TEMPORARY INCREASE IN DEBT CEILING

EXECUTIVE HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

ON

ADMINISTRATION PROPOSAL TO TEMPORARILY INCREASE THE DEBT CEILING

JUNE 15, 1961

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TEMPORARY INCREASE IN DEBT CEILING

THURSDAY, JUNE 15, 1961

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

The committee met at 10:30 a.m., pursuant to call, in the committee room, New House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Mr. Secretary, we are always glad to have you with us, but we are awfully sorry that you have to come on this occasion on this particular measure. I know it is a source of regret if not embarrassment to you and it is to us.

Mr. Director, we appreciate having you here, too.

You are recognized, sir.

STATEMENTS OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY AND HON. DAVID E. BELL, DIRECTOR, BUREAU OF THE BUDGET

Secretary DILLON. Thank you, Mr. Chairman.

I am here this morning in support of a new temporary limit of $298 billion on the public debt for the fiscal year 1962.

The current temporary debt ceiling of $293 billion will revert to the present permanent ceiling of $285 billion at the end of this month. On that date—June 30, 1961—our projections indicate that the public debt subject to limitation will be about $289 billion. This will include a cash balance of approximately $5.5 billion.

During the fiscal year 1962, we expect revenues to fall short of expenditures. Assuming that we are able to close out the year with a minimum working cash balance of $3.5 billion, we presently estimate a total public debt subject to limitation of about $290 billion on June 30, 1962.

Because of seasonal factors the end-of-June debt position is generally well below the high point of the fiscal year. Based on programs already enacted or recommended by the administration, and our current estimate of tax receipts, the debt is projected to reach a high point of about $295 billion next winter, before dropping again to around $290 billion at the close of the fiscal year.

In addition, prudence indicates that the debt limit should be set at a level that makes a reasonable allowance for errors in the estimates as well as other unforeseen contingencies, and permits sufficient flexibility in debt management so that the efficiency of day-to-day operations is not impaired. To provide this leeway, I believe that the same allowance of $3 billion that has been made in previous years

should be added to the estimated high point of $295 billion in fiscal year 1962. This clearly indicates the need for a temporary ceiling of $298 billion.

This projected need is based on the latest budget estimates, including an allowance for the new or expanded programs recommended by the President on May 25. Budget expenditures for fiscal 1962 are now estimated at $85,100 million. The $800 million increase from the $84,300 million reported by the Budget Director on March 27 largely represents additional funds for space exploration, defense and military assistance, expanded loans to small business, and programs designed to alleviate structural unemployment. Budget revenues are still projected at $81,400 million, the same as reported in late March. These spending and revenue estimates assume that the Congress will act favorably on the President's requests to put the highway-building program on a self-sustaining basis, to eliminate the postal deficit by raising postal rates, and to maintain various tax rates that are otherwise scheduled for reduction or termination.

I might add that the projected budget deficit of $3,700 million for the fiscal year 1962 compares with the deficits of $4,200 million and $12,400 million in the fiscal years following the two previous business recessions (the fiscal years 1955 and 1959).

It may seem incongruous to some that, with recovery already underway, we nonetheless still must expect a deficit next year. The reason for this, however, is not far to seek. Corporate revenues, as you know, are exceedingly important in our overall revenue system. And the corporate tax revenues which will be available to us in fiscal 1962 will be based on the corporate profits earned during the present calendar year which includes the lowest point of the recession. This means that our corporate tax revenues during the coming fiscal year will be recession revenues. The same applies to a somewhat lesser extent to individual income tax collections above the standard withholding rates which are also largely dependent on profits during calendar year 1961. Therefore, our revenue prospects next year are for a continuation of recession revenues.

We can and do, however, look forward to a sharp increase in revenues in fiscal year 1963. This follows the same pattern as in the preceding recovery during the fiscal years 1959 and 1960. In fiscal year 1960 revenues increased by about $10 billion over fiscal year 1959. While naturally we cannot at this point make any firm prediction, I believe it is a reasonable expectation that there will be a balanced budget, if not a surplus, in fiscal year 1963.

For as the President stated in his message on budget and fiscal policy of March 24, 1961—

> Federal revenues and expenditures—should, apart from any threat to national security, be in balance over the years of the business cycle—running a deficit in years of recession—and running a surplus in years of prosperity * * *.

Our estimates of the public debt at semimonthly intervals over the fiscal year 1962 are shown in the first table attached to this statement. One important assumption in compiling that table is that the Treasury's operating balance at the Federal Reserve and private commercial banks would hold steady throughout the period at $3,500 million. That is actually a rather low working balance for an operation as large and as subject to sharp fluctuations in receipts and expenditures as is involved in the management of the Treasury's cash position. A balance of $3,500 million would cover only a little over half of an average month's budget expenditures, which is a much lower ratio of cash holdings to expenditures than is maintained by most business corporations.

In fact, as shown in the second attached table, the operating balance has been more often above than below $3,500 million during the fiscal year now ending. On a daily average basis it has been closer to $5 billion than to $3,500 million, and this has provided an important degree of flexibility in the efficient conduct of day-to-day Treasury operations.

It is because of this need for flexibility in the management of cash balances and because of the inescapable uncertainties of revenue and expenditure predictions that the $3 billion margin has been added to our calculations.

As you can see from table I, our debt projections, plus the $3 billion allowance for flexibility, will reach a $298 billion peak during the winter. A temporary limit of that amount should give us sufficient elbowroom for maximum efficiency of operations and yet not impair any disciplinary function which may be served by the public debt limitation.

The intended function of the debt limit is but poorly served, I think, when a specific limit fits so closely that the Treasury is obliged to improvise unusual payment arrangements, or is forced to obtain additional funds—at higher cost—through the market borrowings of Federal agencies not subject to the statutory debt limit. Indeed, the Government was forced to take such steps a few years ago when the debt ceiling imposed too tight a limit on Government fiscal operations.

In conclusion, I believe that a temporary increase in the debt limit to $298 billion is essential to the orderly and economical management of the Government's finances, and I earnestly recommend its approval by this committee.

Thank you.

(Tables I and II referred to follow:)

TABLE I.—*Forecast of public debt outstanding, fiscal year 1962, based on constant operating cash balance of $3.5 billion (excluding free gold)—Based on assumed budget deficit of $3.7 billion* [1]

[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 [2]
1961—June 30	$3.5	[3] $286.4	$3.0	$289.4
July 15	3.5	288.6	3.0	291.6
July 31	3.5	289.6	3.0	292.6
Aug. 15	3.5	289.9	3.0	292.9
Aug. 31	3.5	290.1	3.0	290.1
Sept. 15	3.5	291.9	3.0	294.9
Sept. 30	3.5	288.2	3.0	291.2
Oct. 15	3.5	290.7	3.0	293.7
Oct. 31	3.5	292.2	3.0	295.2
Nov. 15	3.5	293.0	3.0	296.0
Nov. 30	3.5	292.8	3.0	295.8
Dec. 15	3.5	294.9	3.0	297.9
Dec. 31	3.5	292.4	3.0	295.4
1962—Jan. 15	3.5	294.9	3.0	297.9
Jan. 31	3.5	294.0	3.0	297.0
Feb. 15	3.5	294.1	3.0	297.1
Feb. 28	3.5	293.2	3.0	296.2
Mar. 15	3.5	294.7	3.0	297.7
Mar. 31	3.5	291.2	3.0	294.2
Apr. 15	3.5	293.4	3.0	296.4
Apr. 30	3.5	292.7	3.0	295.7
May 15	3.5	291.9	3.0	294.9
May 31	3.5	292.3	3.0	295.3
June 15	3.5	293.6	3.0	296.6
June 30	3.5	290.1	3.0	293.1

[1] Incorporates estimated budget revenues of $81,400,000,000 and estimated expenditures of $85,100,000,000.
[2] From July 1, 1960, to June 30, 1961, the statutory debt limit is $293,000,000,000. Thereafter it will revert to $285,000,000,000.
[3] Because the actual operating balance on June 30, 1961, is expected to be considerably larger than $3,500,000,000, the public debt subject to limitation will be about $289,000,000,000 on that date.

