INCREASE THE PUBLIC DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

ON

H. R. 13580 and H. R. 13581

BILLS TO INCREASE THE PUBLIC DEBT LIMIT

JULY 30, 1958

Printed for the use of the Committee on Ways and Means

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INCREASE THE PUBLIC DEBT LIMIT

WEDNESDAY, JULY 30, 1958

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., pursuant to notice, in the committee hearing room, House Office Building, Hon. Wilbur D. Mills (chairman) presiding.

The CHAIRMAN. The committee will please be in order.

We have for consideration this morning H. R. 13580 and H. R. 13581, introduced by Mr. Reed and myself, to increase the public debt limit. In connection with this matter we have before us a communication from the President of the United States, dated July 28, 1958, to the Speaker of the House of Representatives and a report, dated January 17, 1958, to the House of Representatives, No. 1282 entitled "Temporary increase in public debt limit." We will insert in the record at this point a copy of the identical bills, the communication from the President, and the report.

(The bills, communication, and report are as follows:)

[H. R. 13580, 85TH CONG., 2D SESS.]

A BILL To increase the public debt limit

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

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

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

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

[H. R. 13581, 85TH CONG., 2D SESS.]

A BILL To increase the public debt limit

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

"SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the

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

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

85TH CONGRESS, 2d Session | HOUSE OF REPRESENTATIVES | DOCUMENT No. 425

INCREASE THE REGULAR STATUTORY DEBT LIMIT AND ALSO PROVIDE AN ADDITIONAL TEMPORARY INCREASE

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

REQUESTING

THE CONGRESS TO INCREASE THE REGULAR STATUTORY DEBT LIMIT TO $285 BILLION AND ALSO TO PROVIDE AN ADDITIONAL TEMPORARY INCREASE OF $3 BILLION TO RUN THROUGH JUNE 30, 1960

JULY 28, 1958.—Referred to the Committee on Ways and Means and ordered to be printed

THE WHITE HOUSE,
Washington, July 28, 1958.

The Honorable SAM RAYBURN,
Speaker of the House of Representatives,
Washington, D. C.

DEAR MR. SPEAKER: The Secretary of the Treasury and the Director of the Bureau of the Budget have advised me that contemplated revenues and expenditures for fiscal 1959 make it necessary to request an increase in the debt limit. Accordingly, the administration is at this time asking the Congress to increase the regular statutory debt limit to $285 billion and also to provide an additional temporary increase of $3 billion to run through June 30, 1960.

Advices from the Secretary of the Treasury and the Director of the Bureau of the Budget indicate clearly that the increase of the regular limit is needed because of the deficit outlook for the current fiscal year, which makes it evident that the debt cannot be reduced to the present $275 billion limitation by June 30, 1959. In addition, it is clear that the requested temporary increase would provide needed flexibility to allow more efficient management of the debt, as well as to provide for contingencies which may cause unforeseeable demands upon the Treasury.

The Secretary of the Treasury and the Director of the Bureau of the Budget will be glad to provide details in support of this request.

Sincerely,

DWIGHT D. EISENHOWER.

TEMPORARY INCREASE IN PUBLIC DEBT LIMIT

JANUARY 17, 1958.—Ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 9955]

The Committee on Ways and Means, to whom was referred the bill (H. R. 9955) to provide for a temporary increase in the public debt limit, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

Section 21 of the Second Liberty Bond Act, as amended, provides a permanent limit of $275 billion on the amount of the public debt securities which may be outstanding at any one time. In the 83d Congress (Public Law 686, 83d Cong., 2d sess.) the public debt limit was temporarily increased from $275 billion to $281 billion, or by $6 billion. This temporary increase was extended in the 84th Congress (Public Law 124), 84th Cong., 1st sess. until June 30, 1956, and again in that Congress (by Public Law 678, 84th Cong., 2d sess.) but this time by only $3 billion for the period ending June 30, 1957. After June 30, 1957, the public debt limit reverted to the permanent limit of $275 billion.

The Secretary of the Treasury has again requested that the existing debt limit be temporarily increased. He has requested that the permanent limit be temporarily increased to $280 billion, or by $5 billion, for the period beginning on the date of enactment and ending on June 30, 1959.

Your committee is concerned both about the necessity of increasing the debt limit over the present statutory limit of $275 billion and the amount of the temporary increase requested by the administration. However, in view of the Secretary's statement (much of which is quoted below) concerning the necessity for flexibility in managing the fiscal affairs of the Government, and in view of the unsettled conditions confronting the United States on both the economic and international fronts, it is deemed necessary to provide the authority requested by the Secretary and to increase temporarily the maximum debt limit by $5 billion for the period beginning on the date of enactment and ending on June 30, 1959.

In providing for such increase, your committee places primary reliance upon the Secretary's assurance that those in the administration will exert all of their abilities to achieve the utmost economy in governmental operations and to manage the public debt as best they can in the national interest.

The Secretary of the Treasury made the following statement before your committee in support of this increase:

> 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 * * *.
> 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.
>
> * * * * * * *
>
> 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. (See attached table 1 and charts 1 and 2 on the volume of Treasury financing.) [Parentheses added.]

TABLE 1.—*Marketable maturities January 1958 through December 1958* [1]

[In millions of dollars]

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
Apr. 15	Special bill (Aug. 21, 1957)	1,751
Apr. 15	3½ percent certificate (May 1, 1957)	2,351
June 15	2⅞ percent note (Dec. 1, 1955)	4,392
June 15	2⅜ percent bond (July 1, 1952)	4,245
June 15	2¾ percent bond of 1958-63 (June 15, 1938) [2]	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
Dec. 15	2½ percent bond (Feb. 15, 1953)	2,368
Total		50,179

[1] Excludes $22.1 billion of regular weekly Treasury bills and $3.0 billion tax-anticipation bills due Mar. 24, 1958.
[2] Partially tax exempt. Callable June 15, 1958.

CHART 1

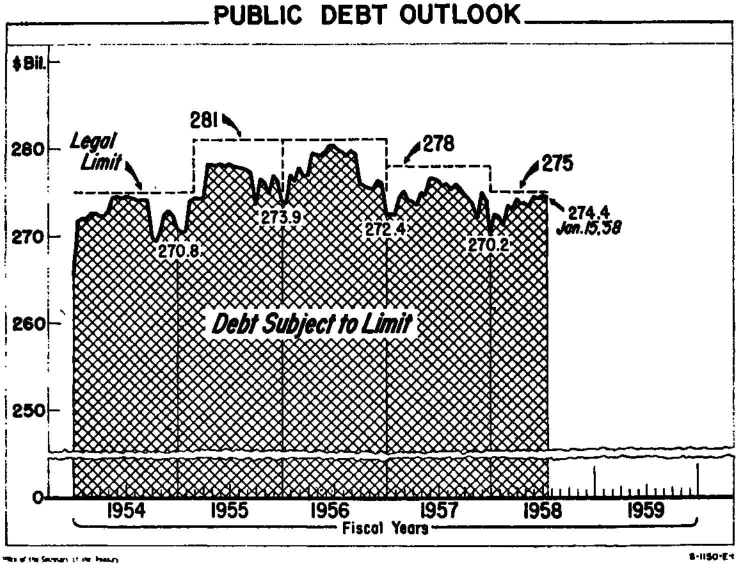
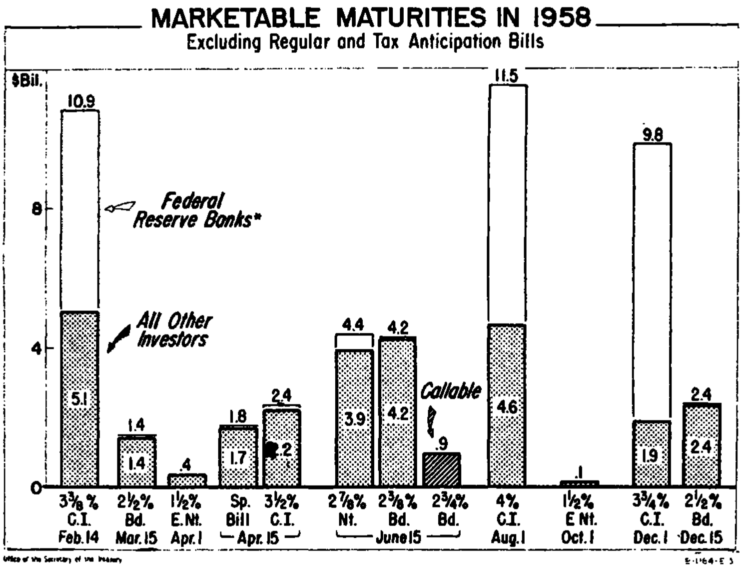


CHART 2



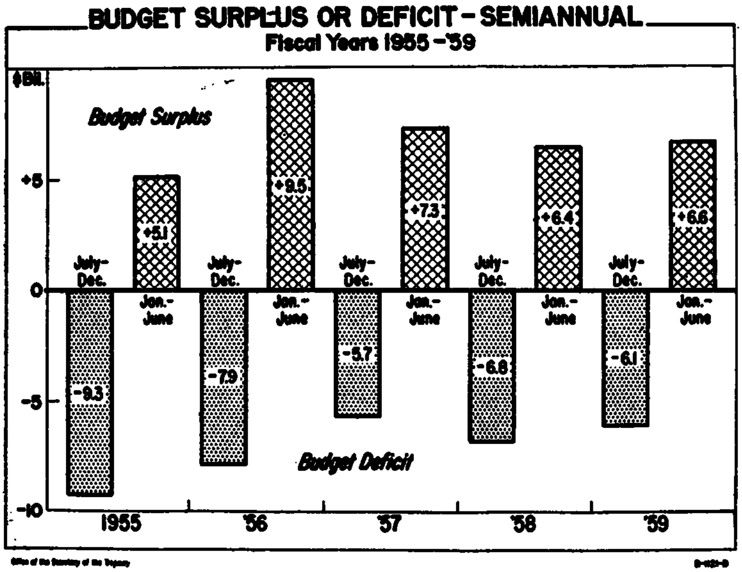
*Including Government Investment Accounts.

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.

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. 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. 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. (Chart 3 shows the semiannual distribution of surplus or deficit for recent years, including estimates for the fiscal year 1959.) [Parentheses added.]

Chart 3



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 mid-month and end-of-month cash balances of $3.5 billion and for an allowance of $3.0 billion for flexibility in financing and for contingencies.

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.

We at the Treasury assure you that we will exert all 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 CHAIRMAN. We are pleased to have before us this morning the Secretary of the Treasury, and also the Director of the Bureau of the Budget. Will it be agreeable for us to hear both the Secretary and the Director before interrogating either of them, and then at the conclusion of their statements the members of the committee can ask such questions as they desire?

Would that be agreeable? We will proceed on that basis then. Mr. Secretary, we appreciate having you with us this morning, and you are recognized to make such statement as you desire.

STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE TREASURY

Secretary ANDERSON. Thank you, Mr. Chairman. Again it is a pleasure to appear before the House Ways and Means Committee. I am appearing this morning in support of the President's request for legislation to increase the regular statutory debt limit to $285 billion and to provide an additional temporary increase of $3 billion to expire June 30, 1960. About 6 months ago, January 17, 1958, I appeared before this committee to urge enactment of a bill to provide a temporary increase of $5 billion in the statutory limit on the public debt. The bill was enacted and approved on February 26, 1958, and provides a temporary increase from $275 billion to $280 billion until June 30, 1959, in the limit on the public debt.

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

1. The fact that cash balances should be maintained at a more adequate and prudent level.
2. There was need for more flexibility to allow efficient and economical management of the debt.

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

The budget estimates on which we made our recommendation anticipated a deficit for the fiscal year ending June 30, 1958, of $388 million, and a surplus for the fiscal year ending June 30, 1959, of about $466 million. At that time, it was particularly difficult to estimate the extent of the change in economic conditions. The impact of the recession on corporate profits, which are such an important source of revenue, and the extent of the duration of the interruption in the growth of personal income were hard to foresee for a period extending 18 months into the future.

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

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

This substantial change in the outlook of our fiscal situation for the current year makes it imperative that we again review the statutory debt limit. We can no longer operate with a $5 billion temporary extension of the $275 billion limit because we cannot look forward to a debt of $275 billion or less on June 30, 1959. The estimated deficit will result in the public debt outstanding on June 30, 1959, of nearly $285 billion. It is estimated that our cash working balance will amount to between $4 to $5 billion on that date.

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

The general fund balance on June 30, 1958, amounted to about $9,750 million, but the cash working balance (funds available to meet the day-to-day expenditures representing balances in Federal Reserve banks in available funds and in Treasury tax and loan accounts) amounted to $8,628 million, or about $4 billion higher than on June 30, 1957. The lower balance a year ago was due to the fact that a large part of the tax collections in that month was used to retire public debt obligations. These reductions (of tax-anticipation issues) amounted to $4,650 million in June 1957, while in June 1958 there were no maturing tax-anticipation issues, and outstanding marketable public-debt obligations increased about $650 million. However, the lower 1957 balance made it necessary for the Treasury to borrow $3 billion on July 3, 1957, to cover the heavy outlays during July last year. With the higher balances on June 30, 1958, the Treasury did not have to do any cash financing this July, even though expenditures are expected to exceed receipts by $4.7 billion during the month. We are borrowing $3.5 billion in early August for cash requirements of the next couple of months.

The statutory debt limit should be amended to give recognition to the current outlook for the year. During the period since 1954, while the Treasury has been operating under temporary increases in the public-debt limit, and public-debt obligations were issued in excess of the permanent debt limit, it could be reasonably estimated that the excess could be repaid from tax collections prior to the expiration of the temporary increases in the debt limit, and in fact they were. In the situation we now face, that is not the case.

It would appear that the only sound course at the present time is to permanently increase the statutory limit to $285 billion. In addition, a further temporary increase of $3 billion will afford us a margin to take care of contingencies. Furthermore, a regular limit of $285 billion may present problems to the Treasury before the end of the fiscal year because there are still substantial seasonal fluctuations in the collection of revenues.

