct loans where private funds are available on reasonable terms.

*2. Special assistance mortgage purchases*

This program was authorized in 1954; to June 30, 1957. $361 million has been committed. Repeal of the statutory requirement that all purchases by the Federal National Mortgage Association be made at par and authority for increases in interest rates on several types of mortgages will encourage private financing and reduce future reliance on the Association. Action on these recommendations will stimulate the building industry and provide more home units.

*3. Rural electrification and telephone loans*

The electrification program was authorized in 1936, the telephone program in 1950. To June 30, 1957, $4 billion has been committed. The sources of capital available to the Rural Electrification Administration system would be broadened by legislation (1) to assist both electric and telephone borrowers to obtain financing from private sources where the security is adequate and the loans can be repaid within a reasonable time, and (2) to adjust interest rates on future loans to meet the Government's costs.

## PROPOSALS TO REDUCE EXPENDITURES

On the expenditure side, adjustments are proposed in various programs which will result in savings in future years after a suitable time for amending State and local budget procedures has been allowed and after due notice to affected individuals. Among the programs involved are the following:

A. First, there are programs where shifting emphasis or changing needs lessen future requirements for specific types of Federal assistance.

*1. Agriculture conservation program*

This program was authorized in 1936. To June 30, 1957, $4.4 billion has been spent, excluding crop reduction payments in early years. The budget recommends that a program level of $125 million be authorized for the 1959 crop year, one-half the amount authorized

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

for the 1958 program. This amount, together with other public efforts in support of soil and water conservation, will permit cost-sharing payments for the more permanent soil and water conservation practices that are needed to maintain an adequate agricultural resource base. Those practices which are a part of usual and required annual farming methods or which return immediate benefits to the farm are properly the responsibility of the farmer, rather than of the Government.

*2. Grants for hospital construction*

This program was authorized in 1947 and has met the most urgent postwar shortages. Appropriations totaling $1.2 billion are estimated through the fiscal year 1959. The total Federal program should now be modified to meet only the most urgent situations with emphasis on specialized hospitals.

*3. Veterans' pensions*

Expenditures for this purpose increased from $883 million in the fiscal year 1956 to $951 million in 1957. Further increases are anticipated in 1958 and 1959 to $1,046 million and $1,152 million, respectively. These pensions meet needs not related to the veteran's period of service, but rather to the general hazards faced by all people—health and income fluctuations. The President will transmit a message on veterans' affairs to the Congress with recommendations for specific adjustments and improvements in veterans programs which will enable us to discharge our national responsibilities to veterans with the greatest possible equity to all concerned.

B. Second, there are programs where the administration proposes an increase in State and local participation and a decrease in the Federal proportion, but with no reduction in the total combined outlay.

In two cases, recommended by the Joint Federal-State Action Committee, it is proposed that the Federal share be eliminated beginning in the fiscal year 1960, with accompanying revenue adjustments.

*1. Grants for construction of waste treatment facilities*

This program was authorized in 1956; appropriations through the fiscal year 1959 are estimated to total $140 million. Expenditures are estimated to be $31 million in 1958 and $51 million in 1959.

*2. Grants for vocational education*

Expenditures for this program which was first authorized in 1917 total about $669 million through June 30, 1957. Expenditures of $41 million are estimated in both 1958 and 1959.

In four other cases, it is proposed that the Federal proportion gradually be reduced.

*1. Public assistance grants*

Expenditures for these grants on an accrual basis are estimated to increase from $1,462 million in 1956 to an estimated $1,824 million in 1959. During this period the Federal share of the total will have increased from 54.0 percent to 55.7 percent. This should gradually be reduced to 50 percent.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

*2. Urban renewal planning and capital grants*

Expenditures for these grants (net of repayments of temporary loans) were $39 million in 1957 and are estimated to be $61 million in 1958 and $56 million in 1959. The reduction is entirely because of repayments. The urban renewal program is well underway throughout the Nation and the States and local communities should assume a share of the administrative responsibilities and financial costs more nearly commensurate with the benefits which their citizens receive. The budget recommends that in the future the local communities should share in the costs of planning from the start.

In addition, the present formula under which the local agency pays for one-third and Federal capital grants pay for the remaining two-thirds of the net project cost should be changed by providing for annual reductions, so that by the fiscal year 1962 the Federal Government would contribute not more than 50 percent of the cost of local projects.

*3. Grants for schools in federally-affected areas*

Expenditures for these grants totaled $1,064 million from 1950 to June 30, 1957, to help provide schools in areas in which rapidly growing Federal establishments were imposing a heavy load on existing facilities. In the future, we are suggesting that Federal payments be limited to cover the children of families living and working on Federal property. Expenditures for construction, and for maintenance and operation of schools under this program are estimated to be $212 million in 1959.

*4. Natural disaster relief*

From 1950 through the fiscal year 1957 $70 million has been spent for natural disaster relief. The governors of the Federal-State Action Committee have agreed to recommend that the States absorb annual losses up to fixed amounts. Expenditures are estimated to be $18 million in 1959.