TABLE II.—*Actual cash balance and public debt outstanding, July 1960–May 1961*

[In billions]

	Operating balance, Federal Reserve banks and depositaries (excluding free gold)	Public debt subject to limitation
1960—July 15	$7.4	$288.6
July 31	6.2	288.1
Aug. 15	4.8	287.5
Aug. 31	5.1	288.4
Sept. 15	3.0	288.3
Sept. 30	7.5	288.2
Oct. 15	3.6	287.2
Oct. 31	5.9	290.2
Nov. 15	4.1	289.9
Nov. 30	5.0	290.2
Dec. 15	2.7	290.0
Dec. 31	5.7	290.0
1961—Jan. 15	3.4	289.9
Jan. 31	3.8	289.8
Feb. 15	3.7	290.5
Feb. 28	5.3	290.3
Mar. 15	2.8	290.0
Mar. 31	4.0	287.3
Apr. 15	1.7	288.4
Apr. 30	2.9	287.8
May 15	4.0	288.8
May 31	4.4	290.0

NOTE.—From July 1, 1960, to June 30, 1961, the statutory debt limit is $293,000,000,000. Thereafter it will revert to $285,000,000,000.

The CHAIRMAN. It might be more beneficial to the members of the committee to permit members to hear both statements before questions.

Mr. BELL. Mr. Chairman, I have no formal statement.

The CHAIRMAN. All right. If you have no formal statement, members of the committee will bring out points with questions.

Are there any questions? Mr. Curtis.

Mr. CURTIS. Mr. Secretary, the statement that you quote of the President on page 6 on balancing the budget over a cycle, in my judgment, does not coincide with what the President has proposed, particularly in his May 25 address to the Congress. This coming fiscal year is an anticipated year of prosperity, is it not?

Secretary DILLON. Mr. Curtis, that is why I pointed out this question of the revenue lag that we have. I think that, while one uses in general terms the term "period of prosperity," what we really mean is a period of prosperity in the Government revenues, and the fiscal year 1962 will be, as far as Government revenue is concerned, a recession year.

Mr. CURTIS. But as far as the economy is concerned, and that is what we are talking about, a business cycle is not the Government cycle. It is a business cycle. I am taking the actual words:

> * * * apart from any threat to national security, be in balance over the years of the business cycle—running a deficit in years of recession—and running a surplus in years of prosperity * * *.

This fiscal year beginning in July of 1961, according to most economic predictions, is going to be a year of prosperity. In other words, what I am getting at, too, I might state, is the President's Council of Economic Advisors in their testimony before the Joint Economic Committee this year, I think, clearly abandoned that thesis, and have adopted a new one, which is that we balance the budget out of anticipated economic growth. I think that is the theory of this administration.

The only reason I am bringing it out is I happen to funadmentally disagree with it. For years, I went along with the theory that the President has stated, that we should balance over a cycle, only to find that we never have.

In years of prosperity, we did not show the discipline necessary, which leads me to only one conclusion. With our limited tools and the way Congress operates, maybe the only way we can get discipline in this is an annual balance and maybe the only technique the Congress has to bring about this discipline is through this debt limitation bill. Each time it has come up, I have always gone along with it on the theory that we have already voted the appropriations, and this is simply a matter of how we are going to finance what we are doing.

But it could be used the other way. It could put the discipline on the executive department to figure out where they are going to cut back. I am about at the point, disagreeing, as I do, with the economic philosophy of deficit spending, of trying to figure out where I can, from a practical standpoint, join in political debate with those who disagree and who do believe in deficit financing.

I think this administration, in spite of its words, is pretty much on record as adopting the Keynesian philosophy of deficit financing. I want to challenge that as a politician. I want those who disagree

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with that to be able to conduct national debate on the subject. It looks like to me that we are forced into only one spot where we can join it and that is possibly by refusing to go along with the debt limitation.

You will have it. I think you have the votes. But I am trying to figure out how we can start conducting a national debate on this subject.

Secretary DILLON. Mr. Curtis, I think certainly you can have a national debate. This is a simple subject, and you can use this as a debating forum. I would not agree with your statement that the administration is on record as favoring deficit spending. If you read the quotation of the President, that is clearly not so, and the administration is the President and whatever anyone else says, if it is ever in conflict with what the President says, the President's statement goes.

Mr. CURTIS. Mr. Dillon, I am trying to match actions with words. I am fed up with the words that I have read that have come out and I am trying to relate them to action, and that is what I called your attention to. The fiscal year beginning in 1961 is a year predicted to be a year of prosperity, which means that there should be some surpluses in this coming fiscal year, and there could be if the administration will present a balanced budget which will show a surplus. Yet, this administration indeed does not match its words. That is what I am calling attention to.

Secretary DILLON. Because of the timelag, I do not agree with your particular thesis. But assuming that we did and we accepted it, the only end result we could say is that this administration is twice as fiscally, or three times as fiscally responsible as the preceding administration which in the first year of prosperity, a full year of prosperity, ran a deficit of $12.5 billion.

Mr. CURTIS. The fact that the other administration made errors, too, and I think they did, is not the point.

Secretary DILLON. There is no comparison between the $12.5 billion error, if this is an error, and a $4 billion error.

Mr. CURTIS. If they were wrong previously, I was opposed to that error, too. What we are trying to do, I hope, is to plot a course for our country that is in the best interest of our country, and that is the point here. I do not see how you can get away from the words.

The President's statement, as you quoted it, refers to a business cycle. Nothing was said about this lag. This is talking about a business cycle.

Secretary DILLON. The lag works both ways, Mr. Curtis. When you start down in the business cycle our revenues stay up for the first year, so the revenue cycle just happens to be timed about 1 year apart from the business cycle, but it is the same cycle, and in the first year of the downturn, we still have good revenues.

Mr. CURTIS. The only thing I am pointing out here, and this is about all I guess that is necessary too, is that the President's words do not describe the actions, and this is a new theory. You are arguing, as I see it, that it is just an amendment of a previous theory. Your argument, I take it, is that the administration has not espoused deficit financing. I think its actions indicate it clearly has. I am searching for debate, I might say, not as you described it, idle debate. I am talking about debate that will result in political action of a differ-

ent nature than this political action and the economic philosophy, as I understand it, of this administration.

I find there is a great adeptness in avoiding what I think would be straightforward debate. I would much prefer if this administration would come out with words that match its actions, and say that it believes in deficit financing.

Take the theories of Lord Keynes and try to persuade the people that those are correct, so that we who disagree with it, can come out and express our viewpoint. In that way, our country can reach a proper conclusion through the democratic process.

As it is now, this has been a very difficult thing to pin down so that we can have a forthright debate on it.

Secretary DILLON. Whether we believe in deficit financing or Keynesian financing, I am not an economist so I do not know what Keynesian financing is.

Mr. CURTIS. This is it. The proposals of this administration are a good definition.

Secretary DILLON. What I do know is that you can have two sides, and this is perfectly logical. I think you can have a good debate about it, as to whether you wish the Government expenditures to be governed each year by the revenues of that year, and that fluctuates up and down with the various substantial fluctuations which take place in our revenue system based on the prosperity of the Nation.

Our revenues in this fiscal year, for instance, have declined about $5 billion from the original expectations of President Eisenhower in 1960 before it was possible to foresee a recession. I mean it was natural then that we foresaw good times. There was a decline of $5 billion. That would mean that we would have to, in times like that, in order to balance the budget, reduce expenditures to match that, which certainly would mean cutting back on Government employment, which would just add to the recession.

I do not think that that is the way to proceed, but that would be a subject for debate. I quite agree with you.

Mr. CURTIS. That is the theory that I frankly had agreed with and still do, but the overbalancing factor is the lack of discipline resulting to a large degree from a failure of proper procedures in the Congress itself to have a look at the entire budget each time. It is due to our committee systems and other problems. This is not to direct criticism against individuals, or groups, or even political parties, but it is to observe what has happened as a result of it.

In seeking a way to bring about this discipline, I have suggested that maybe this debt limitation bill is what is necessary.

I would prefer, and I think this is why I press the point here, to see whether or not this committee each time we have the subject of debt limitation extension up, and I said this in my minority views a couple of years ago, could not turn this particular bill into this kind of discipline. We can call before us the Appropriations Committee and say, "Look, you have to cut back about a billion dollars or $2 billion. The Ways and Means Committee is not in the business of handling appropriations, but somewhere this has to be done, in our judgment, and this is as far as we will go in permitting Federal Government to market bonds."