We will have to look at the situation again before the end of the fiscal year to determine our course of action beyond that date in the light of developments. When budget surpluses are again in prospect, the matter of the permanent limit can be reviewed.

The figures we are using today do not include any changes in estimated expenditures which could eventuate due to recent developments in the international situation. These developments do, however, point up the need for being in a position to take care of contingencies.

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

(The tables are as follows:)

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

[In billions]

	Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation	Allowance to provide flexibility in financing and for contingencies	Total public-debt limitation required
Actual:				
Jan. 15, 1958	$1.7	$274.1		
Jan. 31	2.2	274.2		
Feb. 15	1.7	274.0		
Feb. 28 [1]	3.4	274.3		
Mar. 15	2.8	275.3		
Mar. 31	5.1	272.3		
Apr. 15	5.0	274.9		
Apr. 30	5.2	274.7		
May 15	4.6	274.6		
May 31	5.1	275.3		
June 15	3.3	274.9		
June 30	8.6	276.0		
Estimated:				
July 15 (actual)	5.5	275.2		
July 31	3.5	275.2	$3	$278.2
Aug. 15	3.5	276.5	3	279.5
Aug. 31	3.5	276.8	3	279.8
Sept. 15	3.5	277.6	3	280.6
Sept. 30	3.5	275.6	3	278.6
Oct. 15	3.5	278.6	3	281.6
Oct. 31	3.5	279.7	3	282.7
Nov. 15	3.5	280.5	3	283.5
Nov. 30	3.5	280.8	3	283.8
Dec. 15	3.5	283.0	3	286.0
Dec. 31	3.5	281.9	3	284.9
Jan. 15, 1959	3.5	283.3	3	286.3
Jan. 31	3.5	283.3	3	286.3
Feb. 15	3.5	284.2	3	287.2
Feb. 28	3.5	283.4	3	286.4
Mar. 15	3.5	284.8	3	287.8
Mar. 31	3.5	281.5	3	284.5
Apr. 15	3.5	283.4	3	286.4
Apr. 30	3.5	284.5	3	287.5
May 15	3.5	284.9	3	287.9
May 31	3.5	285.2	3	288.2
June 15	3.5	287.2	3	290.2
June 30	3.5	283.0	3	286.0

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

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

Forecast of cash position and debt, fiscal year 1959 (based on tentative estimates, subject to revision)

[In billions]

	July 1958	August	September	October	November	December	Subtotal, July to December	January 1959	February	March	April	May	June	Total
Change in general fund balance	−$1.7	+$1.2	−$1.6	+$0.1	−$1.3	+$1.1	−$5.2	+$1.7	−$1.0	−$1.7	+$0.2	+$1.4	−$0.2	−$1.8
General fund balance at beginning	6.7	5.0	6.2	4.6	4.7	3.4	9.7	4.5	6.2	5.2	3.5	3.7	5.1	9.7
General fund balance at end	5.0	6.2	4.6	4.7	3.4	4.5	4.5	6.2	5.2	3.5	3.7	5.1	4.9	4.9
Operating cash balance at end (including gold) [1]	4.3	5.6	4.0	4.1	2.8	3.9	3.9	5.5	4.6	2.9	3.0	4.5	4.2	4.2
Public debt outstanding:														
Beginning	276.3	275.9	278.8	276.4	280.2	280.0	276.3	282.2	285.2	284.4	280.8	283.9	286.1	276.3
Change	−.4	+2.9	−2.4	+3.8	−.2	+2.2	+5.9	+3.0	−.8	−3.6	+3.1	+2.2	−2.5	+7.3
End	275.9	278.8	276.4	280.2	280.0	282.2	282.2	285.2	284.4	280.8	283.9	286.1	283.6	283.6
Debt subject to limit	275.6	278.5	276.1	279.9	279.7	281.9	281.9	284.9	284.1	280.5	283.6	285.8	283.3	283.3
Midmonth figures:														
Operating cash balance (including gold) [1]	6.0	5.2	2.2	5.5	3.0	2.9	----------	5.7	3.4	2.8	4.2	3.8	2.2	--------
Debt subject to limit	275.7	277.8	276.3	280.2	279.6	282.0	----------	285.1	283.7	283.7	283.7	281.8	285.5	--------

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

20156—58——3

Mr. Chairman, if I may direct your attention to the two appended statements, the first statement indicates the actual figures through June 30, 1958, and the estimated figures beginning July 31. You will notice that the first column beginning July 31 sets down an operating balance of $3.5 billion. This should be viewed in the light of the fact that at the Treasury we spend on the average of $1.5 billion in a 5-day working period.

With the increased expenditures for next year, this, of course, will increase. The public debt that is subject to limitation which is the middle columns takes into account this operating balance.

The next column sets out as you will see a level of $3 billion for contingencies and for flexibility in the management of the debt. The figure of total public-debt limitation which appears on the right-hand column takes into account both the operating balance and the $3 billion of contingencies.

It will be noted that after about December we run into periods where this is estimated to run from $286 billion to $290 billion on June 15 of next year.

In the second table which is appended, I call your attention particularly to those figures under the term "public debt outstanding" which shows the estimated public debt at the beginning of each month. Then the change which would occur during the month, and where the column says "end" it indicates the total outstanding debt at the end of the month.

Finally, there is the total debt subject to the debt limitation at the end of the month. The bottom figure is the operating cash balance at the midpoint of the month, and the debt that is subject to limitation at the midpoint of the month.

I also want to point out that while these columns indicate the beginning and the end and the midpoint of the month, in the 15-day periods there are still very wide fluctuations of several billion dollars. These have been selected as being indicative.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Stans, we appreciate having you with us this morning, and you are recognized, sir.

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

Mr. STANS. When I testified before this committee on May 28 concerning the extension of tax rates, I reviewed the budget outlook for fiscal 1959. That outlook is also pertinent to today's deliberations on increasing the statutory limit on the public debt. It may therefore be helpful to review fiscal year 1959 prospects again briefly, based on the latest data available.

You recognize, of course, that we cannot prepare accurate revisions of estimates of budget expenditures for any year before the Congress adjourns. At this moment, for example, not all of the regular appropriation bills for fiscal 1959 have been enacted. In addition, a number of substantive legislative bills pending before the Congress could have important effects on the total expenditures this year.

The original budget estimates for this fiscal year showed total expenditures of nearly $74 billion. Now the outlook is for substantial increases over that amount. I can group the changes in seven categories:

1. Defense.—On the basis of administration recommendations for additional authorizations and the civilian and military pay raises, spending for military functions may be about 500 to 700 million dollars more than the budget estimates. This is in addition to the $500 million for defense contingencies included in the budget.

2. Pay raises.—The cost of pay increases enacted for postal and classified employees exceed the total amount included in the budget and the expenditure impact of the retroactive provisions has come largely in fiscal 1959. Outside the Department of Defense, the extra cost is about $400 million.

3. Agriculture.—The exceptionally large wheat crop and other factors such as changes in the outlook and programs for exports will increase the cost of agriculture programs by perhaps as much as $1.5 billion over the original estimate.

4. Housing.—The housing legislation already enacted will lead to increases of about $1 billion in spending for mortgage purchases and direct housing loans to veterans. Other housing legislation is pending in Congress which would add still more to budget estimates.

5. Unemployment benefits.—The temporary program of advances to States for supplemental unemployment benefits to those workers who have exhausted their regular benefits, together with increases over the original estimates for the regular programs of unemployment compensation to veterans and former Federal employees and the grants to States for administering unemployment compensation and employment offices, are estimated to add more than $600 million.

6. Other increases.—Expenditures for numerous other programs are being increased. A special payment of $589 million to the civil service retirement fund is pending before the Congress. The postage rate increases fall short of the President's recommendations. Construction programs of the Corps of Engineers and the Department of the Interior have been accelerated. The new agencies for space activities and for civilian aviation will have larger programs than their predecessors. The administration recommended an authorization increase for atomic-energy programs, and the action to date in Congress has raised that. The overall effect of all these various changes will be an increase of roughly $1½ billion.

7. Reductions.—The only significant decrease from the January estimates is for interest on the public debt, because of lower interest rates. There is pending in Congress the possibility of appropriation reductions of $500 million in military construction and an indefinite amount for mutual-security programs; however, the effect of such reductions on 1959 expenditures would be considerably less than the cut in appropriations that may eventually be made.

These 7 categories I have reviewed add to a total increase of between $4.5 billion and $5 billion to the budget. You will notice that I have not included any allowance for pending legislation such as the community facilities loans bill passed by the Senate. If this and other proposals now pending are enacted, the budget could be increased by another $1 billion or more.

If we take $5 billion as the total presently estimated increase over the budget, expenditures in fiscal 1959 will be $79 billion. Thus, if we use this $67 billion revenue estimate of the Treasury and of the staff of the Joint Committee on Internal Revenue Taxation, we would have a budget deficit of $12 billion.

I personally hope that expenditures can be kept lower than $79 billion and that revenues will be higher than $67 billion. But I believe that the permanent debt limit should be set high enough to provide for the possibility that the actual results may reflect these estimates and could even show a higher deficit. The debt limit should allow for unforeseen contingencies and should also provide for seasonal variations and for flexibility in debt management. I, therefore, support the Treasury Department's proposal for a permanent limit of $285 billion with a temporary increase of $3 billion over that amount.

The CHAIRMAN. Before we begin, I want to thank you, Mr. Stans.

The Chair feels that it would be proper before we begin interrogating the Secretary and the Director, to hear Mr. Patman, so that he could leave and go about his business. I know he is a very busy man, and if you will come forward, Mr. Patman, and take your seat there, we will appreciate it.

STATEMENT OF REPRESENTATIVE WRIGHT PATMAN OF TEXAS

The CHAIRMAN. We are pleased to have you with us, Mr. Patman. All of us know you quite well and you are recognized, sir, to proceed.

Mr. PATMAN. Thank you very much, Mr. Chairman. My name is Wright Patman, and I represent the First Congressional District of Texas. 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.

I thank the committee for its courtesy in hearing me.

The committee is considering the President's request for authority to increase the "temporary" Federal debt from $280 billion to $288 billion, and to increase the "permanent" debt ceiling from $275 billion to $285 billion.

Why is the committee giving such serious consideration to this proposal to put the Federal Government further into debt?

Obviously, the answer is that the committee believes that increasing the Federal debt may have important effects on the American people, on the functioning of our economic system, and on the value of the dollar.

I respectfully suggest, however, that the way the proposal is put before you, you cannot make a sound estimate of what its effects will be. You are in the position of a man who is handed a loaded gun without a safety catch.

Many different methods can be used for increasing the national debt, and the effects of the increase will depend upon what methods are used.

Increasing the Federal debt by even the best methods is, of course, a serious thing. It is debt any way you look at it, and whatever amount is outstanding creates an interest burden on which all of the taxpayers must pay, although a relatively few taxpayers reap substantially all of the benefits of these interest payments.

As a nation, we have been repeatedly remiss in our duty to follow methods which would keep the debt down, and remiss in our duty to pay off some of this debt in periods of great prosperity.

The peak debt of World War II was reached in February 1946, when it reached $279 billion. Much of that could have been avoided. Substantial reductions were made following World War II, but with the Korean hostilities it rose again and was back up to $259 billion at the end of fiscal 1952. In the prosperous years that followed, it was allowed to rise to $281 billion by the end of 1955, and it is approximately at that figure now.

The purpose of my appearance is not to oppose the authority asked for, but to oppose the granting of such authority without safeguards against using this authority in imprudent ways which will have unnecessarily bad effects. In my opinion, unless the committee adds some needed specifications and limitations into the bill, this increase in the Federal debt will have enormously bad effects.

It will be enormously inflationary. In fact, a mountain of inflation is involved in this.

It will add huge and unnecessary interest burdens on the taxpayers.

It will bring about conditions which make it unlikely that any substantial amount of the debt will be paid off in the future, and thus unlikely that the taxpayers will ever be relieved of the tremendous interest burden they already carry.

I respectfully ask, therefore, that the committee give most serious consideration to putting four specifications and limitations in the bill, as follows:

(1) Require that the securities issued under the increased debt authority be sold insofar as possible to individuals, corporations, and to savings-type institutions: and that the portion which can be sold only by the creation of new money be sold to the Federal Reserve rather than to the commercial banks.

Now, the reasons for this are quite simple:

To the extent that additional securities are purchased by individuals, by corporations, and by savings-type institutions, there will be little inflationary effect.

By savings-type institutions we mean, of course, the savings banks, the savings and loan associations, the credit unions, the life-insurance companies and other such organizations which, unlike the commercial banks, do not create money.

The first objective should, therefore, be to finance all of the new debt it is possible to finance out of savings, both corporate and personal. To the extent that the new securities can be absorbed out of savings, the effect will at least not devalue the dollar.

Selling the new securities either to the Federal Reserve System or to the private commercial banks will mean that the purchasers will create the money with which to buy the securities. In either case, the result will be inflationary, but there is at least one important difference. The interest payments made to the Federal Reserve will automatically come back to the Treasury, which will help to keep the debt down.

What sense is there in allowing the private commercial banks to create the money to buy Government securities, and burdening the taxpayers with interest charges on that money? The commercial banks perform no necessary service whatever in buying Government securities. They perform no service in creating money, on the credit of the Nation, which the Government cannot perform for itself without burdening the taxpayers with interst charges.

To avoid any misunderstanding, let me state, as I have many times before, I am not unfriendly to the private banks. The fact is, however, that the private banks are the most prosperous segment of our economy today; they do not need more Government subsidies at the expense of the taxpayers. So, it seems to me idiotic for the Government to pay these banks to create money to purchase Government securities. The Government can do this for itself, and for the good and justifiable purpose of keeping the debt down.

(3) *Require that all securities sold by the Treasury be sold on competitive bid.*

The reason for this is also self-evident.