C. Next we have programs where proposals are designed to free the agricultural economy from excessive controls.

*1. Greater flexibility in agricultural price supports*

Expenditures for Commodity Credit Corporation price support operations (net) are estimated to be $2.4 billion in 1959. The President has sent a special message to the Congress recommending changes in existing legislation so that the Secretary of Agriculture will be authorized to establish price supports for basic crops consistent with the increased productive capactiy of our agriculture.

As he pointed out we have had a real farm revolution, like the industrial revolution of 50 years ago.

*2. Soil bank acreage reserve.*

The acreage reserve was authorized in 1956; through the fiscal year 1959 the total cost is estimated to be $1.4 billion. Expenditures are estimated to be $405 million in 1959. It is proposed in the budget to terminate the acreage reserve at the end of the 1958 crop year. An increase of $125 million is recommended in the soil bank conservation reserve program for the 1959 calendar year since more material and lasting benefits are obtained, per dollar spent, from this part of the soil bank.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

D. Another recommendation which should hold down budget totals is that no new projects be started in fiscal 1959 for construction of water-resource projects by the Corps of Engineers and the Bureau of Reclamation, in view of the high level of current spending resulting from the large number of new projects started during the last 3 years.

E. Finally, certain previously recommended legislation is not being requested in the fiscal year 1959. Examples are general aid for school construction, major medical care insurance for Federal employees, and certain other grant programs.

In conclusion, I believe the 1959 budget sets forth well balanced, sound Government programs which adequately meet the responsibilities of the Federal Government in all areas.

Revenues should be adequate to cover expenditures and permit debt reduction during period of high business activity, and reductions of taxes when possible. In view of the increases needed in our defense expenditure imposed on us by world conditions, general tax reductions would not be wise at the present time.

We will need the fullest cooperation and assistance of the Congress if we are to do what is required for our defense and domestic programs without an increase in tax rates. If we can reach some satisfactory agreement with the Soviet Union containing even early steps toward disarmament which are accompanied by inspection to assure compliance, then we can consider tax reductions and savings that would be indeed worthwhile.

The CHAIRMAN. Mr. Director, we thank you very much for being with us today, and for your statements both with respect to the debt ceiling and tax revision. Are there any questions?

Mr. Eberharter will inquire.

Mr. EBERHARTER. Mr. Director, you have made a number of recommendations. I think every one of them would curtail Federal expenditures, and they are contingent upon action by Congress. Do you have any hope, Mr. Brundage, that Congress will in this session follow your recommendations for the curtailment of expenditures in view of the current business downturn?

Mr. BRUNDAGE. Maybe I am foolish, Mr. Eberharter, but I do have hope, yes. It seems to me that conditions are certainly favorable for this kind of a serious attempt to get our Federal expenditures on a more businesslike basis. We had a strong revolt throughout the country last year at the increasing Federal budget totals. We had Congress making cuts all down the line.

We had letters and appeals from all over the country. Now, this carries through, I think, this year with the additional incentive that we find that the Russian threat and competition is so serious that we have to accentuate and accelerate and compress our time schedules, and we have to spend more money.

Now, the demand for tax reduction, I think, is moderating in view of this situation. But I think the demand for economy and for putting all of our domestic programs on a sound and businesslike basis is even greater. So I do have hope.

Mr. EBERHARTER. It is not a very practical hope, though, is it?

Now, in formulating estimates of revenue, you took into consideration all the recommendations that you have made and based your as-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

sumption that the budget would balance on the premise that Congress would follow your recommendations to cut expenditures in the same way?

Mr. BRUNDAGE. The only one of these recommendations to which I have referred that would have a very serious effect and immediate effect on 1959 receipts or expenditures is the postal rate increase. That would have immediate effect of $700 million. Most of these others are programs for which we are recommending that revisions should be started.

We are cutting down, as I mentioned for the agricultural conservation program, $125 million. We are proposing this aviation gas tax transfer. But overall we are not giving effect to anything that would be—outside of these things I have mentioned—of any serious impact on our 1959 budget.

Mr. EBERHARTER. I want to call your particular attention, Mr. Director, to recommendations for Federal grants on construction for waste treatment of sewage. Now, Congress only passed that law last year and the membership was composed of exactly the same Members, with few exceptions, as this year. Now, certainly it cannot be practicable to hope that the same membership would repeal an act that passed last year.

Mr. BRUNDAGE. But this is not giving up the program, you understand?

Mr. EBERHARTER. What is that?

Mr. BRUNDAGE. This is one of the programs that the Federal-State Action Committee suggested be taken over by State and local governments.

Mr. EBERHARTER. You say in your statement that the appropriation is through the fiscal year 1959 estimated to total $140 million. You took that into consideration in the formulation of the estimates for expenditures by the Federal Government for the fiscal year 1959, did you not? That is $140 million, which is a considerable sum in the minds of all of the members of this committee.

Mr. BRUNDAGE. The original authorization, I believe, was $500 million over a 10-year period. This has been about $50 million a year for the 3 years. Now, the Governors who are members of the Federal-State Action Committee said that they could not count on bringing this problem before their State legislatures in 1958.