This is really a limitation on your ability to market bonds.

Secretary DILLON. That is correct.

Mr. CURTIS. I just wanted that for the record, Mr. Chairman, thank you.

The CHAIRMAN. Mr. Secretary, let me direct your attention to table I just for purposes of questions to you.

As we know, the permanent debt ceiling is $285 billion. You could actually be within that debt ceiling on June 30 next by reducing our operating balance by $1,400 million under the $3.5 billion that you project in your first column?

Secretary DILLON. I think that is theoretically possible, Mr. Chairman, but if you will look at the next table, I think there is only one time where for just a day or two during this fiscal year we have had an operating balance that low, and that was on April 15, when it was down to $1,700 million. That would be an entirely unsatisfactory operating balance. Artificially, you could reduce it a day or two. You could not hold it at that low a balance.

The CHAIRMAN. I understand, but on that particular day you could theoretically do it. However, the next day or the day following you would be above it. Now, because of the way we collect our revenues, in that we do not collect the same amount each day, but revenues come in large amounts on certain days, and in very small amounts on some days, we find ourselves always in the position of having to have more bonds outstanding at particular times than we do at other times.

You point out here in your table that on December 15, counting your $3 billion reserve, and having a $3.5 billion operating balance we would need a debt limit of almost $295 billion.

Secretary DILLON. That is right. We would be there on December 15 and at the same figure we estimate on January 15, and then again, finally, on March 15, we will be just $200 million lower.

The CHAIRMAN. What I am getting at is this, Mr. Secretary. In order to stay within the $285 billion ceiling at all times during the year, the Congress would have to reduce the rate of spending by such a figure as would reduce this $294.9 on December 15 and on January 15 to $285 billion?

Secretary DILLON. Yes, by $10 billion, roughly.

The CHAIRMAN. That is right. That would possibly mean a reduction in Government spending then of how much, Mr. Bell?

Secretary DILLON. $10 billion.

The CHAIRMAN. Would it be $10 billion?

Mr. BELL. Something like that, yes.

Secretary DILLON. That is spending within a 6-month period, not within an annual basis.

The CHAIRMAN. That is what I am getting at, but also I am trying to lead to this point. This administration has not recommended an increase over the previous administration for fiscal 1962 of $10 billion, has it?

Secretary DILLON. No, sir; about $3.5 billion.

The CHAIRMAN. So actually we would have to forego all of that $3.5 billion and cut back on the budget submitted by President Eisenhower in January——

Mr. BELL. Yes, sir.

The CHAIRMAN (continuing). By approximately $6.5 billion in order to avoid during this coming fiscal year some additional temporary debt over and above the $285 billion permanent ceiling?

Secretary DILLON. Yes, sir. President Eisenhower, I guess, in his budget message, did state that it would be necessary to reenact a temporary debt ceiling this year over and above the $285 billion ceiling. He did not offer a figure. He said that depended on later revenue estimates and expenditures.

The CHAIRMAN. I remember that, but what I am trying to get to, Mr. Secretary, is this. As usual, we face a set of facts here. The Appropriations Committee has authorized appropriations, and I agree with much of what Mr. Curtis has said. We have not done as good a job here and I do not think as good a job has been done downtown over the years, as all of us would like to have had. Between us, the executive department and the Congress have created the situation that we have here. I ask you what I asked Secretary Anderson one time. What would be the result of us just doing away with this situation and saying that we would not grant you the authority to issue any Government bonds in excess of the $285 billion ceiling? Of course, you could not pay your bills.

Secretary DILLON. The United States would have to default on its bills, or if this was going to be a permanent thing, there would have to be a wholesale dismissal of Federal employees. It could not operate the Post Office Department. All sorts of things of that nature would cease operating, at least in the way that they are presently operating.

The CHAIRMAN. Of course, the Government would have to take action to reduce these obligations of the Government to this level, around $10 billion. Where would you cut it, Mr. Director?

Mr. BELL. I must say, Mr. Mills, that is a question I have asked myself, only in terms of smaller figures.

The CHAIRMAN. I am very serious about this. I want to know if it can be done.

Mr. BELL. I do not think there is any reason, sir, to think that it could not be done, if we faced the national necessity for doing so. I take it that it would mean a drastic curtailment in various activities. I suppose one would start with those things which might conceivably be deferred for some years.

The CHAIRMAN. Are there enough of them?

Mr. BELL. No, I do not think so.

The CHAIRMAN. Can we do it without cutting into the defense structure?

Mr. BELL. I would not think so; no, sir.

The CHAIRMAN. You would have to cut into that?

Mr. BELL. I would think so; yes.

The CHAIRMAN. I do not see how you could avoid it.

Mr. BELL. That is right.

Secretary DILLON. Over half our expenditure is in defense, so certainly that would have to take a major cut.

Mr. BELL. You will have to give us some assumptions, Mr. Mills. For example, we spend over $5 billion a year of the regular budget for veterans' benefits and services of various kinds. These are contractual obligations of the U.S. Government. If the Congress were to authorize a cutback in those services and benefits, that would permit us to trim the expenditures in that area.

Otherwise, presumably those expenditures would have to be untouched and we would, therefore, not be able to take a proportionate reduction of your $10 billion in parts of the budget like that which

represent ongoing commitments. The interest on the debt is another illustration. If you take the parts of the budget which are relatively firm commitments of that kind, the remaining parts of the budget would have to take the brunt of your entire $10 billion, and this is the reason why I am sure you could not do it without cutting very deeply into the Defense Establishment.

Secretary DILLON. Mr. Mills, there is one other point in this specific question you posed about the $285 billion ceiling at the end of this month. If we did not have an increase in that, the Government revenues that flow in flow in rather slowly and even with drastic reductions in expenditures we would be faced with the fact that we would not have the funds to pay off the obligations of the United States that would come due in the month of July and probably in the month of August, because we would not be able to refund them because of the ceiling. So the United States would have to default at least for a period on its own Government obligations.

The CHAIRMAN. None of us is an economist, but I think I can find some economists, at least, that would say that if these things we are talking about actually occurred, we would experience, as a result, a very material drop in the revenues that we are anticipating for fiscal 1962 as well.

Secretary DILLON. That is right. This is cumulative. As you reduce expenditures you also reduce revenues.

The CHAIRMAN. If the Federal Government is not in a position to pay its bills either through revenues or borrowings, I do not know what happens then to the confidence of our people. I do not know what happens to the confidence of the world in our stability and in the maintenance of government here.

We do have a fact that faces us. It is not our creation in this committee. It is here. I cannot see anything else to do except to give you this temporary authority. I said in the beginning that I did not like to have you here for the purpose you are here. I do not like it any more than anybody else does.

Mr. HARRISON. Mr. Chairman, might I ask whether or not this increase is enough? Do you think this is enough?

Secretary DILLON. I would like to make one statement about that.

Under ordinary circumstances, this increase provides the same amount of flexibility and should be adequate. It does assume enactment of postal revenue increases. If that should not be enacted, expenditures would increase by about another $750 million, which would bring our deficit up to about $4.5 billion and would bring our flexibility down from $3 billion to $2.25 billion.

The one other thing I would like to mention, and this is particularly important to this committee, because it is the responsibility of this committee right at the present time. That is the end result of congressional action on the tax proposals that are presently before the Congress. If the Congress should enact a substantially larger amount of reductions than are compensated for by additional revenues, it would create a situation which might cause us difficulty. If that went too far, I am sure the President would not be able to accept the bill and it would be vetoed, but there is an area in between that is a reasonable compromise.

It might cause us some trouble there, but we are assuming here that we will come out of this tax bill exercise reasonably whole. In other words, that we will not lose much revenue.

Mr. HARRISON. What would be the effect on this situation if the current effort to take out of the extension of the Korean war taxes certain taxes on transportation were successful?

Secretary DILLON. The tax on transportation yields $280 million a year, roughly, and if that were successful this would merely increase our deficit by $280 million and would again cut down our flexibility here.

Fortunately, the House has approved that measure and the Senate Finance Committee approved it unchanged from the House bill yesterday, so I am hopeful that the Congress will vote that extension.

Mr. HARRISON. Would you say that failure of the Congress to make such an extension would be somewhat irresponsible?

Secretary DILLON. Certainly on the major taxes before the Congress I would say that it would be, but I do not think that is up for question. The only matter that is up for question is this transportation tax, and I would hesitate to attach any words to the action that the Congress might choose to take on that.