The Treasury is now selling certain of its securities on competitive bid, and it has an established machinery for this. Each week it sells between a billion and 2 billion dollars of 91-day bills on the regular Monday bill auction. This auction method leaves no question about what money market rates are, and no guessing about what interest rate must be offered in order to sell the securities. After the Treasury receives all the bids, it knows how much has been bid for, and at what prices, and it then decides what the highest price is it will pay for the hire of the money.

But in contrast, the Treasury issues the greater proportion of its securities at fixed and predetermined interest rates. In deciding what arbitrary rates it will fix on these securities, the Treasury leans heavily on the advice which it solicits from the big bond dealers and other big purchasers of Government securities. Based on the advice of interested parties, the Treasury officials then make a guess at what the interest rate should be. What they are guessing at, presumably, is the lowest interest rate which they can fix on the securities in order to sell them. There is some doubt whether all of the Treasury's guesses in recent years were intended to be low, or intended to help bring about a general increase in interest rates.

(2) *Prohibit the Treasury from leaving any of its funds on deposit with the private banks.*

The recent practice of the Treasury is to keep funds on deposit with the private banks in amounts ranging from $3 billion to $6 billion during the year, not just during this administration, but long before this administration. Its daily average deposits with the private banks throughout the year runs to about $3½ billion. The taxpayers are paying interest on this $3½ billion, while the Treasury is lending it out, interest free, to the private banks. What do the banks do with these funds? They lend them out and draw interest on them. So the taxpayers are paying interest on $3½ billion of debt which benefits only the private banks, and on which the banks are making a profit.

When the Treasury leaves its funds on deposit with the private banks, there are two bad effects:

(1) The effect is inflationary; by leaving its funds in the private banks, instead of calling them in the Federal Reserve banks, it is adding to the money supply.

(2) The taxpayers are paying interest on money which is idle, insofar as the Treasury is concerned. The money could be used by the Treasury to buy in some of its own short-term obligations and thus save the interest on these obligations.

As had been pointed out many times, the Treasury is in no position to use funds left on deposit with the private banks. The Treasury must first call these funds into the Federal Reserve banks before it can write checks on them to pay its bills. Keeping the funds in the private banks is no convenience to the Treasury. Obviously, if the Treasury can maintain an average balance of $3½ billion in deposits with the private banks, then the Federal debt is $3½ billion higher than it need be.

In any case, the record shows that beginning in February of 1953, the Treasury has engaged in repeated "giveaways." Time after time it has fixed rates so high on new securities that the securities were immediately reselling in the open market at prices higher than the Treasury got for them.

As I see it, the Treasury has all to lose and nothing to gain by guessing what the market is. When it guesses too high, it burdens the taxpayers with unnecessary interest charges. But when it guesses too low, there is no offset; it does not sell the securities, and so has to guess again.

So issuing securities at fixed prices and at fixed interest rates is one more factor which makes the Federal debt higher than it need be, and one more factor which diverts the taxpayers' money to meet unnecessary interest charges, rather than going to pay off some of the debt.

(4) Set a fixed percentage by which the Federal debt is to be reduced each year.

For some years now, the debt ceiling has been fixed by law. There have been many times when the ceiling had to be raised, of course. But we still have a ceiling and go through the process of raising it only after a specific review of the conditions which require raising it, on the theory that this tends to hold the debt in check. There is no other reason for having a ceiling. If this procedure does not serve to check unjustified increases in the debt, then the procedure is not only worthless to its purpose, it also involves a waste of time and effort. Few of us doubt that having a ceiling fixed by law does help to keep the debt in check.

But this procedure is one-sided. If it is a good procedure for helping to keep the debt from going up, then it should be an equally good procedure for helping to bring the debt down. A fixed schedule for reducing the debt would in my opinion help to assure that reductions are made in those periods when reductions reasonably could be made.

Certainly, we have got to do something to stop this process of meeting each emergency by piling new debt on the peak of the previous emergency. And the procedure I suggest is at least worth a try.

Furthermore, this seems a good a time as any for the committee to write into the law a definite schedule for paying off the Federal debt. I would suggest a target of 2 percent per year. There will, of course, be times when no reduction can be made, and an exception to the schedule will be asked for and granted. But at other times such deficiencies should be made up.

As the committee knows, at the beginning of each year the President submits to Congress his economic report which sets out the Nation's economic budget for the year ahead. At about the same time the Treasury submits a budget which is drawn up in the light of the President's economic budget. The Joint Economic Committee makes a careful review of these budgets and then tries to inform the whole Congress what the range of economic policies is that can be adopted consistently with the President's economic budget and with the broad objectives set out in the Employment Act of 1946.

There should then be a definite requirement to review the possibility of reducing the Federal debt at this time, along with the review of the other elements in the economic budget. And there should be a definite requirement for a fixed reduction within the year ahead which can be amended only by a specific request and with persuasive reasons for amending the requirement.

Now to summarize. The suggestions which I have made are, of course, not new to this distinguished committee.

In February of 1943, the committee was then holding hearings on one of the first debt-increase bills necessitated by World War II. The first year of World War II had then just ended. The committee was good enough to hear me on that bill, and I then urged the main suggestions I am making today.

I urged, first, that the money needed to finance the war be raised to the fullest possible extent through taxes. And second, I urged that to the extent that it was necessary to issue interest-bearing debt, this should all be financed from savings, and none with bank-created money. In fact, I proposed that it it did prove necessary to use any bank-created money, then a non-interest-bearing security be issued to secure any money borrowed either from the commercial banks or the Federal Reserve banks. That was a long time ago, and I ask the committee's indulgence for quoting from my testimony of February 13, 1943, as follows:

> * * * the plan proposed will retire a definite amount of the debt each year, thereby reducing annually any inflationary condition that has been brought about because of the war, and more effectively retard inflation than the present system.
>
> Inflation Is Our Greatest Danger * * *
>
> * * * * * * *
>
> * * * In this emergency, it is necessary that we sell all the interest-bearing bonds that we can to the public, including corporations who have the money to buy them. This is necessary to retard inflation, and it is very helpful to that end. I favor the levying and collection of all the taxes it is possible for the people to pay, in order to reduce the national debt as much as possible each year. After the Government has collected all the taxes it can collect, and has sold all the bonds to the public that can be sold, there will remain 50 percent or more of the funds to be raised which must be obtained from the Federal Reserve banks or the privately owned 14,000 commercial banks of the country that accept deposits, or from both.
>
> It is this money that must be obtained from the Federal Reserve banks and the commercial banks that I insist can be secured by the Government without an annual interest charge (hearings before the Committee on Ways and Means, House of Representatives, on Debt Limit of the United States, January 29 and February 13, 1943, 78th Cong., 1st sess., pp. 36, 39).

In the calendar year then just completed, 1942, we paid interest charges of $1.5 billion for carrying the Federal debt then in existence. The Federal debt had recently risen to a high of $108 billion, and the bill then before the committee was one to increase it to $122 billion.

Last year, 17 years later, the interest charges on the Federal debt had jumped to $7.6 billion, and the debt is now nearing $280 billion.

In the meanwhile, commercial banks have acquired huge amounts of Federal securities, and the inflation which seemed to me to be our greatest danger in 1943 has greatly undermined the value of the dollar.

Again, 6 months ago, on January 17 of this year, this distinguished committee was again considering a bill to make what was called a "temporary" increase in the debt ceiling, amounting to $5 billion. At that time, the committee was good enough to hear me make these same suggestions again. I pointed out, for example, that, if the $5 billion of new securities were purchased by the Federal Reserve, the interest savings to the Government would amount to $163 million a year.

I appreciate that the committee in its wisdom did not adopt these suggestions, but may I call attention to some of the events which have taken place since that time?

Since January of this year, the Federal Reserve has reduced required reserves of member banks sufficiently to allow those banks to create, free of charge, $9 billion of new money. And these banks have increased their holdings of Federal securities enormously. Since the end of January, the weekly reporting member banks of the Federal Reserve System alone have increased their holdings of Federal securities by $6 billion.

Yet the Federal Reserve had in its surplus reserve account at the beginning of this year some $800 million. These funds were idle and unused then; they are idle and unused now, $800 million. There is no conceivable need which could arise in the Federal Reserve System for these idle and unused funds. This money should be used now to pay on our huge national debt.

Finally, it may be of incidental interest that, even in this period of recession, with between 5 and 6 million unemployed, the consumer price index has continued to advance, and was still advancing as of the last report we had.

I appreciate the committee's extreme courtesy in hearing and listening to these suggestions from me again. I do hope that the committee will again give serious consideration to them.

Now, Mr. Chairman, with your permission, I would just like to invite your attention to the Federal Reserve Bulletin which came out this morning. On page 816, you will notice that the country banks—there are 6,051 country banks in the Nation, and they have capital of $5½ billion—increased their holdings of Government securities in the past year by only a quarter of a billion dollars, or $250 million.

Now, then, compare that with the Reserve-city banks whose reserves were reduced, which reductions gave them free reserves upon which they could expand $6 to $1. Their holdings of Government securities increased from $16.8 billion to $19.8 billion in the same length of time, although they have approximately the same capital as the country banks. These 281 Reserve city banks have the same total capital as the 6,000 country banks.

Further, the 14 Chicago banks, central reserve city banks, increased their holdings of Government securities. Having been given free reserves by the Federal Reserve, these banks used them to buy Government securities; they increased their holdings from $1.8 billion to $2.4 billion. These banks have only 15 percent of the capital of all of the country banks, but they increased their holdings of Government bonds twice as much the past year.

There is one other illustration. The New York City banks, central reserve city banks, 18 of them, have a capital savings equal to about 60 percent of all the 6,000 country banks, but they increased their holdings of Government securities from $5.7 billion to $7.5 billion, an increase of $2 billion, or 8 times as much as the increase of the country banks.

In other words, reserves were given to the central reserve city banks, and to the Reserve city banks, free of charge, costing them nothing, and they used these to buy our Government securities, and we pay interest on these.

Thank you very kindly.

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The CHAIRMAN. Mr. Patman, we thank you for coming to the committee, and again giving us the benefit of your thinking on this matter.

Are there any questions of Mr. Patman?

Thank you, Mr. Patman.

Are there any questions of the Secretary and the Director?

Mr. BYRNES. First, I wonder, Mr. Secretary, if you could furnish us with your comments on the 4 restrictive proposals contained in Mr. Patman's statement, not at this point, but I mean if you could furnish us with a statement with respect to those 4 points that he made.

Secretary ANDERSON. I will be glad to, Mr. Byrnes.

(The Secretary's comments are as follows:)

LIMITATIONS THAT REPRESENTATIVE WRIGHT PATMAN WISHED TO ADD TO THE LEGISLATION INCREASING THE PUBLIC DEBT LIMIT, JULY 30, 1958

1. Require that the securities issued under the increased debt authority be sold insofar as possible to individuals, corporations, and to savings-type institutions; and that the portion which can be sold only by the creation of new money be sold to the Federal Reserve rather than to the commercial banks

The Treasury has at all times attempted, within the framework of economic conditions, to secure as large an ownership of the public debt by individuals, corporations, savings institutions, and other nonbank investors as possible and has tried to limit the participation of the banking system in the issuance of new public-debt securities. However, to require that securities not sold to nonbank investors be issued only to Federal Reserve banks and not to commercial banks is to substitute high-powered inflationary dollars for low-powered dollars. Every dollar of Federal securities acquired by the Federal Reserve banks provides reserves of an equal amount to the commercial banking system and this in turn forms the base for a multiple expansion of credit of about six times that amount.

2. Prohibit the Treasury from leaving any of its funds on deposit with the private banks

The Treasury over the years has found that it is able to offset the impact of heavy seasonal tax collections and the proceeds of new security issues by leaving on deposit in the private banks as much as possible of its collections and making calls on these deposits only to the extent that funds are needed in the Federal Reserve banks to meet regular Treasury expenditures. To have funds transferred immediately to the Federal Reserve banks would create serious problems in the money market as large sums were drained from the private banks into the Federal Reserve banks. Such transfers have the effect of shrinking bank reserves. In practice the tax and loan account balances of individual banks fluctuate widely. Because such balances remain in the private banks only a short time they must also be invested only in highly liquid and low-yielding securities.

A further point should be made that the balances held by the banks are not free of any costs to the banks. True, they can be invested and the banks do earn money on these balances until the calls are made for transfer of these funds to the Federal Reserve banks. But the commercial banks are also performing numerous services for the Government for which they are not otherwise paid: the sale and issuance of United States savings bonds; the handling of withholding social-security and excise-tax deposits; the furnishing of confidential information to the Internal Revenue Service regarding large currency transactions and interest payments; issuance of bank drafts and the cashing of Treasury checks. Beyond these services and perhaps the most important of all are the functions performed by the commercial banks in the Government securities market. Their own buying and selling contributes greatly to the creation of an efficient market. In the distribution of about $50 billion of certificates, notes, and bonds each year plus $1¾ billion of weekly bills the commercial banks are of considerable help to the Treasury in securing a quick and effective market response. All this is done without the payment of commissions as is commonly done for corporate and municipal issues. If it were not for the earnings banks make on the balances that are left with the banks until needed the Treasury would quite likely have to pay certain service charges to the banks for the work performed for the Government.

3. Require that all securities sold by the Treasury be sold on competitive bid

Basically the Treasury needs a good deal of flexibility in the management of a public debt of over $275 billion. For each new issue, the Treasury has to evaluate the needs of the Treasury for funds, the state of the economy, and conditions in the money market before deciding on what type of issue should be offered either on a refunding or for new money. Each issue has to be carefully analyzed and no fixed formula can be determined in advance. Considering these factors, the Treasury has found it practicable over the years to offer a wide variety of securities to meet changing conditions and to secure a widespread distribution of the public debt. The auction device of selling securities on competitive bid has a number of useful features, particularly in the issuance of short-term Treasury securities and has been and is used regularly. However, the device is suitable only for a sophisticated market and if it had to be used for all securities it would seriously interfere with the Treasury's objective of encouraging a widespread ownership of the public debt. The effect of this provision would be to impose an undesirable inflexibility upon the Secretary of the Treasury in carrying out his public-debt functions.