It would take until 1959. So they asked that we not make any reduction in our 1959 program, which we are not doing. But they have indicated that they are going to recommend to their State legislatures that it be taken over. In return we would turn over to them some proportion of the Federal tax on local telephone calls.

Mr. EBERHARTER. One would cancel the other, in other words?

Mr. BRUNDAGE. That would not affect our budget in the sense of balancing, but it would take back to the States and the municipalities a responsibility which we feel that they are normally qualified for and would wish to bear.

Part of the criticism we had last year was not only the mounting Federal expenditures, but the concentration of authority here in Washington.

Mr. EBERHARTER. Thank you very much.

The CHAIRMAN. Mr. Kean will inquire.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. KEAN. I just want to say, Mr. Brundage, that I welcome you here. You have been my constituent for many years, and a longtime friend. I am one who is very interested in your statement and I believe you are doing a very good job.

Mr. BRUNDAGE. Thank you.

The CHAIRMAN. Mr. Curtis will inquire.

Mr. CURTIS. Mr. Director, I was quite interested in your item No. 3 on page 5 in which you discuss the general subject of fees and charges.

About what does the Federal Government now get in the way of revenue from various fees and charges? Do you know what is the total figure?

Mr. BRUNDAGE. We have a statement on that, Mr. Curtis. There are all kinds and they are spread over all of the different departments.

Mr. CURTIS. I know what the items are, or I imagine what they are, but I am trying to get how big a figure we are talking to in total.

Mr. BRUNDAGE. It runs into the millions.

Mr. CURTIS. Millions rather than billions?

Mr. BRUNDAGE. The total fees for permits and licenses in 1959 is estimated at $52 million.

Mr. CURTIS. Do we have a comprehensive list of all fees and charges that are charged?

Mr. BRUNDAGE. I can send you one.

Mr. CURTIS. I would like to have it supplied for the record.

The CHAIRMAN. Without objection, it will appear in the record at this point.

(The list referred to follows:)

Data on receipts from fees and other charges paid into general revenues are shown under "Miscellaneous receipts" in special analysis B of the budget document (pp. 887, 888 of the 1959 budget). Greater detail on these receipts is published in multilithed form and is available from the Bureau of the Budget on request. The following information shows the main categories of receipts to which a policy on "user charges" would be applicable:

[In millions]

| Source | 1957 actual | 1958 estimated | 1959 estimated |
|---|---|---|---|
| Fees for permits and licenses | $40 | $52 | $52 |
| Rents | 27 | 180 | 183 |
| Royalties | 70 | 88 | 89 |
| Sale of products | 311 | 333 | 374 |
| Fees and other charges for services | 36 | 36 | 37 |

In addition to these receipts paid into general revenues, there are various incidental reimbursements to appropriations for special services. For example, special surveys and maps by the Coast and Geodetic Survey bring in receipts credited to the appropriation. Such reimbursements are shown in the budget document as "Advances and reimbursements from non-Federal sources" in the schedules for each bureau conducting such operations.

Receipts for services or sale of products of various public-enterprise activities go into the revolving funds of those activities and are credited against the gross expenditures of those funds. All receipts of public-enterprise funds are shown in table 9 on page 18 of the 1959 budget document. Most of the estimated total of $0.3 billion in 1959 consists of collections of principal and interest on loans,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

postal receipts, and proceeds from sale of surplus agricultural commodities. Other major public-enterprise activities and their receipts are:

[In millions]

| | 1957 actual | 1958 estimate | 1959 estimate |
|---|---|---|---|
| Defense Production Act | $183 | $110 | $71 |
| Tennessee Valley Authority | 259 | 269 | 280 |
| Department of Commerce, vessel operations | 29 | 27 | 18 |
| Department of Defense, Wherry Act housing | 2 | 22 | 50 |
| Panama Canal Company | 93 | 84 | 85 |
| Department of the Interior: | | | |
| Helium properties | 6 | 7 | 9 |
| Alaska Railroad | 17 | 17 | 19 |
| Department of Labor, farm labor supply revolving fund | 3 | 4 | 6 |

Mr. CURTIS. The next question is what additional revenues would you expect that we could gain from following out the various recommendations that you have listed for increasing the fees and charges?

How much do you think that we are going to get if we follow that out?

Mr. BRUNDAGE. In some cases we think it could be substantial.

Mr. CURTIS. But you see, we don't have any idea, and I don't know whether we are talking about a figure of $200 million or some other figure.

Mr. BRUNDAGE. It would be less than that.

It would be under $200 million but I would hope it would be over $100 million.

Mr. CURTIS. And the increases that we might derive, of course, would not be that much. Do you think we might gain another $100 million?

Mr. BRUNDAGE. Yes, sir, I would think so.

Mr. CURTIS. That would be quite substantial, then?

Mr. BRUNDAGE. Yes.

Mr. CURTIS. On these fees and charges, I have a second question. Do all of those go into the general revenues or are some of them handled in a different way?

Mr. BRUNDAGE. They are handled in a great variety of ways, according to the wording of the legislation. Some grazing fees, for instance, when appropriated are used by the Department of Agriculture to protect or improve the range. Some other receipts are deducted from the expenditures.