Mr. HARRISON. You are not advocating that, are you?

Secretary DILLON. No, sir.

Mr. HARRISON. Thank you, sir.

The CHAIRMAN. Mr. Bell, you have a very distasteful job in the Government and I hope that, as you continue in your job as Director of the Bureau of the Budget, you will not endeavor to win any popularity contests with the departments of Government, but that you will make them face up to the facts. As we see them, and as I am sure you see them, these are the requirements for some degree of priorities in their operations and not merely the addition of a new expenditure on top of the existing expenditures.

The only way in the world we will ever get to stability in Government spending is to do away with some spending that we presently think we have to incur that perhaps has outlived, so far as the program is concerned, its usefulness to the American people. I had talked to the previous Director of the Bureau of the Budget on different occasions about the Bureau itself conducting a long-range study of the trends of Government spending to let people know just a little bit more about where we are headed, because I think our people are becoming increasingly concerned over Government spending. Maybe they are also concerned over spending at all levels of Government, but certainly my mail indicates that they are becoming more and more concerned at all times about Government spending here.

We have not analyzed, in my opinion, fully all of the programs and we have to find places within existing programs where reductions can be made. I hope in the preparation of the next year's budget it may be found that some of these things, as other expenditures of necessity will rise, can be reduced so that we are not just faced with a constantly rising total of Federal expenditures. Priorities have to be, I think, established in Government spending to a greater extent than they have ever been, and I know how difficult it will be for you to do it. I know how unpopular you will become with the departments of Government if you insist upon it, but $298 billion of debt is within $2 billion of the maximum of the debt ceiling fixed by the Congress

at the end of World War II. It was $300 billion then. Now we are 16 years from that war and we are coming right back in this fiscal year to within almost $2 billion of that maximum ceiling.

I know we have these cold war expenses. I know we have a lot of expenditures that still are with us because of the World War II and the Korean war. I realize all that, but some way or other you and the Congress must find means of reducing some of these expenditures that we have been incurring rather than merely continuing them and adding to them further expenditures that from time to time will have to be made for programs that the Congress will decide to enact.

You cannot be very popular doing that, but I hope you will do it to a greater extent than it has been done in the past. I know efforts have been made in the past, but areas can be found. I know that. We all know that. But apparently we are not in the best position here in the Congress to know where those areas are, and I think you are in a better position to find them for us and point them out to the President and to the Congress.

Mr. BELL. Mr. Chairman, I see my job the same way you do. I do not regard this job as one that leads to much popularity. Perhaps you heard the President on a recent television broadcast refer to my job as that of the "no" man of the administration, which is exactly right. We are in the position you describe. We regard it as our business to be skeptical, to be tough minded, to make sure that, if the President does decide to recommend increased programs of any kind, he is thoroughly aware of any questions that might be raised about them, that he has thought through the questions of cost, and that we have advised with the agencies involved and have tried to figure out the most efficient way to carry out whatever must be done in the national interest.

We also regard it as part of our job to do exactly what you say; namely, to consider the necessity for continuing programs and outlays. Each year's budget process is in large part a searching review of the programs which agencies present to us. The first question always asked is: "Why is it necessary to continue this effort at all? Can we not phase it out?"

The long-range trend of Federal expenditures, as you have indicated, has been upward. My predecessor, Mr. Stans, Mr. Eisenhower's last Budget Director, did prepare a projection of Government expenditures on into the future. That was published in January shortly before the preceding administration left office. It did show that under varying assumptions expenditures would rise to varying amounts, but they would rise even under the most conservative assumptions. Mr. Stans concluded that the trend of Federal expenditures would be upward as the population of the country grows, as its income grows. The services which Government provides will in all probability cost somewhat more 10 years from today than they do today. I regard this myself as a conclusion that seems reasonable, although we have ourselves not reviewed this particular set of figures, and I am not prepared to stand on them.

I think, however, there is an underlying premise which is extremely significant. Those proiections that were made by the previous administration assumed defense outlays at least as large as those in recent years. As the Secretary pointed out, a few minutes ago, more than half of the Government expenditures at the present time are

those of the Department of Defense. Consequently, the most important single element that will determine the course of Federal outlays in the future is what happens to the necessities for the national defense. If it is possible to foresee a leveling off of defense expenditures, then the Federal budget presents an entirely different kind of a problem than if it is necessary for us to foresee, to look forward to, to expect, an increase in defense expenditures over the next several years.

The answer to that question is not at all clear today. The Defense Department is still engaged in a number of reviews which the President has requested.

For this year and next year, the President has recommended to the Congress, as you know, some increases in defense outlays. Beyond that, the answer is not yet clear, but the level of defense spending will be the most important single issue before the President and the Congress which will affect the Federal budget over the next several years.

The CHAIRMAN. Mr. Director, you and I, of course, are aware of the fact that it is not possible for us to make any reasonable predictions about defense spending in the future. We know that because factors beyond our control, perhaps, will determine the amounts that we will have to devote to those areas.

I have been increasingly concerned, myself, over the rapid rise that has taken place since World War II in those expenditures that we say are not defense expenditures. The increase in that area is the type of expenditure that I am thinking about, where priorities must be established if we are to have any tapering off and to avoid further rises.

Mr. BELL. I thoroughly agree, Mr. Chairman

The CHAIRMAN. That is where I think we must make a more concerted effort than we have been able to make at any time in the past. It is going to make some folks mad, and perhaps you will make me mad by turning me down on something that my people want, but if you turn enough of us down on enough things that we want, we can get control of it in time. We sympathize with you in your position and the responsibilities you have and the job that lies before you. Hard as it is, I am sure you will do the best you can with it.

Mr. Byrnes.

Mr. BYRNES. Mr. Secretary, are you asking that we keep the permanent ceiling at $285 billion and that we have a temporary extension of $13 billion? Is that the basic proposal?

Secretary DILLON. We have felt at this time it was probably advisable to take the simplest approach, which was just to ask for a temporary extension, rather than to ask for a specific increase in the permanent ceiling. We are not requesting that now. If the committee felt that it was more advisable and better to increase the permanent ceiling at the same time, we would have no objection to that because, as this table clearly shows, by the end of the year there is no possibility of getting back under the permanent ceiling. While we could get under it, at this June 30 by reducing our cash balances to unreasonably low levels, even that will not be open to us a year from now. So if Congress felt that that situation was not right, that they wanted to make part of this increase a permanent one, we would agree to it, but we felt that that would be a subject that might lead to

considerable debate, and the time is short here and the effective thing that we need now is to have a temporary ceiling that will allow us to operate through the year. So that is all we have asked for.

Mr. BYRNES. I did not get this from your statement exactly. You said that we had to get up to $298 billion.

Secretary DILLON. I said temporary in my statement.

Mr. BYRNES. I did not see in your statement just what you were recommending, in terms of permanent or temporary, to get to the total of $298 billion.

Secretary DILLON. The very first line of my statement said "in support of the new temporary limit."

Mr. BYRNES. The question is, How much is to be temporary? That is your total.

Secretary DILLON. New temporary limit of that, yes. I had not suggested anything about the permanent.

Mr. BYRNES. Really, what you are recommending is that we provide a temporary increase of $13 billion. For how long?

Secretary DILLON. For 1 year, as has been the usual way, so that this can be considered again next year in due course.

Mr. BYRNES. Probably the Director of the Bureau of Budget would be more helpful on this. What do you estimate will be the picture for fiscal 1961 as to revenues, and expenditures, and the deficit?

Mr. BELL. The revenue estimate for the fiscal year 1961 is $78.5 billion. I believe that is the latest.

The Secretary informs me that it is about $78.2 billion at this point.

Mr. BYRNES. $78.2 billion?

Mr. BELL. Yes, sir.

Mr. BOGGS. Excuse me. How much is that down from the estimate in January?

Mr. BELL. The January estimate was $79 billion. That is the Eisenhower budget estimate. Is that the one you mean?

Secretary DILLON. I would add that is really $1,300 million down because there has been a receipt of $500 million from advanced repayment from Germany that was not budgeted and which is a fortuitous occurrence that came in during that 6 months and reduced the total amount of the decrease.

Mr. CURTIS. Were there not other items balancing back and forth?