4. Set a fixed percentage by which the Federal debt is to be reduced each year

Legislation such as suggested here has a certain appeal but really does not get down to fundamentals. Regardless of what is enacted into law, the debt can be reduced only when there is an excess of receipts over expenditures. Thus to set a specific annual rate of reduction does not meet the problem. Consideration of a reduction in the public-debt limit is appropriate only when a surplus of receipts over expenditures is evident in the foreseeable future and when it is consistent with the then existing economic conditions.

Mr. BYRNES. I gather what you are really asking is to increase the debt limit to $288 billion between now and 1960.

Secretary ANDERSON. Yes; of which $285 billions would be permanent.

Mr. BYRNES. That is $10 billion over the $275 billion as permanent, and then a $3 billion temporary raise. Yet I note on your chart here, the first one, you do have a point here where on June 15, 1959, you show a requirement of $290.2 billion. At that point is it your intention that you draw on the operating balance or the elbow room, in this column "Allowance to provide flexibility"?

Secretary ANDERSON. That is correct, we would simply reduce that.

Mr. BYRNES. During that period you figure that you can get by without the flexibility element or use the flexibility element to take care of that particular point?

Secretary ANDERSON. In view of the fact that this was the only point where it ran substantially above $288 billion, we felt that we could afford the risk of running down our balances in the operating and contingency funds.

Mr. BYRNES. You anticipate the possibility of using all of the authority that is given to you by the proposed increase within the coming fiscal year?

Secretary ANDERSON. Yes, sir. You realize, of course, Mr. Byrnes, that we find it exceedingly difficult and yet we have to be precise in making our best estimates and know as best we can exactly what the amounts will be, so these are the best estimates we have. According to these, we will use all of the authority that we are asking for.

Mr. BYRNES. I would like to ask Mr. Stans, what was your estimate of expenditures when you appeared here last February?

Mr. STANS. That is for fiscal 1959, you mean?

Mr. BYRNES. Yes; do you recall what that was? You are now estimating at $79 billion from your statement.

Mr. STANS. The January estimate in the budget was $73.9 billion, and I don't recall any specific supplementary estimate made in February.

Mr. BYRNES. In other words, the change now in the fiscal picture results from two things. As I gather from the Secretary's statement, there is about $3.3 billion less in revenue anticipated from what was estimated in February. In January you estimated 72.4, and now you are estimating 69.1.

Secretary ANDERSON. We are estimating $67 billion.

Mr. STANS. In January we estimated 74.4.

Secretary ANDERSON. That is on page 2, Congressman Byrnes, you will see in the third paragraph of my statement that figure.

The CHAIRMAN. The 69.1 figure is actual receipts as I recall.

Secretary ANDERSON. Yes; in the second paragraph.

Mr. BYRNES. I am sorry. Could you repeat that, Mr. Secretary?

Secretary ANDERSON. The actual revenues for the year 1958 were $69.1 billion, instead of the estimated $72.4 billion. Then the estimate of revenue for fiscal 1959 is currently $67 billion.

The CHAIRMAN. Against the January estimate of what?

Secretary ANDERSON. I was 74.4. Mr. Chairman, there is one typographical error that I should like to call your attention to on this first sheet that Congressman Byrnes has referred to. On the right-hand column, the fifth figure down reads "288.6." Just for the record that should be clarified to read "278.6" at that point.

Mr. BYRNES. To go back to this other figure, in other words, when you were here on January 17, I believe it was, the estimate at that time was $74.4 billion as far as revenue receipts for fiscal year 1959 were concerned, and now your estimate is $67.1 billion.

Secretary ANDERSON. It is $67 billion.

Mr. BYRNES. So that you have a difference of $7.4 billion less revenue than you anticipated at that time, which, of course, will throw off your figures to that extent. Then on the expenditure side, it is my understanding that the estimates of expenditure in January for fiscal 1959 were $73.9 billion.

Mr. STANS. That is correct.

Mr. BYRNES. And now your estimate is $79 billion so you have an increase in expenditures above estimates of $5.1 billion, and so when you combine the two there is a difference of $12.5 billion in the present estimate compared to what you were estimating in January of this year when we discussed the matter of the $5 billion temporary increase in the budget.

Mr. STANS. That is correct. In January it was estimated that we would have a surplus of a half billion dollars, and now we estimate a deficit of approximately $12 billion.

Mr. BYRNES. So although the situation is going to be in excess of $12 billion worse than you estimated it in January, you are only requesting a net increase in the debt at least as far as the period up to June of 1960, of $8 billion.

Secretary ANDERSON. If you take into consideration the temporary $5 billion which now exists, yes.

Mr. BYRNES. What I am trying to point out is that even though there has been a change in estimates to a worsening of the situation by almost $12½ billion, all you are asking for is a change in the debt ceiling covering the same period of $8 billion.

Secretary ANDERSON. That is correct, sir.

Mr. BYRNES. So that, in a sense, you are going to operate on a closer basis. Assuming your estimates are equally tight as they were last January and you haven't loosened the estimates up, you are going to operate on a tighter position in the next fiscal year through your own willingness to do so than you were willing to do last January when you were asking for the $5 billion based on the estimates that you were then using.

The CHAIRMAN. If you will let me interrupt you at this point, Mr. Byrnes, actually we have used up of that $5 billion temporary, more than $2 billion with respect to the fiscal year that has just ended, because the deficit there was 2.8 compared to an estimated deficit of $0.4 billion, as I recall.

Now, that leaves of that $5 billion then some $2 billion or $2.5 billion, whatever the figure is, plus the $8 billion addition. It gives him less debt ceiling increase than the estimated deficit by some $2 billion.

Mr. BYRNES. That is the point I am trying to make. You are going to be willing to face up to a tighter situation and ask for less of an increase in the debt compared to the situation that you now estimate than you were last January?

Secretary ANDERSON. That is correct, and I might say that even this is only possible because of the relatively greater cash balance which we had at the end of June of this year, as compared to the cash balance we had at the end of June last year, which was in part of the statement.

But it is a tighter situation.

Mr. BYRNES. What is the free gold situation now? You exclude free gold in the first column?

Secretary ANDERSON. We have approximately $400 million of free gold.

Mr. BYRNES. I would like to ask Mr. Stans if he could furnish us with a further breakdown of item 6 in your statement. It would seem to me that $1.5 billion of expenditure increases could be broken down more than just a miscellaneous category.

The CHAIRMAN. By giving an amount for each of these items.

Mr. BYRNES. To the extent it is possible. I think that that is too big an amount to just throw in a miscellaneous category, if it is possible for you to identify it a little more. Also, you stated in several places in your statement, Mr. Stans, that this whole thing can be thrown off by certain legislation that is presently pending and has cleared one House or the other. I wonder if you could advise us of the list of those particular items with the budget estimates that accompany them.

The CHAIRMAN. I think in that connection, Mr. Byrnes, it would be interesting if the Director of the Bureau of the Budget would tell us what additional amount will be spent in fiscal year 1959 if this community facilities bill passes, because the Rules Committee on yesterday granted a rule for House consideration of it. I understand it will be considered by the House either this week or next week.

If that passes and becomes law, how much additional spending will be involved in the fiscal year 1959?

Mr. STANS. Mr. Chairman, I have a list here of a number of items that are pending in the Congress which could increase the budget for fiscal 1959. I will give you those figures with particular reference to the size of the programs, and then, of course, will have to estimate what the effect on expenditures will be of commitments of that total size. The first item is the appropriation bill for the Department of Health, Education, and Welfare, which was increased $162 million above the budget.

The next is new legislation to extend the program of aid to airports, which would involve a program of $112 million for fiscal 1959.

Mr. FORAND. That is for what?

Mr. STANS. Aid to airports.

Mr. IKARD. Is that a new program, or a renewal of one that is now expiring?

Mr. STANS. It is an extension of a program at a lower level which would otherwise expire.

The CHAIRMAN. It is the amount in excess of your budget estimates, at any rate?

Mr. STANS. All of these figures that I am now giving are amounts in excess of the budget estimates. Then there is the appropriation bill for public works which would add $49 million to the 1959 program, but has in addition 74 new starts of public works programs of a total cost of approximately $1 billion, and would therefore add substantially to the 1960 and subsequent budgets as well.

Mr. KARSTEN. But the $1 billion is not this year. That would be spread over a period of years.

Mr. STANS. The first year program would be about $49 million.

Mr. CURTIS. Over a total of how many years is that $1 billion spread?

Mr. STANS. I don't know specifically and it would depend upon the extent of the appropriations but I would estimate about 4 years more.

Mr. KARSTEN. The immediate impact is $49 million.

Mr. STANS. Yes, sir.

The CHAIRMAN. Usually these projects are completed in a 5-year period, aren't they? In addition to this there would be 4 additional years.

Mr. IKARD. With the peak about 3 years away.

Mr. STANS. With the peak a couple of years ahead, that is right.

Next is the Department of Defense appropriation bill which contains appropriations of approximately $1¼ billion above those estimated in the budget.

The CHAIRMAN. Is that above the estimate of $79 billion that you gave?

Mr. STANS. To the extent that that would create expenditures in fiscal 1959, that would be above the defense budget included in the $79 billion estimate.

The CHAIRMAN. It would be included.

Mr. STANS. That is above the $79 billion.

The CHAIRMAN. It would be excluded from the $79 billion?

Mr. STANS. That is right. Then there is the public facilities bill, which we estimate would involve a first year program of not less than $1 billion.

Mr. CURTIS. Not less than $1 billion.

Mr. STANS. Under the House version of the bill, that is right.

You may recall, Mr. Chairman, that the Senate bill would increase the existing authorization by $900 million, and the House bill would increase the existing authorization by $1 billion.

Mr. HARRISON. What bill was that?

Mr. STANS. The public facilities bill.

Mr. IKARD. Is that the community facilities bill?

Mr. STANS. Yes, sir.

The CHAIRMAN. Is that the one I referred to earlier having been reported by the Rules Committee on yesterday?

Mr. STANS. That is correct. There is also a bill providing for educational television we would estimate would cost $50 million. There is a waste treatment facilities bill providing for a 10-year program of which the first year would be $100 million.

The CHAIRMAN. Have these last two bills been reported by committees or have they just been introduced?

Mr. STANS. The educational television bill has passed the Senate and is in the House committee.

The CHAIRMAN. What about the second one that you mentioned?

Mr. STANS. The waste treatment facilities bill has been reported out by the House committee.

Mr. CURTIS. Those are initial things that will continue, too, I presume. You gave us the initial figure.

Mr. STANS. The waste treatment bill specifically provides for a 10-year program at $100 million a year. The educational television bill I believe is a temporary bill, providing for grants to the States not to exceed $1 million in any year to any State.

Then there is a new housing bill passed by the Senate, and now in the House committee which would increase the budget figure for the first year from a $400 million program to a $975 million program and also would have substantial increases in succeeding years.

There is also the small-business investment bill, which was not in the budget, which would have a $50 million program the first year, and there is the Atomic Energy Commission authorization bill which is approximately $200 million above the administration's proposal; I may say, as to that, that the Appropriations Committee action so far has not exceeded the administration's recommendation.

Offsetting this list are possible reductions I mentioned in my opening statement. The House action has reduced the Department of Defense construction bill by $511 million, and, of course, the mutual security appropriation is still pending.

Those are the items, Mr. Chairman, that could increase to some extent the expenditure figure of $79 billion for fiscal 1959. It would be very hard at this time to estimate how much these potential increased authorizations would actually increase expenditures, but I would say in a rough order of magnitude that if all of these were enacted the expenditures would increase approximately and roughly another $1 billion above the $79 billion in fiscal 1959.

The CHAIRMAN. May I ask, Mr. Stans, isn't it really safer from the point of view that we have to take with respect to this matter for us not to rely upon a level of expenditures of $79 billion, but for us in order to be absolutely safe with respect to the debt ceiling to assume a level of expenditures in fiscal 1959, of $80 billion? Even this would only be on the basis of what we now know, and not on some future contingency about a shooting war in Lebanon or somewhere else.

Mr. STANS. I think it is more likely that the expenditures will be closer to $79 billion than to $80 billion but in a matter like this, where you are tying the hands of the Secretary of the Treasury particularly over a period of months when Congress isn't in session, and can't change the debt limit, I would certainly agree that it would be reasonable to assume the figure of $80 billion because it could very well come up to that level.

The CHAIRMAN. May I just ask one further question? We talked exclusively about the 1959 fiscal year. When we discussed this matter in February, and when you were before us then, we looked ahead of 1959 and perhaps into 1960. If we attain a $79 billion or $80 billion spending level in fiscal 1959, is there any likelihood that you foresee that the spending level will be below that in 1960 fiscal year?

Mr. STANS. There is a possibility. There is an interplay of factors that has to be considered. On the side tending toward an increase in 1960 is the fact that there are many in-built growth factors in the programs of the Department of Defense and the Atomic Energy Commission and some of the other agencies that tend to push their levels of spending higher from year to year. On the other hand, as a possible offsetting factor, there is the fact that some of the programs effective in fiscal 1959 may not necessarily recur in fiscal 1960.

The CHAIRMAN. There will be something else to take their place.

Mr. STANS. I am referring specifically, Mr. Chairman, to the Federal augmentation of State unemployment insurance benefits, and the unusual program of purchasing of mortgages by FNMA to the extent of $1 billion and so forth, some of which programs were enacted as antirecession measures. If we don't have any necessity for antirecession measures in fiscal 1960, and I certainly hope we won't, some of those programs can be eliminated.

That may make it possible for the 1960 budget not to be any higher than the 1959 budget.

The CHAIRMAN. But on the other hand, do we not know that in the 1960 fiscal year and 1961 fiscal year, our expenditures in certain areas will be much higher than in 1959 fiscal year, because of the commitments that we are making in calendar year 1958 with respect to those areas?

Mr. STANS. That is entirely correct.

The CHAIRMAN. So for anything we foresee on the reduction side, we can also see situations that will probably overcome those reductions.