Mr. CURTIS. Are they reflected in the budgets so that Congress can see the revenues?

Mr. BRUNDAGE. Yes. We can indicate just how it is treated in the budget. That is another project I have under way, to try to get an amendment of some of these laws so that certain receipts can go into revolving funds. In some cases where repayments are made, such as the Rural Electrificational Administration, repayments go into general revenues, while the loans are charged against the appropriation.

Well, I think they ought to be uniformly treated, and I think if we are going to charge the loan as an expenditure we ought to get a credit against expenditures for the repayments.

Mr. CURTIS. That was the next question I was going to ask. Don't you think it would be well if we have some general policies in regard to how we treat all fees and charges?

Mr. BRUNDAGE. I do.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. CURTIS. I think it is of particular importance to the Ways and Means Committee, because in essence this is another method of raising revenue. It becomes important from that angle. I would appreciate further information on that specific point.

The CHAIRMAN. Can you supply that for the record?

Mr. BRUNDAGE. Yes, I can.

The CHAIRMAN. Without objection, it will be included in the record.

(The information is as follows:)

All fees and other receipts of the Government, including those from user charges, are reflected in the budget so that Congress can see the amounts involved.

The general rule on the disposition of collections is enunciated in title 31, United States Code, part 484 which provides that "The gross amount of all moneys received from whatever sources for the use of the United States * * * shall be paid by the officer or agent receiving same into the Treasury, at as early a day as practicable, without any abatement or deduction on account of salary, fees, costs, charges, expenses, or claim of any description whatever." Under this provision most user charges go into the general revenue and are available there for appropriation as Congress sees fit.

In contrast Congress has specifically provided for earmarking collections from user charges in a number of individual cases. There are four methods of handling the earmarked collections, depending upon the circumstances:

(*a*) Where a major business-type operation is involved, the collections are credited to a public enterprise (revolving) fund which is available to carry on the cycle of operations concerned;

(*b*) Where the collections are incidental to the main activities of the bureau or agency concerned, the law is sometimes written to permit the collections to be treated as reimbursements to a general fund appropriation;

(*c*) Where the law creates a trust arrangement or where the advance payments are received for special services to be used only for the cost thereof or for refunds, the payments are accounted for in a trust fund; and

(*d*) Where the user charges are shared with the States and counties, set aside for purposes not involving a cycle of operations or earmarked for particular purposes subject to annual action by Congress, they are accounted for in a separate special fund.

In general, from the viewpoint of budgetary control, it appears best to avoid the earmarking of collections from user charges, except for those cases where an entire program can reasonably be expected to be self-sustaining. However, there are a number of special circumstances that make earmarking appropriate in individual cases. As a part of its regular operations the Bureau of the Budget is examining a number of cases where user charges are concerned, and when considered appropriate will recommend legislative action to change the present treatment of such revenues, as illustrated in the case of the Rural Electrification Administration mentioned above.

Mr. CURTIS. Now, I am going to ask another question very briefly. In most of the services, you have discussed the costs involved. And yet last year I remember the Post Office Department came in asking for about a 5 percent increase in the number of employees, and at the same time they were claiming that they had an increase in productivity of several percentage points.

I do not remember the figures, but I recall it was around 10 percent. The increase in mail handled was only 3 percent.

Well now, where are we getting if we do not reflect productivity in the size of our operations? How could anyone justify an increase of 5 percent in numbers of persons when your increase of the volume was only 3 percent?

At the same time we put in all of these so-called labor-saving operations so that we could claim a productivity increase.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. BRUNDAGE. There was an increase in employees, the number of employees, Mr. Curtis, but I believe it was not quite as high as the increase in the volume of the service.

Mr. CURTIS. I know those figures well, because I took the matter up on the floor of the House.

Mr. BRUNDAGE. I am going to ask the Deputy Director here who was the Deputy Postmaster General until 6 months ago.

Mr. CURTIS. I don't want to get into the details of that, other than to illustrate some of these points. I remember the figures fairly well, because I raised them at the time this matter came on the floor of the House and called attention to what seemed to me a very basic inconsistency. The explanation offered was that we were shifting employment into suburban areas and out of other areas. But still in my judgment it did not work out.

Now, the second point I wanted to call attention to is on page 3, where you say the budget provides $1.1 billion for proposed pay adjustment of both military and civilian personnel. Now, I presume the military at any rate would agree to following the recommendations of the Cordiner report. That report, however, said that this was going to be a saving, because we would save it in the turnover or cutting down on the turnover of the personnel we had.

Now, all of these savings somehow or other seem to result in increased expenditures but we never see the savings coming forth.

Now, when do you reflect the savings that we can anticipate from changing these policies so that we will save on the turnover?

Mr. BRUNDAGE. Well, the Cordiner report indicated that they expected that the first year or two would have to be an increase. But they anticipate that there will be very substantial savings over the next 5 years, and greater over the next 10 years. I had quite an argument with Mr. Cordiner, whom I know very well, and when I expressed a little skepticism he said, "I haven't begun to indicate the real amount of savings. We are going to save $5 billion a year in 5 years." And he is exceedingly enthusiastic and exceedingly convinced of the rightness of his ideas.