Secretary DILLON. No; not in revenue. This German payment certainly can only be looked on as sort of a one-time, very special operation. They are paying off a 35-year debt at once.

Mr. CURTIS. All I am observing is that estimates are made up of knowledge on a number of items, that differences develop in a lot of these estimates. You pick out one item that has changed without regarding some of the items that have been estimated as to the revenues that did not come about.

Secretary DILLON. I do not intend to enter into an argument. I am just stating the fact and you can draw any conclusions you wish.

Mr. CURTIS. And I am suggesting you are taking it out of context.

Secretary DILLON. All right. If you feel that way, that is all right. I do not feel so.

Mr. CURTIS. It is just a matter for the record.

Secretary DILLON. It is not criticism of anyone who made the estimate. It was just impossible to know whether the Germans were going to make a repayment, so that was left out.

Mr. CURTIS. I just notice that each time you can make an observation to degrade the previous administration, you seem capable of coming forward with it, and I just wanted to get it into context.

Secretary DILLON. That was not the intention at all.

Just to prove this to you, Mr. Curtis, the $500 million German payment was not included in our own estimates that we put out in March and our own estimates were also that much out, so it is not a question of administrations on this estimate business. It is just a fact.

Mr. CURTIS. I know. I will let the record stand.

Mr. BOGGS. Mr. Secretary, just from my own point of view, I had no desire to make any political issue out of the fact that revenues were down from the January estimate. The only observation that I sought to make was that business conditions were not as good as were anticipated and, as a matter of fact, this has been under a Democratic administration, so if you want to draw any political conclusions you can blame the Democrats.

Mr. BYRNES. Mr. Chairman, I thought I had the floor, and I was only trying to get some figures.

The CHAIRMAN. Mr. Byrnes, I am sure that all the committee will absolve you completely of seeking to engage in any political discussion.

Mr. BYRNES. Thank you.

Your revenues you now estimate at $78.2; is that correct?

Mr. BELL. Yes, sir. The Treasury estimates them, of course. We report them. On the expenditure side for the present fiscal year, the estimate is $80.7 billion. It looks to us as though we may end up a bit different from that, but not very much, and that would give us a deficit of $2——

Mr. BYRNES. Five?

Mr. BELL. Yes, sir, $2.5 billion. I am giving you rounded figures, of course.

Mr. BYRNES. In view of the fact that you went back to January to see what our revenue estimates were, what was the January expenditure estimate?

Mr. BELL. The expenditure estimate for 1961 was $78.9 billion in January.

Mr. BYRNES. Do you have a breakdown as to where that $1.8 billion increase came from?

Mr. BELL. Yes; I do. I could read it to you agency by agency or, alternatively, I can provide it for the record. There is a series of things, some up and some down, but the largest single item is that we now estimate expenditures for the Department of Defense at $1 billion more than they were estimated in January.

Mr. BYRNES. In this 6-month period?

Mr. BELL. Yes.

Mr. BYRNES. A billion dollars more?

Mr. BELL. That is right. To a small extent this represents deliberate changes in the program which President Kennedy has directed the Defense Department to undertake; the placement of some advanced contracts, for example.

Mr. BYRNES. I just wanted to understand those advanced contracts. I am surprised that it is that high. This is an expenditure, a cash outflow.

Mr. BELL. That is right.

Mr. BYRNES. In advanced contracts, you do not have to pay for a tank until you get it or an airplane until you get it. Advance orders would affect your appropriations picture and authorization picture, but I am trying to figure out the actual expenditures.

Mr. BELL. To a small extent, Mr. Byrnes, as I started to say, the increase in expenditures for the Defense Department for the current fiscal year is as a result of actions which President Kennedy directed.

Even if we let a contract in February, which would otherwise not have been let until July, we might get some expenditures made during the fiscal year 1961. It is that kind of thing; some rebuilding of inventories, for illustration. These expenditures were directed in an effort to time the Government's outlays better from the standpoint of the economic recovery that we have all been trying to promote. There were expenditures which would have been made, anyway, which the Congress had authorized, but their timing was affected.

However, the bulk of this billion dollars reflects simply the fact that the expenditures of the Defense Department have been running at a higher rate during the spring than was anticipated last November and December when the Eisenhower budget was put together. You will recall that during last summer and early fall a considerable step-up in defense outlays was authorized by the previous Congress and the previous administration.

It was not certain through the fall just how much effect those increased commitments would have on the spending during the present fiscal year. It is now much clearer and we estimate today that Defense Department spending will be in the neighborhood of a billion dollars higher than was estimated last fall. This, as I say, is the largest single item, and accounts for almost two-thirds of the difference between the January estimate of expenditure and today's.

There is also a substantial increase in the present fiscal year in the order of $300 to $500 million for temporary unemployment compensation benefits which the President recommended and this Congress enacted. I suppose that is the second largest single item. Beyond this, there are increases in the Department of Agriculture, not very large in total.

Mr. BYRNES. You mean that in just the 3 months, that the temporary unemployment compensation has been in effect, we spent $300 million?

Mr. BELL. Yes. I do not have a currently brought-up-to-date estimate, as of today, but as of 2 or 3 weeks ago, it was expected that about $400 million would flow out in the current fiscal year. I do not know whether anyone here has a later figure.

Mr. BYRNES. That is all right. That is good enough.

Mr. BELL. It may be over $400 million, Mr. Byrnes. There was some uncertainty about it. It depends, as you know, on how many people are entitled, and so on. I think there is no other single agency except the Post Office Department whose estimated expenditures for 1961 have risen more than $100 million between the January budget and our present estimates. There are several, the Veterans' Administration and the Department of Agriculture, for example, in which expenditures are upwards of $50 million or more. Would you like me to provide a tabulation?

Mr. BYRNES. I wonder if you could supply it for the record.

The CHAIRMAN. Let us have that in the record at this point.

(Information referred to follows:)

Budget expenditures by major agency, fiscal year 1961

[In millions]

Agency	Jan. 16, 1961, estimate	Mar. 28, 1961, revision		
		Revisions in estimates for January program	Administrative actions and program changes	Total
Legislative branch and the judiciary	$208	−$8		$200
Executive Office of the President	61	+11		72
Funds appropriated to the President:				
Mutual security—economic and contingencies	1,675	+50		1,725
Other	43	−10	+$25	58
Independent offices:				
Atomic Energy Commission	2,660			2,660
Federal Aviation Agency	640	−10		630
National Aeronautics and Space Administration	770	−50		720
Small Business Administration	77			77
U.S. Information Agency	125			125
Veterans' Administration	5,314	+86		5,400
Other	468	+15	+24	507
General Services Administration	442	−42	+20	420
Housing and Home Finance Agency	544	−30	+11	525
Department of Agriculture	5,739	−343	+411	5,807
Department of Commerce	511			511
Department of Defense—military:				
Military functions	41,500	+761	+239	42,500
Military assistance	1,700	−200		1,500
Department of Defense—civil	986	+14	+15	1,015
Department of Health, Education, and Welfare	3,716		+28	3,744
Department of the Interior	785	−10	+10	785
Department of Justice	285			285
Department of Labor	295	+33	+564	892
Post Office Department	786	+140		926
Department of State	260			260
Treasury Department:				
Interest	8,993			8,993
Other	965			965
District of Columbia	48	−6		42
Allowance for contingencies	25			25
Subtotal	79,621	+401	+1,347	81,369
Deduct interfund transactions	676			676
Total	78,945	+401	+1,347	80,693

NOTE.—Detail may not add to totals because of rounding.

Source: Bureau of the Budget.

The CHAIRMAN. Mr. Byrnes, if you will yield to me then, we also created some additional spending in this fiscal year when we provided the amendment to take care of the children of people who were unemployed.

Mr. BELL. That is right.

The CHAIRMAN. How much do you anticipate will be spent under that program in this fiscal year?

Mr. BELL. Something in the neighborhood of $200 million, as I recall.

The CHAIRMAN. That is total?

Mr. BELL. Yes, sir; that is right for 1962. It would be less for 1961, but I do not have that figure in my head.

The CHAIRMAN. It probably will be reflected in some rise in spending within HEW.

Mr. BELL. The HEW expenditure rise is only a small amount. The figure I remember is only the total for a full year.

The CHAIRMAN. That indicates then that there is very little to be spent on that program, at least by the Federal Government in this fiscal year.