Mr. STANS. That is entirely correct, and I would not be sure today whether the balance will fall toward an increase or toward a decrease, net.

The CHAIRMAN. The great fear I have about the future, Mr. Stans, is this: Once we attain a level of spending of $80 billion, and have to maintain defense preparedness to the extent we do it will take some years to get below that level of spending. We won't do it in 1960 and we may not do it in 1961, and we may find ourselves not doing it over the period of 4 or 5 years in the future.

Mr. STANS. I think regretfully I must agree with you, Mr. Chairman.

The CHAIRMAN. I don't like it, don't misunderstand me, and I say it is a thing that I fear. We have gotten ourselves into that situation where we may well spend, including 1959, over a period of 5 fiscal years, as much as $400 billion of Federal funds. Is there that possibility?

Mr. STANS. I think it is a strong possibility, yes.

The CHAIRMAN. It is quite evident, therefore, that we are dealing here with nothing in the world but the debt ceiling for fiscal 1959, and that in spite of the fact that we are continuing this temporary provision of $3 billion to June 30, 1960, we cannot say to the House and to the country that we are taking care of all of the contingencies that we can foresee in the way of debt or increases in debt between now and June 30, 1960. Is that not right?

Secretary ANDERSON. That is correct, and that is the reason why I point out in our statement that we will have to look at the situation again before the end of the fiscal year.

Mr. HOLMES. The series of questions that the chairman and 1 or 2 questions of Mr. Byrnes have directed to you, I do not want to repeat because I was going to take up the questions leading to the facts that have been revealed by Mr. Byrnes' and the chairman's questioning.

But now I would like to shift back from the figures or the estimates of the figures of the debt limit to get into the problem of revenue, and the budgeting and the sources of revenue and how they come in. The first question I wish to ask is this:

In these estimates drawn out by your testimony and by Mr. Byrnes and Mr. Mills, getting back into the mechanics of the movements of revenue, are you going to have any peculiarities more exaggerated in anticipated incoming revenues and their unevenness than you have had, do you think?

I am trying to figure out the elbow room that you have, and I think your elbow room is awful tight.

Secretary ANDERSON. The elbow room is tight, Mr. Holmes, and what we have done as you can see is to take the three points in a month, the beginning of the month, and the middle of the month, and the end of the month. But there isn't any mechanism by which you can foresee how under the choices that taxpayers have as to the way in which they are going to pay their taxes, as precisely the fluctuations that will occur in these intermediate periods. Nor is there any way for us to determine precisely in advance as to whether or not during some of these intermediate periods there isn't a much larger delivery of goods to the Defense Department than we currently anticipate; and, of course, when they are delivered we pay for them.

So there can be swings of several billion dollars in the period from the 1st of the month to the 15th of the month.

It is another emphasis of the reason why we feel that asking for the $3½ billion in operating funds, and the contingency fund, is a modest operating balance under the circumstances.

Mr. HOLMES. Emphasizing that point again, as the Irishman says, "These matters move steady by jerks," and they move steady but they have their high points and their low points in there. To try and get a mechanical operation within those high points and low points is a very difficult thing.

Now, again asking this question, do the months forthcoming in the rest of the fiscal year have differences in the movement of that revenue anticipated, that income revenue, due to the uncertainty of recovery and so forth and so on, in the recession, that will be more exaggerated in the future than the last 6 months of fiscal 1958? Do you think there are any of those conditions showing?

Secretary ANDERSON. I would not believe that there are any inherent factors that would necessarily lead us to believe there would be wider swings except for the fact that in the September and December payment of corporate taxes there might be some fairly wide fluctuations.

Mr. HOLMES. The reason I am questioning is because before this thing is over, somewhere along the line we are going to get some people that want to count closely. They are going to count dollars on the amount this debt ceiling should be raised, and the amount that they will grant you. I don't know of any business in America in corporate form, and I am familiar with several corporate forms of business, where you budget as close as 30 days like we do in the Government. That is why I would like to emphasize that it is utterly impossible to get down to the absolute limitation. By illustration of that phrase I mean just right down to dollars and you can have, $5 billion now, Mr. Secretary and we will give you $1 billion or $2 billion more if you need it in installments so to speak.

You won't have any elbowroom in there to operate, and I don't see how you can budget any closer than you are. As I say, I don't know of a corporation that is budgeting on a 30-day basis now.

Secretary ANDERSON. I think, very frankly, that we are budgeting more modestly than most businesses in this country would budget. We are trying to be as modest and as conservative as possible, with any degree of reasonable safety.

Mr. HOLMES. The reason I am bringing this up is becuase, Mr. Secretary, we are going to run into a lot of Congressmen that are going to say, "Why do they have to have $10 billion all at once? Why can't we given them some installments?" That is going to be one of the most important questions that is going to be raised to members of this committee. It is going to be raised over on the Senate side, if you will pardon me.

Secretary ANDERSON. I am fully aware of it, sir. I would like to point out one thing which, I think, might be helpful to you in this regard. On the bottom of page 3 of my statement:

> During the period since 1954, while the Treasury has been operating under temporary increases in the public-debt limit, and public-debt obligations were issued in excess of the permanent debt limit, it could be reasonably estimated that the excess could be repaid from tax collections prior to the expiration of the temporary increases in the debt limit, and, in fact, they were.

In other words, each of these times when we have come up and said we would like to have a temporary increase, the fiscal circumstances for the then foreseeable future were such that you could pay back at the end of the fiscal period to the permanent debt limit. Now, this is just not the case. I think, as a matter of intellectual integrity, if I should say to this committee that we simply wanted a $13 billion temporary increase, the committee members would be entitled to ask me, "Where do you propose to get that $13 billion by July 1, 1959, with which to pay it back?"

Obviously, I do not believe that we can foresee that taxes are going to be increased in order to provide that amount. We have just been looking at the range of expenditures, and it does not seem to be reasonable to think that expenditures will be reduced by that amount, and, even if we assume a sustainable rate of growth in the country in view of the fact that we tax profits and there is a lag, it is not reasonable to assume that growth will provide the difference.

So, if the debt limit is to be meaningful, then I think, as a matter of dealing with intellectual honesty with the problem, we must say we must have the $10 billion of permanent increase.

Mr. HOLMES. That comes back to the operations of those revenues and the growth factors, and so forth, that have to come in to give you the elbowroom in which to operate.

Secretary ANDERSON. That is correct.

The CHAIRMAN. Are there any further questions?

Mr. STANS. Before you proceed, I would like to answer one of the questions that Congressman Byrnes asked me, as to the details of item 6 in my opening statement, regarding the miscellaneous increases in the expected expenditures for fiscal 1959 amounting to $1.5 billion. Now, these consist of the following items, in approximate round amounts:

The additional payment to the civil-service retirement fund would be $600 million. The extent to which the postage-rate increases fell short of the President's recommendations was about $300 million. The acceleration of the programs of the Corps of Engineers and the Bureau of Reclamation amount to about $200 million.

There would be a supplemental appropriation of $125 million for the new Space Agency to augment the funds now available in the Department of Defense for activities in outer space. This is being transmitted to the Congress today.

The expenditures of the Atomic Energy Commission will exceed the budget by, roughly, $100 million.

Expenditures under the Defense Production Act to pick up "puts" of certain materials will amount to $75 million.

There are numerous smaller increases, such as the construction program for the Post Office Department, and others, in supplemental bills that have been transmitted recently, that amount to several hundred million dollars.

That has all been rounded out to $1.5 billion for the purpose of this statement.

Mr. BYRNES. Could I ask what you meant by the defense mobilization "put"?

Mr. STANS. We have contracts executed during the time of the Korean war to purchase certain types of materials, principally aluminum, when tendered to us by the producers. The producers are now placing quantities of their materials with the Government in excess of the amount we had expected in the budget.

Mr. FORAND. Mr. Secretary, Mr. Patman made a point relative to the $3.5 billion lying around in private banks all over the country. I recall a couple of years ago, not this latest increase in the debt ceiling, but the one previous to that, Senator Byrd made a statement about the same point. Now, I expect that is going to be asked of us on the floor of the House. What is the proper answer to be given to that point?

Secretary ANDERSON. Well, in the first place, I think that the commercial-banking system does perform a number of services which are important to the Government. One is the sale and issuance of United States savings bonds, which has been in very large amounts. Second is the handling of withholding taxes and social security and all excise-tax deposits are carried through on that system.

Third, and a very important one, is the distribution to bank customers of the announcements and receipt of the subscriptions which we take for all kinds of Government securities.

Next is the furnishing of confidential information to the Internal Revenue Service regarding large currency transactions, and interest payments, and other matters which are applicable to that service.

And the issuance of bank drafts at the request of the Government, and the handling by most banks, without charge, of all Treasury checks.

Mr. CURTIS. This is all without charge, isn't it?

Secretary ANDERSON. Yes, and there has been a considerable amount of discussion between the Treasury and the Comptroller General on this point, and I would be glad to enlarge upon the scope of what I have said to you, if you would like for me to do so.

Mr. FORAND. I would like you to do that, for the purpose of the record, so that we will be able to answer that question, which I am sure will be put to us.

Secretary ANDERSON. I am sure you understand, under these tax and loan accounts that what really happens, Congressman, is that when a taxpayer pays an income-tax payment, the tax is deducted from the account of the taxpayer and entered into the account of the tax and loan account, and then it becomes subject to the call the Treasury. We from time to time issue calls against those accounts for transferring the funds into the Federal Reserve System in the rate and order in which we need the money, so that no bank even though the balance for a period of time may run quite high, has any assurance that he would not be called on in a very short time, and usually is as a matter of fact, for deposit or transfer of those funds to the Federal Reserve System in order that we can use it.

The CHAIRMAN. How long will it take you to get the information now that Mr. Byrnes and Mr. Forand have asked you to supply for this record?

Secretary ANDERSON. I think we can have all of this information for you by tomorrow.

(The information requested, with the exception of Mr. Byrnes' request, which is on p. 34, is as follows:)

TREASURY COMMENTS ON PROPOSAL THAT CONGRESS ENACT LEGISLATION PERMITTING BANKS TO PAY INTEREST ON BALANCES IN TREASURY TAX AND LOAN ACCOUNTS

I. BACKGROUND

Exhibit 1, attached hereto, contains a brief history of the tax and loan accounts and a summary of current operating procedures. Exhibits, 2, 3, and 4 contain data reflecting the volume of transactions in the accounts during the calendar year 1957.

II. PROBLEMS INVOLVED IN REQUIRING BANKS TO PAY INTEREST ON TAX AND LOAN ACCOUNTS

(a) Interest rate on Government securities

Experience has shown that when banks are permitted to make payment by a deposit credit in their tax and loan account for the purchase price of Government securities, the rates of interest paid on such issues are less than otherwise would be paid if the funds did not clear through the account. For example, there is listed below information with respect to eight different issues of Treasury bills, which is self-explanatory:

Special issues eligible for payment by credit in tax and loan account		Regular weekly issues not eligible for payment by credit in tax and loan account	
Date of issue	Rate	Date of issue	Rate
	Percent		*Percent*
Oct. 17, 1956	2.656	Oct. 18, 1956	3.030
Nov. 16, 1956	2.617	Nov. 15, 1956	2.979
Dec. 17, 1956	2.585	Dec. 20, 1956	3.331
May 27, 1957	2.824	May 31, 1957	3.245

It is reasonable to assume that any payment of interest on balances in tax and loan accounts would be reflected in higher interest rates which it would be necessary for the Treasury to pay on Government securities. This would be particularly significant during periods of heavy borrowing as occurred during World War II.

(*b*) *Effect on volume of transactions in tax and loan accounts*

Should the Congress enact legislation requiring banks to pay interest on balances in tax and loan accounts, the volume of funds cleared through the accounts would possibly be materially reduced. The greater part of credits in tax and loan accounts represents transfers from accounts of customers of banks and, therefore, does not represent "new" money to the banks. It stands to reason that many banks, rather than take the money out of their customers' accounts and immediately credit same in their tax and loan accounts and pay interest on such balances, would discontinue clearing the funds through the tax and loan accounts and take advantage of the "float" in their favor which results when their customers make payments by check either to Federal Reserve banks or directors of internal revenue. Such action on the part of banks would defeat the purpose for which tax and loan accounts are maintained and as a result would create many problems for the Treasury.

(*c*) *Determination of earning value to banks of Treasury tax and loan account balances*

The wide fluctuations in the balances in tax and loan accounts as reflected in exhibit 5 make the earning value of the balances highly questionable for the majority of banks. Most banks are not in a position to invest the fluctuating portions of the account for the short time that the funds are available to them.

It is significant to note, also, that balances with member banks are subject to reserve requirements of the Federal Reserve Board averaging approximately 16 percent and subject to insurance assessments of the Federal Deposit Insurance Corporation.

III. PROBLEMS ENCOUNTERED IN ALLOWING CREDIT TO BANKS FOR SERVICES RENDERED TO THE GOVERNMENT FOR WHICH THEY ARE NOT OTHERWISE COMPENSATED

The recommendation of the Comptroller General that present laws be amended to permit the banks to pay interest on balances in tax and loan accounts is coupled with the proposal that credit be allowed banks for services performed for the Government for which they are not otherwise compensated. This proposal contemplates the payment of fees to banks for services rendered the Government. In his audit report to the Congress covering the Office of the Treasurer of the United States for the fiscal year ended June 30, 1954, the Comptroller General mentioned the following services performed by banks for which they were not compensated:

1. The sale and issuance of United States savings bonds.
2. The handling of withholding, social security, and excise tax deposits.
3. The distribution to bank customers of announcements and the receipt of subscriptions for other Government securities.
4. The furnishing of confidential information to the Internal Revenue Service regarding large currency transactions and interest payments.
5. The issuance of bank drafts.

Other functions performed by banks such as the cashing of Treasury checks without charge against individual payees are not included in the services set forth above. Many banks look upon the cashing of Treasury checks as a service to the Government and do not make a charge against the individual payees of the checks. On the other hand, a substantial number of banks throughout the country do make a charge against individuals for cashing Treasury checks. Should a system of paying fees be adopted, the question would be raised immediately as to whether or not the cashing of Treasury checks without charge is a service for which the banks should be paid.