As a matter of fact, I think it is sound, and I agree with you it is awfully hard to identify savings but still I don't think that is any reason why we should not go ahead with sound plans.

Mr. CURTIS. I happen to be very strongly of the belief that he has put his finger on something very important, and he will produce savings. But it won't produce savings if we operate like we did with the Post Office last year so that when you do have an increase in productivity you come in and ask for more people.

If we do manage to cut down the turnover of the employees in the military, and the Federal establishments and save money, if you go ahead and keep on spending more and keep all of the people and maintain the rest of the personnel system, it is costing money and you are not going to get anywhere. That is the only reason I wanted to emphasize it. It is always the increases that we see, and somehow we forget about the savings and they never do materialize. I suggest that probably it brings about the operation of Parkinson's law.

Mr. BRUNDAGE. I have had a great deal of amusement out of Parkinson's law, and I distributed copies to all members of the Cabinet. I think that I ought to give Mr. Stans a chance to make a statement.

The CHAIRMAN. All right, sir.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. STANS. I would like to reassure Mr. Curtis that the Post Office has displayed a substantial increase in productivity over the last 5 years. My recollection of the figures is that in 5 years' time the Post Office mail volume and number of pieces has increased about 16 percent, whereas the increase in employment, in hours of work, is up less than 4 percent over that same 5-year period.

Mr. CURTIS. I can refer you to the committee report and the committee hearings and the testimony of your own people last year. All I am referring to is 1 year that I saw, where you had in increase in mail of about 3 percent and you were in asking for a 5-percent increase in personnel.

Those are just cold figures.

Mr. STANS. I would like to reassure you on this, and if you will permit me to put the figures in the record that will show it, I am very confident that in each of the last 5 years the increase in hours of employment has been substantially less percentagewise than the increase in volume of mail. I am sure that the Congressman has misunderstood some of the figures or the testimony.

Mr. CURTIS. I will simply refer you to the testimony and the statements. I brought this out in a debate on the floor of the House, and there was not any contradiction.

I referred this to the Post Office Department last year, and no contradiction was made of it. I am satisfied what I have stated is correct.

The CHAIRMAN. Would it be agreeable at this point for Mr. Curtis to give you the sources privately of his information?

Mr. CURTIS. It is in the committee report, Mr. Chairman, of the Post Office and Civil Service Committee last year, at the time that the Post Office request was made.

The CHAIRMAN. What I am getting at is: you want the facts.

Mr. CURTIS. If the facts previously supplied were wrong, I want to know that by all means.

The CHAIRMAN. Let us put them in the record at this point, and try to reconcile the situation that exists.

(The information is as follows:)

*Growth in mail volume and employment, fiscal years 1953–57*

| | 1953 | 1954 | 1955 | 1956 | 1957 |
|---|---|---|---|---|---|
| Mail volume: | | | | | |
| Billions of pieces | 50.9 | 52.2 | 55.2 | 56.4 | 59.1 |
| Increase over 1953 (percent) | | 2.5 | 8.4 | 10.8 | 16.0 |
| Employment (thousands of man-years): | | | | | |
| City carriers | 124 | 130 | 134 | 140 | 145 |
| Increase over 1953 (percent) | | 4.5 | 8.0 | 12.7 | 16.4 |
| All other employment | 386 | 378 | 378 | 378 | 385 |
| Increase over 1953 (percent) | | −2.1 | −2.2 | −2.2 | −0.3 |
| Total | 510 | 508 | 512 | 518 | 530 |
| Increase over 1953 (percent) | | −0.5 | 0.3 | 1.4 | 3.8 |

Comparing fiscal 1957 results with 1956, it will be noted that the 4.67-percent increase in mail volume has been handled with an increase in total employment of only 2.36 percent. Excluding city delivery carriers (which increased 3.29 percent), the increase in all other employment to handle this 4.67 percent increase in volume of mail was only 2 percent.

Source: Annual Report of the Postmaster General for 1957, p. 8.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. BRUNDAGE. I might just add one point, that this $1.1 billion of estimated expenditures for the pay adjustments, both military and civilian personnel, is gross. We are expecting a quite substantial amount of absorption in all of the departments together of over $300 million of that.

Mr. CURTIS. Which will be recouped, or it will be absorbed?

Mr. BRUNDAGE. It will be absorbed, deducted.

The CHAIRMAN. We appreciate very much your coming to the committee and the information you have given us.

I had some questions that I wanted to ask of you, but I will refrain from doing so in view of the fact that we still have one witness to hear in public hearings, and because the committee desires to go ino executive session this afternoon. Let me just observe, however, that your statement that you have given us this morning certainly pinpoints a number of contingencies that could be added to those which we were earlier discussing with the Secretary of the Treasury and that we might face in connection with the debt itself.

Mr. BRUNDAGE. Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Brundage, and those with you.

Our next witness is our colleague, the Honorable Wright Patman.