Mr. BELL. That program is one within a number of programs in the Department of Health, Education, and Welfare. There may be some offsetting items.

The CHAIRMAN. A number of States have to change their law anyway, in order to participate.

Mr. BELL. We will be glad to submit a detailed statement for the record, Mr. Chairman.

The CHAIRMAN. All right.

(Mr. Bell subsequently supplied the following additional information:)

For the program of aid to the dependent children of the unemployed, expenditures are estimated at $28 million in fiscal 1961 and $215 million in fiscal 1962—the first full year.

Mr. BYRNES. Now, I would like to move into fiscal 1962, on the expenditure side. The chairman was talking in terms of where we could find $10 billion if we just refused to do anything.

I think, however, we can think in terms of what might be done to change fiscal 1962 expenditures downward just to see whether any amount of the 1962 expenditures can be cut down and then find out where we are as far as our debt needs.

We had a table furnished by the Bureau of the Budget which was included in the report on the tax rate extension act. This showed a total expenditure of $84.983 billion.

Mr. BELL. That is right.

Mr. BYRNES. But I understand that since that tabulation of May 25, there has been some addition to that.

Mr. BELL. No, sir.

Secretary DILLON. Just $100 million, as we pointed out before of contingency, that we put in that which would increase that $85.083 billion and then it was rounded out to $85.1 billion. It was that $100 million contingency.

Mr. BYRNES. I knew there was one item because in your other table you show an expenditure of $85.1 billion and that includes this $100 million. Now, of that $85.1 billion how much would be saved if we had no new authorization legislation? Do you get my point? What I am trying to suggest is that if Congress did not authorize any new programs or extension of programs beyond what we have on the books as of today—I am thinking in terms of how much of this expenditure of $85.1 billion is involved in, let us say, the aid to elementary and secondary education, how much is involved in this fiscal 1962 expenditure of the college program, how much in new authorizations, for instance, is being considered now under the Defense Education Act, how much of this expenditure of $85.1 billion is involved in the new programs proposed under the housing program? Can you give us any information on programs that are involved here and the expenditures that are involved here, but cannot take place unless Congress authorizes? I am not thinking in terms of appropriations. I am thinking in terms of authorization.

Mr. BELL. Your question takes on even larger scope when you realize that by the system which the Congress has been following in the last year or so, the administration or the Government has to obtain authorization for such major programs as the purchase of missiles, and planes, and ships, and the entire program of the space agency is authorized anew each year.

I believe the current authorization bill, which is before the Congress or perhaps has just been enacted—I have been out of the city for 2 or 3 days. I apologize. I should know that—I believe it is in the neighborhood of $12 billion for missiles, planes, and ships.

Mr. BYRNES. As Mr. Curtis says, you cannot turn your back around here without having something happen. We can understand that.

Mr. BELL. If you assume, in other words, that the Congress might not enact an authorization bill for missiles, planes, ships, space programs, and so on, there is indeed a large proportion of the Government's program which is not authorized on a permanent and continuing basis.

Mr. BYRNES. Let me suggest then, because I appreciate that there are complications, that we discuss the nondefense programs, and I will mention some. First, do you know how much is in this expenditure estimate for aid to secondary and elementary education?

Mr. BELL. Yes, sir; I can find that figure.

That is $667 million, the new obligational authority. The expenditure figure is $500 million.

Mr. BYRNES. In fiscal 1962?

Mr. BELL. Yes, sir; that is right.

Mr. BYRNES. What about the college program?

Mr. BELL. You are continuing to ask about the matters which are not now authorized, but which require new authorizing legislation; is that right?

Mr. BYRNES. That is right.

Mr. BELL. The two bills together, aid to higher education and the National Defense Education Act amendments, would add $53 million to 1962 expenditures, according to our current estimates, over and above what would be authorized by the continuing legislation in the higher education field.

The CHAIRMAN. That you mean is actual cash outflow?

Mr. BELL. That is right. These would be the expenditures in the fiscal year 1962 resulting from legislative authorizations which are now before the Congress which the President has recommended. That is the intent of your question; is that right?

Mr. BYRNES. That is the continuous question, that is right. What about housing?

Mr. BELL. The housing expenditures for fiscal 1962 are not particularly large under the new authorizations.

Mr. BYRNES. It could be. You have $2 billion for urban renewal and there is nothing in the bill that says that it has to be spread over the 3 years, or whatever the period of time.

Mr. BELL. No; the pattern of expenditures, sir, under the urban renewal program is very long drawn out, indeed, and I suspect that of the authorization for urban renewal which is now before the Congress, there is unlikely to be much expenditure directly attributable to this authorization for, say, 3 years. These are commitments which are made with cities and States on the basis of very long-run forward planning, and the expenditures for this program that are made in the fiscal year 1962 will primarily result from commitments made 2 or 3 years ago. In the increased housing program which President Kennedy recommended, including college housing loans, low cost housing, urban renewal, and housing for the elderly, Mr. Byrnes,

there is some $50 million of expected expenditure in urban renewal.

Mr. BYRNES. Do you have a total just on the housing bill?

Mr. BELL. The table I have here is not precisely related to the bill that is before the Congress. Let me give you these figures and then let me, if I may, check them for the record to be sure they all compare accurately to the bill that is before the Congress. The additional expenditures from President Kennedy's recommendations would come to $214 million in 1962, but some of these expenditures would be under existing law and would not require new authorization.

Mr. BYRNES. What about this youth conservation program that is recommended?

Mr. BELL. There are two bills, as you know, the youth training and conservation bill and the Training and Retraining Act intended primarily for people who have been unemployed for quite some time to assist them to find other lines of activity. The figure I have relates to training, retraining, and increased worker mobility, and it would mean $60 million of expenditures in the fiscal year 1962.

The space program, of course, Mr. Byrnes, is a large one. You can look at that in two ways. One is that the whole program requires reauthorization, but you can also notice that the President has recommended and the Congress is now considering a substantial addition to the content of the program which, if agreed to by the Congress, would result in expenditure increases in the fiscal year 1962 of about $330 million over the previous budget estimate, as nearly as we can figure it now.

Another significant increase is the President's proposal to increase the size of the revolving fund for loans for small businesses. He made that request recently. If the Congress agrees, we anticipate that the rise in spending in the fiscal year 1962, that is, of loans being made out, would be about $88 million net.

Mr. CURTIS. Is that over what comes in?

Mr. BELL. Yes, that is right. This is a net addition to the volume of loans outstanding.

Mr. SCHNEEBELI. You have nothing for civil defense?

Mr. BELL. The civil defense figure is not definite as yet, and we are taking that into consideration in the $100 million which the Secretary referred to earlier. That is a very rough figure and does not reflect a judgment that this is in fact what may precisely come forward.

Mr. SCHNEEBELI. That is a possibility?

Mr. BELL. That is a possibility; yes, sir.

Mr. BYRNES. Mr. Chairman, I do not want to delay the committee, but I wonder if the Director could furnish for the record the elements in the expenditure for fiscal 1962 that is involved in these authorizations?

Mr. BELL. I just realized, Mr. Byrnes, that this is a very tricky business, this discussion of authorizations. I believe the small business figure that I just gave you does not require new authorization. I think that is simply an additional appropriation to the revolving fund, so that figure probably should not come within the reference framework that you set down for us some few minutes ago.

Mr. BYRNES. Yes. I am not concerned, as far as this particular discussion is concerned, with what happens as far as the appropriations process is concerned because those are programs that for the most

part have been in existence. Maybe there are increases provided in them and maybe we better look at the appropriations process to see whether these increases are desirable, but I am thinking right now more in terms of new programs that have been suggested, new activities of the Federal Government, which will involve new expenditures, and we know that in those cases, the expenditure for the first year is always very small, but at least we will see——

Mr. BELL. It varies, sir.

Mr. BYRNES (continuing). How much of the expenditure increase is involved in that.

Mr. BELL. I would be very glad to furnish this.