The Comptroller General's recommendation provides that the fees to which banks would be entitled for services rendered the Government would be credited against the interest charged the banks on balances in tax and loan accounts. This would not be possible in all cases inasmuch as there are approximately 14,500 banks throughout the country which render services to the Government, but only 11,000 of such banks maintain tax and loan accounts on their books. Also, other financial institutions and commercial concerns render some of the services mentioned by the Comptroller General. The payment of fees could not, of course, be limited to those banks which maintain tax and loan accounts on their books.

Comments with respect to the payment of fees to banks for rendering the five services mentioned by the Comptroller General in his report to the Congress covering the Office of the Treasurer of the United States for the fiscal year 1954 are set forth below:

1. *The sale and issuance of United States savings bonds.*—The attached statement, exhibit 2, shows that banks issue at least 59 percent of all savings bonds sold. Banks absorb substantial amounts of expenses not only in connection with the actual issuance of savings bonds but also in advertising and sponsoring the program in their local communities. It would be impossible to place a dollar value on the services rendered by banks throughout the country in connection with the savings bonds program. The sale and issuance of savings bonds is not confined to banks. There are approximately 8,000 commercial concerns throughout the country which also act as issuing agents for the bonds. If it were decided to reimburse banks for expenses incurred in connection with the savings bonds program, it would be necessary to give the same consideration to the other 8,000 agents.

2. *The handling of withholding, social security, and excise tax deposits.*—The Comptroller General, in his report to the Congress, estimates that the cost to banks of rendering this service is 5 cents per transaction. If it were decided to pay banks a fee for this service, I am sure they would be able to prove conclusively that their expenses (tellers' time in accepting payments, preparation of transmittal letters to Federal Reserve banks, and postage) in connection with the handling of each transaction greatly exceed 5 cents.

3. *The distribution to bank customers of announcements and the receipt of subscription for other Government securities.*—Banks distribute announcements and receive subscriptions for the purchase of marketable securities and they handle matured marketable securities for redemption or for exchange into new issues. Banks also render considerable assistance to the Treasury in the weekly sale and distribution of Treasury bills. Treasury bills are usually issued with maturities of 91 days, with an issue maturing each week for 13 consecutive weeks. The proceeds of these bills are not deposited in tax and loan accounts. In bidding for Treasury bills many subscribers submit their tenders through banks, the banks check with dealers on possible bid ranges and enter their customer's bid for the amount requested. It would not be feasible to pay banks fees for rendering these services.

4. *The furnishing of confidential information to the Internal Revenue Service regarding large currency transactions and interest payments.*—The Comptroller General, in his report to the Congress, stated that these services are of value to the Government but he had no basis for estimating the amount of expenses incurred by banks in rendering the services. The Treasury also is not in a position to accurately estimate the amount of such expenses. It is important to point out that financial institutions, other than banks, also render these services. It is conceivable that, if banks and other financial institutions were paid a fee for rendering the services, the cost to the Government would run into a very large sum of money.

5. *The issuance of bank drafts.*—In order to facilitate the transmission of miscellaneous collections made by public officers to Federal Reserve banks and branches for credit in the account of the Treasurer of the United States, arrangements have been made with approximately 2,300 banks throughout the country to issue bank drafts to Government officers in exchange for their collections. The terms and conditions under which the bank drafts are issued are set forth in our Bank Draft Procedure Manual, copy attached as exhibit 6. Treasury balances are maintained with approximately 2,000 of the banks as a basis for rendering the service, the other 300 banks having elected to render the service without the

benefit of a Treasury balance. These 300 banks could at any time request and receive a Treasury balance based upon the volume of drafts they are furnishing Government officers. The compensation to banks for issuing drafts is now being taken care of under a procedure which has been in effect for the past several years. The present procedure has proved to be satisfactory in every respect.

Should the Congress enact legislation requiring banks to pay interest on balances in tax and loan accounts and providing for the compensation of banks and other commercial concerns, either on a fee basis or reimbursement of actual expenses, for services rendered the Government, it would, of course, be necessary for the Treasury to obtain additional employees to handle the tremendous volume of work involved. How many additional employees ultimately would be required to (1) handle the collection of interest on balances in tax and loan accounts and (2) review, settle, and pay claims of banks for services rendered, only time and experience would tell.

IV. CONCLUSIONS

The payments to banks and other agents for services rendered plus the substantial additional administrative expenses of the Treasury and increased interest payable by the Treasury on public debt obligations would, in the opinion of the Treasury, exceed the interest collected on balances in tax and loan accounts. The question of expenses, while very important, is not the primary consideration. The Congress has provided a flexible means of regulating the Treasury's money flow by authorizing the Secretary to maintain deposits with banks and to withdraw such deposits as they are needed for Government expenditure. The exercise of this authority requires the application of a great deal of judgment and discretion. It cannot be reduced to a mechanical process and the depositary services rendered by banks cannot be reduced to a dollar value.

EXHIBIT 1

OPERATION OF SPECIAL DEPOSITARIES (TAX AND LOAN ACCOUNTS)

The system of "special depositaries" originated during World War I. The first Liberty Loan Act of 1917 provided that banks purchasing securities issued under terms of the act, for their own account or for the account of their customers, could deposit the proceeds from such purchases into special accounts known as war loan accounts. Until 1935, deposits in these accounts were not subject to reserve requirements. Originally the banks were required to pay 2 percent interest on such deposits. However, this was considerably below prevailing interest rates at that time. In the early 1930's, this interest rate was lowered and then eliminated entirely along with interest payments on other demand deposits in keeping with the provisions of the Banking Act of 1933.

During the 1930's, receipts from the sale of Government securities were relatively small and comparatively little use was made of the war loan accounts.

The heavy borrowing requirements of the Federal Government accompanying World War II provided a need for the Treasury to utilize more fully the war loan accounts. The act of April 13, 1943 (57 Stat. 65) suspended, for the duration of hostilities plus 6 months, all reserve requirements and Federal deposit insurance assessments against balances in these accounts. The accounts were again subject to reserve and insurance requirements after June 30, 1947.

Following World War II, the Congress provided for wider uses of these accounts by authorizing the Treasury to use them for processing certain tax receipts. Beginning with March 1948, the banks were permitted to credit to these accounts receipts of withheld income taxes, which previously had been turned over to the Federal Reserve banks monthly or more frequently. On January 1, 1950, the Treasury revised the system for deposit of withheld income taxes and extended the provisions for deposit to war loan accounts to include deposits of payroll taxes from the old-age insurance program. The war loan accounts were renamed "Tax and loan accounts" on January 1, 1950.

Other taxes have since been made eligible for deposit in these accounts. Under a special arrangement, large quarterly payments (checks of $10,000 or more) of income and profits taxes, may be deposited in tax and loan accounts when, and to the extent, that the funds are not immediately needed by the Treasury. This arrangement was first provided for quarterly tax payments of March 1951.

Beginning in July 1951, railroad retirement taxes became eligible for deposit to these accounts. In July 1953, certain excise tax payments became eligible.

It must be borne in mind that deposits are not made by the Treasury into these accounts. Deposits to the tax and loan accounts occur in the normal course of business under a uniform procedure applicable to all banks whereby customers of bank deposit with them tax payments and funds for purchase of Government securities. In most cases the transaction involves merely the transfer of money from a customer's account to the Government's account in the same bank. On occasions, to the extent authorized by the Treasury, banks are permitted to deposit in these accounts proceeds from subscriptions to public debt securities entered for their own account as well as for the account of their customers.

The working cash of the Treasury is held in the Federal Reserve banks and branches. The Treasury draws upon these balances for its daily disbursements. As these balances become depleted they are restored in part through various receipts deposited directly to the Treasurer's account at the Federal Reserve banks. However, a large part of the receipts to these accounts is derived by calling in (transferring) funds from the tax and loan accounts in commercial banks.

In brief, the tax and loan account system permits the Treasury to leave funds in the banks and in the communities in which they arise until such time as the Treasury needs these funds for its operations. In this way, the Treasury achieves a balancing effect not obtainable by any other known device, and thus discharges its primary fiscal responsibility of so handling its money as not to affect unduly the economy.

Special depositaries are divided into three groups as follows:

Group A: Those banks whose tax and loan account balance is less than $150,000. Withdrawals from these banks are made less frequently than from banks in the other two groups. There are 9,582 banks in this group.

Group B: Those banks whose tax and loan account balance is $150,000 or more, except those banks which are included in group C. Withdrawals from group B banks are usually made at least twice each week. The frequency of withdrawals from this group of banks will vary depending upon the need for funds at the Federal Reserve banks. There are 1,340 banks in this group.

Group C: Those banks having total deposits amounting to $500 million or more as shown by the latest "call" reports of the bank supervisory authorities. Calls for withdrawals of balances with group C banks are usually made at the same time as calls on group B banks. However, calls on C banks are subject to later adjustment by way of an increase, decrease, or cancellation on any particular day that Treasury closing balances in the Federal Reserve banks are expected to deviate substantially from the desired level. There are 45 banks in this group.

The Treasury, to the extent possible, gives advance notice of withdrawals to the three groups of banks.

EXHIBIT 2

Percent of tax and loan credits to total deposits for period January–December 1957

[In millions]

	Total deposits	Tax and loan credits	
		Amount	Percent of total
U. S. Government securities:			
Savings bonds	$4,604	$2,725	59.2
Other marketable public-debt issues [1]	15,083	14,965	99.2
Income and social-security employment taxes withheld by employers, railroad retirement taxes withheld by employers, and certain Federal excise taxes	45,550	27,974	61.4
Certain cash payments of individual and corporation income taxes, represented by checks of $10,000 and over, eligible for deposit	4,093	4,093	100.0
Total	69,330	49,757	71.8

[1] Excludes regular weekly issues of Treasury bills.

Exhibit 3

Tax and loan credits for period January–December 1957

[In millions]

Month	U. S. Government securities		Income and social-security employment taxes withheld by employers, railroad retirement taxes withheld by employers, and certain Federal excise taxes	Individual and corporation income taxes represented by checks of $10,000 and over	Total
	Savings bonds	Other marketable public debt issues			
January	$304		$1,171		$1,475
February	233		3,014		3,247
March	227	$3,261	2,757	$1,847	8,092
April	227		1,192	23	1,442
May	240	1,485	3,015		4,740
June	214		2,906	2,086	5,207
July	246	2,922	1,247	137	4,552
August	215	1,693	3,002		4,910
September	197	2,692	2,862		5,751
October	202	1,334	1,222		2,759
November	195	1,030	2,824		4,049
December	223	548	2,762		3,533
Total	2,725	14,965	27,974	4,093	49,757

Exhibit 4

Tax and loan accounts for period January–December 1957

[In millions]

Month	Deposits	Withdrawals	Month	Deposits	Withdrawals
January	$1,475	$3,238	August	$4,910	$4,411
February	3,247	2,381	September	5,751	3,265
March	8,092	4,208	October	2,759	6,004
April	1,442	3,838	November	4,049	3,037
May	4,740	3,938	December	3,533	4,033
June	5,207	5,443			
July	4,552	5,801	Total	49,757	49,597

Exhibit 5

Bank Draft Procedure Manual

Treasury Department,
Office of the Secretary,
Fiscal Service, Bureau of Accounts,
Washington, D. C., January 7, 1949.

GENERAL PROCEDURE

1. *Purpose of procedure.*—The purpose of this procedure is to facilitate the transmission of miscellaneous collections made by public officers to Federal Reserve banks and branches for credit in the account of the Treasurer of the United States.

2. *Banks authorized to furnish bank drafts to Government officers.*—The Treasury, at a location where Government officers have need of banking facilities for the purpose of exchanging their collections for a bank draft, will authorize a bank holding designation as a depositary and financial agent of the Government to render the desired service. The use of bank drafts facilitates the transmission of collections to regional offices for subsequent deposit to the credit of the Treasurer of the United States.

3. *Title of banks holding such authorization.*—Banks authorized to furnish drafts are referred to as "bank-draft depositaries."

4. *Type of collections to be exchanged.*—Bank-draft depositaries will receive from Government officers their collections, consisting of currency, coin, local and out-of-town checks, postal money orders, and postal notes, and issue in exchange therefor a draft drawn in favor of the Treasurer of the United States.

5. *Description of the draft.*—The draft should be payable only to the Treasurer of the United States, and should be drawn on a Federal Reserve bank or branch of the district in which the bank is located, or on a correspondent bank located in the same city as such Federal Reserve bank or branch. The drafts must be presented to the Government officers at the time of presentation of their collections.

6. *How checks presented in exchange for drafts will be endorsed.*[1]—The following form of endorsement and notation will be placed on checks, postal money orders, and postal notes by Government officers subject to this procedure:

On face of check:

"This check is in payment of an obligation to the United States and must be paid at par. N. P. Do not wire nonpayment.

"(Government agency)"

On reverse of check:

"Pay to the order of ______________ in exchange for
"(Name and location of bank)
a draft drawn payable to the Treasurer of the United States.

"(Date)

"(Name and title of Government officer)"

UNCOLLECTIBLE CHECKS

7. *Action on part of bank.*—If a check (which was included in the funds exchanged for a draft) is uncollectible, the bank will notify the Government officer concerned, giving such information as may be available regarding the uncollectible item.

8. *Reimbursement to bank for amount of uncollectible checks.*—The bank will be reimbursed by the Government officer originally presenting the check for the amount of the uncollectible item. There is attached a copy of Treasury Form No. 448—Bank's Acknowledgment of Cash Redemption of Uncollectible Check.