Mr. Patman, we know you quite well and favorably, but for purposes of the record, will you identify yourself by giving your name and the district you represent in the Congress.

## STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PATMAN. Mr. Chairman, my name is Wright Patman, and I represent the First Congressional District of Texas, and I have been serving in Congress since 1928. I am a member of the Joint Economic Committee, the Small Business Committee, and the Banking and Currency Committee.

The CHAIRMAN. You have been the chairman of committees in Congress for quite some time, particularly the Committee on Small Business, and you have done a good job as we all recognize.

We are glad to have you with us today. You are recognized to proceed in your own way.

Mr. PATMAN. I am here to discuss the increase in the debt limit. I am tempted to comment on what Mr. Brundage, the Director of the Budget, has said, but I shall not do so in view of the hour. I feel it would be an imposition on the committee.

I will say only that Mr. Brundage dug up a lot of snakes to kill, and I doubt very much that he will be able to kill those snakes during this session of Congress.

This resolution, H. R. 9955 by Chairman Mills to raise the debt limit by $5 billion is the matter I desire to discuss. Naturally, I do not believe any member would oppose an increase in the national debt if it is needed for national defense. If this committee, in its wisdom, sees fit to increase the national debt, I have a condition which I hope that you will place upon the authorization.

Secretary Anderson mentioned that we have a law now which permits the Secretary of the Treasury to sell securities in an amount up to $5 billion, directly to the Federal Reserve banks. If that were done

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

in this case, it would save the Government, it is estimated, about $163 million a year.

The condition that I would like to ask the committee to consider, in the event this raise is granted, is that you make the requirement that this $5 billion be sold directly to the Federal Reserve System.

In other words, this is the language:

All Federal debt in excess of $275 billion must be in securities held by the Federal Reserve System on direct purchase from the Treasury.

In addition to saving a large amount of money, this will cure situations that have been complained about by the Secretary of the Treasury and many people in business, banking, and finance.

While Secretary Anderson is appearing before this committee in support of the resolution to raise the debt limit by $5 billion, he also has a letter filed with the Banking and Currency Committee asking for continuance of the authority in the Federal Reserve Act whereby the Federal Reserve System can purchase up to $5 billion of securities from the Treasury. This authority has been extended every 2 years, and there has never been any opposition to it.

Up until 1935, there was no limit of $5 billion and the authority was without a time limit. Since 1942 it has been $5 billion, and the time limit has been 2 years, but the authority has always been extended each 2 years.

Now, in the letter that Secretary Anderson wrote to the Banking and Currency Committee asking that this authority be extended, I submit, he gives reasons in support of the argument that I am making now which is that you should attach a condition to this increase of $5 billion to the national debt.

I will quote from a letter signed by Robert Anderson, Secretary of the Treasury, dated January 3, 1958:

We recommend that the temporary authority be extended an additional 2 years. The direct purchase authority is of important assistance to the Treasury in smoothing out the effect of short-run peaks in Treasury cash receipts and disbursements so that the disturbing effect of their flow through the banking system may be held to a minimum. Also, if the Treasury did not have the authority, it would be necessary to maintain larger cash balances than is now the case. The authority is only used occasionally, primarily immediately preceding periods of heavy tax payments. However, it is an essential fiscal mechanism in avoiding unnecessary strains on the money market at such times, and in handling the distribution and utilization of Treasury cash balances and holding them to a minimum. Any borrowing under the authority is, of course, subject to the statutory debt limit.

There is attached a table showing the holdings of the Federal Reserve banks under the direct purchasing authority from 1942 to the present time.

Now, then, in connection with Mr. Anderson's statement to the press when he announced he was going to ask for this increase in the debt limit, he was quoted in last Tuesday's Washington Evening Star as follows:

As we seek to manage the debt of the great proportions that we have, we ought to have the ability to use the best and most efficient mechanisms that we can, and some consideration has to be given to a sufficient flexibility that will allow us a capacity to do as good a job as we can in the management of the debt.

I suggest that the purpose for which he is asking for an increase in the debt ceiling is the same purpose that he has given in his letter to the Banking and Currency Committee asking that the Federal Re-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

serve purchase authority be extended another 2 years from June 30, 1958.

Mr. Burgess testified the year before last in support of extending the Federal Reserve purchase authority. Mr. Burgess was, of course, Undersecretary of the Treasury under Mr. Humphrey. I will quote here what he said:

> The primary purpose of this direct borrowing authority has been to help the Treasury and the Federal Reserve System work together in minimizing the disturbing effects on the economy of short-run peaks in Treasury cash receipts and disbursements, particularly around the time of quarterly income tax payments.
>
> Short-run movements of funds are large and precise estimates of their day-to-day pattern are often difficult. This direct borrowing authority is a useful mechanism for the Treasury and the Federal Reserve and its use avoids unnecessary strains on the money market on a number of occasions.

That is the reason for this $5 billion authority.

Mr. EBERHARTER. Was that testimony before our committee?

Mr. PATMAN. It was before the Banking and Currency Committee on February 29, 1956, nearly 2 years ago. That was when the question of renewal of this $5 billion authority was up. Every 2 years it is up, and we always have a short hearing, but no objection to it.