(Information referred to follows:)

Estimated budget expenditures in fiscal year 1962 dependent upon new authorizing legislation (as well as new obligational authority)—excluding Department of Defense, military

[In millions]

Program or proposal	Estimated expenditures, 1962		
	Jan. 16, 1961, budget	Revisions since Jan. 20, 1961	Total
Judiciary: Judgeship bill		$4	$4
Funds appropriated to the President: Mutual security program—economic and contingencies	$539	75	614
Independent offices:			
Atomic Energy Commission: Plant acquisition and construction	26		26
Civil Service Commission: Payment to certain retired employees, widows, and widowers from trust fund rather than appropriated funds for certain benefits enacted in 1958	−45		−45
Federal Home Loan Bank Board: Temporary premium rate increase for member banks (equivalent to reduction in high requirement for investment in stock)	−164		−164
National Aeronautics and Space Administration: Annual authorization	537	415	952
Veterans Administration:			
Direct loans to veterans (January proposal would confine to Korean veterans)	−30	30	
Selective increases in veterans' compensation rates		65	65
Housing and Home Finance Agency:			
Low-cost housing		60	60
Other housing proposals		44	44
Department of Agriculture:			
Special milk program	94	9	103
Sugar Act program	69		69
Conservation reserve program	19	−19	
Farm housing loans		40	40
Forest Service		2	2
Department of Commerce: Area redevelopment program	10	40	50
Department of Health, Education, and Welfare:			
Education:			
Aid to federally impacted school districts	60	−5	55
Promotion and further development of vocational education	4		4
Aid to elementary and secondary education		500	500
National Defense Education Act		15	15
Aid to higher education		21	21
Medical education		9	9
Health:			
Environmental health activities	3		3
Community health activities		9	9
Water and air pollution control		12	12
Welfare:			
Medical benefits for the aged (January budget proposal replaced by a trust fund proposal)	25	−25	
Aid to dependent children		215	215
Effect on budget of proposed liberalization of old-age, survivors, and disability insurance program		−27	−27
Department of Justice: Judgeship bill		1	1
Department of Labor:			
Minimum wage legislation		4	4
Training, retraining, and increased worker mobility program		60	60
Post Office Department: Postal rate increases	[1] −741		−741

Footnote on next page.

Estimated budget expenditures in fiscal year 1962 dependent upon new authorizing legislation (as well as new obligational authority)—excluding Department of Defense, military—Continued

[In millions]

Program or proposal	Estimated expenditures, 1962		
	Jan. 16, 1961, budget	Revisions since Jan. 20, 1961	Total
Department of State:			
Acquisition, operation, and maintenance of buildings abroad	$12	$7	$19
Payment of Philippine war damage claims	49		49
Treasury Department: Internal Revenue Service (social security numbers for taxpayers' accounts)		7	7
Total	467	1,568	2,035

[1] Revised from $843 million to take account of administrative and other actions since January which require a smaller legislative increase in postal rates.

Mr. BELL. May I point out before letting it go by too far, that some programs do in fact have large expenditures in the first year. The education program is one.

Mr. BYRNES. Yes.

Mr. BELL. But there are others in which the first-year cost is relatively low. Let me be sure, Mr. Byrnes, that I understand exactly what you want. You would like to have us provide for the record a listing of the expenditure estimates which are included in our 1962 figures in the nondefense field which require new authorizations as well as new appropriations; is that correct, sir?

Mr. BYRNES. Yes; I would not worry about the appropriation aspect of it, frankly.

Mr. BELL. Do you wish us to include the space program?

Mr. BYRNES. Yes; it should be included because it is one where you are requiring authorization and we can pick out of it the items we feel are essential and those that are not so essential.

Mr. BELL. I will be glad to do that.

Mr. BYRNES. From the figures we have developed here, so far we have $500 million for elementary education, and $200 million for housing, so just in those two items, you get up to $700 million. I am sure that in some of the others, it is not very hard to find maybe $300 million more. If, instead of the $13 billion temporary debt increase, we only gave $12 billion, in other words, $1 billion less than you are asking for, would that be a restraint then on these new programs?

Mr. BELL. Restraint on the Congress?

Mr. BYRNES. I was thinking that maybe through the action of this committee, we could put a brake on some of the legislative committees.

Secretary DILLON. I think, Mr. Byrnes, the answer to that is that we would feel obliged in the Treasury to try and carry out the actions and the appropriations, the authorizations of the Congress, to the best of our ability. If we ran up to the limit on that, there are certain undesirable methods which I mentioned at the end of my statement whereby certain additional funds can be obtained without increasing the debt limit. This had to be done, I think it was in 1958, by selling some FNMA notes to the public, and FNMA paid part of this to the Treasury. We would be forced to do that. If this was to have an

immediate effect, I think the only way that it would do so would be for the Congress to make such a reduction in it that made it clear that we could not live within that ceiling without reducing expenditures and then it would be up the the President to decide which expenditures out of the overall total that the Congress authorized and appropriated for he felt he wanted to impound. He would have to make that decision.

It would not necessarily be new programs that he would feel were the ones to be cut. That decision he would have to make.

Mr. BYRNES. In other words, what you are saying is that there is nothing we can do to put any restraints on either the Congress or the President as far as expenditures are concerned, in spite of the deficit picture we are faced with and in spite of the fact that if we go through with the proposed spending we are going to have to increase the temporary debt limit?

Secretary DILLON. What I think I would be saying is that I think this method of trying to regulate overall expenditures through the temporary debt limit is not a very satisfactory one. It is much more satisfactory for the Congress to tackle the issue head on when they are considering appropriations or authorizations, if it is their objective as a Congress to reduce expenditures, rather than by trying to do it by this indirect means. I think that has been the general view of the Secretaries of the Treasury in the past.

Mr. BYRNES. I wonder how far we could cut spending down, whether the method is cumbersome or not. I am ready to seize any technique that might have some effect in reducing spending.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Derounian.

Mr. DEROUNIAN. Mr. Secretary, what would happen if you got, say, a $6 billion increase now or $7 billion increase? Could you get along until January 1 on that and then come back for more, if you needed it?

Secretary DILLON. No. The difficult problem is that as our tax revenues come in they come in unevenly and the period of the year where they come in at the slowest rate is in the first 6 months of the fiscal year, during the fall. So we hit our highest estimated point of debt outstanding always every year—and this is a usual occurrence, just the pattern of revenues—in the middle of December, so that is before Congress comes back.

From then on, it stays level for about a couple of months and then gradually decreases as the heavy payments come in in the spring months.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Bell, you said that in January a projection was made of what our Federal expenditures would be in the next several years.

Mr. BELL. Yes, sir.

Mr. SCHNEEBELI. During this period of time, what is the trend of the ratio of Federal expenditures to our gross national product?

Mr. BELL. I do not have the document in front of me which Mr. Stans and President Eisenhower put out. It showed, it I recall it correctly, three alternative possible levels. They called them a high level, a medium level, and a low level of projected expenditures for the period 1960 to 1970.

If my recollection is correct, the highest of their projections would not have shown much of an increase in the proportion of the gross national product which was spent through the Federal budget.

Mr. SCHNEEBELI. Would it be rather constant?

Mr. BELL. As I remember it, their high projection would have showed approximately a constant ratio.

Mr. SCHNEEBELI. And this was based on no new programs, as of that time?

Mr. BELL. No; it was based on——

Mr. SCHNEEBELI. Anticipated?

Mr. BELL. Yes; allowance was made for them.

Mr. SCHNEEBELI. Like the school program and so forth?

Mr. BELL. Yes; for the possibility that new programs might be entered.

Mr. SCHNEEBELI. So your ratio is not too far out of balance?

Mr. BELL. That is right, but this brings me back to the point that I made earlier, I think, to the chairman. It is most important that all of us who think about these things keep it continuously in mind.

We have operated now for some years with a level of spending for national defense which has been fairly stable. I think that this may have given us a little too much a solid feeling about these proportions.

The proportion of the gross national product that was spent through the Federal budget was approximately the same in 1960 as in 1950. It was 15 percent in 1950 and 15½ percent in 1960. This was possible only because the Federal Government spending for national defense has been fairly stable during the past few years. I do not think that any of us should kid ourselves that spending for defense will necessarily remain stable.

I have no reason to anticipate that it will jump or that it can be cut in half, but my point is that it is such a large element of the picture and it does depend on so many unpredictable elements, notably, the change in the world situation and the change in defense technology, that we could find ourselves badly fooled if we began to rely on the assumption that defense expenditures would continue unchanged in the future.

Mr. SCHNEEBELI. Do you think there is a change on a plus, or minus side?

Mr. BELL. It might go either way, Mr. Schneebeli. That is part of the difficulty of trying to be positive about the budget forecast.

On the plus side it could easily go up if the world situation persuades all of us that it should. It could go down if a change in technology of various kinds occurred.

Mr. SCHNEEBELI. Would not that decrease be replaced by space expenditures?

Mr. BELL. Not necessarily; no, sir.

Mr. SCHNEEBELI. The projection I saw for the space agency was rather large, too.

Mr. BELL. Space expenditures are likely to go up from, say, a billion dollars a year, which is about where they are now, to $2, $3, $4, $5 billion a year several years in the future, but the Defense Department expenditures, as you know, are over $40 billion per year.

Mr. SCHNEEBELI. But your ratios probably will remain at the high level, at about 15 percent of gross national product?

Mr. BELL. That was roughly what the Stans-Eisenhower high projection showed—something over 15 percent. The Kennedy administration has no such figures as yet.

Mr. SCHNEEBELI. Based on possible new programs?

Mr. BELL. That is right.

Mr. SCHNEEBELI. Thank you, sir.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. This may not be too important but, as I recall, the deficit in 1955 was about $12 billion; is that correct?

Mr. BELL. 1959, sir. In 1955 it was something over $4 billion.

Mr. BETTS. I do not know whether this means anything or not, but am I correct that the debt limit in 1954 was $281 billion and in 1956 was $278 billion? Those years had a deficit higher than was anticipated in the next fiscal year and yet, the debt limit was reduced. Is there any significance there?

Mr. BYRNES. You had two balanced budgets both years.

Mr. BETTS. He said there was a deficit there in 1955.

Mr. CURTIS. 1954. You have left 1955 out there.

Secretary DILLON. In 1954 it was increased from $275 to $281 billion. There was no increase thereafter.

Mr. CURTIS. Did not the $3 billion temporary go off in July of 1956, Mr. Secretary?

Secretary DILLON. On August 26, 1954, for the year ending June 30, 1955, which was the year the deficit occurred, it was increased from $275 to $281 billion. Then again on June 30, 1955, that was just maintained for another year.

Mr. BETTS. $275 billion?

Secretary DILLON. $281 billion. It was then reduced in 1956 for the fiscal year ending 1957 to $278 billion and then there was no temporary ceiling effective July 1, 1957, and it reverted to the permanent ceiling of $275 billion. That is when the Treasury in the beginning of the recession of 1958 got into trouble and it had to do this FNMA financing, and it was then necessary to pass an emergency increase as soon as Congress reconvened.

In February of 1958, they increased it to $280 billion and then later that year when they began to foresee the deficit that was coming up in fiscal year 1959, in September of that year, they increased it to $288 billion.

Mr. BETTS. The point I was getting at may not be important, but I was just wondering if there were years in which there was a deficit that the debt limit was reduced.

Secretary DILLON. If the debt limit had proved to be adequate the year before, and there was a small deficit, it could be absorbed.

Mr. BETTS. That was true in 1955?

Secretary DILLON. That is in a way the case that we are faced with right now because we have a deficit that we expect this year of just under $3 billion. Call it $2.8 billion. We expect next year to have a deficit of $3.7 billion, which if you add them together is a total of $6.5 billion. Nevertheless, we are asking only for an increase of $5 billion, so we are able to absorb a billion and a half of that that was not really needed last year.

The CHAIRMAN. Mr. Knox.

Mr. KNOX. Mr. Secretary, in the request for consideration of the increase in the temporary ceiling by $13 billion, may I ask if that

projects the administration's recommendation for Federal housing, Federal-aid to education, foreign aid, and other related recommendations which the President has made?

Secretary DILLON. Yes, sir. It includes the expenditures that are estimated to take place during the coming year under all programs that have been submitted by the administration.

Mr. KNOX. If the Congress should approve of the programs as recommended by the President and the debt must be increased what additional cost would be involved in interest alone?

Secretary DILLON. The increased cost in interest of the increased debt compared to the deficit which is expected, and we expect a deficit of just under $4 billion, would, of course, depend on just how we financed that increase. If we sold short-term securities, securities due within 1 year, where our average rate might be said to be somewhere around 2½ percent—it is less for 90-day bills and it is around that for 6-month bills—you could take 2½ percent. That would come to a total of $100 million on $4 billion.

Mr. KNOX. If the programs, of course, are authorized by the Congress that increased cost does not become temporary, does it? It tends to become permanent?

Secretary DILLON. Some programs are permanent and some are temporary, but I think the point that you are making is that most of these expenditures will continue and probably under these authorizations even increase in future years. That is correct.

Mr. KNOX. Although some of the programs may be for a limited time, such as your Federal aid to secondary and elementary schools, I feel myself that if such legislation is enacted it would not be temporary, but would be permanent.

Secretary DILLON. I would agree that in all probability you are perfectly correct in that assumption.

Mr. KNOX. So we would have no hope that the national debt in the period of the 3 years which the program would call for could be reduced?

Secretary DILLON. Not by any very substantial amount, although, as I said, we look forward in fiscal year 1963 to a balance and possibly a surplus, and that would allow some reduction, but I do not look forward to any very large reduction. If prosperity continues beyond that and our country continues to grow, then the prospect is for substantial surpluses thereafter, even with these new expenditures, and there would be the opportunity to reduce the debt substantially.

Mr. KNOX. Of course, this leaves us with a financial house in rather complete chaos and disorder as far as the present is concerned.

Secretary DILLON. I did not understand that.

Mr. KNOX. In other words, our governmental operations are completely in chaos as far as a balanced target is concerned at the present time.

Secretary DILLON. I do not think that is the case. I would not say that because we can begin to look forward with a good deal of clarity to what our revenue is likely to be in 1963 and our expenditures, and at that time, we do look to a balance.

The problem next year is just the problem, as I mentioned earlier, that revenues in the first year of a recovery are still affected very heavily by the preceding recession. There is a lag in revenues, so we are faced with recession level revenues next year, and there was a

choice of whether we should try to cut back our expenditures to meet those levels or try to keep them on the basis that would fit with longer term expectations, including expectations for much greater revenues in 1963. It was the latter theory that was adopted and, therefore, we do expect this deficit of about $3.7 billion in the coming fiscal year, but it is because our revenues are still very much depressed.

As I think I pointed out, they jumped from 1959 to 1960 by $10 billion, and there is no reason why something quite similar would not take place between 1962 and 1963.

Mr. KNOX. I was somewhat concerned from a newspaper article that I read where the article predicted that we would have $100 billion budget in the 1960's.

Secretary DILLON. During the 1960's?

Mr. KNOX. Yes.

Secretary DILLON. I do not remember what the projections were from Mr. Stans' report but Mr. Bell can give you that. I think that probably was in the report.

Mr. BELL. Yes; the high estimates that were in the Stans-Eisenhower budget projections were well over $100 billion before 1970. I do not regard those estimates or those projections as gospel in any sense and I do not regard any projections as meaning anything, except indicating the range within which one is likely to work. We regard it as necessary to review each dollar of expenditure on its own merits and the President feels the same way.

Nevertheless, I think if the economy and the country continue to grow, I do not believe, sir, that it is beyond the realm of possibility at all that we would reach a $100 billion budget before 1970.

After all, the gross national product is, by relatively conservative assumptions, expected to reach $750 billion by that time, if I am not mistaken. Mr. Curtis probably has that figure in his mind.

Mr. CURTIS. That is within reason.

Mr. KNOX. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions?

Mr. UTT. Mr. Chairman, I do not know whether this is a question, but it seems to me that the debt limit does not have any relationship to spending programs, and we deal in this as a fiction every year, or every 2 years, and what effect does it have on spending and why should we not remove the permanent debt limit or at least put it up to $300 billion and get it out of our system for 2 or 3 years? I would like to know what the effect is of a permanent debt ceiling?

Secretary DILLON. I would be glad to answer. We have never felt that this is a very effective mechanism and when I say never, I think this represents the continued views of the Treasury Department over the past years.

Nevertheless, the Congress has felt that this did provide a significant opportunity to have a public overall look and express opinions on the state of the economy, and in view of that feeling by the Congress, we felt that that was up to Congress, and we would go along.

Mr. UTT. Thank you.

The CHAIRMAN. Thank you, gentlemen.

(Whereupon, at 11:45 a.m., the committee was recessed, to reconvene subject to the call of the Chair.)

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