COMPENSATION OF BANKS FOR FURNISHING BANK DRAFTS

9. *Policy of the Treasury in compensating bank-draft depositaries.*—Depositaries are compensated for their services through the maintenance of balances with such depositaries, and are permitted to purchase 2 percent depositary bonds to be held as security for the balances.[2] The amounts of the balances maintained with depositaries are based upon the average monthly dollar amount of drafts furnished. The following schedule shows the amounts of balances to which depositaries are entitled upon the basis of the average monthly dollar amounts of drafts furnished:

[1] In some instances, checks presented in exchange for drafts will be drawn on nonpar banks. If such banks disregard the notation on the face of the checks and refuse to remit at par, the checks should be treated as uncollectible items and the bank issuing the draft will be reimbursed by the Government officer as noted in sec. 8.

[2] Depositary bonds may be redeemed at par and accrued interest, at any time, at the option of the United States or the depositaries and financial agents, in whole or in part, upon not less than 30 nor more than 60 days' notice in writing, given by either party to the other. The 2 percent depositary bonds are issued in registered form only in the name of the Treasurer of the United States in trust for the depositaries and financial agents to which they are allotted, and are not transferable. Checks covering interest on the bonds are forwarded semiannually on June 1 and December 1. Such interest is subject to all Federal taxes now or hereafter imposed. The bonds are subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

Average monthly dollar amount of drafts furnished by bank-draft depositary:	*Amount of Treasurer's balance to be allotted bank-draft depositary*
$1 to $3,000	$2, 000
$3,001 to $5,000	3, 000
$5,001 to $8,000	4, 000
$8,001 to $12,000	5, 000
$12,001 to $16,000	6, 000
$16,001 to $20,000	7, 000
$20,001 to $30,000	8, 000
$30,001 to $40,000	9, 000
$40,001 to $50,000	10, 000
$50,001 to $70,000	12, 000
$70,001 to $100,000	15, 000

It is believed that this schedule of compensation will be equitable; however, if, due to unusual circumstances at a particular point, a bank is of the opinion that the schedule is not equitable and will so advise the Treasury, the matter will be given prompt consideration. As indicated, the schedule does not apply in cases where the dollar volume or drafts furnished exceeds a monthly average of $100,000. Such cases will be given individual consideration with a view to arriving at a basis of compensation that is equitable from both the standpoint of the bank and the Treasury.

10. *Periodic adjustment of Treasurer's balance.*—Government agencies using the facilities of the bank will furnish the Treasury with information as to the monthly dollar amount of drafts obtained from the bank. The Treasury will review such information and, applying the schedule outlined above, will adjust the Treasurer's balance periodically, not less frequently than twice per year.

11. *Procedure to be followed in establishing Treasury balance.*—The Treasurer's balance, when computed as above, is placed to the bank's credit on the books of the Treasurer of the United States, and upon the basis of the bank's subscription, the funds are used to purchase a 2 percent depositary bond in like amount. The bank will acknowledge credit by signing a transcript (form 18) prepared and forwarded by the Treasury. Further reports on form 18 will be submitted by the bank on the last business day of each month and at such other times as may be requested by the Treasury. The balance in the Treasurer's account will not be withdrawn prior to the expiration of 30 days' written notice from the United States Treasury.

12. *Notice of withdrawal or amendment of provisions of this manual.*—The Fiscal Assistant Secretary of the Treasury may waive, withdraw, or amend at any time, or from time to time, any or all of the provisions of this manual. Notice of such changes will be given by an appropriate amendment or supplement to this manual.

E. F. Bartelt,
Fiscal Assistant Secretary.

Mr. Curtis. Mr. Secretary, in the past, and I intend to for the present too, I have supported these debt limit increases because I looked at it primarily as a question of debt management. However, in the light of Congressman Patman's testimony and some of my own thinking, I am not at all sure but whether the Congress through this debt limit extension might exercise more control than it has in the past over debt management. I know you will agree that this will have a very strong inflationary effect.

That is not the actual bill here, but the fact that we do have to have an additional $10 billion or $13 billion of Federal debt.

I would assume, though, that the Treasury takes the position that they should continue to have the complete flexibility they presently do have.

Secretary Anderson. I would think that we would have to have it in order to manage the debt. If one looks at the volume for this calendar year, you go in for refunding about $50 billion of debt maturing during the year, and in addition, we have about $22 billion in short-term bills that have to be rotated, and we have $3 billion of tax anticipation bills that have to be paid off and would have to be replaced. We have to borrow the difference between what we take in and what we spend.

You compete in the same market where States and municipalities and corporations and individuals borrow money.

Mr. CURTIS. To bring the matter down to a specific illustration, we have had before this committee, of course, this problem of extending the amount of interest of E bonds and G bonds. Of course, that kind of a bond would tend to be, and I think Mr. Patman's statement was quite correct, not as inflationary as the management of the debt in other ways.

Now, that is the extent to which I was thinking that Congress might enter into this picture.

I presume this is a question that the Treasury does weigh or will weigh, that is the problem of the inflationary effect resulting from the manner in which the debt is managed.

Secretary ANDERSON. There is nothing that concerns us more, Mr. Curtis, than the distribution of the debt and the getting of as much of it as we possibly can into the hands of individuals, into trust funds where it is going to be permanently held, and into the funds of States and colleges where they are setting up retirement funds, and out of the area where it creates inflationary pressures.

Mr. CURTIS. Does the Treasury feel at this time that anything more can be done in the E bond sector?

If we considered the interest rate of the original E issues, it was considerably above the regular market in those times. The whole philosophy behind E bonds was quite a bit different than it is now.

I should not say the whole philosophy but one aspect of it certainly was.

Secretary ANDERSON. During this year we have held two very large meetings in Washington, where we had representatives from cities of 30,000 or 40,000 and above come to Washington and in which we worked very closely with them on trying to increase the sale of E bonds. We have held additional meetings on the west coast in San Francisco, and in St. Louis, and there is no program that we have worked more diligently at, and I think with a fair degree of success than to increase for example the payroll deductions and the other mechanisms by which you sell the E bonds.

This will continue to be one of our efforts, and certainly no one will work more assiduously than we will in trying to widen the distribution and get it into privately held hands.

Mr. CURTIS. I must conclude that you do need this flexibility. Now, the other aspect of this same thing, and again this is nothing I am in favor of, but the Congress for years as I have reviewed its history has been seeking for a device to gain some comprehensive control over the budget. To the extent that we have created joint committees. I know we had one on the budget which included members of the Ways and Means Committee and Senate Finance, and the two Appropriation Committees.

That device has not operated. When we debate this bill on the floor of the House, a good many of our colleagues have a feeling that this debt limit bill is not debt management but actually a device that can be used to exercise some control over the budget and give some comprehensive review.

Now, I think it is possible to use this kind of legislation as that sort of vehicle. We have never done it. If we did do it, this committee would have to get into some of these expenditures and put in proviso clauses that say that money in this area cannot be spent or debt cannot be created for this purpose, and so on. But I wanted to mention it because Congress not being able to find any other practical device to control the budget could, I am satisfied, use the review of the debt limit as a practical device where the Congress could exercise judgment in reviewing the entire budgetary picture.

I wanted to mention it just to get that thought across.

Now I would like to ask some specific questions, somewhat limited in nature. I had a review made of this legislation. I think the name "public debt" is really a misnomer because it really has to do with authorization of the amount of and the certain kinds of securities we can have outstanding. Now, the 1945 and 1946 acts, as I understand it, were different from the previous acts, in that they contained a provision fixing an overall limitation applying not only to public debt securities issued under the Second Liberty Bond Act but also to securities issued by governmental corporations and agencies which are guaranteed as to principal and interest by the United States, and are outstanding in the hands of the public.

Now, does our present debt limitation law still include the securities issued by governmental corporations and agencies?

Secretary ANDERSON. Yes, it does, where there is a guarantee of principal and interest.

Mr. CURTIS. Does it also include items in which the full faith and credit of the United States might be obligated?

Secretary ANDERSON. For example you have some contingencies in your contributions to the World Bank.

Mr. CURTIS. Wouldn't it be well if we had in this, to make it more meaningful, all aspects or all items where the full faith and credit of the United States might be involved?

Secretary ANDERSON. This is a matter which of course the various committees of Congress have discussed from time to time. If you included all of the contingent items which are not now included, you would not be talking about a $285 billion debt limit. You would be talking about one substantially higher.

Mr. CURTIS. How must would it be? The reason I say that, and it is very pertinent to this, is this: The securities we issue under the authority of this bill of course are affected by anything else that likewise imposes a burden upon the full faith and credit of the United States. So what are we talking about, perhaps $20 billion additional?

Secretary ANDERSON. I think in order to be accurate, I should better give you a statement. This is a very large amount of money.

Mr. CURTIS. I would appreciate it if you would, and also your comments as to whether you think that it would be a better picture if it were included or your reasons why it should not be.

I might state that I am not advocating that that be done at this time, because I do not believe our committee has the time to go into that aspect, but I am thinking more of the future on this.

Secretary ANDERSON. Yes, and I would like to suggest if it is possible that you not make this request of such an urgent nature that we get it up before the committee acts on this, because I would like to have enough time to get it accurate.

Mr. CURTIS. All right, that is understood, too. Now, there is one fund that is growing in size, that seems to be outside of our normal debt management, and that is these counterpart funds. We are continuing to generate them through Public Law 480. Actually, that is a transfer of Federal assets, as I get the picture, in kind, wheat, or whatever it is, whereby we obtain in return not real money but what amounts to credits.

Now, that is not included in our overall balance, it is?

Secretary ANDERSON. This is a very complex situation because for example in the Public Law 480 program you will sell surplus materials, agricultural materials, for local currencies. We acquire the local currency. But we usually acquire the local currency under the terms of agreements with the countries where the material is sold, limiting the uses to which it can be put.

Mr. CURTIS. In order to get the discussion moving, yet those purposes are identical purposes to those purposes for which we appropriate funds directly from the Treasury and for which they actually can be used.

Secretary ANDERSON. Not in all instances, but in some.

Mr. CURTIS. I don't mean in all, but I meant in some instances it could be used. I am wondering whether it is in this provision or some other, we ought not to be on top of those things so that there is some control. Perhaps an amendment here, that those funds must be used for purposes for which they could be used in foreign aid before new funds from the Treasury are used.

Secretary ANDERSON. If I may, I would recommend that you not try to make it a part of this legislation. Recently there has been passed by the Senate a resolution directing the National Advisory Council to make a study of these funds to determine whether or not they appropriately could be used as a supplement to the funds of the World Bank or for other purposes, and to report to the Congress. This study will be undertaken.

Mr. CURTIS. Now, your department or you yourself will have a part in that study.

Secretary ANDERSON. I am the chairman of that committee. I think more appropriately, after this study has been made, you would want to review those things.

Mr. CURTIS. I agree with you. I did not know the study was being made, and I am happy to know that it is being made.

Secretary ANDERSON. It is just started.

Mr. CURTIS. Now, I have one specific thing. In your computations here, have you included what effect there will be on the requirements for new money as a result of the increase in the social-security tax which this committee has recently voted and will be before the House Thursday?

Secretary ANDERSON. I am just thinking, I don't believe that would have an effect on the debt limit because it is a trust fund operation.

Mr. CURTIS. It would to this extent, that your anticipated drain on the trust fund which is in Government securities, will be in the nature of or perhaps approaching $1 billion, with this tax going through you will not have to find a market for those additional securities.

Secretary ANDERSON. To that extent we have not included it in these computations.

Mr. CURTIS. Mr. Chairman, I was trying to get what the effect of the bill we are going to have on the floor of the House on social security would be and whether that had been considered. I think it would make about $1 billion difference under the figures that were given to us, as to the immediate effect for fiscal 1959 and 1960. Instead of a drain on that fund we theoretically would be having receipts go in.

The CHAIRMAN. Not in calendar year 1959. We will still be paying out more than we take in, in 1959.

Mr. CURTIS. It will cut down the amount of drain, and apparently that has not been weighed in here. I don't know what effect it will have.

The CHAIRMAN. It will cut down half a billion dollars.

Mr. CURTIS. And then it would go up into larger sums next year. Certainly it is a revenue that is coming in. I have one other question on revenues.

I am aware that some governmental agencies have been recommending to the Congress that we use user charges more than we have.

Has there been any substantial increase in amounts that would be derived from the user-charge principle? I know you mentioned, for example, your airports. There was an attempt by the Department of Commerce to have some of that financing done through the method of user charges. Of course, an example of a user charge would be increased postal rates. That would be the same philosophy. Has that been material as of today?

Mr. STANS. I would like to say there has been a great deal of effort expended in that direction without too much success. The postal-rate increases were substantially less than the administration had recommended. We also had recommended a tax on airplaine fuels to pay for some of the costs of the very expensive work that is being done in modernizing the airways. We had recommended increasing the charges of the Patent Office, and so on, without success.

We have a continuing study, which is engaging the full time and attention of two people in the Bureau of the Budget, surveying all of the possibilities for increases in existing charges, or instituting new charges to the public for any special services that they get from any agency of the Government. We hope to be able to have further recommendations to the Congress along that line by next January.

Mr. CURTIS. I am happy to hear that. Mr. Chairman, at this time I would like to renew a previous request I had made that our committee, if it can, and I know how busy we are, but possibly the staff could work up a study on user charges. The Bureau of the Budget is making a comprehensive survey, and certainly it is within the province of the Committee on Ways and Means.

A user charge is another way of getting revenue only it is being applied to a specific purpose. That is an area, I suggest, that could be defended, and might easily ease, some of this burden that we have.

Now, I have one final question of the Secretary, and this is in the nature of economics. In trying to evaluate the effect of the Federal debt, many people have related it to a percentage of the gross national product. It seems to me that that is a somewhat meaningful figure.

When we look at the Federal debt as a percentage of GNP, the picture is not quite as dark as it is when you simply look at the Federal debt in absolute terms. Now, the question is, Is that in your opinion a fair economic indicator to rely upon, or is there another manner in which we could relate the Federal debt to our economy so that we would get that picture?

Secretary ANDERSON. Well, undoubtedly there is a relevance between the gross national product and the amount of Federal debt, because gross national product would affect the amount of revenue that you would collect and it would reflect the size of the economic activity of the country in relationship to the amount of money which the Government was obligated to pay.

On the other hand, when one looks at the Federal debt, one must be concerned not only with its relationship to gross national product but to such other factors as how many times does the Government have to go to the market in a year in order either to refund its obligations or to secure additional money. The very fact that you go frequently is a disrupting factor to people who want to finance private business. It is a disruptive factor to States and municipalities and all of the other kind of institutions that share in the market. It has an effect insofar as interest payments are concerned, because this becomes a fixed charge. If you stretch it out at times when levels of activity are high and money is available with which to purchase those securities, you normally would pay a higher rate of interest and this is one of the penalties.

While there is an important relationship between gross national product and the debt, it is by no means the only way in which the debt should be judged.

Mr. CURTIS. Mr. Chairman, I think I have seen tables from time to time of the Federal debt in relation to GNP, and I wonder if we could have those inserted. I think that you have those.

The CHAIRMAN. Without objection, they will be inserted at this point.

(The tables referred to follow:)

The relationship of Federal debt to gross national product (calendar years 1929–1958)

Calendar year	Gross national product	Gross Federal debt [1] (June 30)	Debt as a percent of gross national product	Calendar year	Gross national product	Gross Federal debt [1] (June 30)	Debt as a percent of gross national product
	Billions	*Billions*	*Percent*		*Billions*	*Billions*	*Percent*
1929	$104.4	$16.9	16.2	1944	211.4	202.6	95.8
1930	91.1	16.2	17.8	1945	213.6	259.1	121.3
1931	76.3	16.8	22.0	1946	210.7	269.9	128.1
1932	58.5	19.5	33.3	1947	234.3	258.4	110.3
1933	56.0	22.5	40.2	1948	259.4	252.4	97.3
1934	65.0	27.7	42.6	1949	258.1	252.8	97.9
1935	72.5	32.8	45.2	1950	284.6	257.4	90.4
1936	82.7	38.5	46.6	1951	329.0	255.3	77.6
1937	90.8	41.1	45.3	1952	347.0	259.2	74.7
1938	85.2	42.0	49.3	1953	365.4	266.1	72.8
1939	91.1	45.9	50.4	1954	363.1	271.3	74.7
1940	100.6	48.5	48.2	1955	397.5	274.4	69.0
1941	125.8	55.3	44.0	1956	419.2	272.8	65.1
1942	159.1	77.0	48.4	1957	440.3	270.6	61.5
1943	192.5	140.8	73.1	1958	[2] 430.0	276.4	64.3

[1] Direct and guaranteed obligations.
[2] Treasury estimates.

Mr. MASON. Mr. Chairman, I would like to follow this up. Let us assume that I invest in a home or something of that sort, and that investment is by debt. That would have a direct relationship to my salary or my income. In that same sense, the Federal debt and the Federal income, or the gross national product if you want to call it that, have a relationship.

However, because my debt is only a very small debt, it does not disturb the great pool of credit like the Federal debt does. Every time you go into the market it disrupts that whole credit pool.

Secretary ANDERSON. That is correct.

Mr. MASON. That is what we are driving at, I think.

Secretary ANDERSON. I think that is right.

May I make one other observation with reference to the question asked by Congressman Curtis. As I think about his question on the effect which increased payments into the trust funds might have upon the debt limit, I think they would be practically nill because as these funds come in they are not permitted to lie idle. They must be invested in Government securities to give earnings to the trust funds.

What really would happen would be that we would sell fewer to the public, and put more of special Government obligations into the trust funds.

Mr. CURTIS. But there would be this point, that you would have to hit the public market not quite as much.

Secretary ANDERSON. That is the public market. That is right.

Mr. CURTIS. You have a built-in market in these trust funds.

Secretary ANDERSON. To that extent, you are correct.

The CHAIRMAN. Mr. Ikard, did you have a question?

Mr. IKARD. The question I had has already been answered.

Mr. KARSTEN. I have only one question, and it is this: It is obvious from the questions that have been asked that you are going to have a very difficult time operating within the $288 billion limit. That brings to my attention your statement on page 4 in which you say that we will have to look at the situation again before the end of the fiscal year.

Could that be taken to mean that perhaps you might be down here next session for another increase before the current fiscal year is completed?

Secretary ANDERSON. It simply reflects that we will have to reevaluate our circumstances in the light of what actions are finally taken by the Congress with reference to these numbers of items which the Director of the Bureau of the Budget has pointed out. It depends on what happens with reference to the rate at which we resume growth in the country, and therefore changes which might be indicated in our revenues, and what might happen with reference to increasing difficulties in the international situation for which I have indicated there has been no provision. These are enough of an uncertainty that we simply felt that we should point out, as the chairman indicated earlier, that one cannot be led to believe that the $3 billion temporary increase to 1960 necessarily takes care of the requirements to 1960.

As circumstances unfold we will rereview it in order to determine more accurately that picture.

Mr. KARSTEN. You might have to come down during the next year?

Secretary ANDERSON. There is the possibility.

Mr. KARSTEN. Do you have any guess as to how much you might need at that time?

Secretary ANDERSON. We have not tried to guess. It is difficult enough to guess a year from now, and this is guessing too far ahead.

Mr. KARSTEN. That is all.

Mr. HARRISON. Mr. Secretary, with reference to recommendations for increasing revenue, what is your best approximation of how much additional revenue will inure to the Government by taxation of cooperatives recommended by you at an earlier date?

Secretary ANDERSON. It would not be possible to make a recommendation to this score until you determine the manner and rate at which taxes would be levied.

Mr. HARRISON. Assuming they were taxed the same as other businesses. What did you have in mind when you recommended them to be taxed?

Secretary ANDERSON. Well, the Congressman will remember that I have suggested that we are going to submit a recommendation of a method by which this problem might be approached. Frankly, we have been giving a great deal of time and thought and effort to doing it, but simply have not yet developed the method by which we are prepared to recommend this to the committee.

Mr. HARRISON. The reason I am asking this is that a great many citizens are under the impression, informed citizens, that here lies the key to all of the problems of the Federal Government and finance. Estimates of revenue run from $1 billion to $5 billion.

Mr. Stam tells me that the maximum that could be expected from taxation of cooperatives would be about $30 million. Could you give me any idea as to what might be involved?

Secretary ANDERSON. I can only say that in trying to select a figure, I am not prepared to do so. But I am quite sure that taxes which would be levied on any segment of American industry would not be a cure for all of the problems and it would not be of that order of magnitude.

Mr. HARRISON. Do you think $30 million is a little low or not?

Secretary ANDERSON. I would not be in a position to suggest any figure that is better than that which Mr. Stam has made at the moment.

Mr. HARRISON. Thank you.

The CHAIRMAN. Are there any further questions?

Mr. SIMPSON. Mr. Secretary, when you were with us the last time we authorized an increase in the debt limit, there was some testimony to the effect that it was costing you money to follow the method of financing you were then using, and you were doing certain things which good business didn't dictate. But you did it because you didn't have the latitude or the area within which to manage the debt as good business would have required. In view of some of the information Mr. Byrnes was developing to the effect that even with this requested increase, you will be operating in an exceedingly tight position. I am wondering if we are inviting inefficient methods of financing even through this next coming year and even with the granting of this request?

Secretary ANDERSON. We would be hopeful that if this full amount were granted, we would not have to resort to such expedients as the sale of FNMA obligations and that sort of thing which is what we referred to.

Mr. SIMPSON. We could answer such a question along that line on the floor in that way?

Secretary ANDERSON. That is correct.

Mr. SIMPSON. There is an area of uncertainty which I think would affect this, and that is the money presently authorized and already obligated. If you should have unexpectedly heavy calls by reason of delivery of items which you presently don't anticipate but which might come, wouldn't that possibly call for a bigger dollar expenditure than you have anticipated in the $79 billion figure?

Secretary ANDERSON. One could conceivably think that we might make a number of scientific breakthroughs in certain areas, which would increase the rate at which we procure goods. There are a number of other factors. I repeat we have tried to be quite modest in setting up our requirements for those contingencies.

Mr. SIMPSON. I would like to take the time to discuss with you the question of whether our tax structure is such as to indicate to the country that we must anticipate continued deficits over a period of the next 5 or 6 years, or whether we could make some constructive changes in the tax structure that would tend to increase the revenue, but I think now is not the time for that.

Consequently, I do recognize that you must have this authority. Congress has spent the money. I know the dangers of deficit financing, and I deplore the fact that we have all had a part in helping cause that deficit. I will support your request for legislation.

The CHAIRMAN. I have one final question, if I may. We want to continue on until we dispose of this matter and I will be very brief. The only question, apparently, before the committee is not whether these increases in the debt ceiling are justified but whether they should be temporary or permanent.

You and I discussed the matter personally, and I think it would be well for the record to indicate why the increase this time should be permanent to the extent of $10 billion rather than temporary to the extent of all of the $13 billion. I am sure we will be asked the question, when we present the legislation, as to why we are bringing to the House a request for a permanent increase rather than another temporary increase.

This question is appropriate in view of the fact, if I may proceed, that when we have had to raise the limit, within the last 5 years, in each instance we have made it temporary and we have succeeded in reducing the deficits to the extent of bringing the overall situation back within the permanent debt ceiling of $275 billion.

Secretary ANDERSON. Mr. Chairman, if the debt limit is to be meaningful, I think there must always be a plan whereby in the foreseeable future the permanent limit can be achieved. In all of the instances in the past where the Treasury asked for temporary increases in the public debt and where debt was issued in excess of the permanent limit, the fiscal and budgetary situation was such that it could be reasonably anticipated that by the end of the period for which the temporary request was made there would be funds on hand of a sufficient size to bring the debt back to its permanent $275 billion limitation.

In each of those instances, this was in fact achieved. We are now faced with the fact that we have at the end of this past fiscal year a $2.8 billion deficit. I think it is apparent from the questioning here today that the estimate of $12 billion for fiscal 1959 would not be an unreasonable estimate.

We, therefore, look to 1959 as a time in which under the best calculations we are able to make on our own account and with the help and assistance of the staff of this committee and the Joint Committee, we do not believe there will be funds available with which to bring the permanent limit back to the $275 billion level.

Under those circumstances, it would seem that the course of intellectual integrity in dealing with the management of this debt would indicate we should say that at least $10 billion of it should be permanent. I say "permanent" in the sense that it has no fixed expiration time, and that we deal with the $3 billion only as a temporary measure and because we cannot at this moment see how we can even repay the temporary $3 billion by the end of June 1959, and it should be extended in 1960

We do this with the complete awareness also that if we maintain this level of high expenditures that unless revenues are increased perhaps more than any of us would currently anticipate over an annual period, we would have to re-review the situation with reference to 1960 before the expiration of fiscal year 1959.

I think if we did not pursue this course and instead simply asked for a temporary increase, the debt limit would have less meaning than it will have if we approach it on this kind of a basis.

The CHAIRMAN. Thank you, Mr. Secretary.

Are there any further questions?

Mr. BYRNES. I wonder if you could answer briefly one question. To what extent, Mr. Stans, is the executive branch obligated to spend money appropriated by the Congress? I don't want any elaborate, but I think in this thing there is always that question that is involved. Even though Congress insists on giving you more than you asked for in the budget, to what extent you feel that obligates the Executive to make the expenditures?

Mr. STANS. It is my understanding, as a legal matter, that appropriations are limitations on expenditures and not mandates to spend. The administration could if it determined that an expenditure was unnecessary or undesirable, withhold the spending. There are practical questions many times involved in just how effective that can be.

The CHAIRMAN. I think the Executive historically has taken the position that he has the right legally to withhold all or part of funds for any specific purpose made available by the Congress. But in the instances in the past when the Chief Executive had withheld those funds, I recall the situation which developed with regard to a previous administration, the practical situation to which you referred arose, and there was great demand that these funds be spent because the Congress had made them available for that purpose.

That is the practical situation to which you refer, isn't it? There would be a demand that would probably prevent you, in most instances, from reducing expenditures where you felt they should be reduced under the appropriations made by the Congress?

Mr. STANS. The issue arose very strongly last year when the debt ceiling required that there be some withholding of expenditures.

There was considerable objection from many sources as to the items which were withheld. But I agree with the chairman that, as a matter of law, it seems to be established that the executive branch can withhold appropriations if it deems it in the best interest of the Government to do so.

The CHAIRMAN. We will adjourn.

(The following communication was received by the Committee:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, July 31, 1958.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives.

DEAR MR. CHAIRMAN: Your letter dated July 30, 1958, requests our views on a suggested provision in H. R. 13580, a bill to provide an increase in the public debt limit, concerning the holding by the commercial banks of tax and loan accounts for the Treasury without the payment of interest.

Reports to the Congress by the General Accounting Office on our audits of the Office of the Treasurer of the United States have contained a recommendation that the Congress consider amending present laws to permit banks to pay interest on Government funds on deposit in tax and loan accounts. This recommendation was included in our reports because we believed that the deposits in the accounts may have produced income to the banks in excess of the cost of the services performed by the banks for the Federal Government for which they were not otherwise compensated. In commenting upon our recommendation, the Treasury Department expressed the view that the cost of the services performed by the banks for the Government largely offset the income produced by the tax and loan accounts. The Treasury has also indicated that there are intangible considerations related to the Treasury operations involved in the maintenance of tax and loan accounts for which the cost could not be readily computed.

While we recognize the importance of the intangible aspects of the matter, we believed that the nature and frequency of the tax and loan transactions and the cost of services performed by the banks for the Government were deserving of a further study to resolve the dollar aspects of the problem, leaving the intangible aspects for separate consideration in the future. We have suggested to the Treasury that representative banks having tax and loan accounts be selected for a study of the problem. Inasmuch as the General Accounting Office does not have access to transaction information, daily account balances, and cost data for services with respect to banks, the study would have to be made under the direction of the Treasury Department. We have informed the Treasury Department that we would be pleased to cooperate with their representatives in undertaking such a study. We are having further discussions with the Treasury Department on this matter.

We are pleased to have this opportunity of submitting the above information for the record.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

(Whereupon, at 12 noon, the committee adjourned, subject to the call of the Chair.)

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