Now, in the same hearing there was the testimony of the Honorable William McChesney Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, who also endorsed the bill for the continuance of this $5 billion authority. Mr. Martin described the purpose of this authority as follows:

> This is an operating convenience under which the borrowing is always of a strictly temporary nature and occurs primarily in tax payment periods. The authority has made it possible around such times for the Treasury to bridge temporary gaps between the Treasury's payment needs and its tax receipts, and in this way to smooth out some of the uneven flows of funds through the banking system and the money market that would otherwise result from the Treasury's operations.
>
> Avoidance through this method of Treasury borrowing of the sharp strains on the banking system that would otherwise arise from the sudden strains on the Treasury accounts with banks is equally as helpful to the Federal Reserve in carrying out its parallel responsibilities in the field of monetary and credit policy as it is to the Treasury in administering its fiscal responsibilites effectively.

So, as to the Federal Reserve purchase authority, we have the endorsement of not only two Secretaries of the Treasury, but we have the endorsement of the Federal Reserve.

Now this point is unmistakably clear: The purpose for which Secretary Anderson has explained he needs the $5 billion increase in the debt ceiling is exactly the same purpose which has been repeatedly given for the Federal Reserve purchase authority. The purpose is to absorb temporary increases in the Federal debt which are needed because of seasonal and other mechanical factors affecting the flow of revenues into the Treasury. And the seasonal factors have been demonstrated.

If you will turn to one of the charts that Secretary Anderson has presented, chart 5, you will find that every year there is a deficit at a certain period of the year and a surplus at another period of the year. So the object of this $5 billion is to smooth that out.

It is for these reasons, then, that I ask the committee to consider attaching to the $5 billion increase in the debt ceiling a requirement

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

that, if and when any part or all of this authority is used, it will be used by selling securities directly to the Federal Reserve System under the authority now provided for this purpose in the Federal Reserve Act. None of this latter authority is in use at the moment, so the full $5 billion is now available. Direct purchase by the Federal Reserve System is best suited for handling the problems which the Secretary has described as making necessary this $5 billion increase in the debt ceiling, and it will save the Government about $163 million a year in interest charges.

That concludes my recommendation for specific action at this time, Mr. Chairman, but, if I may, I would like to offer several general suggestions which I think the committee might consider at some future time.

I personally feel, Mr. Chairman, that this committee should give serious consideration to setting up a policy of debt retirement that is more satisfactory than at present. We should have a scale of set-asides that would apply at different levels of prosperity—say with a minimum of 2½ percent in periods of general prosperity. This debt retirement budget can then be included as a part of the general budget, and Congress should then stay in session each year until we balance the general budget.

We must have debt retirement. There is all kinds of clamor for more and more debt. It is piling on the American people all of the time.

There are no plans for retirement of debts. You very seldom hear anything said about retirement of debts. Debts should be retired.

We ought to pay them off, and, if necessary, go into debt again, but we should have a definite plan for the retirement of our national debt. We should not let it go up this way.

Now, there are 2 or 3 other suggestions, Mr. Chairman, that I would like to add. There are other ways to save. We have a fine Federal Reserve banking system. We have a fine commercial banking system. It is great because it is operating in a capitalistic economy, the kind we all agree that we should have. It is the best in the world.

It is not perfect, but there is nothing wrong with the Federal Reserve that a couple of good amendments would not cure. It is the same way with the commercial banking system. It is as good as any system on earth. We want to encourage it.

Now, the Federal Reserve System has been used in the past, not so much by the Government, but by others. We are fortunate that we have the Federal Reserve Banking System. It is subject to the orders of Congress. It is an agency of Congress. It is a servant of Congress.

Of course, all of its assets and all of its powers and privileges are subject to the call and the will of the Congress of the United States. No one questions that. The Federal Reserve System can be used now to a better advantage than it has ever been used in the past.

The Government owns the Federal Reserve System. It owns it entirely—lock, stock, and barrel. I know there is sentiment around over the country saying, "Well, the banks own the Federal Reserve System."

Of course the banks do not own the Federal Reserve System. Over the years I have interrogated Mr. Eccles, and Mr. Martin and differ-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

ent people about it, and I think that Mr. Martin has finally come up with an appropriate and correct phrase that explains it. When I ask him now about the ownership of the Federal Reserve System, he always says that the banks have a "nonproprietary interest" in the Federal Reserve System.

That is correct. It is a nonproprietary interest, and no other. The Government owns it and should use it. Now is the time to use it. So in the future when these securities come up for issuance, in addition to this $5 billion we have been discussing today, the Treasury should be asked by this committee to consider offering these securities first to the people. Encourage individuals to buy and encourage corporations and partnerships and insurance companies to buy them.

But say, "After you have sold, Mr. Secretary of the Treasury, all of the securities you can to people who have the money to pay for them, then instead of selling them to the commercial banks that create the money to buy them, sell them to the Federal Reserve." When the commercial banks buy Government securities, they create the money for this purpose, on the credit of the Nation, and then collect interest from the Government.

The Treasury could sell them to the Federal Reserve and pay the same rate of interest, but the money will flow back over into the Treasury.

Last year the Federal Reserve had earnings aggregating approximately $600 million. And $542 million of that money flowed over into the Treasury at the end of December 1957.

In that way we would pay the interest, but it would come back to the benefit of the taxpayers.

There are other ways of saving money. I shall briefly discuss one, since Mr. Anderson mentioned it, and it is almost a challenge to me. He said he wants to keep on deposit with the commercial banks and the Federal Reserve banks an average of $3.5 million a year. Three million dollars of this will be in deposits with the private commercial banks. This is according to the way the Treasury is now operating.

Now, I like Secretary Anderson, and I think he is a great man. I do not think President Eisenhower could have selected a better man to be Secretary of the Treasury. But I think he is clearly wrong about that. Why should he keep idle an unused $3 million in the banks of this country? Do we owe them that obligation?

We have been keeping from $3 billion to $6 billion in the banks at all times, and I do not think it is justified, because it has been costing the people from $120 million to $240 million a year. The people pay their money for these bonds, and then the money is put in the banks and kept there idle and unused. Official records disclose, and I have the official records here, that for the last 8 months of last year we averaged $4 billion in the banks at all times.

Now, I do not object to paying the banks for their services. If they do any service, let us pay them for it. But let us not just keep billions of dollars on deposit with the banks, receiving no interest on the money while the people are paying a high interest on it. That would save at least another $150 million a year.

This morning when Secretary Anderson mentioned this matter of deposits, I sent out and got the New York Times. The New York Times and the New York Herald Tribune are two papers, I know—

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

possibly there are others—which every Friday issue a New York Clearing House statement. This shows the amount of Government deposits in the banks in the New York Clearing House Association.

There are certain banks that keep over $100 million, almost invariably, of Government money that the Government receives nothing for, that the people are paying interest on. That just does not seem right to me.

This morning's statement is lower, I will admit. Secretary Anderson said it is lower than it has been for a long time. It is so low that 1 New York bank that normally has $150 million had only $72 million last night. Another one has $45 million. Another one has $36 million, and so forth.

All over the country the Treasury normally keeps from $3 billion to $6 billion in the banks.

Now, remember, gentlemen, these deposits in the private banks are not within the reach of the checkbook of the Treasury. The Treasury does not give checks on these banks. The Treasury cannot pay bills by checking on these accounts, the Treasury writes checks only on the Federal Reserve banks. So another operation is necessary before that money can be used by the Government. It has got to be brought into a Federal Reserve Bank before it is possible for the Treasury to use it. So why should we keep idle and unused $3 billion in banks away from the reach of the Treasury? It just does not make sense, common, book, or horse.

I am not trying to undermine the banks. I like the banks, and I want them compensated for everything they do. I want a profitable commercial banking system, the kind that makes our country stronger. I am all for that. But things like this just don't make sense.

The banks get pretty good support from the Government in other ways. The banks benefit by over $100 million every year from Government funds for the cost of clearing their checks and things like that. In other words, the Government is paying for their private business.

Now, $100 million a year ought to be enough without giving them the use of $3 billion to $6 billion of Federal funds at all times without interest payments. I hope I am not unreasonable about this, and I hope you gentlemen will consider this along with these questions of the public debt and other monetary and fiscal matters.

I want to thank you very much, Mr. Chairman, and may I be allowed to extend and revise my remarks?

The CHAIRMAN. Without objection, you may extend and revise your remarks. Mr. Patman, we appreciate very much your coming to the committee this morning, and the information that you have given to the committee.

Mr. Ikard will inquire.

Mr. IKARD. Mr. Chairman, I have no questions. I want to compliment my distinguished colleague from Texas, who is recognized as one of the authorities on fiscal and monetary affairs, for a very fine and interesting statement, which I know the committee found to be very informative.

The CHAIRMAN. Mr. Eberharter will inquire.

Mr. EBERHARTER. I echo the sentiments expressed by Mr. Ikard, but I also want to ask you one question. Is it your contention, Mr.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Patman, that, if the Congress were to adopt your recommendation for amending H. R. 9955, the Treasury would have the authority to borrow $10 billion?

Mr. PATMAN. No; $5 billion. This comes under the National Debt Act, too. To the extent they use this increase, I want it to be used through this authority of $5 billion from the Federal Reserve.

The CHAIRMAN. The point is that the $5 billion referred to in the amendment you suggested to this committee is contained within the overall limit of the debt, whatever that may be.

Mr. PATMAN. Yes, and it is tailor made to fit this case. That is, the $5 billion asked for by the Treasury and $5 billion allowed under this authority, and it would save the Government $163 million.

Mr. KEOGH. May I join in commending our very distinguished and capable colleague for his statement here today.

The CHAIRMAN. Mr. Patman, we again thank you, and this brings to a conclusion our public hearing on the bills before us this morning. The committee will adjourn, to reconvene at 2 o'clock in executive session.

(Whereupon, at 1: 15 p. m., the committee recessed, to reconvene in executive session at 2 p. m. the same date.)

O

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis